ATLANTIC POWER CORP
Form 10-Q
August 02, 2018
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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, 2018

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, 2018 was 111,302,692.

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ATLANTIC POWER CORPORATION

FORM 10 Q

THREE AND SIX MONTHS ENDED JUNE 30, 2018

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GENERAL

In this Quarterly Report on Form 10 Q, references to “Cdn$” and “Canadian dollars” are to the lawful currency of Canada and references to “$”, “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, 2018 (unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 80.8	$ 78.7
Restricted cash	1.9	6.2
Accounts receivable	25.3	52.7
Current portion of derivative instruments asset (Notes 7 and 8)	5.9	2.7
Inventory	14.0	17.7
Prepayments	4.3	6.9
Income taxes receivable	0.5	1.0
Other current assets	3.6	3.1
Total current assets	136.3	169.0
Property, plant, and equipment, net	573.1	602.3
Equity investments in unconsolidated affiliates (Note 4)	160.9	163.7
Power purchase agreements and intangible assets, net	166.3	191.2
Goodwill	21.4	21.3
Derivative instruments asset (Notes 7 and 8)	2.6	2.8
Other assets	7.2	8.5
Total assets	$ 1,067.8	$ 1,158.8
Liabilities		
Current liabilities:		
Accounts payable	$ 1.4	$ 2.2
Accrued interest	0.2	0.3
Other accrued liabilities	16.9	25.5
Current portion of long-term debt (Note 5)	78.0	99.5
Current portion of derivative instruments liability (Notes 7 and 8)	6.1	4.4
Other current liabilities	0.7	1.0
Total current liabilities	103.3	132.9
Long-term debt, net of unamortized discount and deferred financing costs (Note 5)	574.6	616.3
Convertible debentures, net of discount and unamortized deferred financing costs (Note 6)	97.0	105.4
Derivative instruments liability (Notes 7 and 8)	17.7	19.9
Deferred income taxes	14.3	11.7
Power purchase and fuel supply agreement liabilities, net	22.5	24.1
Asset retirement obligations, net	44.7	45.3
Other long-term liabilities	5.8	6.4

Total liabilities	879.9	962.0
Equity		
Common shares, no par value, unlimited authorized shares; 111,666,941 and 115,211,976 issued and outstanding at June 30, 2018 and December 31, 2017	1,266.8	1,274.8
Accumulated other comprehensive loss (Note 3)	(141.9)	(134.8)
Retained deficit	(1,143.3)	(1,158.4)
Total Atlantic Power Corporation shareholders' equity	(18.4)	(18.4)
Preferred shares issued by a subsidiary company (Note 12)	206.3	215.2
Total equity	187.9	196.8
Total liabilities and equity	$ 1,067.8	$ 1,158.8

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,		Six Months Ended June 30,	
	2018	2017	2018	2017
Project revenue:				
Energy sales (Note 2)	$ 31.4	$ 40.0	$ 69.8	$ 77.1
Energy capacity revenue (Note 2)	23.3	28.3	43.4	47.8
Other (Note 2)	11.5	55.7	33.0	97.5
	66.2	124.0	146.2	222.4
Project expenses:				
Fuel	15.0	24.0	37.2	52.9
Operations and maintenance	27.2	23.3	48.5	43.6
Depreciation and amortization	21.0	29.5	44.7	59.0
	63.2	76.8	130.4	155.5
Project other income (loss):				
Change in fair value of derivative instruments (Notes 7 and 8)	(0.2)	(2.7)	3.5	(3.9)
Equity in earnings (loss) of unconsolidated affiliates (Note 4)	11.2	(54.4)	23.5	(45.4)
Interest, net	(0.4)	(2.2)	(1.0)	(4.4)
	10.6	(59.3)	26.0	(53.7)
Project income (loss)	13.6	(12.1)	41.8	13.2
Administrative and other expenses:				
Administration	6.2	5.7	12.2	12.1
Interest expense, net	11.1	18.4	26.1	35.7
Foreign exchange (gain) loss	(5.4)	5.9	(13.6)	8.3
Other income, net (Note 8)	(0.2)	—	(2.2)	—
	11.7	30.0	22.5	56.1
Income (loss) from operations before income taxes	1.9	(42.1)	19.3	(42.9)
Income tax expense (benefit) (Note 9)	0.9	(22.3)	4.2	(22.6)
Net income (loss)	1.0	(19.8)	15.1	(20.3)
Net income (loss) attributable to preferred shares of a subsidiary company (Note 12)	1.6	2.1	(0.1)	4.3
Net (loss) income attributable to Atlantic Power Corporation	$ (0.6)	$ (21.9)	$ 15.2	$ (24.6)
Net (loss) income per share attributable to Atlantic Power Corporation shareholders: (Note 11)				
Basic	$ (0.01)	$ (0.19)	$ 0.13	$ (0.21)

Diluted	(0.01)	(0.19)	0.13	(0.21)
Weighted average number of common shares outstanding: (Note 11)				
Basic	112.4	115.2	113.6	115.0
Diluted	112.4	115.2	140.1	115.0

See accompanying notes to consolidated financial statements.

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ATLANTIC POWER CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions of U.S. dollars)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	$ 1.0	$ (19.8)	$ 15.1	$ (20.3)
Other comprehensive (loss) income, net of tax:				
Unrealized gain (loss) on hedging activities	$ —	$ (0.1)	$ 0.2	$ (0.3)
Net amount reclassified to earnings	0.1	0.1	0.2	0.4
Net unrealized gain on derivatives	0.1	—	0.4	0.1
Defined benefit plan, net of tax	—	—	—	0.1
Foreign currency translation adjustments	(2.9)	4.7	(7.5)	6.7
Other comprehensive (loss) income, net of tax	(2.8)	4.7	(7.1)	6.9
Comprehensive (loss) income	(1.8)	(15.1)	8.0	(13.4)
Less: Comprehensive income (loss) attributable to preferred shares of a subsidiary company	1.6	2.1	(0.1)	4.3
Comprehensive (loss) income attributable to Atlantic Power Corporation	$ (3.4)	$ (17.2)	$ 8.1	$ (17.7)

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, 2018	2017
Cash provided by operating activities:		
Net income (loss)	$ 15.1	$ (20.3)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	44.7	59.0
Share-based compensation	1.1	1.1
Equity in (earnings) loss from unconsolidated affiliates	(23.5)	45.4
Distributions from unconsolidated affiliates	27.3	17.2
Unrealized foreign exchange (gain) loss	(13.3)	8.3
Change in fair value of derivative instruments	(3.6)	3.9
Change in fair value of convertible debenture conversion option derivative	(2.3)	—
Amortization of debt discount and deferred financing costs	5.4	5.2
Change in deferred income taxes	2.0	(24.9)
Change in other operating balances		
Accounts receivable	27.4	(5.0)
Inventory	3.7	(3.4)
Prepayments and other assets	3.8	(0.3)
Accounts payable	(1.9)	(1.4)
Accruals and other liabilities	(7.5)	0.9
Cash provided by operating activities	78.4	85.7
Cash used in investing activities:		
Investment in unconsolidated affiliate	(1.1)	—
Purchase of property, plant and equipment	(1.3)	(4.2)
Cash used in investing activities	(2.4)	(4.2)
Cash used in financing activities:		
Proceeds from convertible debenture issuance	92.2	—
Repayment of convertible debentures	(88.0)	—
Common share repurchases	(9.2)	—
Preferred share repurchases	(4.5)	—
Repayment of corporate and project-level debt	(58.8)	(56.9)

Cash payments for vested LTIP units withheld for taxes	(0.8)	(0.7)
Deferred financing costs	(4.8)	—
Dividends paid to preferred shareholders	(4.3)	(4.3)
Cash used in financing activities:	(78.2)	(61.9)
Net (decrease) increase in cash, restricted cash and cash equivalents	(2.2)	19.6
Cash, restricted cash and cash equivalents at beginning of period	84.9	98.8
Cash, restricted cash and cash equivalents at end of period	$ 82.7	$ 118.4
Supplemental cash flow information		
Interest paid	$ 20.2	$ 33.4
Income taxes paid, net	$ 1.9	$ 2.2
Accruals for construction in progress	$ 0.1	$ 1.3

See accompanying notes to consolidated financial statements.

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 is an independent power producer that owns power generation assets in nine states in the United States and two provinces in Canada. Our power generation projects, which are diversified by geography, fuel type, dispatch profile and offtaker, sell electricity to utilities and other large customers predominantly under long term power purchase agreements (“PPAs”), which seek to minimize exposure to changes in commodity prices. As of June 30, 2018, the Company’s portfolio consisted of twenty-two projects with an aggregate electric generating capacity of approximately 1,793 megawatts (“MW”) on a gross ownership basis and approximately 1,440 MW on a net ownership basis. Eighteen of the projects are majority owned and operated by the Company. At June 30, 2018, three of our Ontario projects were not in operation, two because of contract expirations on December 31, 2017, and the other, Tunis, has a forward-starting 15-year contractual agreement that will commence with commercial operation of the plant in the fourth quarter of 2018. In early February 2018, our three plants in San Diego, totaling 112 MW on a gross and net ownership basis, ceased operations. The sixteen projects in operation at June 30, 2018 have generating capacity of approximately 1,561 MW on a gross ownership basis and approximately 1,208 MW on a net ownership basis.

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 (“TSX”) under the symbol “ATP” and on the New York Stock Exchange (“NYSE”) 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, 2017. 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, 2018, the results of operations and comprehensive income (loss) for the three and six months ended June 30, 2018 and 2017, and our cash flows for the six months ended June 30, 2018 and 2017 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, 2017. 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 May 2017, the Financial Accounting Standards Board ("FASB") issued authoritative guidance to address diversity in practice and cost and complexity of applying the guidance relating to stock compensation when there is 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 adopted this guidance on January 1, 2018 and it did not have an 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. We adopted this guidance on January 1, 2018 and it was applied retrospectively to cash flows used in investing activities on the consolidated statements of cash flows for the six months ended June 30, 2017. As a result of adoption, cash flows used in investing activities was retrospectively decreased by $0.8 million for the six months ended June 30, 2017.

In October 2016, the FASB issued authoritative guidance, which amends existing guidance related to the recognition of current and deferred income 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. We adopted this guidance on January 1, 2018 and it did not have an impact on the consolidated financial statements.

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. We adopted this guidance on January 1, 2018 and it did not have an impact on the consolidated financial statements.

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 recognizes 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. We adopted this guidance on January 1, 2018 and it did not have an impact on the consolidated financial statements. Accordingly, we did not record a transition adjustment. The standard also requires new disclosures that 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. These disclosures can be found in Note 2, Revenue from contracts.

Issued

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. In January 2018, the FASB issued further authoritative guidance to provide an optional practical transition expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under the current guidance. 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. 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 2017, the FASB issued authoritative guidance to align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The guidance expands and refines hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. The guidance is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We do not expect this to have a material impact to the consolidated financial statements upon adoption.

In February 2018, the FASB issued authoritative guidance to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The guidance is effective for fiscal years beginning after December 15, 2018. We do not expect this to have a material impact to the consolidated financial statements upon adoption.

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

2. Revenue from contracts

Accounting policy

We recognize energy sales revenue on a gross basis when electricity and steam are delivered and capacity revenue when capacity is provided under the terms of the related contracts. PPAs, steam purchase arrangements and energy services agreements are long term contracts with performance obligations to provide electricity, steam and capacity on a predetermined basis.

For certain PPAs determined to be operating leases, we recognize lease income consistent with the recognition of energy sales and capacity revenue. When energy is delivered and capacity is provided, we recognize lease income as a component of energy sales and capacity revenue.

Nature of goods and services

We sell the majority of the capacity and energy from our power generation projects under PPAs to a variety of utilities and other parties. Under the PPAs, which have expiration dates ranging from June 30, 2019 to March 31, 2037, we receive payments for electric energy sold to our customers (known as energy payments), in addition to payments for electric generation capacity (known as capacity payments). We also sell steam from a number of our projects to industrial purchasers under steam sales agreements. Sales of electricity are generally higher during the summer and winter months, when temperature extremes create demand for either summer cooling or winter heating.

The following is a description of principal activities from which we generate our revenue.

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ATLANTIC POWER CORPORATION

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

(Unaudited)

Products and services	Nature, timing of satisfaction of performance obligations, and significant payment terms
Energy	Energy revenue is recognized upon transmission to the customer. Physical transactions, or the sale of generated electricity to meet supply and demand, are recorded on a gross basis in our consolidated statements of operations. The price of energy could be contracted under PPAs at set prices or merchant sales based on market merchant price. Energy revenue is billed and paid on a monthly basis.
Energy capacity	Capacity revenues are recognized when contractually earned, and consist of revenues billed to a third party at a negotiated contract price under the applicable PPAs for making installed generation capacity available in order to satisfy reliability requirements or merchant capacity sales based on the market price for such capacity. Energy capacity is billed and paid on a monthly basis.
Other revenue includes	the following:
Steam energy and capacity	Steam revenue is recognized upon delivery to the customer. Steam capacity payments under the applicable PPAs are recognized as the amount billable under the respective PPA. Steam capacity is billed and paid on a monthly basis.
Waste heat	We generate electricity from excess steam provided by a nearby pipeline and its pumping station in the Canada segment. Waste heat is earned when it is generated and paid as a portion of monthly energy and capacity billing.
Enhanced dispatch contracts	We also bill and are paid for curtailment of energy generation under certain contractual arrangements with our offtaker. This revenue is recognized monthly under the terms of those agreements.
Ancillary and transmission services	We provide ancillary and transmission services to our customers under the terms of our PPAs. These services are billed and paid on a monthly basis.
Asset management and operation, operation and maintenance	We provide asset management and operation supervision to the Frederickson project, a facility that we jointly own with Puget Sound Energy. We also provide operation and maintenance services to several electric energy customers under the PPAs. All services are billed and paid on a monthly basis.

Disaggregation of revenue

We have four reportable segments: East U.S., West U.S., Canada and Un-Allocated Corporate. Each segment contains various power generation projects and performance obligations as described above. For more detailed information about reportable segments, see Note 13, Segment and geographical information. Revenue, receivables and contract liabilities by segment consists of following:

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

	Three Months Ended June 30, 2018				
	East U.S.	West U.S.	Canada	Un-Allocated Corporate	Consolidated Total
Project revenue:					
Energy sales	$ 21.6	$ 1.7	$ 8.1	$ —	$ 31.4
Energy capacity revenue	13.6	6.8	2.9	—	23.3
Steam energy and capacity revenue	0.4	—	—	—	0.4
Waste heat revenue	—	—		—	—
Enhanced dispatch contracts	—	—	6.4	—	6.4
Ancillary and transmission services	3.4	—	1.3	—	4.7
Asset management and operation	—	—	—	—	—
Miscellaneous revenue	—	(0.2)		0.2	—
	39.0	8.3	18.7	0.2	66.2

	Three Months Ended June 30, 2017				
	East U.S.	West U.S.	Canada	Un-Allocated Corporate	Consolidated Total
Project revenue:					
Energy sales	$ 24.4	$ 7.8	$ 7.8	$ —	$ 40.0
Energy capacity revenue	12.4	13.3	2.6	—	28.3
Steam energy and capacity revenue	2.6	7.1	—	—	9.7
Waste heat revenue	—	—	0.1	—	0.1
Enhanced dispatch contracts	—	—	40.8	—	40.8
Ancillary and transmission services	1.0	—	4.1	—	5.1
	—	—	—	0.3	0.3

Asset management and operation					
Miscellaneous revenue	—	(0.3)	—	—	(0.3)
	40.4	27.9	55.4	0.3	124.0

	Six Months Ended June 30, 2018				
	East U.S.	West U.S.	Canada	Un-Allocated Corporate	Consolidated Total
Project revenue:					
Energy sales	$ 47.0	$ 6.8	$ 16.0	$ —	$ 69.8
Energy capacity revenue	24.9	12.7	5.8	—	43.4
Steam energy and capacity revenue	0.9	2.8	—	—	3.7
Waste heat revenue	—	—	0.1	—	0.1
Enhanced dispatch contracts	—	—	15.0	—	15.0
Ancillary and transmission services	7.8	—	6.3	—	14.1
Asset management and operation	—	—	—	—	—
Miscellaneous revenue	—	(0.4)	—	0.5	0.1
	80.6	21.9	43.2	0.5	146.2

ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

	Six Months Ended June 30, 2017				
	East U.S.	West U.S.	Canada	Un-Allocated Corporate	Consolidated Total
Project revenue:					
Energy sales	$ 46.2	$ 16.2	$ 14.7	$ —	$ 77.1
Energy capacity revenue	22.5	20.0	5.3	—	47.8
Steam energy and capacity revenue	5.9	15.6	—	—	21.5
Waste heat revenue	—	—	0.3	—	0.3
Enhanced dispatch contracts	—	—	65.0	—	65.0
Ancillary and transmission services	1.9	—	8.8	—	10.7
Asset management and operation	—	—	—	0.5	0.5
Miscellaneous revenue	—	(0.5)	—	—	(0.5)
	76.5	51.3	94.1	0.5	222.4

Contract balances

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

	June 30, 2018	December 31, 2017
Accounts receivables	$ 25.3	$ 52.7

Contract assets	—	—
Contract liabilities	0.6	1.0

Contract liabilities as of June 30, 2018 include a $0.4 million water license fee at Mamquam, which is a pass-through cost, and a $0.1 million capacity bonus accrual at Oxnard. Contract liabilities as of December 31, 2017 include recoverable wood fuel costs under the PPA and property tax at Williams Lake, which is proportionally estimated, pending receipt of an actual tax bill. The total $1.0 million was recognized as revenues from ancillary and transmission services in the first quarter of 2018.

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3. 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,	
	2018	2017	2018	2017
Foreign currency translation				
Balance at beginning of period	$ (138.9)	$ (146.3)	$ (134.3)	$ (148.3)
Other comprehensive loss:				
Foreign currency translation adjustments(1)	(2.9)	4.7	(7.5)	6.7
Balance at end of period	$ (141.8)	$ (141.6)	$ (141.8)	$ (141.6)
Pension				
Balance at beginning of period	$ (1.6)	$ (0.8)	$ (1.6)	$ (0.9)
Other comprehensive loss:				
Curtailment gain	—	—	—	0.1
Tax expense	—	—	—	—
Total Other comprehensive income before reclassifications, net of tax	—	—	—	0.1
Total amount reclassified from accumulated other comprehensive income, net of tax	—	—	—	—
Total other comprehensive income	—	—	—	0.1
Balance at end of period	$ (1.6)	$ (0.8)	$ (1.6)	$ (0.8)
Cash flow hedges				
Balance at beginning of period	$ 1.4	$ 0.8	$ 1.1	$ 0.7
Other comprehensive income (loss):				
Net change from periodic revaluations	—	(0.2)	0.4	(0.5)
Tax benefit (expense)	—	0.1	(0.2)	0.2

Total Other comprehensive (loss) income before reclassifications, net of tax	—	(0.1)	0.2	(0.3)
Net amount reclassified to earnings:				
Interest rate swaps(2)	0.1	0.2	0.3	0.7
Tax expense	—	(0.1)	(0.1)	(0.3)
Total amount reclassified from accumulated other comprehensive loss, net of tax	0.1	0.1	0.2	0.4
Total other comprehensive income	0.1	—	0.4	0.1
Balance at end of period	$ 1.5	$ 0.8	$ 1.5	$ 0.8

(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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4. Equity method investments in unconsolidated affiliates

The following summarizes the operating results for the three and six months ended June 30, 2018 and 2017, respectively, for our proportional ownership interest in equity method investments:

	Three Months Ended June 30,		Six Months Ended June 30,	
Operating results	2018	2017	2018	2017
Revenue				
Frederickson	$ 4.7	$ 4.8	$ 9.8	$ 10.1
Orlando Cogen, LP	15.2	12.9	29.7	26.1
Koma Kulshan Associates	0.8	0.8	1.0	1.1
Chambers Cogen, LP	9.6	10.3	22.8	22.6
Selkirk Cogen Partners, LP (1)	—	1.0	—	1.8
	30.3	29.8	63.3	61.7
Project expenses				
Frederickson	3.4	7.5	6.6	11.9
Orlando Cogen, LP	7.6	7.8	14.6	14.9
Koma Kulshan Associates	0.3	0.3	0.6	0.6
Chambers Cogen, LP	7.5	9.2	17.1	18.3
Selkirk Cogen Partners, LP (1)	—	1.3	—	2.8
	18.8	26.1	38.9	48.5
Project other expense				
Frederickson	—	—	—	—
Orlando Cogen, LP	—	—	—	—
Koma Kulshan Associates	—	—	—	—
Chambers Cogen, LP	(0.3)	(47.5)	(0.9)	(48.0)
Selkirk Cogen Partners, LP (1)	—	(10.6)	—	(10.6)

	(0.3)	(58.1)	(0.9)	(58.6)
Project income (loss)				
Frederickson	1.3	(2.7)	3.2	(1.8)
Orlando Cogen, LP	7.6	5.1	15.1	11.2
Koma Kulshan Associates	0.5	0.5	0.4	0.5
Chambers Cogen, LP	1.8	(46.4)	4.8	(43.7)
Selkirk Cogen Partners, LP (1)	—	(10.9)	—	(11.6)
Equity in earnings (loss) of unconsolidated affiliates	$ 11.2	$ (54.4)	$ 23.5	$ (45.4)
Distributions from equity method investments	(20.7)	(13.5)	(27.3)	(17.2)
Deficit of earnings of equity method investments, net of distributions	$ (9.5)	$ (67.9)	$ (3.8)	$ (62.6)

(1) In November 2017, we sold our 17.7% interest in Selkirk.

On June 18, 2018, we purchased a 0.5% general partner interest in Concrete Hydro Partners L.P. (“Concrete”) for $1.1 million from Mt. Baker Corporation with cash on-hand. Prior to the purchase, we owned a 0.5% general partner interest and a 99.0% limited partner interest in Concrete; following the purchase, we own 100% of the entity. Concrete is the owner of a 50% limited partner interest in Koma Kulshan Associates, L.P. (“Koma”). As a result of the purchase, our ownership of Koma increased from 49.75% to 50.00%. With 50.00% percent ownership of Koma, we do not have financial control of the entity as the two owner parties have joint control and substantive participating rights through the

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structure of the partnership agreement. Accordingly, since we did not obtain control of the project, we continued to account for Koma under the equity method of accounting as of June 30, 2018. The $1.1 million purchase was accounted for as an additional equity method investment in Koma.

On July 27, 2018, we acquired the remaining 50% partnership interest in Koma from Covanta Energy Americas, Inc. (“Covanta”) for a purchase price of $11.8 million. As a result of this purchase, subsequent to the end of the second quarter, we own 100% of Koma and beginning in the third quarter will consolidate the project prospectively. In addition, we bought out the operation and maintenance contract held by Covanta for $0.3 million. We completed this acquisition because we view our hydro assets as having excellent near-term value and strong long-term prospects. We will have 100% ownership and operating control of a hydro project with a PPA that has a 19-year remaining term.

The purchase will be accounted for under the acquisition method of accounting. As of August 1, 2018, we are in the process of completing our purchase price allocation, which includes allocating the purchase price to both tangible and intangible assets and liabilities of Koma. The $12.1 million total purchase price was funded with cash on-hand. We assumed operation of the project from Covanta on the acquisition date of July 27, 2018.

5. Long term debt

Long term debt consists of the following:

	June 30, 2018	December 31, 2017	Interest Rate			
Recourse Debt:						
Senior secured term loan facility, due 2023(1)	$ 490.0	$ 540.0	LIBOR(2)	plus	3.00	%
Senior unsecured notes, due June 2036 (Cdn$210.0)	159.5	167.4			5.95	%
Non-Recourse Debt:						
Epsilon Power Partners term facility, due 2019 (3)	—	7.2	LIBOR	plus	3.125	%
Cadillac term loan, due 2025 (4)	22.5	24.0	LIBOR	plus	1.49	%
Other long-term debt	—	0.1	5.50	% -	6.70	%
Less: unamortized discount	(10.8)	(12.8)				
Less: unamortized deferred financing costs	(8.6)	(10.1)				
Less: current maturities	(78.0)	(99.5)				
Total long-term debt	$ 574.6	$ 616.3				

Current maturities consist of the following:

	June 30, 2018	December 31, 2017	Interest Rate			
Current Maturities:						
Senior secured term loan facility, due 2023(1)	$ 75.0	$ 90.0	LIBOR(2)	plus	3.00	%
Epsilon Power Partners term facility, due 2019 (3)	—	6.5	LIBOR	plus	3.125	%
Cadillac term loan, due 2025 (4)	3.0	3.0	LIBOR	plus	1.49	%
Total current maturities	$ 78.0	$ 99.5				

(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) London Interbank Offered Rate ("LIBOR") cannot be less than 1.00%. We have entered into interest rate swap agreements to mitigate the exposure to changes in LIBOR for $457.7 million of the $490 million outstanding

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aggregate borrowings under our senior secured term loan facility at June 30, 2018. See Note 8, Accounting for derivative instruments and hedging activities for further details. On April 19, 2018, the repricing of the $510 million senior secured term loan facility became effective. As a result of the repricing, the interest rate margin on the term loan and revolver was reduced by 0.50% to LIBOR plus 3.00%.

(3) In June 2018, we pre-paid the remaining $5.6 million principal amount originally due in 2018 and 2019.

(4) We have entered into interest rate swap agreements to economically fix our exposure to changes in interest rates for this non-recourse debt. See Note 8, Accounting for derivative instruments and hedging activities, for further details.

(5)

6. Convertible debentures

Convertible debentures consist of the following:

	June 30, 2018	December 31, 2017
6.00% Debentures due January 2025 (Series E) (Cdn $115.0 million)	87.3	—
5.75% Debentures due June 2019 (Series C)	—	42.5
6.00% Debentures due December 2019 (Series D) (Cdn $24.7 million)	18.8	64.5
Less: Unamortized deferred financing costs	(4.7)	(1.6)
Less: Unamortized discount	(4.4)	—
Total convertible debentures	$ 97.0	$ 105.4

On January 29, 2018, we closed the sale of our offering (the “Series E Debenture Offering”) of Cdn$100 million aggregate principal amount of 6.00% Series E convertible unsecured subordinated debentures (the “Series E Debentures”). We also granted the underwriters the option to purchase up to an additional Cdn$15 million aggregate principal amount of Series E Debentures at any time up to 30 days after the date of closing of the Series E Debenture Offering to cover over-allotments. The underwriters exercised that option for the full Cdn$15 million aggregate principal amount on February 2, 2018.

On the initial closing date, we received net proceeds from the Series E Debentures Offering, after deducting the underwriting fee and expenses, of approximately Cdn$94.7 million. We received an additional Cdn$14.4 million of net proceeds from the exercise of the over-allotment option. On January 29, 2018, we issued a notice to redeem all of the $42.5 million remaining principal amount of 5.75% Series C convertible unsecured subordinated debentures due June 2019 (the “Series C Debentures”) with the use of a portion of the proceeds from the Series E Debenture Offering. On February 2, 2018, we issued a notice to redeem Cdn$56.2 million principal amount of the 6.00% Series D extendible convertible unsecured subordinated debentures due December 2019 (the “Series D Debentures”) with the remaining proceeds from the Series E Debentures Offering. After the partial redemption, Cdn$24.7 million ($18.8 million) aggregate principal amount of the Series D Debentures remains outstanding.

The Series E Debentures have a maturity date of January 31, 2025. The Series E Debentures bear interest at a rate of 6.00% per year, and are convertible into our common shares at an initial conversion rate of approximately 238.0952 common shares per Cdn$1,000 principal amount, representing a conversion price of Cdn$4.20 per common share.

We assessed the conversion option of the Series E Debentures and determined it should be separated from the host instrument and accounted for as an embedded derivative liability as the conversion option is in a currency different from our functional currency. Changes in the fair value of the conversion option derivative are recorded in the consolidated statements of operation. The conversion option derivative was initially measured at fair value ($4.7 million), with the host contract carried at a value equal to the difference between the carrying value of the Series E Debenture and the fair value of the derivative. Accordingly, no gain or loss was recorded on the initial measurement of the derivative. The fair value of the conversion option derivative was $2.3 million as of June 30, 2018. The portion of the proceeds allocated to the separated derivative also created a discount of $4.7 million, which will be amortized to interest expense over the maturity period of the Series E Debentures. For additional information, see Note 8, Accounting for derivative instruments and hedging activities.

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7. 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, 2018 and December 31, 2017. Financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement.

	June 30, 2018			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 80.8	$ —	$ —	$ 80.8
Restricted cash	1.9	—	—	1.9
Derivative instruments asset	—	8.5	—	8.5
Total	$ 82.7	$ 8.5	$ —	$ 91.2
Liabilities:				
Derivative instruments liability	$ —	$ 21.5	$ 2.3	$ 23.8
Total	$ —	$ 21.5	$ 2.3	$ 23.8

	December 31, 2017			
	Level 1	Level 2	Level 3	Total

Assets:				
Cash and cash equivalents	$ 78.7	$ —	$ —	$ 78.7
Restricted cash	6.2	—	—	6.2
Derivative instruments asset	—	5.5	—	5.5
Total	$ 84.9	$ 5.5	$ —	$ 90.4
Liabilities:				
Derivative instruments liability	$ —	$ 24.3	$ —	$ 24.3
Total	$ —	$ 24.3	$ —	$ 24.3

The fair values of our interest rate swaps, foreign exchange forward contracts, natural gas swaps and gas purchase agreements 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, 2018, the credit valuation adjustments resulted in a $1.9 million net increase in fair value, which consists of a $0.1 million pre tax gain in other comprehensive income and a $1.8 million gain in change in fair value of derivative instruments. As of December 31, 2017, the credit valuation adjustments resulted in a $2.2 million net increase in fair value, which consists of a $0.2 million pre tax gain in other comprehensive income and a $2.0 million gain in change in fair value of derivative instruments.

The conversion option derivative for the Series E Debentures is classified within Level 3 of the fair value hierarchy. The significant unobservable inputs used in developing fair value include the volatility of our common shares and the fair value of the host contract, which is derived from recent similar convertible debenture offerings from peer companies. A discounted cash flow valuation technique is utilized to calculate to fair value of the conversion option derivative.

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The following table reconciles, for the three and six months ended June 30, 2018, the beginning and ending balances for the conversion option derivative that is recognized at fair value in the consolidated financial statements, using significant unobservable inputs:

	Fair value Measurement Using Significant Unobservable Inputs (Level 3)	
	Three months ended June 30, 2018	Six months ended June 30, 2018
Beginning balance	$ 2.6	$ —
Total gains - realized / unrealized	(0.3)	2.3
Ending balance as of June 30, 2018	$ 2.3	$ 2.3

For cash and cash equivalents, accounts and other receivables, accounts payable and restricted cash, the carrying amount approximates fair value because of the short-term maturity of those instruments and are classified as Level 1 within the fair value hierarchy.

8. 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 a gas purchase agreement at our Nipigon project that expires on December 31, 2022 under which we purchase a minimum of 6,500 Gigajoules ("Gj") of natural gas per day at a price of Cdn$4.57 per Gj. We also entered into a gas sales agreement for our Nipigon project under which we sell 6,500 Gj of natural gas per day at a price of Cdn$2.75 that expires on October 31, 2018. 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 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 700,000 Mmbtu to effectively mitigate seasonal fluctuation of future natural gas price at Morris from September through February 2019. These contracts are accounted for as derivative financial instruments and are recorded in the consolidated balance sheet at fair value at June 30, 2018. Changes in the fair market value of these contracts are recorded in the consolidated statement of operations.

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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 14.1 million Mmbtu of future natural gas purchases at our Orlando project, which is approximately 90% of the remaining expected natural gas purchases at the project in 2018 and 100% of our share of the expected natural gas purchases in 2019 through 2021. These contracts are accounted for as derivative financial instruments and are recorded in the consolidated balance sheet at fair value at June 30, 2018. Changes in the fair market value of these contracts are recorded in the consolidated statement of operations.

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. At June 30, 2018, these agreements totaled $457.7 million notional amount of the remaining $490.0 million aggregate principal amount of borrowings under the senior secured term loan facility (“Term Loan Facility”). These interest rate swap agreements expire at various dates through March 31, 2020. Borrowings under the $700.0 million Term Loan Facility bear interest at a rate equal to the Adjusted Eurodollar Rate plus an applicable margin of 3.00%. Based on the terms of the Credit Agreement, the Adjusted Eurodollar Rate cannot be less than 1.00%, resulting in a minimum of a 4.00% all-in rate on the Term Loan Facility for the non-swapped portion of the remaining principal amount. The weighted average rate of these swap agreements is 1.34%, resulting in an all-in rate of approximately 4.34% for $457.7 million of the Term Loan Facility.

In January 2018, APLP Holdings entered into additional interest rate swap agreements. For the period beginning June 30, 2018 through September 30, 2019, we mitigated exposure to changes in interest rates for $100 million notional amount at a one-month LIBOR fixed rate of 2.18% and for the period beginning October 1, 2019 through December 31, 2020, for $200 million notional amount at a one-month LIBOR fixed rate of 2.42%.

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 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 income (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 due June 23, 2036 ("MTNs"). 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 July 2017, we entered into foreign exchange forward contracts to sell a total of Cdn$10 million at an exchange rate of 1.2481 in three tranches of Cdn$3.3 million each. One tranche of Cdn$3.3 million remains and will settle in December 2018. In July 2017, we also entered into foreign exchange forward contracts to sell a total of Cdn$10

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million at an exchange rate of 1.2943. One tranche of Cdn$2.0 million remains and will settle in December 2018. In September 2017, we entered into foreign exchange forward contracts to sell Cdn$5.0 million at an exchange rate of 1.2196 in September 2018.

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, 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 NPNS exemption at June 30, 2018 and December 31, 2017:

	Units	June 30, 2018	December 31, 2017
Natural gas swaps	Natural Gas (Mmbtu)	14.1	9.9
Gas purchase agreements	Natural Gas (Gigajoules)	9.9	9.9
Interest rate swaps	Interest (US$)	664.6	412.6
Foreign currency forward contracts	Dollars (Cdn$)	10.3	25.0

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, 2018	
	Derivative Assets	Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	$ —	$ 0.4
Interest rate swaps long-term	—	1.0
Total derivative instruments designated as cash flow hedges	—	1.4
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current	5.2	—
Interest rate swaps long-term	2.6	—
Natural gas swaps current	—	0.1
Natural gas swaps long-term	—	1.4
Gas purchase agreements current	0.2	3.2
Gas purchase agreements long-term	—	15.4
Convertible debenture conversion option	—	2.3
Foreign currency forward contracts current	0.5	—
Total derivative instruments not designated as cash flow hedges	8.5	22.4
Total derivative instruments	$ 8.5	$ 23.8

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	December 31, 2017	
	Derivative Assets	Derivative Liabilities
Derivative instruments designated as cash flow hedges:		
Interest rate swaps current	$ —	$ 0.6
Interest rate swaps long-term	—	1.5
Total derivative instruments designated as cash flow hedges	—	2.1
Derivative instruments not designated as cash flow hedges:		
Interest rate swaps current	2.7	—
Interest rate swaps long-term	2.8	—
Natural gas swaps current	—	0.8
Natural gas swaps long-term	—	0.2
Gas purchase agreements current	—	2.9
Gas purchase agreements long-term	—	18.2
Foreign currency forward contracts current	—	0.1
Total derivative instruments not designated as cash flow hedges	5.5	22.2
Total derivative instruments	$ 5.5	$ 24.3

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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, 2018	Interest Rate Swaps
Accumulated OCI balance at March 31, 2018	$ 1.4
Change in fair value of cash flow hedges	—
Realized from OCI during the period	0.1
Accumulated OCI balance at June 30, 2018	$ 1.5

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

Six Months Ended June 30, 2018	Interest Rate Swaps
Accumulated OCI balance at January 1, 2018	$ 1.1
Change in fair value of cash flow hedges	0.2
Realized from OCI during the period	0.2
Accumulated OCI balance at June 30, 2018	$ 1.5

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

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,		Six Months Ended June 30,	
		2018	2017	2018	2017
Gas purchase agreements	Fuel	$ 0.8	$ 2.4	1.7	$ 4.9
Natural gas swaps	Fuel	0.2	(0.4)	0.8	(0.5)
Interest rate swaps	Interest, net	(1.1)	0.8	(1.1)	1.7

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The following table summarizes the unrealized (loss) gain 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, 2018	2017	Six Months Ended June 30, 2018	2017
Natural gas swaps	Change in fair value of derivatives	$ (0.6)	$ (0.8)	$ (0.5)	$ (0.6)
Gas purchase agreements	Change in fair value of derivatives	0.3	(0.8)	1.6	(2.9)
Interest rate swaps	Change in fair value of derivatives	0.1	(1.1)	2.4	(0.4)
		$ (0.2)	$ (2.7)	3.5	(3.9)
Convertible debenture conversion option	Other income, net	(0.2)	—	(2.3)	—
Foreign currency forwards	Foreign exchange loss	$ (0.1)	$ (0.3)	$ (0.6)	$ (0.5)

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9. Income taxes

	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Current income tax expense	$ 1.1	$ 1.4	$ 2.2	$ 2.3

Deferred income tax (benefit) expense	(0.2)	(23.7)	2.0	(24.9)
Total income tax expense (benefit), net	$ 0.9	$ (22.3)	$ 4.2	$ (22.6)

For the three and six months ended June 30, 2018 and 2017

Income tax expense for the three months ended June 30, 2018 was $0.9 million. Expected income tax expense for the same period, based on the Canadian enacted statutory rate of 26%, was $0.5 million. On December 22, 2017, the Tax Cuts and Jobs Act of 2017 was signed into law, making significant changes to the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, which have been reflected in our 2017 year-end financials, limitation on the deduction of net business interest expense, and base erosion and anti-abuse tax. Based on estimates as of the date of this filing, the interest expense limitation and base erosion and anti-abuse tax will not have a material impact on cash taxes. The primary items impacting the tax rate for the three months ended June 30, 2018 were $0.3 million relating to foreign exchange and $0.2 million of other permanent differences. These items were partially offset by a net decrease to our valuation allowances of $0.1 million, consisting of $0.1 million decreases in Canada due to income and no changes in the United States for the period.

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 item increasing the tax rate for the three months ended June 30, 2017 was $0.2 million relating to return to provision adjustments. This item was partially offset by $8.4 million relating to operating in higher tax rate jurisdictions, $2.6 million related to a net decrease to our valuation allowances in Canada due to income and $0.6 million relating to foreign exchange.

Income tax expense for the six months ended June 30, 2018 was $4.2 million. Expected income tax expense for the same period, based on the Canadian enacted statutory rate of 26%, was $5.0 million. The primary items impacting the tax rate for the six months ended June 30, 2018 were a net increase to our valuation allowances of $0.8 million, consisting of $0.8 million of increases in Canada related to losses and no changes in the United States for the period. In addition, the rate was further impacted by $0.3 million of taxes and $0.3 million of other permanent differences. These

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items were partially offset by $1.3 million related to capital loss on intercompany notes and $0.9 million relating to changes in tax rates.

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.

As of June 30, 2018, we have recorded a valuation allowance of $152.2 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 U.S. and in Canada and available tax planning strategies.

10. 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, 2018:

	Units	Grant Date Weighted-Average Fair Value per Unit
Outstanding at December 31, 2017	2,884,574	2.22
Granted	2,483,237	2.02
Vested and redeemed	(1,216,252)	2.24
Outstanding at June 30, 2018	4,151,559	$ 2.09

Cash payments made for vested notional units for the six months ended June 30, 2018 and 2017 were $0.8 million and $0.7 million, respectively. Compensation expense for LTIP and Transition Equity Participation Agreement notional shares was $1.0 million and $1.5 million for the three and six months ended June 30, 2018, respectively, and $0.9 million and $1.7 million for the three and six months ended June 30, 2017, respectively.

Transition Equity Participation Agreement

We also have 539,904 transition notional shares outstanding at June 30, 2018 under the Transition Equity Participation Agreement with James J. Moore, Jr. Fifty percent of the transition notional shares granted in January 2015 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).

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

11. Basic and diluted earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to Atlantic Power Corporation by the weighted average common shares outstanding during their respective periods. Shares issued and shares repurchased during the year are weighted for the portion of the year that they were outstanding. Diluted earnings (loss) per share is computed in a manner consistent with that of basic earnings (loss) per share while giving effect to all potentially dilutive common shares that were outstanding during the period. 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 earnings (loss) per share 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. The outstanding equity compensation for non-vested LTIP and Transition Equity Participation Agreement notional shares are not considered outstanding for purposes of computing basic earnings (loss) per share. However, these instruments are included in the denominator for purposes of computing diluted earnings (loss) per share under the treasury stock method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

The following table sets forth the calculation of basic and diluted (loss) earnings per share for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
Basic	2018	2017	2018	2017
Numerator:				
Net (loss) income attributable to Atlantic Power Corporation	$ (0.6)	$ (21.9)	$ 15.2	$ (24.6)
Denominator:				
Weighted average basic shares outstanding	112.4	115.2	113.6	115.0
Basic (loss) earnings per share attributable to Atlantic Power Corporation	$ (0.01)	$ (0.19)	$ 0.13	$ (0.21)
Diluted				
Numerator:				
Net (loss) income attributable to Atlantic Power Corporation	$ (0.6)	$ (21.9)	$ 15.2	$ (24.6)
Add: convertible debenture interest expense	—	—	2.2	—
	(0.6)	(21.9)	17.4	(24.6)
Denominator:				
Weighted average basic shares outstanding	112.4	115.2	113.6	115.0
Convertible debentures	—	—	26.5	—
Share-based compensation	—	—	—	—
	112.4	115.2	140.1	115.0
Diluted (loss) earnings per share attributable to Atlantic Power Corporation	$ (0.01)	$ (0.19)	$ 0.13	$ (0.21)

The following table summarizes our outstanding instruments that are anti-dilutive and were not included in the computation of our diluted (loss) earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Share-based compensation	2.6	2.6	5.4	2.6
Convertible debentures	29.1	8.1	—	8.1
Total	31.7	10.7	5.4	10.7

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ATLANTIC POWER CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(Unaudited)

12. 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, 2018 and 2017:

	Six months ended June 30, 2018		
	Total Atlantic Power Corporation Shareholders' Equity	Preferred shares issued by a subsidiary company	Total Equity
Balance at January 1, 2018	$ (18.4)	$ 215.2	$ 196.8
Net income (loss)	15.2	(0.1)	