ATLANTIC POWER CORP
Form 10-Q
August 09, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from to
COMMISSION FILE NUMBER 001-34691

ATLANTIC POWER CORPORATION

(Exact name of registrant as specified in its charter)

British Columbia, Canada	**55-0886410**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Clarendon Street, Floor 25 Boston, MA	**02116**
(Address of principal executive offices)	(Zip code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes o No ý

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The number of shares outstanding of the registrant's Common Stock as of August 9, 2010 was 60,510,070.

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ATLANTIC POWER CORPORATION

FORM 10-Q

THREE AND SIX MONTHS ENDED JUNE 30, 2010

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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" and "Atlantic Power" refer to Atlantic Power Corporation, those entities owned or controlled by Atlantic Power Corporation and predecessors of Atlantic Power Corporation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook," "objective," "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "should," "plans," "continue," or similar expressions suggesting future outcomes or events. Examples of such statements in this Quarterly Report on Form 10-Q include, but are not limited to, statements with respect to the following:

- expected opportunities for accretive acquisitions;
- the amount of distributions expected to be received from the projects for the full year 2010;
- estimated net cash tax refund in 2010;
- our forecast of expected after-tax cash flows from Idaho Wind for each full year of operations;
- our forecast of expected annual cash distributions from the Lake and Auburndale projects through 2012; and
- the expected resumption of distributions from our Chambers, Selkirk and Delta projects in 2011.

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

These risks include, without limitation:

- a reduction in revenue upon expiration or termination of power purchase agreements;
- the dependence of our projects on their electricity, thermal energy and transmission services customers;

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

projects not operating according to plan;

the impact of significant environmental and other regulations on our projects;

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- increased competition, including for acquisitions; and

- our limited control over the operation of certain minority-owned projects.

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

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

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

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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

ATLANTIC POWER CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars)

	June 30, 2010 (unaudited)	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 63,314	$ 49,850
Restricted cash	14,579	14,859
Accounts receivable	18,433	17,480
Current portion of derivative instruments asset (Notes 7 and 8)	4,251	5,619
Prepayments, supplies, and other	4,019	3,019
Deferred income taxes	15,106	17,887
Refundable income taxes	10,588	10,552
Total current assets	130,290	119,266
Property, plant, and equipment, net (Note 5)	189,916	193,822
Transmission system rights (Note 5)	192,059	195,984
Equity investments in unconsolidated affiliates	259,443	259,230
Other intangible assets, net (Note 5)	64,810	71,770
Goodwill (Note 4)	12,453	8,918
Derivative instruments asset (Notes 7 and 8)	7,952	14,289
Other assets	5,602	6,297
Total assets	$ 862,525	$ 869,576
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	$ 18,513	$ 21,661
Revolving credit facility	20,000	
Current portion of long-term debt (Note 6)	18,330	18,280
Current portion of derivative instruments liability (Notes 7 and 8)	5,108	6,512
Interest payable on convertible debentures	3,332	800
Dividends payable	5,184	5,242
Other current liabilities	10	752
Total current liabilities	70,477	53,247
Long-term debt (Note 6)	214,527	224,081
Convertible debentures	137,376	139,153
Derivative instruments liability (Notes 7 and 8)	17,011	5,513
Deferred income taxes	33,697	28,619
Other non-current liabilities	4,802	4,846
Shareholders' equity		

Common shares	544,647	541,917
Accumulated other comprehensive loss (Note 8)	(194)	(859)
Retained deficit	(163,299)	(126,941)
Noncontrolling interest (Note 4)	3,481	
Total shareholders' equity	384,635	414,117
Commitments and contingencies (Note 15)		
Subsequent events (Note 16)		
Total liabilities and shareholders' equity	$ 862,525	$ 869,576

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Project revenue:				
Energy sales	$ 16,659	$ 14,090	$ 32,572	$ 30,015
Energy capacity revenue	23,195	22,112	46,389	44,224
Transmission services	7,729	7,708	15,373	15,416
Other	321	360	791	649
	47,904	44,270	95,125	90,304
Project expenses:				
Fuel	15,771	12,627	31,928	27,588
Operations and maintenance	5,459	4,712	10,500	9,650
Project operator fees and expenses	983	758	1,902	2,031
Depreciation and amortization	10,071	10,588	20,142	21,254
	32,284	28,685	64,472	60,523
Project other income (expense):				
Change in fair value of derivative instruments (Notes 7 and 8)	992	469	(11,202)	360
Equity in earnings of unconsolidated affiliates	3,026	(982)	8,462	3,969
Interest expense, net	(4,308)	(4,816)	(8,719)	(9,320)
Other income, net	211	1,205	211	1,205
	(79)	(4,124)	(11,248)	(3,786)
Project income	15,541	11,461	19,405	25,995
Administrative and other expenses (income):				
Management fees and administration	3,843	3,105	7,943	5,484
Interest, net	2,518	10,553	5,312	20,170
Foreign exchange loss (Note 8)	4,224	12,929	2,432	9,506
Other income, net	(26)	(14)	(26)	(30)
	10,559	26,573	15,661	35,130
Income (loss) from operations before income taxes	4,982	(15,112)	3,744	(9,135)
Income tax expense (benefit) (Note 9)	3,618	(4,383)	8,491	(2,649)
Net income (loss)	1,364	(10,729)	(4,747)	(6,486)
Net loss attributable to noncontrolling interest	(81)		(129)	
Net income (loss) attributable to Atlantic Power Corporation	$ 1,445	$ (10,729)	$ (4,618)	$ (6,486)
Net income (loss) per share attributable to Atlantic Power Corporation shareholders: (Note 11)				
Basic	$ 0.02	$ (0.18)	$ (0.08)	$ (0.11)
Diluted	$ 0.04	$ (0.18)	$ (0.08)	$ (0.11)

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, 2010	Six months ended June 30, 2009
Cash flows from operating activities:		
Net loss	$ (4,747)	$ (6,486)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	20,142	21,254
Loss on sale of property, plant and equipment		333
Gain on step-up valuation of Rollcast acquisition	(211)	
Earnings from unconsolidated affiliates	(8,462)	(3,969)
Distributions from unconsolidated affiliates	5,718	13,021
Unrealized foreign exchange loss	5,199	9,630
Change in fair value of derivative instruments	11,202	(360)
Change in deferred income taxes	7,416	564
Change in other operating balances		
Accounts receivable	(953)	7,880
Prepayments, refundable income taxes and other assets	(481)	(5,859)
Accounts payable and accrued liabilities	(956)	(5,767)
Other liabilities	2,111	283
Cash provided by operating activites	35,978	30,524
Cash flows used in investing activities:		
Acquisitions and investments, net of cash acquired	324	(3,000)
Change in restricted cash (Note 1)	280	347
Biomass development costs	(948)	
Proceeds from sale of property, plant and equipment		167
Purchase of property, plant and equipment	(1,520)	(933)
Cash used in investing activities	(1,864)	(3,419)
Cash flows used in financing activities:		
Shares acquired in normal course issuer bid (Note 14)		(3,369)
Proceeds from revolving credit facility borrowings	20,000	
Equity investment from noncontrolling interest	200	
Dividends paid	(31,709)	(11,672)
Repayment of project-level debt	(9,141)	(6,414)
Cash used in financing activities	(20,650)	(21,455)
Increase in cash and cash equivalents	13,464	5,650
Cash and cash equivalents at beginning of period	49,850	37,327
Cash and cash equivalents at end of period	$ 63,314	$ 42,977
Supplemental cash flow information		
Interest paid	$ 11,437	$ 29,162
Income taxes paid (refunded), net	$ 1,045	$ 651

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation

Overview

Atlantic Power Corporation ("Atlantic Power") is a corporation established under the laws of the Province of Ontario on June 18, 2004 and continued to the Province of British Columbia on July 8, 2005. We issued income participating securities ("IPSs") for cash pursuant to an initial public offering on the Toronto Stock Exchange, or the TSX, on November 18, 2004. Each IPS was comprised of one common share and Cdn$5.767 principal value of 11% subordinated notes due 2016. On November 27, 2009 our shareholders approved a conversion from the IPS structure to a traditional common share structure. Each IPS has been exchanged for one new common share and each old common share that did not form a part of an IPS was exchanged for approximately 0.44 of a new common share. Our shares trade on the TSX under the symbol "ATP" and began trading on the New York Stock Exchange, or the NYSE, under the symbol "AT" on July 23, 2010.

Our current portfolio consists of interests in 12 operational power generation projects across eight states, one wind project under construction in Idaho, a 500 kilovolt 84-mile electric transmission line located in California, and six development projects in five states. Our power generation projects in operation have an aggregate gross electric generation capacity of approximately 1,823 megawatts (or "MW"), in which our ownership interest is approximately 808 MW.Four of our projects are wholly-owned subsidiaries: Lake Cogen, Ltd., Pasco Cogen, Ltd., Auburndale Power Partners, L.P. and Atlantic Path 15, LLC. The interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP") with a reconciliation to Canadian GAAP in Note 17. The Canadian securities legislation allow issuers that are required to file reports with the Securities and Exchange Commission ("SEC") in the United States to file financial statements under United States GAAP to meet their continuous disclosure obligations in Canada. Prior to 2010, we prepared our consolidated financial statements in accordance with Canadian GAAP.

The interim consolidated financial statements do not contain all the disclosures required by United States and Canadian GAAP. The interim consolidated financial statements have been prepared in accordance with the SEC's regulations for interim financial information and with the instructions to Form 10-Q. The accounting policies we follow are set forth below in Note 2, *Summary of significant accounting policies.* The interim consolidated financial statements follow the same accounting principles and methods of application as the most recent annual consolidated financial statements as there are no material differences in our accounting policies between United States and Canadian GAAP at June 30, 2010 other than as denoted in Note 17. Interim results are not necessarily indicative of results for a full year.

In our opinion, the accompanying unaudited interim consolidated financial statements contain all material adjustments consisting of normal and recurring accruals necessary to present fairly our consolidated financial position as of June 30, 2010, the results of operations for the three and six month periods ended June 30, 2010 and 2009, and our cash flows for the six month periods ended June 30, 2010 and 2009.

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

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Basis of presentation (Continued)

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

2. Summary of significant accounting policies

(a) Basis of consolidation and accounting:

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

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

We eliminate all intercompany accounts and transactions in consolidation.

(b) Use of estimates:

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. During the periods presented, we have made a number of estimates and valuation assumptions, including the fair values of acquired assets, the useful lives and recoverability of property, plant and equipment and power purchase agreements, the recoverability of equity investments, the recoverability of deferred tax assets, tax provisions, and the fair value of financial instruments and derivatives. In addition, estimates are used to test long-lived assets and goodwill for impairment and to determine the fair value of impaired assets. These estimates and valuation assumptions are based on present conditions and our planned course of action, as well as assumptions about future business and economic conditions. As better information becomes available or actual amounts are determinable, the recorded estimates are revised. Should the underlying valuation assumptions and estimates change, the recorded amounts could change by a material amount.

(c) Revenue:

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

Transmission services revenue is recognized as transmission services are provided. The annual revenue requirement for transmission services is regulated by the Federal Energy Regulatory

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

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

(d) Use of fair value:

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

(e) Derivative financial instruments:

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

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

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

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

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

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

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

(f) Property, plant and equipment:

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

(g) Transmission system rights:

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

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

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

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

(i) Other intangible assets:

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

Power purchase agreements are valued at the time of acquisition based on the contract prices under the PPAs compared to projected market prices. Fuel supply agreements are valued at the time of acquisition based on the contract prices under the fuel supply agreement compared to projected market

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

prices. The balances are presented net of accumulated amortization in the consolidated balance sheets. Amortization is recorded on a straight-line basis over the remaining term of the agreement.

(j) Income taxes:

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

(k) Foreign currency translation:

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

(l) Long-term incentive plan:

The officers and other employees of Atlantic Power are eligible to participate in the Long-Term Incentive Plan ("LTIP") that was implemented in 2007. In the second quarter of 2010, the Board of Directors approved an amendment to the LTIP and the amended plan was approved by our shareholders on June 29, 2010. The amended LTIP will be effective for grants beginning with the 2010 performance year. Under the amended LTIP, the notional units granted to plan participants will have the same characteristics as notional units under the old LTIP. However, the number of notional units that vest will be based, in part, on the total shareholder return of Atlantic Power compared to a group of peer companies in Canada. In addition, vesting of the notional units for officers of Atlantic Power will occur on a three-year cliff basis as opposed to ratable vesting over three years for grants made prior to the amendments.

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

Compensation expense related to awards granted to participants in the LTIP is recorded over the vesting period based on the estimated fair value of the award on the grant date for notional units accounted for as equity awards and at each balance sheet date for notional units accounted for as liability awards. Fair value of the awards granted prior to the 2010 amendment is determined by projecting the total number of notional units that will vest in future periods, including dividends received on notional units during the vesting period, and applying the current market price per share to the projected number of notional units that will vest. The fair value of awards granted for the 2010 performance period with market vesting conditions is based upon a Monte Carlo simulation model on their grant date. The aggregate number of shares which may be issued from treasury under the LTIP is limited to one million. Unvested notional units are recorded as either a liability or equity award based on management's intended method of redeeming the notional units when they vest.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of significant accounting policies (Continued)

(m) Concentration of credit risk:

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

(n) Segments:

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

3. Comprehensive income (loss)

The following table summarizes the components of comprehensive income (loss), net of tax of $120 and $1,081, respectively, for the three months ended June 30, 2010 and 2009, and net of tax of $109 and $(1,393), respectively, for the six months ended June 30, 2010 and 2009:

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss)	$ 1,364	$ (10,729)	$ (4,747)	$ (6,486)
Unrealized gain (loss) on hedging activity	180	1,622	164	(2,089)
Comprehensive income (loss)	$ 1,544	$ (9,107)	$ (4,583)	$ (8,575)

4. Acquisitions

Rollcast

On March 31, 2009, we acquired a 40% equity interest in Rollcast Energy, Inc., a North Carolina Corporation for $3.0 million in cash. On March 1, 2010, we paid $1.2 million in cash for an additional 15% of the shares of Rollcast, increasing our interest from 40% to 55% and providing us control of Rollcast. We consolidated Rollcast as of this date. We previously accounted for our 40% interest in Rollcast as an equity method investment. On April 28, 2010, we paid an additional $0.8 million to increase our ownership interest in Rollcast to 60%.

Rollcast is a developer of biomass power plants in the southeastern U.S. with five, 50 MW projects in various stages of development. The investment in Rollcast gives us the option but not the obligation to invest equity in Rollcast's biomass power plants.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Acquisitions (Continued)

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

Fair value of consideration transferred:		
Cash	$	1,200
Other items to be allocated to identifiable assets acquired and liabilities assumed:		
Fair value of our investment in Rollcast at the acquisition date		2,758
Fair value of noncontrolling interest in Rollcast		3,410
Gain recognized on the step acquisition		211
Total	$	7,579
Recognized amounts of identifiable assets acquired and liabilities assumed:		
Cash	$	1,524
Property, plant and equipment		130
Prepaid expenses and other assets		133
Capitalized development costs		2,705
Trade and other payables		(448)
Total identifiable net assets		4,044
Goodwill		3,535
	$	7,579

As a result of obtaining control over Rollcast, our previously held 40% interest was remeasured to fair value, resulting in a gain of $0.2 million. This has been recognized in other income (expense) in the consolidated statements of operations.

The fair value of the noncontrolling interest of $3.4 million in Rollcast was estimated by applying an income approach using the discounted cash flow method. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 fair value measurement. The fair value estimate utilized an assumed discount rate of 9.4% which is composed of a risk-free rate and an equity risk premium determined by the capital asset pricing of companies deemed to be similar to Rollcast. The estimate assumed that no fair value adjustments are required because of the lack of control or lack of marketability that market participants would consider when estimating the fair value of the noncontrolling interest in Rollcast.

The goodwill is attributable to the value of future biomass power plant development opportunities. It is not expected to be deductible for tax purposes. All of the $3.5 million of goodwill was assigned to the Other Project Assets segment.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Accumulated depreciation and amortization

The following table presents accumulated depreciation of property, plant and equipment and the accumulated amortization of transmission system rights and other intangible assets as of June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
Property, plant and equipment	$ 80,154	$ 74,567
Transmission system rights	39,611	35,685
Other intangible assets	55,800	45,368

6. Long-term debt

Long-term debt represents our consolidated share of project long-term debt and the unamortized balance of purchase accounting adjustments that were recorded in connection with the Path 15 acquisition in order to adjust the debt to its fair value on the acquisition date. Project debt is non-recourse to Atlantic Power and generally amortizes during the term of the respective revenue generating contracts of the projects.

	June 30, 2010	December 31, 2009
Project debt, interest rates ranging from 5.1% to 9.0% maturing through 2028	$ 221,190	$ 230,331
Purchase accounting fair value adjustments	11,667	12,030
Less: current portion of long-term debt	(18,330)	(18,280)
Long-term debt	$ 214,527	$ 224,081

Project-level debt is secured by the respective projects and their contracts with no other recourse to us. At June 30, 2010, all of our projects were in compliance with the covenants contained in project-level debt.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Fair value of financial instruments

The following represents the fair value hierarchy of our financial assets and liabilities that were recognized at fair value as of June 30, 2010 and December 31, 2009. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 63,314	$	$	$ 63,314
Restricted cash	14,579			14,579
Derivative instruments asset		12,203		12,203
Total	$ 77,893	$ 12,203	$	$ 90,096
Liabilities:				
Derivative instruments liability	$	$ 22,119	$	$ 22,119
Total	$	$ 22,119	$	$ 22,119

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

We adjust the fair value of financial assets and liabilities to reflect credit risk, which is calculated based on our credit rating or the credit rating of our counterparties. As of June 30, 2010, the credit reserve resulted in a $1.3 million net increase in fair value, which is comprised of a $0.3 million gain in other comprehensive income and a $1.1 million gain in change in fair value of derivative instruments offset by a $0.1 million loss in foreign exchange.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Accounting for derivative instruments and hedging activities

Fair value of derivative instruments

We have elected to disclose derivative instruments 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, 2010	
	Derivative Assets	**Derivative Liabilities**
Derivative instruments designated as cash flow hedges:		
Interest rate swap contract current	$	$ 479
Interest rate swap contract long-term		141
Total derivative instruments designated as cash flow hedges		620
Derivative instruments not designated as cash flow hedges:		
Interest rate swap contract current		1,190
Interest rate swap contract long-term		2,387
Foreign currency forward contracts current	4,251	
Foreign currency forward contracts long-term	7,952	
Natural gas swap contracts current		3,439
Natural gas swap contracts long-term		14,483
Total derivative instruments not designated as cash flow hedges	12,203	21,499
Total derivative instruments	$ 12,203	$ 22,119

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

Total derivative instruments not designated as cash flow hedges	20,017	11,241
Total derivative instruments	$ 20,017	$ 12,134

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Natural gas swaps

The Lake project's operating margin is exposed to changes in natural gas spot market prices from the expiration of its natural gas supply contract on June 30, 2009 through the expiration of its PPA on July 31, 2013. The Auburndale project purchases natural gas under a fuel supply agreement which provides approximately 80% of the project's fuel requirements at fixed prices through June 30, 2012. The remaining 20% is purchased at spot market prices and therefore the project is exposed to changes in natural gas prices for that portion of its gas requirements through the termination of the fuel supply agreement and 100% of its natural gas requirements from the expiry of the fuel contract in mid-2012 until the termination of its PPA at the end of 2013.

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

Interest Rate Swaps

We have executed an interest rate swap at our consolidated Auburndale project to economically fix a portion of its exposure to changes in interest rates related to its variable-rate debt. The interest rate swap agreement was designated as a cash flow hedge of the forecasted interest payments under the project-level Auburndale debt. The interest rate swap was executed in November 2009 and expires on November 30, 2013.

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

Impact of derivative instruments on the consolidated income statements

Unrealized gains on interest rate swaps designated as cash flow hedges have been recorded in the consolidated statements of operations as a gain in other comprehensive income of $0.3 million for each of the three and six month periods ended June 30, 2010. Realized losses on these interest rate swaps of $0.2 million and $0.4 million were recorded in interest expense, net for the three and six month periods ended June 30, 2010.

Unrealized gains and losses on natural gas swaps designated as cash flow hedges are recorded in other comprehensive income in the consolidated statements of operations. In the period in which the unrealized gains and losses are settled, the cash settlement payments are recorded as fuel expense. Other comprehensive loss recorded for natural gas swap contracts accounted for as cash flow hedges totaled $5.1 million, net of tax, prior to July 1, 2009 when hedge accounting for these natural gas swaps

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

was discontinued prospectively. Amortization of the loss of $0.4 million and $0.8 million was recorded in change in fair value of derivative instruments for the three and six month periods ended June 30, 2010.

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

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

	Classification of (gain) loss recognized in income	Three months ended June 30, 2010	Six months ended June 30, 2010
Natural gas swaps	Fuel	$ 2,621	$ 4,439
Foreign currency forwards	Foreign exchange gain	(1,599)	(2,767)
Interest rate swaps	Interest, net	474	949

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Change in fair value of derivative instruments:				
Interest rate swaps	$ (120)	$ 469	$ (166)	$ 360
Natural gas swaps	1,112		(11,036)	
	$ 992	$ 469	$ (11,202)	$ 360

Notional volumes of derivative transactions

The following table summarizes the net notional volume of our derivative transactions by type, excluding those derivatives that qualified for the normal purchases and normal sales exception as of June 30, 2010:

	Units	Notional amount as of June 30, 2010
Interest rate swaps	US$	$ 10,219
Currency forwards	Cdn$	$ 257,700
Natural gas swaps	Mmbtu	15,900

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Foreign currency forward contracts

We use forward foreign currency contracts to manage our exposure to changes in foreign exchange rates, as we generate cash flow in U.S. dollars but pay dividends to shareholders and interest on convertible debentures predominantly in Canadian dollars. We have a hedging strategy for the purpose of reinforcing the long-term sustainability of dividends to shareholders. We have executed this strategy by entering into forward contracts to purchase Canadian dollars at a fixed rate of Cdn$1.134 per U.S. dollar in amounts sufficient to make monthly dividend payments at the current annual dividend level of Cdn$1.094 per common share, as well as interest payments on our 6.25% convertible debentures due March 15, 2017 (the "2009 Debentures"), through December 2013.

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

The foreign exchange forward contracts are recorded at estimated fair value based on quoted market prices and our estimation of the counterparty's credit risk. The fair value of our forward foreign currency contracts at June 30, 2010 is an asset of $12.2 million. Changes in the fair value of the foreign currency forward contracts are recorded in foreign exchange (gain) loss in the consolidated statements of operations.

The following table contains the components of recorded foreign exchange (gain) loss for the three and six month periods ended June 30, 2010 and 2009:

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Unrealized foreign exchange (gain) loss:				
Subordinated notes and convertible debentures	$ (6,486)	$ 30,401	$ (2,505)	$ 17,635
Forward contracts and other	12,309	(16,792)	7,704	(8,005)
	5,823	13,609	5,199	9,630
Realized foreign exchange gains on forward contract settlements	(1,599)	(680)	(2,767)	(124)
	$ 4,224	$ 12,929	$ 2,432	$ 9,506

The following table illustrates the impact on our financial instruments of a 10% hypothetical change in the value of the U.S. dollar compared to the Canadian dollar as of June 30, 2010:

Convertible debentures	$ 13,738
Foreign currency forward contracts	26,133

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following table summarizes the changes in the accumulated other comprehensive income (loss) ("OCI") balance attributable to derivative financial instruments designated as a hedge, net of a 40% effective tax rate:

For the three month period ended June 30, 2010	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at March 31, 2010	$ (554)	$ (73)	$ (627)
Change in fair value of cash flow hedges	391		391
Realized from OCI during the period	(211)	253	42
Accumulated OCI balance at June 30, 2010	$ (374)	$ 180	$ (194)

For the six month period ended June 30, 2010	Interest Rate Swaps	Natural Gas Swaps	Total
Accumulated OCI balance at December 31, 2009	$ (538)	$ (321)	$ (859)
Change in fair value of cash flow hedges	595		595
Realized from OCI during the period	(431)	501	70
Accumulated OCI balance at June 30, 2010	$ (374)	$ 180	$ (194)

9. Income taxes

The difference between the actual tax expense of $3.6 million and $8.5 million for the three and six months ended June 30, 2010, respectively, and the expected income tax expense, based on a combined Federal and State tax rate of 40%, of $2.0 million and $1.5 million, respectively, is primarily due to an increase in the valuation allowance and various other permanent differences.

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Current income tax expense (benefit)	$ 1,038	$ (1,743)	$ 1,075	$ (3,213)
Deferred tax expense (benefit)	2,580	(2,640)	7,416	564
Total income tax expense (benefit)	$ 3,618	$ (4,383)	$ 8,491	$ (2,649)

Valuation Allowance

As of June 30, 2010, we have recorded a valuation allowance of $69.1 million. This amount is comprised primarily of provisions against available Canadian and U.S net operating loss carryforwards. In assessing the recoverability of our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon projected future taxable income in the United States and in Canada and available tax planning strategies.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-Term Incentive Plan

The following table summarizes the changes in outstanding LTIP notional units during the six months ended June 30, 2010:

	Units	Grant Date Weighted-Average Price per Unit
Outstanding at December 31, 2009	471,281	$ 7.30
Granted	305,112	$ 12.16
Additional shares from dividends	27,489	$ 8.94
Vested	(222,266)	$ 3.13
Outstanding at June 30, 2010	581,616	$ 9.68

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

Vested notional units will be redeemed one-third in cash and two-thirds in shares of our common stock. Notional units granted that are expected to be redeemed in cash upon vesting are accounted for as liability awards. Notional units granted that are expected to be redeemed in common shares upon vesting are accounted for as equity awards. Notional units granted prior to the 2010 performance period are subject to the vesting conditions of the LTIP before the amendments made in 2010. We reclassified the portion of outstanding awards expected to vest in common shares totaling $1.4 million from accounts payable and accrued liabilities and other non-current liabilities to common shares as of the date the LTIP was modified. The amended LTIP was approved by our shareholders on June 29, 2010.

On March 29, 2010, our board of directors approved the grant of 138,892 notional LTIP units for the 2009 performance period under the terms of the LTIP before the 2010 amendments. In May 2010, our board of directors approved the initial grant of 83,110 notional LTIP units for executive officers under the amended LTIP for the 2010-2012 performance period, subject to final shareholder approval of the amended LTIP, which occurred on June 29, 2010. Also in May 2010 and subject to the final shareholder approval of the amended LTIP, our board of directors granted transition awards to our executive officers consisting of an additional 83,110 notional LTIP units. The transition awards are designed to mitigate the impact of the changes in vesting provisions of the LTIP from a ratable vesting over three years to cliff vesting at the end of three years. The transition awards are subject to the performance measurement and other provisions of the amended LTIP, except that $^{1}/_{3}$ of the transition awards vest in March 2011 and the other $^{2}/_{3}$ vest in March 2012.

The notional units, other than the transition awards, granted under the amended LTIP cliff-vest three years after the grant date. The final number of notional units that will vest, if any, at the end of the three year vesting period will be based on the Company's achievement of target levels of relative TSR, which is the change in the value of an investment in the Company's common stock, including reinvestment of dividends, compared to that of a peer group of companies during the performance

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Long-Term Incentive Plan (Continued)

period. The total number of notional units vesting could equal up to a maximum 150% of the number of notional units in the executives' accounts on the vesting date for that award, depending on the level of achievement of target levels of TSR during the measurement period.

For new awards granted under the amended LTIP, we record compensation expense ratably from the grant date through the end of the performance period based on the grant date fair value. Compensation expense is recognized regardless of whether the TSR market condition is satisfied, provided that the LTIP participant remains employed by the Company. The fair value of the outstanding notional units at June 30, 2010, $2.0 million, is based upon a Monte Carlo simulation model, which encompasses estimated TSR during the performance period compared to the estimated TSR of the peer companies.

In calculating the fair value of the award, the Monte Carlo simulation model utilizes multiple input variables over the performance period in order to determine the probability of satisfying the TSR market condition stipulated in the award. The Monte Carlo simulation model computed simulated TSR for the Company and for its peer companies during the remaining time in the performance period with the following inputs: (i) stock price on the measurement date (ii) expected volatility; (iii) risk-free interest rate; (iv) dividend yield and (v) correlations of historical common stock returns between the Company and the peer companies and among the peer companies. Expected volatilities utilized in the Monte Carlo model are based on historical volatility of the Company's and the peer companies' stock prices over a period equal in length to that of the remaining vesting period. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant with a term equal to the performance period assumption at the time of grant.

The calculation of simulated TSR under the Monte Carlo model for the remaining time in the performance period included the following assumptions:

	Six months ended June 30, 2010
Weighted average risk free rate of return	0.9%
Dividend yield	9.4%
Expected volatility Company	45%
Expected volatility peer companies	30 - 60%
Weighted average remaining measurement period	1.8 years

11. Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average common shares outstanding during their respective period. Diluted earnings (loss) per share is computed including dilutive potential shares as if they were outstanding shares during the year. Dilutive potential shares include shares that would be issued if all of the convertible debentures were converted into shares at January 1, 2009. Dilutive potential shares also include the weighted average number of shares, as of the date such notional units were granted, that would be issued if the unvested notional units outstanding under the LTIP were vested and redeemed for shares under the terms of the LTIP.

Because we reported a loss for the six month period ended June 30, 2010 and the three and six month periods ended June 30, 2009, the effect of including potentially dilutive shares in the calculation during those periods is anti-dilutive.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

The following table sets forth the weighted average number of shares outstanding and potentially dilutive shares utilized in per share calculations for the three and six month periods ended June 30, 2010 and 2009:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Basic shares outstanding	60,481	60,600	60,443	60,769
Dilutive potential shares:				
Convertible debentures	11,473	4,839	11,473	4,839
LTIP notional units	409	539	402	425
Potentially dilutive shares	72,363	65,978	72,318	66,033

12. Segment and related information

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

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

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Segment and related information (Continued)

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

	Path 15	Auburndale	Lake	Pasco	Chambers	Other Project Assets	Un-allocated Corporate	Consolidated
Three month period ended June 30, 2010:								
Operating revenues	$ 7,729	$ 19,570	$ 17,842	$ 2,763	$	$	$	$ 47,904
Segment assets	213,275	120,929	115,822	40,620		8,322	363,557	862,525
Goodwill	8,918					3,535		12,453
Project Adjusted EBITDA	$ 7,062	$ 10,431	$ 7,299	$ 1,002	$ 4,141	$ 8,591	$	$ 38,526
Change in fair value of derivative instruments		597	(1,709)		(207)	1,529		210
Depreciation and amortization	2,095	4,950	2,267	746	839	5,699		16,596
Interest, net	3,096	415	(4)		1,651	939		6,097
Other project (income) expense					204	(122)		82
Project income	1,871	4,469	6,745	256	1,654	546		15,541
Interest, net							2,518	2,518
Administration							3,843	3,843
Foreign exchange gain							4,224	4,224
Other income, net							(26)	(26)
Loss from operations before income taxes	1,871	4,469	6,745	256	1,654	546	(10,559)	4,982
Income tax expense (benefit)	990						2,628	3,618
Net loss	$ 881	$ 4,469	$ 6,745	$ 256	$ 1,654	$ 546	$ (13,187)	$ 1,364

	Path 15	Auburndale	Lake	Pasco	Chambers	Project Assets	Un-allocated Corporate	Consolidated
Three month period ended June 30, 2009:								
Operating revenues	$ 7,708	$ 18,263	$ 15,239	$ 3,060	$	$	$	$ 44,270
Segment assets	225,167	144,228	125,381	44,671		3,215	331,261	873,923
Goodwill	8,918							8,918
Project Adjusted EBITDA	$ 6,931	$ 10,386	$ 7,723	$ 901	$ (1,128)	$ 9,172	$	$ 33,985
Change in fair value of derivative instruments					(1,010)	(1,311)		(2,321)
Depreciation and amortization	2,115	4,949	2,777	747	844	5,990		17,422
Interest, net	3,221	693		3	2,015	2,555		8,487
Other project (income) expense	(1,229)		61	(25)	207	(78)		(1,064)
Project income	2,824	4,744	4,885	176	(3,184)	2,016		11,461
Interest, net							10,553	10,553
Administration							3,105	3,105
Foreign exchange gain							12,929	12,929
Other income, net							(14)	(14)
Loss from operations before income taxes	2,824	4,744	4,885	176	(3,184)	2,016	(26,573)	(15,112)
Income tax expense (benefit)							(4,383)	(4,383)

Net loss	$	2,824	$	4,744	$	4,885	$	176	$	(3,184)	$	2,016	$	(22,190)	$	(10,729)

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Segment and related information (Continued)

	Path 15	Auburndale	Lake	Pasco	Chambers	Other Project Assets	Un-allocated Corporate	Consolidated
Six month period ended June 30, 2010:								
Operating revenues	$ 15,373	$ 40,037	$ 34,083	$ 5,632	$	$	$	$ 95,125
Segment assets	213,275	120,929	115,822	40,620		8,322	363,557	862,525
Goodwill	8,918					3,535		12,453
Project Adjusted EBITDA	$ 14,115	$ 19,802	$ 14,612	$ 2,417	$ 10,129	$ 16,200	$	$ 77,275
Change in fair value of derivative instruments		4,809	6,226		(380)	2,074		12,729
Depreciation and amortization	4,194	9,898	4,536	1,492	1,676	11,186		32,982
Interest, net	6,242	886	(6)		3,327	1,429		11,878
Other project (income) expense					403	(122)		281
Project income	3,679	4,209	3,856	925	5,103	1,633		19,405
Interest, net							5,312	5,312
Administration							7,943	7,943
Foreign exchange gain							2,432	2,432
Other income, net							(26)	(26)
Loss from operations before income taxes	3,679	4,209	3,856	925	5,103	1,633	(15,661)	3,744
Income tax expense (benefit)	1,739						6,752	8,491
Net loss	$ 1,940	$ 4,209	$ 3,856	$ 925				