ATLANTIC POWER CORP
Form 10-Q
August 03, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 Q

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

For the quarterly period ended June 30, 2017

OR

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.)
3 Allied Drive, Suite 220	
Dedham, MA	02026
(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 No

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 No

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

Large accelerated filer	Accelerated filer	Non accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Emerging growth company			

If an emerging company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 1, 2017 was 115,280,908.

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ATLANTIC POWER CORPORATION

FORM 10 Q

SIX MONTHS ENDED JUNE 30, 2017

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GENERAL

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

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

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ATLANTIC POWER CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions of U.S. dollars)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 104.4	$ 85.6
Restricted cash	14.1	13.3
Accounts receivable	42.3	37.3
Current portion of derivative instruments asset (Notes 5 and 6)	2.8	4.0
Inventory	19.5	16.0
Prepayments	7.2	5.9
Income taxes receivable	0.5	—
Other current assets	2.9	2.8
Total current assets	193.7	164.9
Property, plant, and equipment, net	705.8	733.2
Equity investments in unconsolidated affiliates (Note 3)	204.2	266.8
Power purchase agreements and intangible assets, net	227.4	246.2
Goodwill	36.0	36.0
Derivative instruments asset (Notes 5 and 6)	2.8	4.6
Other assets	4.2	5.1
Total assets	$ 1,374.1	$ 1,456.8
Liabilities		
Current liabilities:		
Accounts payable	$ 3.3	$ 4.5
Accrued interest	2.0	0.7
Other accrued liabilities	23.9	24.4
Current portion of long-term debt (Note 4)	106.9	111.9
Current portion of derivative instruments liability (Notes 5 and 6)	6.3	7.6
Other current liabilities	3.0	1.8
Total current liabilities	145.4	150.9
Long-term debt, net of unamortized discount and deferred financing costs (Note 4)	707.6	749.2
Convertible debentures, net of unamortized deferred financing costs	102.8	100.4
Derivative instruments liability (Notes 5 and 6)	24.4	21.3
Deferred income taxes	43.6	68.3
Power purchase and fuel supply agreement liabilities, net	24.7	25.3
Other long-term liabilities	56.3	55.5
Total liabilities	1,104.8	1,170.9
Equity		

Common shares, no par value, unlimited authorized shares; 115,280,908 and 114,649,888 issued and outstanding at June 30, 2017 and December 31, 2016	1,274.0	1,272.9
Accumulated other comprehensive loss (Note 2)	(141.6)	(148.5)
Retained deficit	(1,084.4)	(1,059.8)
Total Atlantic Power Corporation shareholders' equity	48.0	64.6
Preferred shares issued by a subsidiary company (Note 10)	221.3	221.3
Total equity	269.3	285.9
Total liabilities and equity	$ 1,374.1	$ 1,456.8

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

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

(Unaudited)

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Project revenue:				
Energy sales	$ 40.0	$ 45.1	$ 77.1	$ 97.6
Energy capacity revenue	28.3	37.3	47.8	69.2
Other	55.7	15.8	97.5	37.8
	124.0	98.2	222.4	204.6
Project expenses:				
Fuel	24.0	35.1	52.9	74.0
Operations and maintenance	23.3	30.0	43.6	51.2
Depreciation and amortization	29.5	25.5	59.0	50.3
	76.8	90.6	155.5	175.5
Project other income:				
Change in fair value of derivative instruments (Notes 5 and 6)	(2.7)	12.2	(3.9)	11.0
Equity in (loss) earnings of unconsolidated affiliates (Note 3)	(54.4)	7.6	(45.4)	18.3
Interest, net	(2.2)	(2.4)	(4.4)	(4.5)
Other income, net	—	0.2	—	—
	(59.3)	17.6	(53.7)	24.8
Project (loss) income	(12.1)	25.2	13.2	53.9
Administrative and other expenses:				
Administration	5.7	5.8	12.1	11.9
Interest expense, net	18.4	51.2	35.7	67.8
Foreign exchange loss	5.9	2.6	8.3	22.5
Other income (expense), net	—	0.3	—	(2.2)
	30.0	59.9	56.1	100.0
Loss from operations before income taxes	(42.1)	(34.7)	(42.9)	(46.1)
Income tax benefit (Note 7)	(22.3)	(18.4)	(22.6)	(16.8)
Net loss	(19.8)	(16.3)	(20.3)	(29.3)
Net income attributable to preferred shares dividends of a subsidiary company	2.1	2.2	4.3	4.2
Net loss attributable to Atlantic Power Corporation	$ (21.9)	$ (18.5)	$ (24.6)	$ (33.5)

Net loss per share attributable to Atlantic Power Corporation shareholders: (Note 9)				
Basic	$ (0.19)	$ (0.15)	$ (0.21)	$ (0.28)
Diluted	(0.19)	(0.15)	(0.21)	(0.28)
Weighted average number of common shares outstanding: (Note 9)				
Basic	115.2	121.6	115.0	121.8
Diluted	115.2	121.6	115.0	121.8

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in millions of U.S. dollars)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net loss	$ (19.8)	$ (16.3)	$ (20.3)	$ (29.3)
Other comprehensive loss, net of tax:				
Unrealized loss on hedging activities	$ (0.1)	$ (0.2)	$ (0.3)	$ (0.7)
Net amount reclassified to earnings	0.1	0.2	0.4	0.4
Net unrealized gain (loss) on derivatives	—	—	0.1	(0.3)
Defined benefit plan, net of tax	—	—	0.1	—
Foreign currency translation adjustments	4.7	1.0	6.7	19.4
Other comprehensive income, net of tax	4.7	1.0	6.9	19.1
Comprehensive loss	(15.1)	(15.3)	(13.4)	(10.2)
Less: Comprehensive income attributable to preferred share dividends of a subsidiary company	2.1	2.2	4.3	4.2
Comprehensive loss attributable to Atlantic Power Corporation	$ (17.2)	$ (17.5)	$ (17.7)	$ (14.4)

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions of U.S. dollars)

(Unaudited)

	Six Months Ended June 30, 2017	2016
Cash provided by operating activities:		
Net loss	$ (20.3)	$ (29.3)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	59.0	50.3
Gain on purchase and cancellation of convertible debentures	—	(2.5)
Loss on disposal of fixed assets	—	0.2
Stock-based compensation expense	1.1	0.8
Equity in loss (earnings) from unconsolidated affiliates	45.4	(18.3)
Distributions from unconsolidated affiliates	17.2	23.5
Unrealized foreign exchange loss	8.3	22.5
Change in fair value of derivative instruments	3.9	(11.0)
Amortization of debt discount and deferred financing costs	5.2	37.5
Change in deferred income taxes	(24.9)	(18.6)
Change in other operating balances		
Accounts receivable	(5.0)	(3.3)
Inventory	(3.4)	(0.4)
Prepayments and other assets	(0.3)	1.7
Accounts payable	(1.4)	3.5
Accruals and other liabilities	0.2	(2.9)
Cash provided by operating activities	85.0	53.7
Cash (used in) provided by investing activities:		
Change in restricted cash	(0.8)	0.9
Reimbursement of costs for third party construction project	—	4.7
Purchase of property, plant and equipment	(4.2)	(2.0)
Cash (used in) provided by investing activities	(5.0)	3.6
Cash (used in) provided by financing activities:		
Proceeds from term loan facility, net of discount	—	679.0
Common share repurchases	—	(4.7)
Repayment of corporate and project-level debt	(56.9)	(502.7)

Repayment of convertible debentures	—	(127.0)
Deferred financing costs	—	(15.9)
Dividends paid to preferred shareholders	(4.3)	(4.2)
Cash (used in) provided by financing activities:	(61.2)	24.5
Net increase in cash and cash equivalents	18.8	81.8
Cash and cash equivalents at beginning of period	85.6	72.4
Cash and cash equivalents at end of period	$ 104.4	$ 154.2
Supplemental cash flow information		
Interest paid	$ 33.4	$ 34.7
Income taxes paid, net	$ 2.2	$ 1.9
Accruals for construction in progress	$ 1.3	$ 1.0

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

1. Nature of business

General

Atlantic Power owns and operates a diverse fleet of power generation assets in the United States and Canada. Our power generation projects sell electricity to utilities and other large commercial customers largely under long term power purchase agreements (“PPAs”), which seek to minimize exposure to changes in commodity prices. As of June 30, 2017, our power generation projects had an aggregate gross electric generation capacity of approximately 2,138 megawatts (“MW”) in which our aggregate ownership interest is approximately 1,500 MW. Our current portfolio consists of interests in twenty-three power generation projects across nine states in the United States and two provinces in Canada. Nineteen of the projects are currently operational, totaling 1,975 MW on a gross capacity basis and 1,337 MW on a net ownership basis. The remaining four projects, all in Ontario, are not operational, three due to revised contractual arrangements with the offtaker and the other, Tunis, has a forward-starting 15-year contractual agreement that will commence between November 2017 and June 2019. Eighteen of our projects are majority owned.

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. 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 215-10451 Shellbridge Way, Richmond, British Columbia V6X 2W8 Canada and our headquarters is located at 3 Allied Drive, Suite 220, Dedham, Massachusetts 02026, USA. Our telephone number in Dedham is (617) 977 2400 and the address of our website is www.atlanticpower.com. Information contained on Atlantic Power’s website or that can be accessed through its website is not incorporated into and does not constitute a part of this Quarterly Report on Form 10 Q. We have included our website address only as an inactive textual reference and do not intend it to be an active link to our website. We make available on our website, free of charge, our Annual Report on Form 10 K, Quarterly Reports on Form 10 Q, Current Reports on Form 8 K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange

Commission (“SEC”). Additionally, we make available on our website our Canadian securities filings, which are not incorporated by reference into our Exchange Act filings.

Basis of presentation

The interim condensed consolidated financial statements included in this Quarterly Report on Form 10 Q 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, 2016. Interim results are not necessarily indicative of results for the full year.

In our opinion, the accompanying unaudited interim condensed consolidated financial statements present fairly our consolidated financial position as of June 30, 2017, the results of operations and comprehensive (loss) income for the three and six months ended June 30, 2017 and 2016, and our cash flows for the six months ended June 30, 2017 and 2016 in accordance with U.S generally accepted accounting policies. In the opinion of management, all adjustments (consisting of normal recurring accruals and other adjustments) considered necessary for a fair presentation have been included.

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 useful lives and recoverability of property, plant and equipment, valuation of goodwill, intangible assets and liabilities related to PPAs and fuel supply agreements, the recoverability of equity investments, the recoverability of deferred tax assets, tax provisions, the fair value of financial instruments and derivatives, pension obligations, asset retirement obligations and equity-based compensation. In addition, estimates are used to test long-lived assets and goodwill for impairment and to determine the fair value of impaired assets. These estimates and valuation assumptions are based on present conditions and our planned course of action, as well as assumptions about future business and economic conditions. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2016. 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

In July 2015, the FASB issued changes to the subsequent measurement of inventory. Currently, an entity is required to measure its inventory at the lower of cost or market, whereby market can be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. The changes require that inventory be measured at the lower of cost and net realizable value, thereby eliminating the use of the other two market methodologies. Net realizable value is defined as the estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal, and transportation. These changes became effective for us on January 1, 2017 and did not have an impact on the consolidated financial statements.

In November 2015, the FASB issued changes to the balance sheet classification of deferred taxes. These changes simplify the presentation of deferred income taxes by requiring all deferred income tax assets and liabilities, along with any related valuation allowance, to be classified as noncurrent in a classified balance sheet. The current requirement that deferred tax assets and liabilities of a tax-paying component of an entity be offset and presented as a single amount is not affected by these changes. The new guidance became effective for us on January 1, 2017 and did not have an impact on the consolidated financial statements.

In March 2016, the FASB issued authoritative guidance intended to simplify and improve several aspects of the accounting for share-based payment transactions. The new guidance includes amendments to share-based accounting for forfeitures and income taxes, including adjustments to how excess tax benefits and a company's payments for tax withholdings should be classified in the statement of cash flows. We have elected to continue our policy of estimating forfeitures each period. This guidance became effective for us on January 1, 2017 and did not have an impact on our financial position and results of operations upon its adoption.

Issued

In May 2014, the FASB issued new recognition and disclosure requirements for revenue from contracts with customers, which supersedes the existing revenue recognition guidance. The new recognition requirements focus on when the customer obtains control of the goods or services, rather than the current risks and rewards model of recognition. The core principle of the new standard is that an entity will recognize revenue when it transfers goods or services to its customers in an amount that reflects the consideration an entity expects to be entitled to for those goods or services. The new disclosure requirements will include information intended to communicate the nature, amount, timing and any uncertainty of revenue and cash flows from applicable contracts, including any significant judgments and changes in judgments and assets recognized from the costs to obtain or fulfill a contract. Entities will generally be required to make more estimates and use more judgment under the new standard. The new requirements will be effective for us beginning January 1, 2018, and may be implemented either retrospectively for all periods presented, or as a cumulative-effect adjustment as of January 1, 2018. Early adoption is permitted, but not before January 1, 2017. Management is currently evaluating the potential impact of this new guidance on our consolidated financial statements. We have developed a project plan to assess the potential impact of the standard and have evaluated a sampling of our most significant contracts (PPAs). We have approximately 20 PPAs at our consolidated projects that require further analysis under this standard. Currently we recognize energy revenue upon transmission to the customer. Capacity revenue is recognized when billed as hours are made available under the terms of the relevant PPA. Our current policy appears to be in compliance with the new standard's focus on when the customer obtains control of the goods or services. However, these agreements are complex and still require significant analysis prior to reaching a conclusion as to how the adoption of the standard will impact our financial position, results of operations and cash flows. Upon adoption, we expect to utilize the cumulative-effect adjustment method upon adoption as of January 1, 2018.

In February 2016, the FASB issued authoritative guidance intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than twelve months. Additionally, this guidance will require disclosures to help investors and other financial statement users to better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The guidance should be applied under a modified retrospective transition approach for leases existing at the beginning of the earliest comparative period presented in the adoption-period financial statements. Any leases that expire before the initial application date will not require any accounting adjustment. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. We expect to elect certain of the practical expedients permitted, including the expedient that permits us to retain our existing lease assessment and classification. We are currently working through an adoption plan which includes the evaluation of lease contracts compared to the new standard. While we are currently evaluating the impact the new guidance will have on our financial position and results of operations, we expect to recognize lease liabilities and right of use assets. The extent of the increase to assets and liabilities associated with these amounts remains to be determined pending our review of our existing lease contracts and power purchase agreements currently accounted for as operating leases. As this review is still in process, it is currently not practicable to quantify the impact of adopting this guidance at this time.

In August 2016, the FASB issued authoritative guidance intended to clarify classification of specific cash flows that have aspects of more than one class of cash flows. As a result of this new guidance, entities should be applying specific GAAP in the following eight cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The guidance is not expected to have a material impact on the consolidated financial statements.

In November 2016, the FASB issued authoritative guidance to address diversity in practice of presenting changes in restricted cash on the statement of cash flows. The new guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. Adoption of this guidance will be applied retrospectively. This guidance will change our presentation of restricted cash in the consolidated statements of cash flows upon adoption. If this guidance was adopted in the six months ended June 30, 2017, cash flows provided by operations would decrease by $0.8 million and cash flows used in investing activities would increase by $0.8 million, and for the six months ended June 30, 2016, cash flows provided by operating activities would increase by $0.9 million and cash flows used in investing activities would decrease by $0.9 million.

In October 2016, the FASB issued authoritative guidance, which amends existing guidance related to the recognition of current and deferred incomes taxes for intra-entity asset transfers. Under the new guidance, current and deferred income tax consequences of an intra-entity asset transfer, other than an intra-entity asset transfer of inventory, are now recognized when the transfer occurs. The guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. We are currently evaluating the potential impact of the adoption on the consolidated financial statements.

In January 2017, the FASB issued authoritative guidance, which removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This guidance is effective for us for annual and interim periods beginning January 1, 2020, with early adoption permitted, and applied prospectively. We plan to adopt this guidance at the earlier of an event-driven impairment test in 2017 or when we perform our annual goodwill impairment test in the fourth quarter of 2017. We cannot assess the impact on our financial statements because the determination will be made based on a fair value measurement at the time the test is conducted.

In May 2017, the FASB issued authoritative guidance to address diversity in practice and cost and complexity of applying the guidance in stock compensation to a change to the terms or conditions of a share-based payment award. The guidance is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. We are currently evaluating the potential impact of the adoption on the consolidated financial statements.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

2. Changes in accumulated other comprehensive loss by component

The changes in accumulated other comprehensive loss by component were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Foreign currency translation				
Balance at beginning of period	$ (146.3)	$ (120.7)	$ (148.3)	$ (139.1)
Other comprehensive loss:				
Foreign currency translation adjustments(1)	4.7	1.0	6.7	19.4
Balance at end of period	$ (141.6)	$ (119.7)	$ (141.6)	$ (119.7)
Pension				
Balance at beginning of period	$ (0.8)	$ (0.4)	$ (0.9)	$ (0.4)
Other comprehensive loss:				
Curtailment gain	—	—	0.1	—
Tax benefit (expense)	—	—	—	—
Total Other comprehensive (loss) income before reclassifications, net of tax	—	—	0.1	—
Total amount reclassified from accumulated other comprehensive loss, net of tax	—	—	—	—
Total other comprehensive income	—	—	0.1	—
Balance at end of period	$ (0.8)	$ (0.4)	$ (0.8)	$ (0.4)
Cash flow hedges				
Balance at beginning of period	$ 0.8	$ (0.1)	$ 0.7	$ 0.2
Other comprehensive loss:				
Net change from periodic revaluations	(0.2)	(0.3)	(0.5)	(1.1)
Tax benefit	0.1	0.1	0.2	0.4

Total Other comprehensive loss before reclassifications, net of tax	(0.1)	(0.2)	(0.3)	(0.7)
Net amount reclassified to earnings:				
Interest rate swaps(2)	0.2	0.3	0.7	0.6
Tax expense	(0.1)	(0.1)	(0.3)	(0.2)
Total amount reclassified from accumulated other comprehensive loss, net of tax	0.1	0.2	0.4	0.4
Total other comprehensive income (loss)	—	—	0.1	(0.3)
Balance at end of period	$ 0.8	$ (0.1)	$ 0.8	$ (0.1)

(1) In all periods presented, there were no tax impacts related to rate changes and no amounts were reclassified to earnings (loss).

(2) This amount was included in interest expense, net on the accompanying consolidated statements of operations.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

3. Equity method investments in unconsolidated affiliates

The following summarizes the operating results for the three and six months ended June 30, 2017 and 2016, respectively, for our proportional ownership interest in equity method investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
Operating results	2017	2016	2017	2016
Revenue				
Frederickson	$ 4.8	$ 4.8	$ 10.1	$ 9.9
Orlando Cogen, LP	12.9	13.2	26.1	26.7
Koma Kulshan Associates	0.8	0.8	1.1	1.2
Chambers Cogen, LP	10.3	10.4	22.6	23.1
Selkirk Cogen Partners, LP	1.0	1.4	1.8	2.8
	29.8	30.6	61.7	63.7
Project expenses				
Frederickson	7.5	4.9	11.9	9.4
Orlando Cogen, LP	7.8	6.0	14.9	12.6
Koma Kulshan Associates	0.3	0.2	0.6	0.6
Chambers Cogen, LP	9.2	9.7	18.3	18.5
Selkirk Cogen Partners, LP	1.3	1.7	2.8	3.4
	26.1	22.5	48.5	44.5
Project other expense				
Frederickson	—	—	—	—
Orlando Cogen, LP	—	—	—	—
Koma Kulshan Associates	—	—	—	—

Chambers Cogen, LP	(47.5)	(0.5)	(48.0)	(0.9)
Selkirk Cogen Partners, LP	(10.6)	—	(10.6)	—
	(58.1)	(0.5)	(58.6)	(0.9)
Project income (loss)				
Frederickson	(2.7)	(0.1)	(1.8)	0.5
Orlando Cogen, LP	5.1	7.2	11.2	14.1
Koma Kulshan Associates	0.5	0.6	0.5	0.6
Chambers Cogen, LP	(46.4)	0.2	(43.7)	3.7
Selkirk Cogen Partners, LP	(10.9)	(0.3)	(11.6)	(0.6)
Equity in (loss) earnings of unconsolidated affiliates	$ (54.4)	$ 7.6	$ (45.4)	$ 18.3
Distributions from equity method investments	(13.5)	(19.2)	(17.2)	(23.5)
Deficit in earnings of equity method investments, net of distributions	$ (67.9)	$ (11.6)	$ (62.6)	$ (5.2)

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. 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.

In the second quarter of 2017, we performed impairment tests at our Chambers and Selkirk projects, which are accounted for under the equity method of accounting.

Selkirk

We own a 17.7% limited partner interest in Selkirk Cogen Partners, L.P. The project has operated as a merchant facility since the expiration of its PPA in August 2014. Since the expiration of its PPA, we have not received a distribution from Selkirk and have recorded a cumulative $1.2 million project loss. Based on the project's history of providing no cash distributions while operating as a merchant facility, the short-term and long-term operational forecast, as well as the likelihood that further investment will be required in order to operate the facility, we determined that our investment in Selkirk is impaired and the decline in value is other than temporary. Accordingly, we recorded a $10.6 million full impairment in earnings from unconsolidated affiliates in the consolidated statements of operations for the three months ended June 30, 2017.

Chambers

We own a 40% limited partner interest in Chambers Cogeneration Limited Partnership. The Chambers project operates under a PPA that expires in March 2024. Prior to our impairment analysis, Chambers was recorded as a $124 million component of our equity investments in unconsolidated affiliates on the consolidated balance sheets. We have recorded equity earnings of $3.4 million, $5.5 million and $6.5 million for the six months ended June 30, 2017, year ended December 31, 2016 and year ended December 31, 2015, respectively. During those periods, we also received cumulative distributions of $33.6 million from Chambers.

During the second quarter of 2017, we performed an analysis of the post-PPA value of Chambers operating as a merchant facility. While declining power prices have been observed over the past several years, in our most recent long-term forecast, we identified a significant decrease in the long-term outlook for power prices in the region where Chambers operates. These forward prices, which were obtained from a third party, including forward prices of gas and coal, had a significant negative impact on the estimated discounted cash flows ("DCFs") of Chambers post-PPA. The estimated post-PPA value is a significant component of the project's overall value when compared to its carrying value of $124 million.

When determining if this decrease in value is other than temporary, we considered the likelihood that future conditions would change such that the gas and coal prices currently observed in the forward pricing models would become more favorable over time in order for the plant to be profitable in a merchant market. We also engaged a separate third party to provide its outlook on post-PPA value for Chambers. It is our assessment that gas prices are likely to remain low when considering the current and expected future supply of shale gas. The third party provided similar conclusions to our assessment.

Based on these factors, we determined that the decline in the fair value of our equity investment in Chambers is other than temporary. We recorded a $47.1 million impairment in earnings from unconsolidated affiliates in the consolidated statements of operations for the three months ended June 30, 2017. After recording the impairment, our equity investment in Chambers is $77.2 million, which represents its estimated fair value at June 30, 2017.

We determine the fair value of our equity investments using an income approach with DCF models, as we believe forecasted cash flows are the best indicator of such fair value. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including assumptions about discount

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rates, projected merchant power prices, generation, fuel costs and capital expenditure requirements. The discounted cash flows utilized in our impairment tests are generally based on approved operating plans for years with contracted PPAs and historical relationships for estimates at the expiration of PPAs. All cash flow forecasts from DCF models utilized estimated plant output for determining assumptions around future generation and industry data forward power and fuel curves to estimate future power and fuel prices. We used historical experience to determine estimated future capital investment requirements. The discount rate applied to the DCF models represents the weighted average cost of capital ("WACC") consistent with the risk inherent in future cash flows of the particular investment and is based upon an assumed capital structure, cost of long term debt and cost of equity consistent with comparable independent power producers. The betas used in calculating the WACC rate were obtained from reputable third party sources. The fair value that could be realized in an actual transaction may differ from that used to evaluate the impairment of an equity method investment.

The valuation of equity method investments is considered a level 3 fair value measurement, which means that the valuation of the investments reflect management's own judgments regarding the assumptions market participants would use in determining the fair value of the investments. Fair value determinations require considerable judgment and are sensitive to changes in these underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of an equity investment impairment test will prove to be accurate predictions of the future. Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of our investments may include macroeconomic factors that significantly differ from our assumptions in timing or degree, increased input costs such as higher fuel prices and maintenance costs, or lower power prices than incorporated in our long-term forecasts.

4. Long term debt

Long term debt consists of the following:

	June 30, 2017	December 31, 2016	Interest Rate
Recourse Debt:			
Senior secured term loan facility, due 2023(1)	$ 587.7	$ 639.9	LIBOR(2) plus 4.25 %
Senior unsecured notes, due June 2036 (Cdn$210.0)	161.8	156.4	5.95 %
Non-Recourse Debt:			
Epsilon Power Partners term facility, due 2019	10.4	13.5	LIBOR plus 3.130 %
Cadillac term loan, due 2025	25.5	27.0	LIBOR plus 1.37 %
Piedmont term loan, due 2018	56.6	56.6	LIBOR plus 3.75 %
Other long-term debt	0.2	0.2	5.50 % - 6.70 %
Less: unamortized discount	(14.9)	(17.2)	
Less: unamortized deferred financing costs	(12.8)	(15.3)	
Less: current maturities	(106.9)	(111.9)	
Total long-term debt	$ 707.6	$ 749.2	

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Current maturities consist of the following:

	June 30, 2017	December 31, 2016	Interest Rate
Current Maturities:			
Senior secured term loan facility, due 2023(1)	$ 95.0	$ 100.0	LIBOR(2) plus 4.25 %
Epsilon Power Partners term facility, due 2019	6.3	6.2	LIBOR plus 3.130 %
Cadillac term loan, due 2025	3.0	3.0	LIBOR plus 1.37 %
Piedmont term loan, due 2018	2.5	2.5	LIBOR plus 3.75 %
Other short-term debt	0.1	0.2	5.50 % - 6.70 %
Total current maturities	$ 106.9	$ 111.9	

(1) On a quarterly basis, we make a cash sweep payment to fund the principal balance, based on terms as defined in the term loan credit agreement. The portion of the senior secured term loan facility classified as current is based on principal payments required to reduce the aggregate principal amount of senior secured term loan outstanding to achieve a target principal amount that declines quarterly based on a pre-determined specified schedule.

(2) LIBOR cannot be less than 1.00%. We have entered into interest rate swap agreements to mitigate the exposure to changes in LIBOR for $375.7 million of the $587.7 million outstanding aggregate borrowings under our senior secured term loan facility at June 30, 2017. See Note 6, Accounting for derivative instruments and hedging activities for further details. On April 17, 2017, the repricing of the $615 million senior secured term loan and $200 million senior secured revolving credit facility became effective. As a result of the repricing, the interest rate margin on the term loan and revolver was reduced by 0.75% to LIBOR plus 4.25%.

5. 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, 2017 and December 31, 2016. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2017			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 104.4	$ —	$ —	$ 104.4
Restricted cash	14.1	—	—	14.1
Derivative instruments asset	—	5.6	—	5.6
Total	$ 118.5	$ 5.6	$ —	$ 124.1
Liabilities:				
Derivative instruments liability	$ —	$ 30.7	$ —	$ 30.7
Total	$ —	$ 30.7	$ —	$ 30.7

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	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 85.6	$ —	$ —	$ 85.6
Restricted cash	13.3	—	—	13.3
Derivative instruments asset	—	8.6	—	8.6
Total	$ 98.9	$ 8.6	$ —	$ 107.5
Liabilities:				
Derivative instruments liability	$ —	$ 28.9	$ —	$ 28.9
Total	$ —	$ 28.9	$ —	$ 28.9

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, 2017, the credit valuation adjustments resulted in a $4.2 million net increase in fair value, which consists of a $0.3 million pre tax gain in other comprehensive income and a $3.9 million gain in change in fair value of derivative instruments. As of December 31, 2016, the credit valuation adjustments resulted in a $3.8 million net increase in fair value, which consists of a $0.3 million pre tax gain in other comprehensive income and a $3.5 million gain in change in fair value of derivative instruments.

The carrying amounts for cash and cash equivalents and restricted cash approximate fair value due to their short-term nature.

6. 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 in each reporting period. We have one contract designated as a cash flow hedge, and we defer the effective portion of the change in fair value of the derivatives in accumulated other comprehensive income (loss), until the hedged transactions occur and are recognized in earnings (loss). The ineffective portion of a cash flow hedge is immediately recognized in earnings (loss). For our other derivatives that are not designated as cash flow hedges, the changes in the fair value are immediately recognized in earnings (loss). These guidelines apply to our natural gas swaps, interest rate swaps, and foreign exchange contracts.

Gas purchase and sale agreements

We have entered into various gas purchase and sale agreements for our Nipigon projects that expire ranging from October 31, 2018 through December 31, 2022. In June 2014, Atlantic Power Limited Partnership (“APLP”) entered into contracts for the purchase of 2.9 million Gigajoules (“Gj”) of future natural gas purchases beginning on November 1, 2014 and expiring on December 31, 2017 for our projects in Ontario. In December 2016, we also entered into a gas purchase agreement for our Kenilworth project to fix the price of 0.8 million Mmbtu of natural purchases beginning on January 1, 2017 and expiring on December 31, 2017. These agreements do not qualify for the normal purchase normal sales (“NPNS”) exemption and are accounted for as derivative financial instruments because we could not conclude that it is probable that these contracts will not settle net and will result in physical delivery. These derivative financial

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instruments are recorded in the consolidated balance sheets at fair value and the changes in their fair market value are recorded in the consolidated statements of operations.

We have also entered into various natural gas sales and purchase agreements for approximately 120,000 Mmbtu to effectively mitigate seasonal fluctuation of future natural gas price at Morris through January 2018. These contracts are accounted for as derivative financial instruments and are recorded in the consolidated balance sheet at fair value at June 30, 2017. Changes in the fair market value of these contracts are recorded in the consolidated statement of operations.

Natural gas swaps

Our strategy to mitigate future exposure to changes in natural gas prices at our projects 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 sheets at fair value and the changes in their fair market value are recorded in the consolidated statements of operations.

We have entered into various natural gas swaps to effectively fix the price of 3.7 million Mmbtu of future natural gas purchases at Orlando, which is approximately 90% of our share of the expected natural gas purchases at the project through December 2018. These contracts are accounted for as derivative financial instruments and are recorded in the consolidated balance sheet at fair value at June 30, 2017. Changes in the fair market value of these contracts are recorded in the consolidated statement of operations.

In July 2017, we also entered into natural gas swaps to effectively fix the price of 6.2 million Mmbtu of future natural gas purchases through December 2020. This is approximately 90% of our share of the expected natural gas purchases at the project through December 2019 and approximately 50% of our share of the expected natural gas purchases through December 2020.

Interest rate swaps

Atlantic Power Limited Partnership Holdings ("APLP Holdings") has entered into several interest rate swap agreements to mitigate its exposure to changes in interest at the Adjusted Eurodollar Rate for $375.7 million notional amount of the remaining $587.7 million aggregate principal amount of borrowings under the senior secured term loans. These interest rate swap agreements expire at various dates through March 31, 2020. Borrowings under the senior secured term loans bear interest at a rate equal to the Adjusted Eurodollar Rate plus an applicable margin of 4.25%. Based on the terms of the Credit Agreement, the Adjusted Eurodollar Rate cannot be less than 1.00% resulting in a minimum of a 5.25% all-in rate on the senior secured term loans. As a result of entering into the swap agreements, the all-in rate for $375.7 million of the senior secured term loans cannot be less than 5.25%, if the Adjusted Eurodollar Rate is equal to or greater than 1.00%.

The Piedmont project has interest rate swap agreements to economically fix its exposure to changes in interest rates related to its variable rate debt. The interest rate swap agreements effectively convert the floating rate debt from LIBOR plus an applicable margin of 3.75% to a fixed rate of 4.47% plus an applicable margin of 4.00% until the maturity of the debt in August 2018, resulting in an all in rate of 8.47%. The swap continues at the fixed rate of 4.47% until November 2030. The interest rate swaps expire on November 30, 2030. The interest rate swap agreements are not designated as hedges, and changes in their fair market value are recorded in the consolidated statements of operations.

The Cadillac project has an interest rate swap agreement that effectively fixes the interest rate at 6.1% through February 15, 2019, 6.3% from February 16, 2019 to February 15, 2023, and 6.4% thereafter. The notional amount of the interest rate swap agreement matches the outstanding principal balance over the remaining life of Cadillac's debt. This

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swap agreement, which qualifies for and is designated as a cash flow hedge, is effective through June 2025 and the effective portion of the changes in the fair market value is recorded in accumulated other comprehensive loss.

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. We currently have Canadian dollar payment obligations for preferred dividends, interest on our Canadian dollar-denominated convertible debentures and our Medium Term Notes. Principal and interest payments for our senior secured term loans as well as our U.S dollar-denominated convertible debentures are made in U.S. dollars. We have a hedging strategy for the purpose of mitigating the currency risk impact on the future interest and principal payments, preferred dividends and other working capital requirements. In March 2017, we entered into foreign exchange forward contracts to sell Cdn$10 million at an exchange rate of 1.3381 on each of June 19, 2017, September 19, 2017 and December 19, 2017. On June 19, 2017, the first Cdn$10 million forward contract settled. The foreign currency forward contracts are not designated as hedges, and changes in their market value are recorded in foreign exchange on the consolidated statements of operations at June 30, 2017.

In July 2017, we entered into additional foreign exchange forward contracts to sell total of Cdn$10 million at an exchange rate of 1.2943 on each of March 20, 2018, June 20, 2018 and December 20, 2018 and to sell total of Cdn$3.3 million at exchange rate of 1.2481 on each of March 19, 2018, June 19, 2018 and December 19, 2018.

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 purchase normal sales (“NPNS”) exemption at June 30, 2017 and December 31, 2016:

	Units	June 30, 2017	December 31, 2016
Natural gas swaps	Natural Gas (Mmbtu)	6.0	4.9
Gas purchase agreements	Natural Gas (Gigajoules)	11.5	11.3
Interest rate swaps	Interest (US$)	458.4	506.9
Foreign currency forward contracts	Dollars (Cdn$)	20.0	-

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Fair value of derivative instruments

We 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, 2017	
	Derivative Assets	Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	$ —	$ 0.7
Interest rate swaps long-term	—	1.8
Total derivative instruments designated as cash flow hedges	—	2.5
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current	1.2	1.5
Interest rate swaps long-term	2.8	6.4
Natural gas swaps current	1.6	1.0
Natural gas swaps long-term	—	0.3
Gas purchase agreements current	—	2.6
Gas purchase agreements long-term	—	15.9
Foreign currency forward contracts current	—	0.5
Total derivative instruments not designated as cash flow hedges	5.6	28.2
Total derivative instruments	$ 5.6	$ 30.7

	December 31, 2016	
	Derivative	Derivative

	Assets	Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	$ —	$ 0.8
Interest rate swaps long-term	—	2.0
Total derivative instruments designated as cash flow hedges	—	2.8
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current	0.4	1.9
Interest rate swaps long-term	4.5	6.5
Natural gas swaps current	3.9	0.8
Natural gas swaps long-term	0.1	—
Gas purchase agreements current	—	4.5
Gas purchase agreements long-term	—	12.7
Total derivative instruments not designated as cash flow hedges	8.9	26.4
Total derivative instruments	$ 8.9	$ 29.2

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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:

Three Months Ended June 30, 2017	Interest Rate Swaps
Accumulated OCI balance at March 31, 2017	$ 0.8
Change in fair value of cash flow hedges	(0.1)
Realized from OCI during the period	0.1
Accumulated OCI balance at June 30, 2017	$ 0.8

Three Months Ended June 30, 2016	Interest Rate Swaps
Accumulated OCI balance at March 31, 2016	$ (0.1)
Change in fair value of cash flow hedges	(0.2)
Realized from OCI during the period	0.2
Accumulated OCI balance at June 30, 2016	$ (0.1)

Six Months Ended June 30, 2017	Interest Rate Swaps
Accumulated OCI balance at January 1, 2017	$ 0.7
Change in fair value of cash flow hedges	(0.3)
Realized from OCI during the period	0.4
Accumulated OCI balance at June 30, 2017	$ 0.8

Six Months Ended June 30, 2016	Interest Rate Swaps
Accumulated OCI balance at January 1, 2016	$ 0.2
Change in fair value of cash flow hedges	(0.7)
Realized from OCI during the period	0.4
Accumulated OCI balance at June 30, 2016	$ (0.1)

Impact of derivative instruments on the consolidated statements of operations

The following table summarizes realized loss (gain) for derivative instruments not designated as cash flow hedges:

	Classification of loss (gain) recognized in income	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Gas purchase agreements	Fuel	$ 2.4	$ 12.5	4.9	$ 24.0
Natural gas swaps	Fuel	(0.4)	1.3	(0.5)	3.3
Interest rate swaps	Interest, net	0.8	1.1	1.7	1.7

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The following table summarizes the unrealized gain (loss) 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, 2017	2016	Six Months Ended June 30, 2017	2016
Natural gas swaps	Change in fair value of derivatives	$ (0.8)	$ 4.0	$ (0.6)	$ 5.8
Gas purchase agreements	Change in fair value of derivatives	(0.8)	11.4	(2.9)	11.2
Interest rate swaps	Change in fair value of derivatives	(1.1)	(3.2)	(0.4)	(6.0)
		$ (2.7)	$ 12.2	$ (3.9)	$ 11.0
Foreign currency forwards	Foreign exchange loss	$ (0.3)	$ —	$ (0.5)	$ —

7. Income taxes

	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016

Current income tax expense	$ 1.4	$ 0.3	$ 2.3	$ 1.8
Deferred income benefit	(23.7)	(18.7)	(24.9)	(18.6)
Total income tax benefit, net	$ (22.3)	$ (18.4)	$ (22.6)	$ (16.8)

For the three and six months ended June 30, 2017 and 2016

Income tax benefit for the three months ended June 30, 2017 was $22.3 million. Expected income tax benefit for the same period, based on the Canadian enacted statutory rate of 26% was $11.0 million. The primary items impacting the tax rate for the three months ended June 30, 2017 were $0.2 million relating to return to provision adjustments. These items were offset by $8.4 million relating to operating in higher tax rate jurisdictions, $2.6 million related to a net decrease to the Company's valuation allowances in Canada due to income and $0.6 million relating to foreign exchange.

Income tax benefit for the three months ended June 30, 2016 was $18.4 million. Expected income tax benefit for the same period, based on the Canadian enacted statutory rate of 26% was $9.0 million. The primary items impacting the tax rate for the three months ended June 30, 2016 were $4.6 million related to capital gain on intercompany notes, $2.6 million related to foreign exchange, $1.8 million relating to a change in the valuation allowance and $0.4 million of other permanent differences. These items were offset by $18.8 million related to capital loss recognized on tax restructuring.

Income tax benefit for the six months ended June 30, 2017 was $22.6 million. Expected income tax benefit for the same period, based on the Canadian enacted statutory rate of 26% was $11.2 million. The primary items impacting the tax rate for the six months ended June 30, 2017 were $0.3 million relating to return to provision adjustments. These items were offset by $8.7 million relating to operating in higher tax rate jurisdictions, $1.9 million related to a net decrease to the Company's valuation allowances in Canada due to income, $1.0 million relating to foreign exchange and $0.1 million of other permanent differences.

Income tax benefit for the six months ended June 30, 2016 was $16.8 million. Expected income tax benefit for the same period, based on the Canadian enacted statutory rate of 26%, was $12.0 million. The primary items impacting the tax rate for the six months ended June 30, 2016 were $5.1 million relating to foreign exchange, $4.6 million relating to a change in the valuation allowance, $4.2 million related to capital gain on intercompany notes and $0.1 million of

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other permanent differences. These items were offset by $18.8 million related to capital loss recognized on tax restructuring.

As of June 30, 2017, we have recorded a valuation allowance of $184.1 million. The amount is comprised primarily of provisions against 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.

8. Equity compensation plans

Long term incentive plan ("LTIP")

The following table summarizes the changes in outstanding LTIP notional units during the six months ended June 30, 2017:

	Units	Grant Date Weighted-Average Fair Value per Unit
Outstanding at December 31, 2016	2,101,118	2.08
Granted	1,817,463	2.38
Vested and redeemed	(973,091)	2.22

Forfeitures	(24,226)		2.32
Outstanding at June 30, 2017	2,921,264	$	2.22

Transition Equity Participation Agreement

We also have 539,904 transition notional shares outstanding at June 30, 2017 under the Transition Equity Participation Agreement with James J. Moore, Jr. Fifty percent of the transition notional shares granted with respect to fiscal year 2015 will vest upon the four-year anniversary of the date of grant and the remaining portion will vest on or any time after the two-year anniversary of the grant if the weighted average Canadian dollar closing price of our common shares on the TSX for at least three consecutive calendar months has exceeded the market price per common share determined as of January 22, 2015 (Cdn$3.18) by at least 50% (Cdn$4.77).

Cash payments made for vested notional units for the six months ended June 30, 2017 and 2016 were $0.7 million and $0.4 million, respectively. Compensation expense for LTIP and Transition Equity Participation Agreement notional shares was $0.9 million and $1.7 million for the three and six months ended June 30, 2017 and $0.8 million and $0.9 million for the three and six months ended June 30, 2016, respectively.

9. Basic and diluted loss per share

Basic loss per share is calculated by dividing net loss by the weighted average common shares outstanding during their respective period. Diluted loss per share is computed including dilutive potential shares as if they were outstanding shares during the year. Dilutive potential shares include the weighted average number of shares, as of the date such notional units were granted, that would be issued if the unvested notional units outstanding under the LTIP were vested and redeemed for shares under the terms of the LTIP.

Because we reported a loss for the three and six months ended June 30, 2017 and 2016, respectively, diluted earnings per share are equal to basic earnings per share as the inclusion of potentially dilutive shares in the computation is anti-dilutive.

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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, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net loss attributable to Atlantic Power Corporation	$ (21.9)	$ (18.5)	$ (24.6)	$ (33.5)
Denominator:				
Weighted average basic shares outstanding	115.2	121.6	115.0	121.8
Dilutive potential shares:				
Convertible debentures	8.1	14.8	8.1	18.3
LTIP notional units	—	0.1	—	0.1
Potentially dilutive shares	123.3	136.5	123.1	140.2
Basic and diluted loss per share attributable to Atlantic Power Corporation	$ (0.19)	$ (0.15)	$ (0.21)	$ (0.28)

The dilutive effect of our convertible debentures is calculated using the “if-converted method.” Under the if-converted method, the debentures are assumed to be converted at the beginning of the period, and the resulting common shares are included in the denominator of the diluted EPS calculation for the entire period being presented. Interest expense, net of any income tax effects, would be added back to the numerator for purposes of the if-converted calculation. Potentially dilutive shares from convertible debentures of $8.1 million and $8.1 million have been excluded from fully diluted shares in the three and six months ended June 30, 2017, respectively, because their impact would be anti-dilutive. Potentially dilutive shares from convertible debentures of $14.8 million and $18.3 million have been excluded from fully diluted shares in the three and six months ended June 30, 2016, respectively, because their impact would be anti-dilutive.

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10. Equity

The following table provides a reconciliation of the beginning and ending equity attributable to shareholders of Atlantic Power Corporation, preferred shares issued by a subsidiary company and total equity for the six months ended June 30, 2017 and 2016:

	Six months ended June 30, 2017	
	Total Atlantic Power Corporation	Preferred shares