A copy of this amended and restated preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada but has not yet become final for the purpose of the sale of securities. Information contained in this amended and restated preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and only by persons permitted to sell these securities in those jurisdictions. These securities have not been and will not be registered under the United States Securities Act of 1933, as amended, or any state securities laws and may not be offered or sold in the United States or to U.S. persons except in compliance with the registration requirements of the United States Securities Act of 1933, as amended, and applicable state securities laws or under exemptions from those laws. See "Plan of Distribution".

AMENDED AND RESTATED PRELIMINARY PROSPECTUS

Initial Public Offering October 21, 2004

AtlanticPower Corporation

Cdn$ ●

● Income Participating Securities

This offering (the "Offering") is an initial public offering of ● income participating securities ("IPSs") of Atlantic Power Corporation (referred to herein as the "Issuer"). Each IPS represents: (a) one common share (each, a "Common Share") of the Issuer; and (b) Cdn$ ● aggregate principal amount of ● % subordinated notes ("Subordinated Notes") of the Issuer. The Issuer is a corporation formed under the laws of the Province of Ontario to acquire indirect interests in 15 power generation projects located primarily in the United States (collectively, the "Projects", and individually, a "Project"). See "Acquisition Agreements" and "Use of Proceeds".

Holders of IPSs will have the right to separate the IPSs into the Common Shares and Subordinated Notes represented thereby at any time after the 45th day following the closing of the Offering ("Closing") or upon the occurrence of a change of control of the Issuer. Separation of the IPSs will occur automatically upon a repurchase, redemption or maturity of the Subordinated Notes. Similarly, any holder of Common Shares and Subordinated Notes may, at any time, combine the applicable number of Common Shares and principal amount of Subordinated Notes to form IPSs. See "Description of IPSs".

The Subordinated Notes will have a term of 12 years. On or after the fifth anniversary of the Closing, the Issuer will have the option to redeem the Subordinated Notes in whole or in part at any time, for cash, at a redemption price equal to the principal amount of the Subordinated Notes plus a specified premium, which premium decreases over time. See "Description of Subordinated Notes".

(continued on next page)

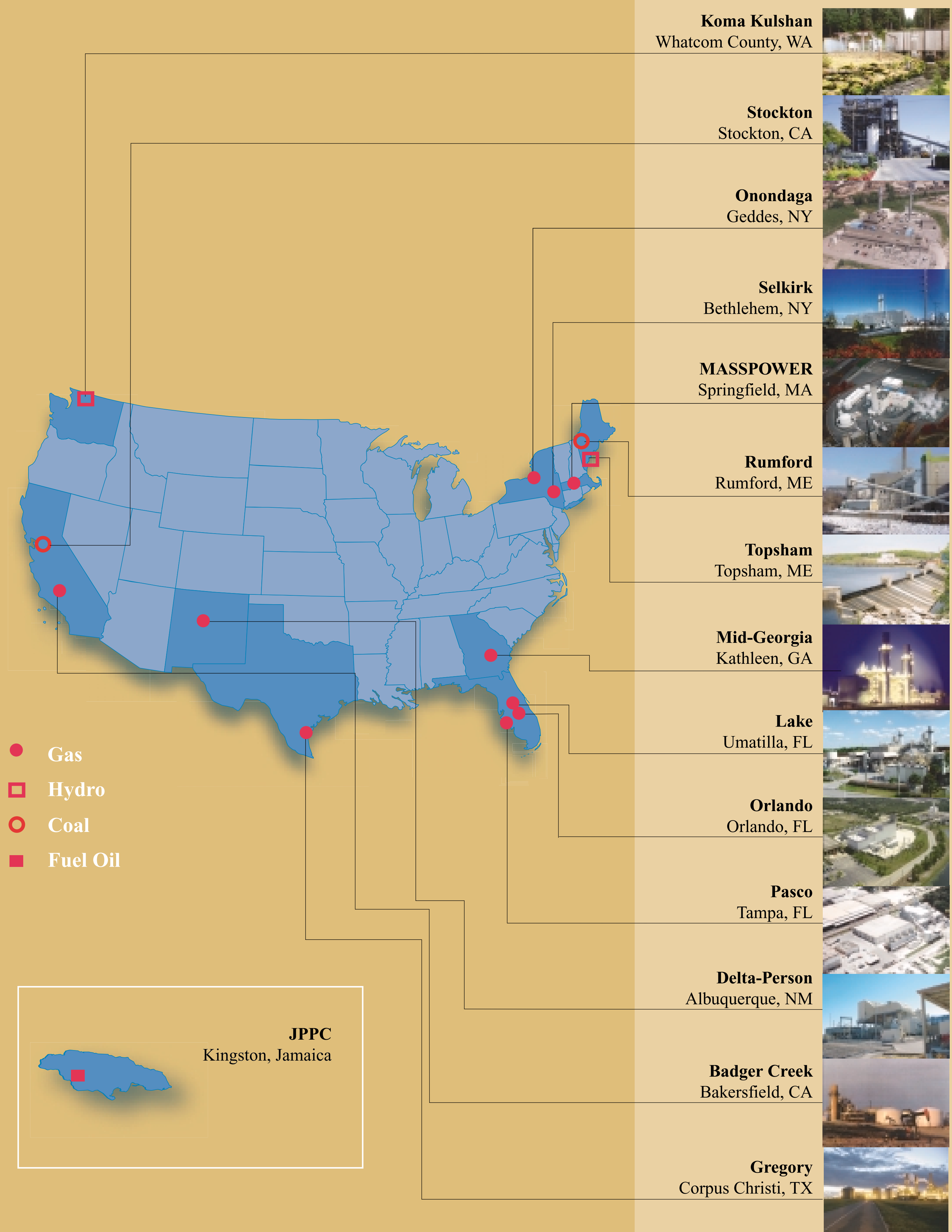
Price: Cdn$10.00 per IPS

	Price to the Public[(1)]	Underwriters' Fee	Net Proceeds to the Issuer[(2)]
Per IPS	Cdn$10.00	Cdn$ ●	Cdn$ ●
Total[(3)]	Cdn$ ●	Cdn$ ●	Cdn$ ●

(1) The offering price of the IPSs was determined by negotiation between the Issuer, the Existing Investors (as defined below) and the Underwriters (as defined below).

(2) Before deducting expenses of the Offering estimated at approximately Cdn$ ● , which, together with the Underwriters' fee, will be paid out of the proceeds of the Offering.

(3) The Issuer has granted the Underwriters an over-allotment option (the "Over-Allotment Option"), exercisable for a period of 30 days from the date of Closing, to purchase up to a total of ● additional IPSs on the same terms as set out above to cover over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised in full, the total "Price to the Public", "Underwriters' Fee" and "Net Proceeds to the Issuer" will be Cdn$ ● , Cdn$ ● and Cdn$ ● , respectively. This prospectus qualifies the distribution of the Over-Allotment Option and the distribution of the IPSs issuable upon exercise of that option. See "Plan of Distribution".



Koma Kulshan
Whatcom County, WA
Stockton
Stockton, CA
Onondaga
Geddes, NY
Selkirk
Bethlehem, NY
MASSPOWER
Springfield, MA
Rumford
Rumford, ME
Topsham
Topsham, ME
Mid-Georgia
Kathleen, GA
Lake
Umatilla, FL
Orlando
Orlando, FL
Pasco
Tampa, FL
Delta-Person
Albuquerque, NM
Badger Creek
Bakersfield, CA
Gregory
Corpus Christi, TX
Gas
Hydro
Coal
Fuel Oil
JPPC
Kingston, Jamaica

(continued from cover)

The pricing of the IPSs has been determined, in part, based on an estimate of distributable cash for the 12 months ended June 30, 2004. See "Summary of Distributable Cash Flow of the Issuer". Although the Issuer intends to make monthly distributions of its available cash to investors, these cash distributions are not assured. The actual amount distributed will be dependent on the Projects' financial performance, debt covenants and other contractual obligations, working capital requirements, future capital requirements and the deductibility for U.S. federal income tax purposes of interest payments on the Subordinated Notes, all of which are susceptible to a number of risks. The market value of the IPSs may deteriorate if the Issuer is unable to make scheduled interest payments on the Subordinated Notes or otherwise meet its cash distribution targets in the future, and any such deterioration may be material. **An investment in the IPSs is subject to a number of risks that should be considered by a prospective investor.** See "Risk Factors". The Issuer will allocate the price paid for each IPS on the basis of Cdn$ ● to the Common Share and Cdn$ ● to the Subordinated Notes and by purchasing an IPS, the holder is deemed to agree to such allocation and agrees to not take a contrary position for any purpose. The Canadian and U.S. tax consequences of acquiring, holding and disposing of the Common Shares and Subordinated Notes represented by IPSs may, in part, depend on the Canada Revenue Agency and United States Internal Revenue Service agreeing with this allocation. See "Certain Canadian Federal Income Tax Considerations" and "Certain U.S. Federal Income Tax Considerations". Distributions on the IPSs will consist of interest payments on the Subordinated Notes and dividend payments on the Common Shares represented thereby. See "Description of IPSs" and "Certain Canadian Federal Income Tax Considerations". The first monthly distribution is expected to be made to holders of IPSs on ● in respect of the period from the Closing to ● . See "The Issuer — Distribution Policy".

Dominion Bond Rating Service Limited ("DBRS") has adapted its income funds rating methodology in order to assign stability ratings to IPSs. DBRS has assigned a preliminary stability rating of STA-3 (low) to the IPSs of the Issuer. Similar to units of income funds rated STA-3, IPSs rated STA-3 are considered by DBRS to have good stability and sustainability of distributions per IPS.

In connection with the Offering, the Underwriters (as defined below) are permitted to engage in transactions that stabilize or maintain the market price of the IPSs at levels other than those which might otherwise prevail on the open market. Such transactions, if commenced, may be discontinued at any time. The Underwriters may offer the IPSs at a lower price than stated below. **There is currently no market through which the IPSs, and the Common Shares and Subordinated Notes represented thereby, may be sold and purchasers may not be able to resell securities purchased under this prospectus.** Closing of the Offering will be conditional on, among other things, the approval for listing of the IPSs and Common Shares on the Toronto Stock Exchange. See "Plan of Distribution" and "Risk Factors — Risks Related to the Structure of the Issuer and the Offering — Holders of IPSs, Common Shares and Subordinated Notes May Have Limited Liquidity".

Unless a Non-U.S. Holder provides appropriate documentation establishing entitlement to a reduction or elimination of United States withholding tax, a 30% United States withholding tax will be assessed on interest payments paid on the Subordinated Notes by the Issuer to that Non-U.S. Holder. See "Certain U.S. Federal Income Tax Considerations".

BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., National Bank Financial Inc., TD Securities Inc., Canaccord Capital Corporation, Desjardins Securities Inc., Dundee Securities Corporation, First Associates Investments Inc., HSBC Securities (Canada) Inc., Lehman Brothers Inc. and Raymond James Ltd. (the "Underwriters"), as principals, conditionally offer the IPSs, subject to prior sale, if, as and when issued by the Issuer and accepted by the Underwriters in accordance with the conditions contained in the Underwriting Agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on behalf of the Issuer and Atlantic Power Holdings, LLC ("Atlantic Holdings") by Goodmans LLP and Goodwin Procter LLP and on behalf of the Underwriters by Blake, Cassels & Graydon LLP and Paul, Weiss, Rifkind, Wharton & Garrison LLP. Subscriptions for the IPSs will be received subject to rejection or allotment, in whole or in part, and the right is reserved to close the subscription books at any time without notice. A book entry only certificate representing the IPSs will be issued in registered form to The Canadian Depository for Securities Limited ("CDS") or its nominee and will be deposited with CDS on the Closing, which is expected to occur on or about ● , 2004 or such later date as the Issuer and the Underwriters may agree, but in any event not later than ● , 2004. A purchaser of IPSs will receive only a customer confirmation from the registered dealer that is a CDS participant and from or through which the IPSs are purchased.

An affiliate of BMO Nesbitt Burns Inc. has arranged to make credit facilities available to a subsidiary of the Issuer. As a result, the Issuer may be considered a "connected issuer" of BMO Nesbitt Burns Inc. See "Plan of Distribution".

The promoters, Teton Power Holdings, LLC, Epsilon Power Holdings, LLC and Umatilla Power Holdings, LLC (the "Existing Investors"), are organized under the laws of a foreign jurisdiction and reside outside Canada. Although the promoters have appointed the Issuer, Suite 2400, 250 Yonge Street, Toronto, Ontario, Canada, M5B 2M6 as their agent for service of process in Ontario, it may not be possible for investors to collect from the promoters judgments obtained in Canada predicated on the civil liability provisions of securities legislation of certain of the provinces and territories of Canada. See "Risk Factors — Risks Related to the Structure of the Issuer and the Offering — Limitations on Enforcement of Certain Civil Judgments by Canadian Investors".

TABLE OF CONTENTS

MEANING OF CERTAIN REFERENCES

Certain capitalized terms used in this prospectus have the meaning set out in the "Glossary of Terms".

The Issuer is an Ontario corporation and will prepare its financial statements in accordance with accounting principles generally accepted in Canada, or Canadian GAAP. The underlying operations and investments of the Issuer are primarily based in the United States and prepare their financial statements in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The financial statements of UtilCo SaleCo LLC ("SaleCo"), the predecessor to Teton Power Funding, LLC ("Teton Funding"), and Teton Funding contained in this prospectus have been prepared in accordance with U.S. GAAP which, other than as disclosed in the notes thereto, conforms in all significant respects with Canadian GAAP. The *pro forma* consolidated financial statements of the Issuer and the audited financial statement of the Issuer as of June 30, 2004 contained in this prospectus have been prepared in accordance with Canadian GAAP.

CURRENCY AND EXCHANGE RATE INFORMATION

In this prospectus, 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 stated.

The business of the Projects is conducted primarily in the United States and their revenues and expenses are denominated, earned and incurred primarily in U.S. dollars. Accordingly, the pro forma consolidated financial statements of the Issuer and the financial statements of SaleCo and Teton Funding included in this prospectus are presented in U.S. dollars. The following table sets forth, for each period indicated, the high and low exchange rates for one U.S. dollar, expressed in Canadian dollars, the average of such exchange rates on the last day of each month during such period and the exchange rate at the end of such period, based on the noon rate in Canadian dollars as quoted by the Bank of Canada (the "Noon Buying Rate"). On October 20, 2004, the Noon Buying Rate was US$1.00 = Cdn$1.2432.

	Six Months Ended June 30		Twelve Months Ended December 31		
	2004	2003	2003	2002	2001
High	1.3968	1.5747	1.5747	1.6132	1.6021
Low	1.2692	1.3342	1.2924	1.5110	1.4936
Average(1)	1.3419	1.4408	1.3952	1.5761	1.5513
Period End	1.3404	1.3553	1.2924	1.5796	1.5926

(1) The average of the exchange rates on the last day of each month during each period.

ELIGIBILITY FOR INVESTMENT

In the opinion of Goodmans LLP, counsel to the Issuer and Atlantic Holdings, and of Blake, Cassels & Graydon LLP, counsel to the Underwriters, on the date of this prospectus, the Common Shares represented by the IPSs if, as and when listed on a prescribed stock exchange (which currently includes the Toronto Stock Exchange) and the Subordinated Notes represented by the IPSs will be qualified investments under the Tax Act for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans (except that the Subordinated Notes will not be qualified investments for trusts governed by a deferred profit sharing plan to which contribution payments are made by the Issuer or a person with whom the Issuer does not deal at arm's length within the meaning of the Tax Act) and registered education savings plans (collectively, the "plans") at that time. Based, in part, on a certificate of the Issuer as to certain factual matters, the Common Shares and the Subordinated Notes represented by the IPSs will not constitute "foreign property" for the purposes of the tax imposed under Part XI of the Tax Act on those plans (other than registered education savings plans), registered investments and other tax exempt entities including most registered pension funds and registered pension plans. Registered education savings plans are not subject to the foreign property rules. See "Certain Canadian Federal Income Tax Considerations".

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus are "forward-looking statements", which reflect the expectations of Atlantic Power Management, LLC (the "Manager") regarding future growth, results of operations, performance and business prospects and opportunities of the Issuer, Atlantic Holdings and the Projects. Such forward-looking statements reflect current expectations regarding future events and operating performance and speak only as of the date of this prospectus. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not or the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors". Although the forward-looking statements contained in this prospectus are based upon what are believed to be reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward-looking statements, and the differences may be material. These forward-looking statements are made as of the date of this prospectus and the Issuer assumes no obligation to update or revise them to reflect new events or circumstances.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain terms used in this prospectus are defined in the "Glossary of Terms". Unless otherwise indicated, the disclosure contained in this prospectus assumes that the steps under the heading "Acquisition Agreements" have been completed and that the Over-Allotment Option has not been exercised.

Atlantic Power Corporation

The Issuer is a corporation established under the laws of the Province of Ontario to acquire indirect interests in the Projects. The Issuer has formed Atlantic Holdings to acquire indirect interests in the Projects from the Existing Investors. Following completion of the Offering, the Issuer will own ● % of the common membership interests and all of the outstanding Class A preferred membership interests in Atlantic Holdings and the Existing Investors will own ● % of the common membership interests and all of the outstanding Class B preferred membership interests in Atlantic Holdings. See "Atlantic Holdings", "The Issuer" and "Acquisition Agreements".

Issuer's Objectives and Business Strategy

The Issuer's objectives are to maintain the stability and sustainability of cash distributions to holders of IPSs (in the form of interest payments on the Subordinated Notes and dividends on the Common Shares) and increase, when prudent, cash distributions on the Common Shares. In order to achieve these objectives, the Issuer intends to focus on enhancing the financial performance of the Projects and pursuing additional acquisitions and investments with a focus on power generating facilities in Canada and the U.S. See "Atlantic Power Corporation — Issuer's Objectives and Business Strategy".

The Non-Utility Power Generation Industry

The Projects are non-utility electric generating facilities that operate primarily in the U.S. electric power generation industry. The electric power industry is one of the largest industries in the U.S., with 2002 sales of nearly $250 billion based on information published by the Energy Information Administration of the U.S. Department of Energy. A growing portion of the power produced in the U.S. is generated by non-utility generators. Non-utility generators sell the electricity that they generate to electric utilities and other load-serving entities (such as municipalities and electric cooperatives) through bilateral contracts or open power exchanges. The electric utilities and other load-serving entities, in turn, generally sell this electricity to industrial, commercial and residential customers. The power generated by the Projects is generally sold to regulated electric utilities under long-term contracts. See "Power Industry Overview — The Non-Utility Power Generation Industry".

The Manager

The Manager is a Delaware limited liability company formed by ArcLight Capital Partners, LLC ("ArcLight") and the Existing Investors to provide management and administrative services to the Issuer and its subsidiaries pursuant to the terms of the Management Agreement. The Manager will manage the business with the objective of providing holders of IPSs with stable and sustainable cash distributions in the form of interest payments on the Subordinated Notes and dividends on the Common Shares. The Manager will also focus on identifying additional acquisitions and investments for the Issuer, including acquisitions of, or investments in, power generation assets in Canada and the U.S. In addition to the substantial energy investing experience and industry relationships of its own employees, the Manager expects to benefit from ArcLight's experience, relationships and specialized knowledge to identify emerging trends and present the Issuer with accretive acquisition and investment opportunities within the power and energy sector.

ArcLight Capital Partners, LLC

ArcLight is one of the leading private investment firms focused exclusively on the electric power and energy sectors. Headquartered in Boston, Massachusetts with offices in New York City, the principals of ArcLight have spent the majority of their careers identifying, structuring, and managing investments and companies in the power and energy sectors. Collectively, the principals of ArcLight have invested over $6 billion in more than 100 transactions with an aggregate acquisition value in excess of $20 billion. With over 200 years of combined industry experience, the principals of ArcLight have extensive transactional expertise and industry relationships in the power and energy sectors.

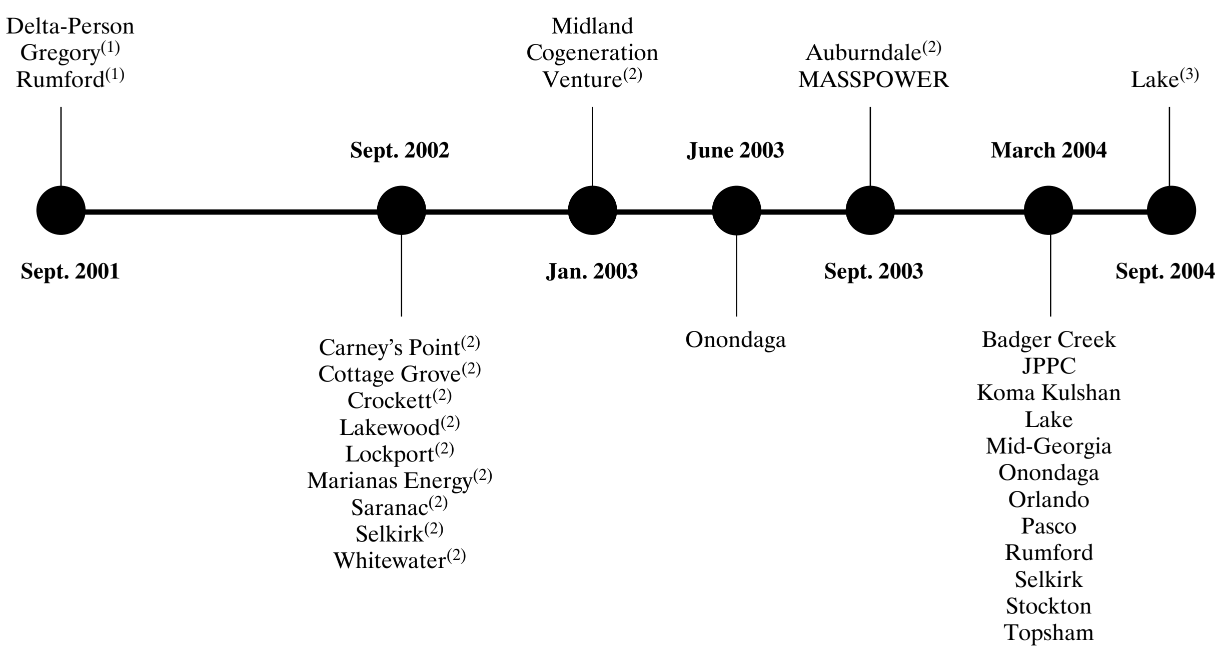
In April 2001, ArcLight organized ArcLight Energy Partners Fund I, L.P. ("Fund I") to capitalize on attractive investment opportunities in the rapidly evolving power, utility and energy industry. Fund I closed with $950 million in total capital commitments. In the three years ended March 2004, Fund I invested over $850 million through more than 20 equity and equity-like investments in power generation and transmission, as well as in power-related fuel and services businesses.

Building on the success of Fund I, ArcLight initiated fundraising for a new fund, ArcLight Energy Partners Fund II, L.P. ("Fund II") in October 2003 and by June 2004 had secured commitments from more than 75 investors. Almost all of ArcLight's Fund I investors, such as the Caisse de dépôt et placement du Québec and the University of Texas, participated in Fund II, as well as over 50 institutional investors that did not participate in Fund I, including Alberta Revenue, British Columbia Investment Management Corporation and the California Public Employees Retirement System (CalPERS). For Fund II, ArcLight is pursuing the same strategy it developed for Fund I, investing in assets in the power, utility and energy sectors. Fund II closed with $1.6 billion in total capital commitments and has completed seven investments to date.

Fund I, Fund II and Caithness Energy, LLC ("Caithness") are the indirect owners of Teton Funding, the owner of interests in 12 of the Projects. Fund I is the indirect owner of Epsilon Power Funding, LLC, the owner of interests in four of the Projects. Fund II is the indirect owner of Umatilla Power Funding, LLC, the owner of a lessor interest in one of the Projects. Fund I and Fund II are also indirect owners of the Manager.

The following diagram illustrates the order in which ArcLight acquired interests in the Projects and the ROFO Projects (as defined below).

Timeline of ArcLight Power Generation Acquisitions



(1) Acquired through the acquisition of a minority interest in Javelin Energy LLC.

(2) Subject to a right of first offer granted by Fund I in favour of Atlantic Holdings. See "Atlantic Power Corporation — Issuer's Objectives and Business Strategy — Opportunity to Purchase ArcLight Projects".

(3) On September 23, 2004, Umatilla Power Funding, LLC acquired the lessor interest in the Lake Project. See "Project Descriptions — Lake Project — Description."

Summary Table of the Projects

The following table lists the Projects, the economic interests in the Projects that will be indirectly acquired by Atlantic Holdings, and certain key information about each Project.

Project Name	Location	Fuel Type	Total MW	Economic Interest(1)	Net MW(2)	Electricity Off-Taker	PPA Expiry	Off-Taker S&P Credit Rating
Badger Creek	California	Natural Gas	46	50.0%	23	Pacific Gas & Electric	2011	BBB–
Delta-Person	New Mexico	Natural Gas	132	40.0%(3)	53	Public Service of New Mexico	2020	BBB
Gregory	Texas	Natural Gas	400	9.45%(3)	38	Dynegy Reynolds Metals	2005 2020	B NR
JPPC	Jamaica	Fuel Oil	60	24.1%	14	Jamaica Public Service	2018	B
Koma Kulshan	Washington	Hydro	13.3	49.8%	7	Puget Sound Energy	2037	BBB–
Lake	Florida	Natural Gas	110	99.9%	110	Progress Energy	2013	BBB
MASSPOWER	Massachusetts	Natural Gas	267	17.5%	47	Boston Edison Commonwealth Electric Massachusetts Municipal Wholesale Electric	2013(4) 2008/2013(4) 2013	A A A–
Mid-Georgia	Georgia	Natural Gas	308	50.0%	154	Georgia Power	2028	A
Onondaga	New York	Natural Gas	91	100.0%	91	Niagara Mohawk	2008(5)	A
Orlando	Florida	Natural Gas	126	50.0%	63	Progress Energy Reedy Creek Improvement District	2023 2013	BBB A–
Pasco	Florida	Natural Gas	109	49.9%	54	Progress Energy	2008	BBB
Rumford	Maine	Coal/ Biomass	85	23.2%(3)	20	Central Maine Power MeadWestvaco	2005 2020	BBB+ BBB
Selkirk	New York	Natural Gas	345	18.5%(3)	64	Niagara Mohawk Consolidated Edison	2008 2014	A A
Stockton	California	Coal	55	50.0%	28	Pacific Gas & Electric Corn Products International	2008 2008	BBB– BBB–
Topsham	Maine	Hydro	14	50.0%	7	Central Maine Power	2011	BBB+

(1) Atlantic Holdings' economic interest represents the percentage ownership interest in the Project to be held indirectly by Atlantic Holdings (except as otherwise noted).

(2) Represents the interest of Atlantic Holdings in each Project's total electric generation capacity based on Atlantic Holdings' economic interest in each Project.

(3) Represents Atlantic Holdings' estimate of its share of the cash flow from the Project.

(4) MASSPOWER entered into discussions with Boston Edison and Commonwealth Electric and the parties have agreed to terminate the PPAs in exchange for a termination payment. The agreement to terminate is subject to certain contingencies. The Manager believes that, if consummated, the termination of the PPAs would be accretive to the Issuer. See "Project Descriptions — MASSPOWER Project".

(5) A swap agreement with Niagara Mohawk Power Corporation has replaced the Onondaga PPA. See "Project Descriptions — Onondaga Project".

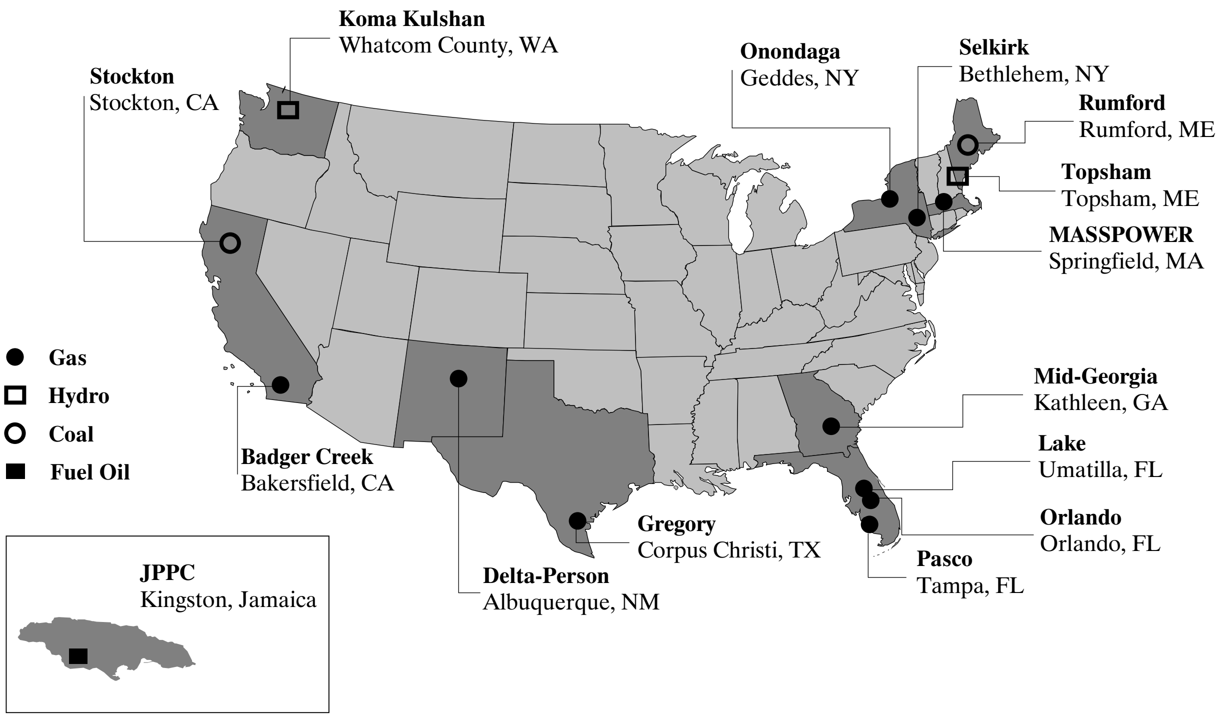
The Projects are typically owned by operating partnerships or corporations (the "Project Operating Entities"), with the owners of the Project Operating Entities holding limited partnership, general partnership or other equity interests in such entities. Atlantic Holdings' interests in each of the Projects will be held, directly or indirectly, through Teton Funding, Epsilon Power Funding, LLC or Umatilla Power Funding, LLC (collectively, the "Project Holding Entities"). See "The Projects — Commercial Structure and Operation of the Projects".

Business Strengths

Diversified Portfolio of Power Generating Projects

The Projects represent 773 MW of net generating capacity and are diversified by geographic location, electricity and steam off-takers and project operators. Fourteen of the Projects are located across nine states in the U.S., representing most major U.S. power markets, and one Project is located in Jamaica. The Projects are diversified across most of the North American Electric Reliability Council ("NERC") regions including the regions of the Northeast Power Coordinating Council, Florida Reliability Coordinating Council and Southeastern Electric Reliability Council which account for 30%, 29% and 20% of the net electric generation capacity of the Projects, respectively. No other NERC region contains Projects representing more than 14% of the Projects' net electric generation capacity. As a result, the Issuer's exposure to conditions (such as market, regulatory or environmental conditions) specific to any particular region is limited.

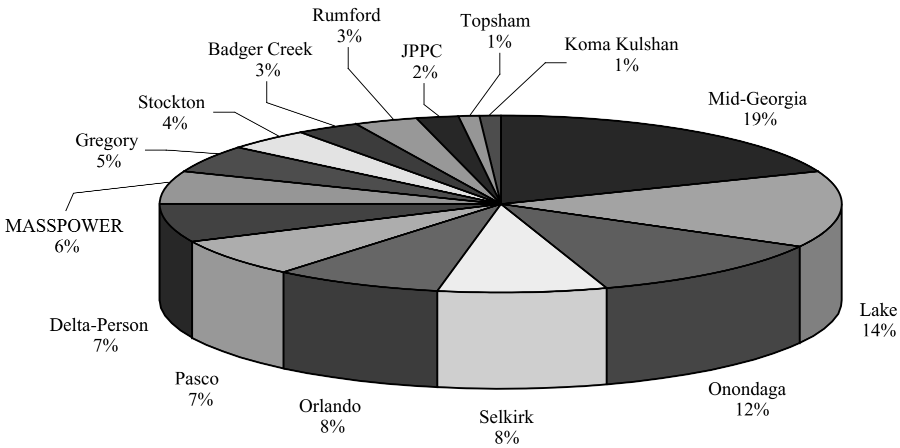
The following map illustrates the geographic location of, and primary fuel type for, each of the Projects.



The Projects have contracts with 24 different electricity and steam off-takers. Progress Energy, Inc. ("Progress Energy"), Georgia Power Company ("Georgia Power") and Niagara Mohawk Power Corporation ("NIMO") are the largest off-takers of the Projects, purchasing 26%, 20% and 14% of the Projects' net electric generation capacity, respectively. No other electricity off-taker purchases more than 7% of the Projects' net electric generation capacity.

The following chart illustrates each Project's contribution to Atlantic Holdings' net electric generation capacity.

Net Electric Generation Capacity by Project
773 MW(1)



(1) The percentages are based on Atlantic Holdings' indirect economic interest in each Project as a percentage of the aggregate economic interest of Atlantic Holdings in the Projects' total electric generation capacity.

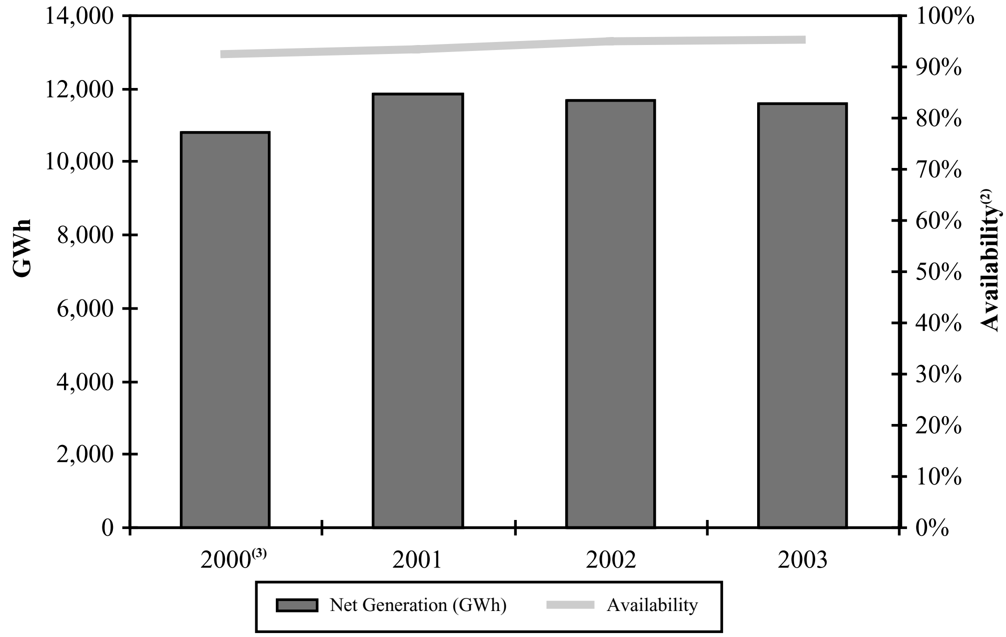
The Projects rely on a number of different operators for their operation. Affiliates of Caithness and General Electric Company ("GE") operate Projects representing 53% and 14% of the total electric generation capacity of the Projects, respectively. No other operator is responsible for the operation of Projects representing more than 8% of the Projects' total electric generation capacity.

Predictable, Stable and Sustainable Cash Distributions

Approximately 91% of the Projects' net electric generation capacity is sold to electricity off-takers having investment grade credit ratings from Standard & Poor's ("S&P"). In addition, the Projects generally have long-term fuel supply arrangements that match the term of their respective PPAs. Each of the Projects has been operating for a minimum of four years.

The following chart illustrates the stable electricity generation and consistent availability of the Projects over the past four years.

Projects' Net Electricity Generation(1)



(1) Represents the total generation of the Projects net of in-house load and internal use.

(2) Availability is weighted by capacity.

(3) Delta-Person commenced commercial operation in June 2000 and generation data in 2000 is for five months.

The Issuer's cash flow from the Projects will vary from year to year based on, among other things, changes in rates under the PPAs, fuel supply agreements, steam sales agreements and other Project contracts, compliance with the terms of Project-level financing and other contractual arrangements including debt repayment schedules, the transition to market pricing following the expiry of PPAs and fuel supply and transportation contracts, working capital requirements and the performance generally of the Projects. In order to provide holders of IPSs with stable and sustainable cash distributions, it is intended that Atlantic Holdings will deposit approximately $12.5 million into the Reserve Account at Closing and deposit funds in the Reserve Account from time to time to stabilize future cash distributions and fund acquisitions and other growth opportunities.

Sponsorship of ArcLight Capital Partners, LLC

Fund I and Fund II are indirect owners of the Manager. ArcLight, as manager of Fund I and Fund II, will have input related to the management of the Manager. ArcLight possesses a management team with substantial energy investing experience and industry relationships. ArcLight is one of the leading private investment firms focused exclusively on the electric power and energy sectors with over $2.5 billion under management. Collectively, the principals of ArcLight have invested over $6 billion in more than 100 transactions with an aggregate acquisition value in excess of $20 billion. The Manager believes that its relationship with ArcLight will provide it with access to compelling investment opportunities, a uniquely qualified management team and a high volume of deal flow.

Substantial Opportunities to Grow Distributable Cash

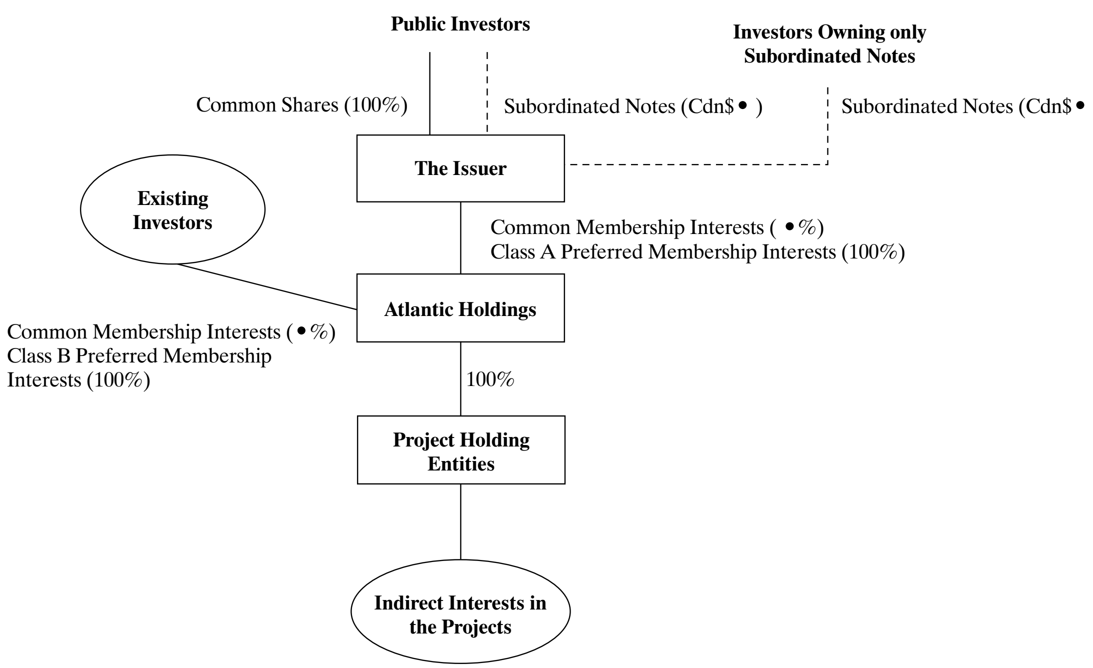
The Manager expects that the significant dislocation in the U.S. power markets that has occurred over the past several years will continue, thereby providing the Issuer with opportunities for accretive acquisitions. The Manager believes that the experience and industry relationships of its own employees, together with its ongoing relationship with ArcLight, will allow it to provide the Issuer with unique access to such acquisition opportunities.

In addition, Atlantic Holdings has been granted a right of first offer on certain of Fund I's power generation investments (the "ROFO Projects"). In aggregate, the right of first offer is related to interests in 11 power generating projects representing approximately 706 net MW of total electric generation capacity. See "Atlantic Power Corporation — Issuer's Objectives and Business Strategy — Opportunity to Purchase ArcLight Projects".

The Manager intends to enhance the operation of the Projects and increase cash distributions through the: (i) optimization of commercial arrangements such as PPAs, fuel supply and transport contracts, steam sales agreements and management and operation agreements; (ii) achievement of operating efficiencies; (iii) upgrade or enhancement of existing equipment or plant configurations; and (iv) expansion of existing Projects. The Manager believes that opportunities also exist to consolidate ownership positions in the Projects in which the Issuer owns partial interests on an accretive basis and that financial restructuring and recapitalization opportunities at the Projects may provide capital to the owners of the Projects to fund future growth opportunities.

Simplified Structure of the Issuer

The following chart illustrates, in simplified form, the structure of the Issuer after completion of the Offering and the transactions contemplated by the Acquisition Agreements.



Summary of Distributable Cash Flow of the Issuer

The following analysis has been prepared by the Issuer on the basis of the information contained in this prospectus and an estimate of the amount of expenses and expenditures that would have been incurred by the Issuer during the 12 months ended June 30, 2004 if the Issuer had been in existence and owned the interests in the Projects described herein during such period. **This analysis is not a forecast or projection of future results. The actual results of the operations of the Issuer for any period whether before or after Closing will differ from the amounts set forth in the following analysis, and such differences may be material.**

Upon completion of the Offering and the transactions described under "Acquisition Agreements", it is expected that the Issuer will incur interest expenses, incremental administrative expenses and taxes that will differ from those contained in the pro forma financial statements of the Issuer that are included elsewhere in this prospectus. Although the Issuer does not have firm commitments for all of these costs, expenses and expenditures and, accordingly, the complete financial impacts of these items are not objectively determinable, the Manager believes that the following represents a reasonable estimate of the amount of cash that would have been available to pay distributions on the IPSs in the form of interest on the Subordinated Notes and dividends on the Common Shares represented thereby for the 12 months ended June 30, 2004 had the Issuer been in existence and owned the interests in the Projects described herein during such period. In order to minimize the impact of fluctuations in the rate of exchange between the Canadian dollar and U.S. dollar, Atlantic Holdings intends to enter into hedging arrangements having the effect of fixing the rates of exchange between the Canadian dollar and U.S. dollar on a rolling five-year basis for substantially all of the amount of cash necessary to service the interest on the Subordinated Notes and pay dividends on the Common Shares reflected in the following table.

	12 Months Ended June 30, 2004 (unaudited) (US dollars in thousands except as otherwise indicated)
Net cash provided by operating activities[1]	$ 49,516
Adjustments	
Elimination of lease payments[2]	16,035
Distributions received[3]	10,111
Elimination of interest expense[4]	2,481
Reduction in insurance premiums[5]	1,598
Elimination of non-recurring items[6]	(2,336)
Adjusted net cash provided by operating activities	$ 77,405
Management believes the following items will reduce the amount available for distribution by the Issuer:	
Project operator fees and expenses[7]	$ (2,063)
Management fees and administrative expenses[8]	(2,438)
Interest expense on the Credit Facility[9]	(879)
Purchase of property, plant and equipment	(680)
Cash available to service Subordinated Notes and pay dividends on Common Shares[10]	$ 71,347
Interest on Subordinated Notes	(•)
Dividends on Common Shares[11]	(•)
Remaining cash[12]	$ •

	12 Months Ended June 30, 2004
	(unaudited) (US dollars in thousands except as otherwise indicated)
Summary of distributable cash per IPS(10)	
Interest on Subordinated Notes per IPS	$ ●
Dividends on Common Shares per IPS	●
Distributable cash per IPS	$ ●
Estimated hedge rate (Cdn$ per US$)(13)	●
Distributable cash per IPS (Cdn$)	$ ●

(1) Net cash provided by operating activities for the 12 months ended June 30, 2004 is obtained from the Combined Statements of Cash Flows of SaleCo and Teton Funding in this prospectus and is summarized as follows:

Six months ended June 30, 2004	$ 30,514
Year ended December 31, 2003	35,969
Six months ended June 30, 2003	(16,967)
	$ 49,516

(2) Represents the pro forma elimination of lease payments associated with the acquisition of the lessor interest in the Lake Project by Umatilla Power Funding, LLC which occurred on September 23, 2004.

(3) Represents distributions received from the Issuer's interests in the Delta-Person Project, Javelin Energy LLC and the MASSPOWER Project as well as a cash flow interest in the Onondaga Project and a 1.25% partnership interest in the Badger Creek Project not historically consolidated with SaleCo or Teton Funding.

(4) Represents the elimination of interest expense associated with the senior secured debt of Teton Funding (originally incurred on March 12, 2004) which will be repaid with proceeds of the Offering.

(5) Represents Atlantic Holdings' share of the reduction of insurance premiums associated with the replacement of insurance contracts at the Lake, Mid-Georgia, Onondaga, Pasco and Stockton Projects.

(6) Represents the elimination of a one-time receipt of a cash settlement of a property tax dispute involving the Lake Project offset by the non-recurring costs incurred by Aquila East Coast Generating, LLC (now doing business as Teton East Coast Generating, LLC) and Aquila Fuels Mid-Georgia, LLC (now doing business as Teton Fuels Mid-Georgia, LLC) which are consolidated with Teton Funding.

(7) Represents the project operator fees and expenses paid to affiliates of Caithness Energy, LLC for services provided to the Lake, Mid-Georgia, Onondaga and Pasco Projects as well as asset management services to Teton Funding.

(8) Represents the fees paid to the Manager and the Manager's estimates of the costs it will incur in providing management services to Atlantic Holdings and the Issuer and its estimate of incremental operating costs that will be incurred by Atlantic Holdings and the Issuer.

(9) Represents expected interest payments on the Credit Facility based on average outstanding balances.

(10) Calculated on a fully-diluted basis.

(11) Assumes dividends are paid at a rate of $ ● (Cdn $ ●) per Common Share per year.

(12) Represents cash that would have been available for deposit into the Reserve Account.

(13) Estimated hedge rate based on the arithmetic average of the forward rate of exchange for the 12 month period ending ● , 2005.

THE OFFERING

Offering:	● IPSs of the Issuer.
Price:	Cdn$10.00 per IPS.
Amount:	Cdn$ ● .
Over-Allotment Option:	The Issuer has granted to the Underwriters the Over-Allotment Option to purchase up to ● additional IPSs at a price of Cdn$10.00 per IPS for the purpose of covering over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option is exercisable from time to time in whole or in part until 30 days following Closing. See "Plan of Distribution".
Use of Proceeds:	The estimated net proceeds from the Offering, after deducting fees payable to the Underwriters and estimated expenses of the Offering, will be approximately Cdn$ ● million. The Issuer will use such proceeds, together with approximately Cdn$ ● from the sale of the Separate Subordinated Notes, to subscribe for ● common membership interests and ● Class A preferred membership interests in Atlantic Holdings. Atlantic Holdings will in turn use approximately Cdn$ ● of the proceeds from the subscription for membership interests by the Issuer (net of any costs and expenses incurred by Atlantic Holdings), together with ● common membership interests and ● Class B preferred membership interests to be issued by it (the "Exchangeable Interests"), to acquire the Project Holding Entities from the Existing Investors. Atlantic Holdings will also use approximately Cdn$ ● of the proceeds from the subscription for membership interests by the Issuer to repay outstanding indebtedness of Teton Funding and approximately Cdn$ ● to deposit into the Reserve Account. Following Closing, the Issuer will own ● % of the common membership interests in Atlantic Holdings and the Existing Investors will own ● % of the common membership interests in Atlantic Holdings. If the Over-Allotment Option is exercised, the Issuer will use the net proceeds to acquire additional common membership interests and Class A preferred membership interests in Atlantic Holdings, which will in turn use such amounts to redeem common membership interests and Class B preferred membership interests in Atlantic Holdings held by the Existing Investors. If the Over-Allotment Option is exercised in full, the Issuer will own ● % of the common membership interests in Atlantic Holdings and the Existing Investors will own ● % of the common membership interests in Atlantic Holdings. See "Use of Proceeds", "Acquisition Agreements", "Principal Holders of IPSs (Common Shares)" and "Atlantic Holdings — Reserve Account".
Retained Interest and Exchange Rights:	Upon Closing, the Existing Investors will hold ● % of the common membership interests in Atlantic Holdings (● % if the Over-Allotment Option is exercised in full) and all of the outstanding Class B preferred membership interests. Pursuant to the terms of the Exchange Agreement, the Existing Investors will be entitled to exchange each Exchangeable Interest for an IPS of the Issuer. Each Exchangeable Interest entitles the Existing Investors to receive distributions from Atlantic Holdings approximately equivalent to the distributions per IPS received by holders of IPSs from the Issuer, subject to, among other things, the terms of the preferred membership interests in Atlantic Holdings. See "Acquisition Agreements",

"Retained Interest — Exchange Agreement" and "Retained Interest — Distributions on Retained Interest".

Distribution Policy of the Issuer:

The Issuer intends to pay equal monthly dividends on the Common Shares at a stable and sustainable level subject to applicable law and the covenants contained in the Credit Facility and the indenture governing the Subordinated Notes (the "Indenture"), after:

- satisfying its debt service obligations under any credit facilities or other agreements with third parties, if any;
- making interest payments at the rate of ● % per annum of the aggregate principal amount of the Subordinated Notes outstanding;
- satisfying its other expense obligations, including withholding and other applicable taxes; and
- retaining reasonable reserves for working capital and other expenses.

Distributions by the Issuer will be paid in Canadian dollars unless a holder of IPSs, Common Shares or Subordinated Notes elects to receive distributions in U.S. dollars. Holders of IPSs, Common Shares or Subordinated Notes that elect to receive U.S. dollar distributions will receive the U.S. dollar Equivalent Amount of distributions by the Issuer. A holder of IPSs, Common Shares or Subordinated Notes may from time to time elect to change the currency of the distributions it receives on all or any part of the IPSs, Common Shares or Subordinated Notes it holds from Canadian dollars to U.S. dollars or *vice versa* upon notice to the securities broker through which the holder holds its IPSs, Common Shares or Subordinated Notes. See "The Issuer — Interest Payments and Distribution Policy".

Distribution Policy of Atlantic Holdings:

Atlantic Holdings intends to pay equal monthly distributions on its common membership interests at a stable and sustainable level subject to applicable law and the covenants contained in the Credit Facility and the Indenture, after:

- satisfying its debt service obligations under the Credit Facility or other agreements with third parties, if any;
- satisfying its other expense obligations, including management and administration expenses and withholding and other applicable taxes;
- paying distributions on the outstanding Class A preferred membership interests;
- paying distributions on the outstanding Class B preferred membership interests;
- retaining reasonable reserves for working capital and other expenses; and
- making deposits into the Reserve Account to be used to stabilize distributions and fund acquisitions and other growth opportunities.

See "Atlantic Holdings — Distribution Policy".

Reserve Account:

At Closing, approximately $12.5 million of the net proceeds of the Offering and cash on hand will be deposited into the Reserve Account. In addition, Atlantic Holdings intends to make additional deposits into the Reserve Account from time to time in accordance with its distribution policy. The funds in the Reserve Account will be available to: (a) stabilize future cash distributions; and (b) fund acquisitions and other growth opportunities to enhance the long-term stability of cash distributions. See “Atlantic Holdings — Reserve Account” and “Atlantic Power Corporation — Issuer’s Objectives and Business Strategy”.

Governance of the Issuer: The board of directors of the Issuer consists of three directors, all of whom are unrelated to the Issuer and its subsidiaries, the Existing Investors and the Manager. The directors will supervise the activities and manage the affairs of the Issuer, including acting for, voting on behalf of and representing the Issuer as a holder of membership interests in Atlantic Holdings.

Governance of Atlantic Holdings: Atlantic Holdings will be governed in accordance with its constating documents and an operating agreement (the “Operating Agreement”) to be entered into on closing among Atlantic Holdings and the holders of membership interests in Atlantic Holdings (being the Issuer and the Existing Investors). The Operating Agreement will provide for a board of managers of seven managers, of whom a majority must be U.S. residents and unrelated to Atlantic Holdings and its subsidiaries, the Existing Investors and the Manager, and which initially will be comprised of four representatives of the Issuer (the three directors of the Issuer and one additional nominee of the Issuer), two representatives of the Existing Investors and one representative of the Manager. The Existing Investors will be entitled to appoint two managers as long as they continue to own 20% or more of the outstanding common membership interests; one manager as long as they continue to own 10% or more but less than 20% of the outstanding common membership interests; and no managers if they own less than 10% of the outstanding common membership interests. The Manager will be entitled to appoint one manager for so long as it is the manager of the Issuer and Atlantic Holdings under the Management Agreement. Certain fundamental transactions will be subject to the approval by at least 80% of votes cast by holders of Atlantic Holdings’ common membership interests. See “Atlantic Holdings — Operating Agreement”.

IPS Attributes:

IPS Components: Each IPS represents: (a) one Common Share; and (b) Cdn$ • aggregate principal amount of Subordinated Notes.

The ratio of Common Shares to principal amount of Subordinated Notes represented by an IPS is subject to change in the event of a share split, consolidation or reclassification, or upon a partial redemption or repurchase of the Subordinated Notes.

Separation and Recombination: Holders of IPSs will have the right to separate the IPSs into Common Shares and Subordinated Notes at any time after the 45th day following the date of Closing or upon the occurrence of a change of control of the Issuer. Separation of the IPSs will occur automatically upon a repurchase, redemption or maturity of the Subordinated Notes. Similarly, holders of Common Shares and Subordinated Notes may, at any time, combine the applicable number of Common Shares and principal amount of Subordinated Notes to form IPSs. See “Description of IPSs”.

Market: Closing of the Offering is conditional on, among other things, the approval for listing and posting for trading of the IPSs on the Toronto Stock Exchange.

Common Share Attributes:	
Common Shares Outstanding:	● Common Shares will be outstanding following the completion of the Offering.
Voting Rights:	Each outstanding Common Share carries one vote per share and, subject to applicable law, the Common Shares vote as a class on all matters presented to the shareholders for a vote.
Market:	Closing of the Offering is conditional on, among other things, the approval for listing of the Common Shares on the Toronto Stock Exchange. While it is a condition of Closing that the Common Shares be listed on the Toronto Stock Exchange, the Common Shares will not be posted for trading on the Toronto Stock Exchange until there exists a sufficient public distribution (for the purposes of the listing requirements of the Toronto Stock Exchange) of Common Shares that are held separately from Subordinated Notes. See "Plan of Distribution."
Subordinated Note Attributes:	
Subordinated Notes Outstanding:	Cdn$ ● million aggregate principal amount of ● % Subordinated Notes will be outstanding following the completion of the Offering. Cdn$ ● million of such Subordinated Notes will be represented by IPSs issued under this prospectus, and Cdn$ ● million of such Subordinated Notes will be sold separately (the "Separate Subordinated Notes"). The distribution of the Separate Subordinated Notes is not qualified under this prospectus.
Market:	In certain circumstances, the Subordinated Notes and Common Shares represented by the IPSs will separate. There is no market through which such Subordinated Notes may be sold and purchasers may not be able to resell Subordinated Notes purchased under this prospectus. See "Description of Subordinated Notes — General".
Interest Rate:	The interest rate on the Subordinated Notes is ● % per annum. Payments of interest, to the extent permitted by law, not made when due, will bear interest from the date such payment was due until paid at a default rate of ● % per annum.
Record and Payment Dates:	Interest will be paid monthly in arrears on the last business day of each month commencing on ● , 2004, to holders of record on the last business day of the preceding month.
Maturity Date:	The Subordinated Notes will mature 12 years after the date of issuance.
Principal Repayment:	The Subordinated Notes will provide for the payment of interest only until the end of the term of the Subordinated Notes, at which time the principal balance will be payable by the Issuer.
Optional Redemption:	On or after the fifth anniversary of the Closing, the Issuer may redeem the Subordinated Notes, at its option, at any time in whole and from time to time in part, upon not less than 30 nor more than 60 days' notice, for cash, at a redemption price equal to: (i) 105% of the principal amount of Subordinated Notes being redeemed where the redemption occurs on or after the fifth anniversary but before the seventh anniversary of the Closing; (ii) 104% of such amount where the redemption occurs on or after the seventh anniversary but before the ninth anniversary of the Closing; (iii) 103% of

such amount where the redemption occurs on or after the ninth anniversary but before the 10th anniversary of the Closing; (iv) 102% of such amount where the redemption occurs on or after the 10th anniversary but before the 11th anniversary of the Closing; and (v) 101% of such amount where the redemption occurs on or after the 11th anniversary but before the 12th anniversary of the Closing, together with, in each case, accrued but unpaid interest to the date of redemption. Any exercise by the Issuer of its option to redeem Subordinated Notes, in whole or in part, will result in an automatic separation of the IPSs into Common Shares and Subordinated Notes.

Change of Control: Upon the occurrence of a Change of Control, as defined under "Description of Subordinated Notes — Change of Control", the Issuer will be required to make an offer to each holder of Subordinated Notes to repurchase that holder's Subordinated Notes at a price equal to 101% of the principal amount of the Subordinated Notes being repurchased, plus any accrued but unpaid interest to the date of repurchase. However, a holder of IPSs will not be able to have its Subordinated Notes repurchased unless such holder surrenders the IPSs to the depositary, and receives delivery of the Common Shares and Subordinated Notes represented thereby.

Security and Guarantees: The Subordinated Notes will be secured by a pledge of the Issuer's membership interests in Atlantic Holdings and will be guaranteed by Atlantic Holdings and certain of its direct and indirect, wholly-owned subsidiaries at the time of Closing including, among others, Onondaga Cogeneration L.P. The guarantee of Atlantic Holdings will be secured by a pledge of its membership interests in the Project Holding Entities and the guarantees of certain of Atlantic Holdings' direct and indirect wholly-owned subsidiaries will be secured by pledges of the membership interests or other securities they hold in subsidiary entities subject to the provisions of agreements governing or affecting interests in such subsidiaries which may restrict or prevent pledges in certain cases.

Onondaga Cogeneration L.P.'s guarantee of the Subordinated Notes will be secured by a pledge of certain of the Onondaga Project assets. None of the other Project Operating Entities are providing a guarantee of the Subordinated Notes and none of the other Project assets will be pledged to secure a guarantee of, or indebtedness under, the Subordinated Notes.

Ranking: The Subordinated Notes will be secured subordinated indebtedness of the Issuer and will be subordinated in right of payment, as set forth in the Indenture, to all existing and future secured senior indebtedness of the Issuer, including the Issuer's guarantee of Atlantic Holdings' obligations under the Credit Facility, but will rank senior to all unsecured indebtedness of the Issuer (including trade payables).

The indebtedness evidenced by each secured guarantee of the Subordinated Notes will be secured subordinated indebtedness of each guarantor, and will be subordinated in right of payment, as set forth in the Indenture, to all existing and future senior indebtedness of each such guarantor, including the Credit Facility, but will rank senior to any unsecured indebtedness of each such guarantor (including trade payables).

Indebtedness evidenced by each unsecured guarantee of the Subordinated Notes will be unsecured subordinated indebtedness of each such guarantor

	and will be subordinated in right of payment, as set forth in the Indenture, to all existing and future secured indebtedness of such guarantor, including the Credit Facility, and will rank *pari passu* in right of payment with all existing and future unsecured indebtedness of each such guarantor (including trade payables).
Restrictive Covenants:	The Indenture will contain covenants with respect to the Issuer that will restrict: • the incurrence of additional indebtedness; • the payment of dividends on, and repurchase of, Common Shares; • a number of other types of payments, including investments; • specified sales of assets; • specified transactions with affiliates; • the creation of a number of liens; and • consolidations, mergers and transfers of all or substantially all of the Issuer's assets. The limitations and prohibitions described above are subject to a number of important qualifications and exceptions described under "Description of Subordinated Notes — Certain Covenants".
Canadian Income Tax Considerations:	In acquiring an IPS, a holder will be acquiring ownership of a Common Share and Cdn$ ● aggregate principal amount of Subordinated Notes represented by such IPS. The price paid by a holder for an IPS must be allocated on a reasonable basis between the Common Share and the Subordinated Notes represented by the IPS in order to determine their respective cost to the holder for purposes of the Tax Act. The Issuer will allocate the price paid for each IPS on the basis of Cdn$ ● to the Common Share and Cdn$ ● to the Subordinated Notes represented by each IPS, and by purchasing an IPS the holder is deemed to agree to such allocation and agrees not to take a contrary position for any purpose. Since a holder who holds an IPS will own the Common Share and Subordinated Notes represented by such IPS, the Canadian federal income tax consequences of owning an IPS (including the taxation of dividends and interest on the Common Share and Subordinated Notes, respectively, and the tax treatment of disposing of the Common Share and Subordinated Notes upon the disposition of an IPS representing such securities) will not differ from those associated with owning those securities. In particular, a holder will be required to include in computing its income for a taxation year all interest on the Subordinated Notes that accrues or becomes receivable or is received by the holder in that year. Also, dividends on the Common Share received by a holder will be required to be included in computing the holder's income for purposes of the Tax Act. See "Certain Canadian Federal Income Tax Considerations".
U.S. Income Tax Considerations:	Ownership of IPSs should be treated for U.S. federal income tax purposes as direct ownership of the Common Shares and Subordinated Notes constituting the IPSs, and the purchase price of an IPS should be allocated between its constituent Common Share and Subordinated Notes in proportion to their respective fair market values at the time of purchase. A Non-U.S. Holder will generally not be subject to U.S. federal income tax or

withholding with respect to interest paid on the Subordinated Notes or distributions with respect to the Common Shares, provided the Non-U.S. Holder satisfies certain documentation requirements and is not a Disqualified Recipient.

For U.S. federal income tax purposes, the Issuer's distributive share of Atlantic Holdings' income arising from the Projects' business operations in the U.S. will generally be treated as effectively connected with a U.S. trade or business ("effectively connected income" or "ECI"), and the Issuer will generally be subject to a 35% U.S. federal income tax on its net taxable income which is ECI. In addition, the Issuer will be liable for a 5% branch profits tax on distributions from Atlantic Holdings to the extent such distributions are not in excess of the Issuer's earnings and profits attributable to ECI.

Goodwin Procter LLP, U.S. tax counsel to the Issuer and Atlantic Holdings and Paul, Weiss, Rifkind, Wharton & Garrison LLP, U.S. tax counsel to the Underwriters (together, "U.S. Tax Counsel"), have advised the Issuer and the Underwriters, as applicable, that the Subordinated Notes should be treated as debt for U.S. federal income tax purposes and, therefore, that the Issuer should be able to deduct interest paid on the Subordinated Notes in computing its U.S. taxable income to the extent that the interest deductions are allocable to the Issuer's income which is ECI. Such deductions would also reduce the Issuer's earnings and profits for purposes of the branch profits tax. However, there is no authority that directly addresses the tax treatment of securities similar to the Subordinated Notes which are offered in circumstances similar to the Offering (i.e., as part of a unit that includes common shares of the issuer). In light of this absence of direct authority, U.S. Tax Counsel cannot conclude with certainty that the Subordinated Notes will be treated as debt for U.S. federal income tax purposes, and, although the Issuer intends to take the position that the Subordinated Notes are debt for U.S. federal income tax purposes, there can be no assurance that this position will not be challenged by the IRS. If such a challenge were sustained, interest payments on the Subordinated Notes would be recharacterized as non-deductible distributions with respect to the Issuer's equity, and the Issuer's net taxable income which is ECI and thus its U.S. federal income tax liability would be materially increased. As a result, the Issuer's after-tax cash flow would be reduced and the Issuer's ability to make interest payments on Subordinated Notes and distributions with respect to Common Shares could be materially and adversely impacted.

Prospective purchasers should consult their own tax advisors regarding the U.S. federal and state tax implications of an investment in IPSs. See "Certain U.S. Federal Income Tax Considerations".

Risk Factors:

The risks associated with an investment in the IPSs include:

- With respect to the Issuer's business and the Projects: revenue may be reduced upon expiration or termination of PPAs; the Projects depend on their electricity and thermal energy customers; certain Projects are exposed to fluctuations in the price of electricity; operations are subject to the provisions of various energy laws and regulations; Projects may not operate as planned; the Projects are subject to significant environmental and other regulations; the Projects depend on suppliers under fuel supply agreements and increases in fuel costs may adversely affect the profitability of the Projects; increasing competition could adversely affect the performance of the Issuer and the Projects; the Projects depend on a favourable regulatory regime; ArcLight may manage entities that compete with the Issuer and Atlantic Holdings; the Issuer has limited control over the operation of certain Projects; sufficient capital may not be available to fund acquisitions, investments, expansions or capital expenditures; the Issuer may face significant competition for acquisitions and may not successfully integrate acquisitions; operations are subject to a number of natural and inherent risks; insurance may not be sufficient to cover all losses; financing arrangements could impact the business of the Issuer; equity interests in the Project Operating Entities are typically subject to transfer restrictions; the Projects' operations are subject to the risk of future proceedings; and the Project Operating Entities are exposed to risks inherent in the use of derivative instruments.

- With respect to the structure of the Issuer and the Offering: the Issuer is dependent on the Projects for all cash available for distributions; distribution of all available cash may restrict potential growth of Atlantic Holdings and the Issuer; future distributions are not guaranteed; exchange rate fluctuations may impact the amount of cash available for distribution by the Issuer; substantial indebtedness could negatively impact the business of the Issuer and the Projects; the Issuer may not be able to repurchase the Subordinated Notes upon a change of control; changes in the Issuer's creditworthiness may affect the value of the IPSs, Common Shares and Subordinated Notes; restrictive covenants in credit facilities could impact the business of the Issuer; future issuances of IPSs or Common Shares could result in dilution; limitations on enforcement of certain civil judgments by Canadian investors; investment eligibility and foreign property; U.S. federal income tax risks; certain U.S. tax considerations may discourage third parties from pursuing a tender offer or other change of control transaction; the Issuer may not be able to make all principal payments on the Subordinated Notes; holders of IPSs, Common Shares and Subordinated Notes may have limited liquidity; amounts in the Reserve Account may not be sufficient to stabilize future cash distributions of the Issuer or fund acquisitions and other growth opportunities; and the market price for the IPSs, Common Shares or Subordinated Notes may be volatile.

See "Risk Factors".

ATLANTIC POWER CORPORATION

The Issuer

The Issuer is a corporation established under the laws of the Province of Ontario on June 18, 2004. The registered and head office of the Issuer is located at Suite 2400, 250 Yonge Street, Toronto, Ontario, Canada M5B 2M6.

Following completion of the Offering and the transactions contemplated by the Acquisition Agreements, Atlantic Holdings will indirectly hold interests in the Projects, the Issuer will hold ● % of the common membership interests (● % if the Over-Allotment Option is exercised in full) and all of the outstanding Class A preferred membership interests in Atlantic Holdings and the Existing Investors will hold ● % of the common membership interests (● % if the Over-Allotment Option is exercised in full) and all of the Class B preferred membership interests in Atlantic Holdings. See "Acquisition Agreements".

See "Post-Closing Structure" for a detailed chart illustrating the structure of the Issuer upon completion of the Offering and the transactions contemplated under "Acquisition Agreements".

Atlantic Holdings

Atlantic Holdings is a Delaware limited liability company with its registered and head office located at 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808 c/o Corporation Service Company. The Issuer formed Atlantic Holdings for the purpose of acquiring indirect interests in the Projects from the Existing Investors.

The Manager

The Manager is a Delaware limited liability company formed by ArcLight and the Existing Investors to provide management and administrative services to the Issuer and its subsidiaries pursuant to the terms of the Management Agreement. The Manager will manage the business with the objective of providing holders of IPSs with stable and sustainable cash distributions in the form of interest payments on the Subordinated Notes and dividends on the Common Shares. The Manager will also focus on identifying additional acquisitions and investments for the Issuer, including acquisitions of, or investments in, power generation assets in Canada and the U.S. In addition to the substantial energy investing experience and industry relationships of its own employees, the Manager expects to benefit from ArcLight's experience, relationships and specialized knowledge to identify emerging trends and present the Issuer with accretive acquisition and investment opportunities within the power and energy sector.

ArcLight

ArcLight is one of the leading private investment firms focused exclusively on the electric power and energy sectors. Headquartered in Boston, Massachusetts with offices in New York City, the principals of ArcLight have spent the majority of their careers identifying, structuring, and managing investments and companies in the power and energy sectors. Collectively, the principals of ArcLight have invested over $6 billion in more than 100 transactions with an aggregate acquisition value in excess of $20 billion. With over 200 years of combined industry experience, the principals of ArcLight have extensive transactional expertise and industry relationships in the power and energy sectors.

In April 2001, ArcLight organized Fund I to capitalize on attractive investment opportunities in the rapidly evolving power, utility and energy industry. Fund I closed with $950 million in total capital commitments. In the three years ended March 2004, Fund I invested over $850 million through more than 20 equity and equity-like investments in power generation and transmission, as well as in power-related fuel and services businesses.

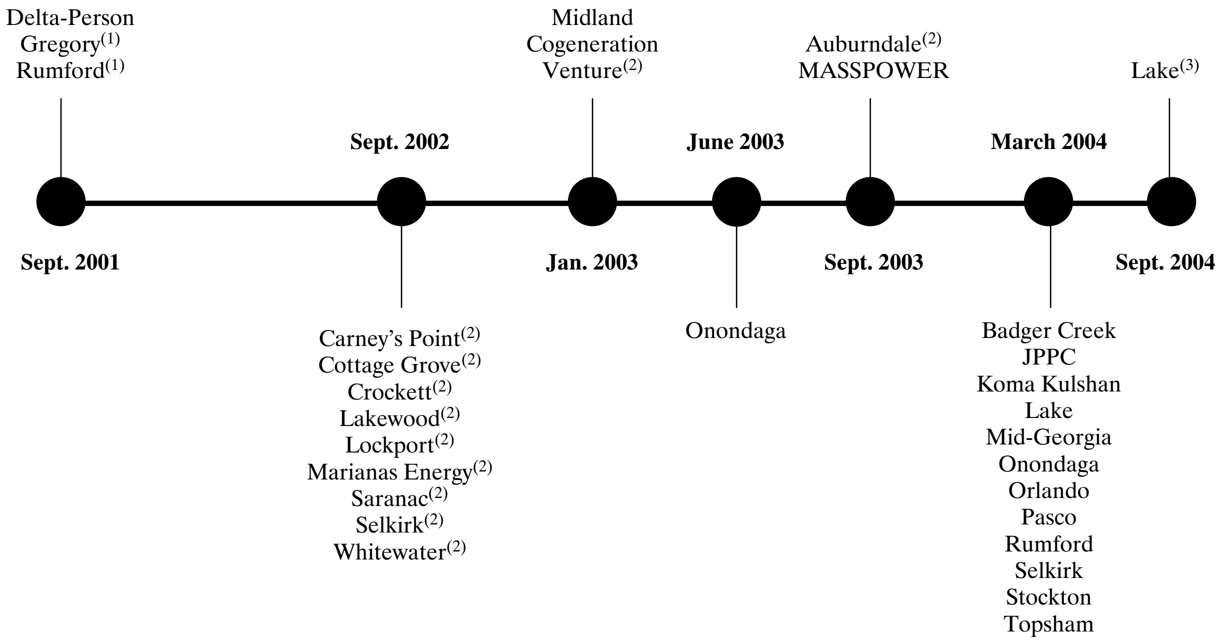
Building on the success of Fund I, ArcLight initiated fundraising for Fund II in October 2003 and by June 2004 had secured commitments from more than 75 investors. Almost all of ArcLight's Fund I investors, such as the Caisse de dépôt et placement du Québec and the University of Texas, participated in Fund II, as well as over 50 institutional investors that did not participate in Fund I, including Alberta Revenue, British Columbia Investment Management Corporation and the California Public Employees Retirement System (CalPERS). For

Fund II, ArcLight is pursuing the same strategy it developed for Fund I, investing in assets in the power, utility and energy sectors. Fund II closed with $1.6 billion in total capital commitments and has completed seven investments to date.

Fund I, Fund II and Caithness are the indirect owners of Teton Funding, the owner of interests in 12 of the Projects. Fund I is the indirect owner of Epsilon Power Funding, LLC, the owner of interests in four of the Projects. Fund II is the indirect owner of Umatilla Power Funding, LLC, the owner of a lessor interest in one of the Projects. Fund I and Fund II are also indirect owners of the Manager.

The following diagram illustrates the order in which ArcLight acquired interests in the Projects and the ROFO Projects.

Timeline of ArcLight Power Generation Acquisitions



(1) Acquired through the acquisition of a minority interest in Javelin Energy LLC.

(2) Subject to a right of first offer granted by Fund I in favour of Atlantic Holdings. See " — Issuer's Objectives and Business Strategy — Opportunity to Purchase ArcLight Projects".

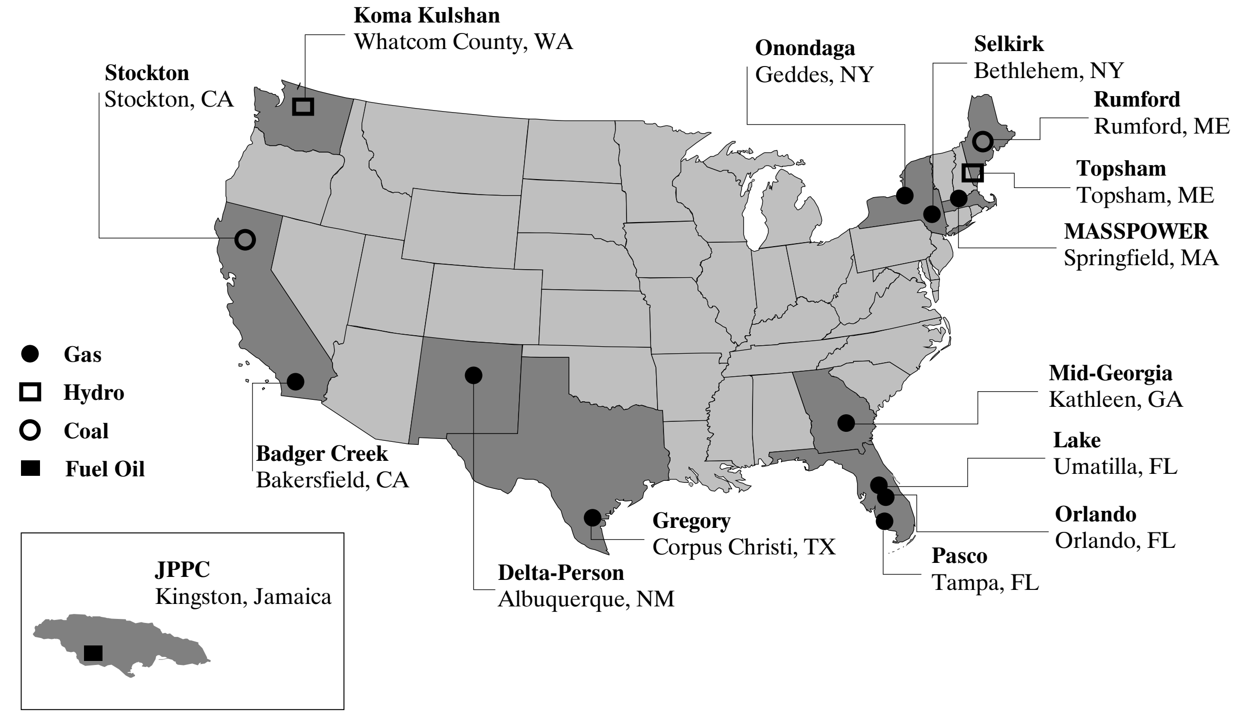
(3) On September 23, 2004, Umatilla Power Funding, LLC acquired the lessor interest in the Lake Project. See "Project Descriptions — Lake Project — Description".

Business Strengths

Diversified Portfolio of Power Generating Projects

The Projects represent 773 MW of net generating capacity and are diversified by geographic location, electricity and steam off-takers and project operators. Fourteen of the Projects are located across nine states in the U.S., representing most major U.S. power markets, and one Project is located in Jamaica. The Projects are diversified across most of the NERC regions including the Northeast Power Coordinating Council, Florida Reliability Coordinating Council and Southeastern Electric Reliability Council which account for 30%, 29% and 20% of the net electric generation capacity of the Projects, respectively. No other NERC region contains Projects representing more than 14% of the Projects' net electric generation capacity. As a result, the Issuer's exposure to conditions (such as market, regulatory or environmental conditions) specific to any particular region is limited.

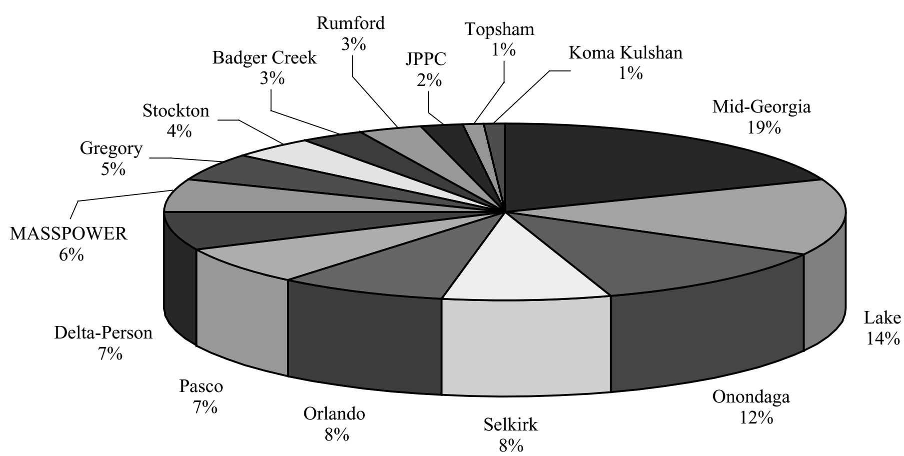
The following map illustrates the geographic location of, and primary fuel type for, each of the Projects.



The Projects have contracts with 24 different electricity and steam off-takers. Progress Energy, Georgia Power and NIMO are the largest off-takers of the Projects, purchasing 26%, 20% and 14% of the Projects' net electric generation capacity, respectively. No other electricity off-taker purchases more than 7% of the Projects' net electric generation capacity.

The following chart illustrates each Project's contribution to Atlantic Holdings' net electric generation capacity.

Net Electric Generation Capacity by Project
773 MW(1)



(1) The percentages are based on Atlantic Holdings' indirect economic interest in each Project as a percentage of the aggregate economic interest of Atlantic Holdings in the Projects' total electric generation capacity.

The Projects rely on a number of different operators for their operation. Affiliates of Caithness and GE operate Projects representing 53% and 14% of the total electric generation capacity of the Projects, respectively.

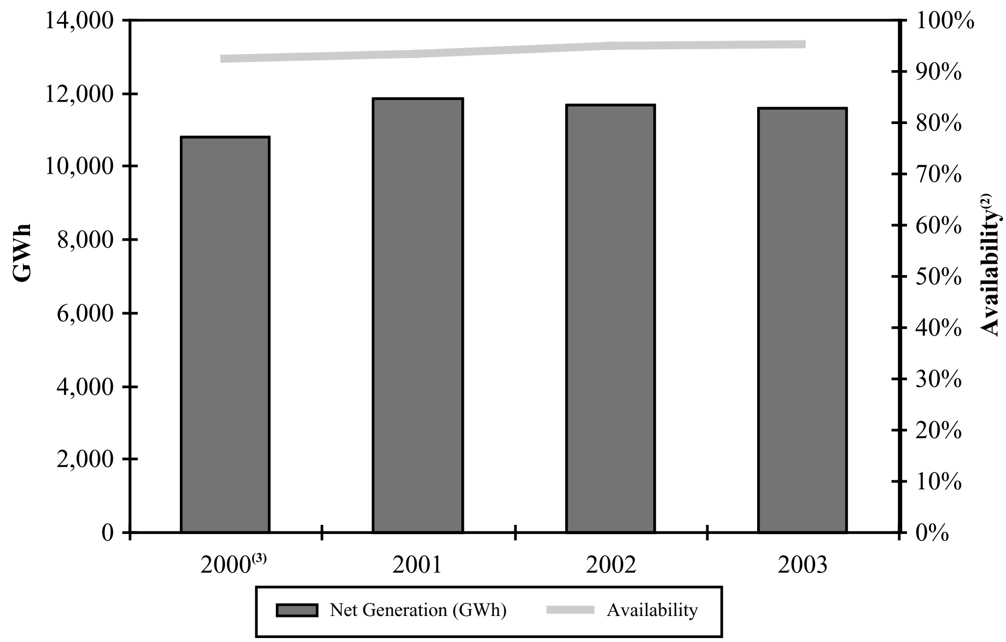
No other operator is responsible for the operation of Projects representing more than 8% of the Projects' total electric generation capacity.

Predictable, Stable and Sustainable Cash Distributions

Approximately 91% of the Projects' net electric generation capacity is sold to electricity off-takers having investment grade credit ratings from S&P. In addition, the Projects generally have long-term fuel supply arrangements that match the term of their respective PPAs. Each of the Projects has been operating for a minimum of four years.

The following chart illustrates the stable electricity generation and consistent availability of the Projects over the past four years.

Projects' Net Electricity Generation[1]



(1) Represents the total generation of the Projects net of in-house load and internal use.

(2) Availability is weighted by capacity.

(3) Delta-Person commenced commercial operation in June 2000 and generation data in 2000 is for five months.

The Issuer's cash flow from the Projects will vary from year to year based on, among other things, changes in rates under the PPAs, fuel supply agreements, steam sales agreements and other Project contracts, compliance with the terms of Project-level financing and other contractual arrangements including debt repayment schedules, the transition to market pricing following the expiry of PPAs and fuel supply and transportation contracts, working capital requirements and the performance generally of the Projects. In order to provide holders of IPSs with stable and sustainable cash distributions, it is intended that Atlantic Holdings will deposit approximately $12.5 million into the Reserve Account at Closing and deposit funds in the Reserve Account from time to time to stabilize future cash distributions and fund acquisitions and other growth opportunities.

Sponsorship of ArcLight Capital Partners, LLC

Fund I and Fund II are the indirect owners of the Manager. ArcLight, as manager of Fund I and Fund II, will have input related to the management of the Manager. ArcLight possesses a management team with substantial energy investing experience and industry relationships. ArcLight is one of the leading private investment firms focused exclusively on the electric power and energy sectors with over $2.5 billion under management. Collectively, the principals of ArcLight have invested over $6 billion in more than 100 transactions with an aggregate acquisition value in excess of $20 billion. The Manager believes that its relationship with ArcLight will provide it with access to compelling investment opportunities, a uniquely qualified management team and a high volume of deal flow.

Substantial Opportunities to Grow Distributable Cash

The Manager expects that the significant dislocation in the U.S. power markets that has occurred over the past several years will continue, thereby providing the Issuer with opportunities for accretive acquisitions. The Manager believes that the experience and industry relationships of its own employees, together with its ongoing relationship with ArcLight, will allow it to provide the Issuer with unique access to such acquisition opportunities.

In addition, Atlantic Holdings has been granted a right of first offer on the ROFO Projects. In aggregate, the right of first offer is related to interests in 11 power generating projects representing approximately 706 net MW of total electric generation capacity. See "— Issuer's Objectives and Business Strategy — Opportunity to Purchase ArcLight Projects".

The Manager intends to enhance the operation of the Projects and increase cash distributions through the: (i) optimization of commercial arrangements such as PPAs, fuel supply and transport contracts, steam sales agreements and management and operation agreements; (ii) achievement of operating efficiencies; (iii) upgrade or enhancement of existing equipment or plant configurations; and (iv) expansion of existing Projects. The Manager believes that opportunities also exist to consolidate ownership positions in the Projects in which the Issuer owns partial interests on an accretive basis and that financial restructuring and recapitalization opportunities at the Projects may provide capital to the owners of the Projects to fund future growth opportunities.

Issuer's Objectives and Business Strategy

The Issuer's objectives are to maintain the stability and sustainability of its cash distributions to holders of IPSs (in the form of interest payments on the Subordinated Notes and dividends on the Common Shares) and increase, when prudent, cash distributions on the Common Shares. In order to achieve these objectives, the Issuer intends to focus on enhancing the financial performance of the Projects and pursuing additional acquisitions and investments with a focus on power generating facilities in Canada and the U.S.

Acquisition and Investment Strategy

The Issuer intends to, where practical and economical, expand its operations by making additional investments and acquisitions with a focus on power generation facilities in Canada and the U.S., and such other business or activities as may be approved from time to time, including investments and other direct and indirect rights in other forms of energy-related projects, utility projects and infrastructure projects. The Issuer will make additional acquisitions or investments only if it believes that such acquisitions or investments will meet the Issuer's acquisition and investment guidelines. Such acquisitions or investments may be financed by the issuance of additional IPSs or other securities of the Issuer, from the cash flows of the Issuer, from amounts held in the Reserve Account or through additional indebtedness.

An industry-wide decrease in the credit ratings of North American power generation companies that started several years ago has resulted in many power generation companies divesting assets in order to improve their financial position. In some cases, creditors have taken control of power generation assets. The Manager believes that the restructuring of power generation portfolios and divestitures of power generating facilities will continue over the next several years and that this will create acquisition and investment opportunities for the Issuer. See "Power Industry Overview".

Despite the large number of generation assets built in North America over the past several years, certain regions of North America are expected to require new sources of electricity supply due to growth in electricity demand, transmission constraints or the obsolescence of, and environmental concerns associated with, older native generation. The Manager believes that new electricity generation projects will emerge throughout Canada and the U.S. over the next several years. As new projects are developed, the Manager expects to be able to present additional acquisition and investment opportunities to the Issuer. ArcLight will be contractually obligated to give the Manager the opportunity to pursue, on behalf of the Issuer and Atlantic Holdings, investment opportunities that ArcLight has determined do not fit within the investment guidelines for Fund I, Fund II or other future investment funds managed by ArcLight or its affiliates or that do fit within such guidelines but which such investment funds determine not to pursue. The Manager believes that there will be many such opportunities. See "Directors, Officers and Management — Non-Exclusivity and Conflicts of Interest".

Acquisition and Investment Guidelines

The following guidelines will be used in the review and evaluation of possible acquisitions and other investments:

- each acquisition or investment will be made only if the Manager believes that the acquisition or investment will result in an increase in cash available for distribution to holders of IPSs;
- each acquisition or investment will be reviewed and approved by the board of managers of Atlantic Holdings;
- in the case of an acquisition of, or investment in, power generation facilities, facilities with long-term PPAs with major electrical utilities or industrial users will be preferred; and, for facilities without such agreements, free market electricity price assumptions used in acquisition or investment evaluations will be obtained from a recognized independent source;
- in the case of an acquisition of, or investment in, a power generation facility, the acquisition or investment will be subject to prior due diligence and based on an independent engineers' report confirming the condition or development of the facility and the technical assumptions used in the acquisition or investment evaluation;
- in the case of an acquisition of, or investment in, a power generation facility, the expected useful life of the facility and associated structures will, with regular maintenance and upkeep, be long enough for an investment therein to conform with the Issuer's objective of providing stable long-term cash distributions to holders of IPSs;
- in the case of acquisitions or investments other than an acquisition of, or investment in, a power generation facility, the Manager will conduct such due diligence review and analysis as it deems necessary on a case-by-case basis; and
- in the case of acquisitions or investments involving ArcLight or its affiliates or investment funds managed by ArcLight or an affiliate of ArcLight, the acquisition or investment will be reviewed and approved by the independent members of the board of managers of Atlantic Holdings.

Opportunity to Purchase ArcLight Projects

In order to provide the Issuer with near term, high quality acquisition opportunities, Atlantic Holdings has been granted a right of first offer on the ROFO Projects. The ROFO Projects are all power generation facilities and in aggregate represent approximately 706 net MW of power generating capacity. The following chart lists each of the ROFO Projects, its location and the power generating capacity represented by the interest that is subject to the right of first offer.

ROFO Project	Location	Net MW(1)
Auburndale	Florida	107
Carney's Point	New Jersey	114
Cottage Grove	Minnesota	66
Crockett	California	19
Lakewood	New Jersey	47
Lockport	New York	44
Marianas Energy Company	Territory of Guam	44
Midland Cogeneration Venture	Michigan	78
Saranac	New York	43
Selkirk(2)	New York	79
Whitewater	Wisconsin	66

(1) Represents the interest in each ROFO Project's electric generation capacity that is subject to the right of first offer.

(2) On Closing, Atlantic Holdings will acquire an estimated 18.5% interest in the cash flow of the Selkirk Project. Pursuant to the right of first offer granted to Atlantic Holdings, Atlantic Holdings will have a right of first offer to acquire an additional estimated 22.8% interest in the cash flow of the Selkirk Project. See "Project Descriptions — Selkirk Project".

Should Fund I desire to sell its interest in any of the ROFO Projects, it must first offer such interest for sale to Atlantic Holdings at a specified price. If such first offer is not accepted by Atlantic Holdings within a 45-day period, Fund I may then, within the following 180 days, sell its interest in such ROFO Project(s) to any third party purchaser at a price and on terms no more favourable to the third party than those offered to Atlantic Holdings. If, within this 180-day period, Fund I receives an offer from a third party to purchase its interest in such ROFO Project(s) that it is prepared to accept, but which is on terms more favourable to the third party than those offered to Atlantic Holdings, then, before it may accept the offer, Fund I must give Atlantic Holdings notice of the offer and Atlantic Holdings will have a 30-day period to match the offer. If, however, Fund I has not sold its interest in the ROFO Project(s) during such 180-day period, the procedures described in this paragraph will again apply with respect to any potential future sale of its interest in such ROFO Project(s).

POWER INDUSTRY OVERVIEW

Independent Power Generation and North American Demand Outlook

Historically, the North American electricity industry was characterized by vertically integrated monopolies. During the late 1980s, several jurisdictions began a process of restructuring by moving away from vertically integrated monopolies towards more competitive market models. Rapid growth in electricity demand, environmental concerns, increasing electricity rates, technological advances and other concerns prompted government policies to encourage the supply of electricity from independent power producers.

In the independent power generation sector, electricity is generated from a number of sources, including water, natural gas, coal, waste products such as biomass (e.g., waste wood from forest products operations) and landfill gas, geothermal sources, such as heat or steam, the sun, and wind. According to a report published in December 2003 on the Long-Term Reliability Assessment of Bulk Electric Systems in North America by the NERC, the average annual peak demand growth rate for electricity for the past 10 years was 2.4% per annum in the U.S. (summer) and 1.4% per annum in Canada (winter). The NERC projects that average annual peak demand growth from 2004 to 2012 will be 1.9% in the U.S. and 1.1% in Canada.

The Non-Utility Power Generation Industry

The Projects are non-utility electric generating facilities that operate primarily in the U.S. electric power generation industry. The electric power industry is one of the largest industries in the U.S., with 2002 sales of nearly $250 billion based on information published by the Energy Information Administration of the U.S. Department of Energy. A growing portion of the power produced in the U.S. is generated by non-utility generators. Non-utility generators sell the electricity that they generate to electric utilities and other load-serving entities (such as municipalities and electric cooperatives) through bilateral contracts or open power exchanges. The electric utilities and other load-serving entities, in turn, generally sell this electricity to industrial, commercial and residential customers. The power generated by the Projects is generally sold to regulated electric utilities under long-term contracts.

The NERC estimates that in the U.S., peak (summer) net electric demand in 2003 totalled approximately 717,652 MW, while summer generating capacity in 2003 totalled approximately 858,296 MW, creating a peak summer reserve margin of 140,644 MW, or 16.4%. The U.S. market consists of regional electric markets, not all of which are effectively inter-connected. Consequently, reserve margins vary from region to region. Some regions have margins well in excess of the 15% to 20% target range, while other regions remain short of ideal reserve margins. The estimated 140,644 MW of reserve margin in 2003 compares to an estimated 110,580 MW in 2002. The increase is due in large part to the start-up of new gas-fired power plants.

According to a November 2003 report from S&P (the "S&P Report"), the U.S. power industry has experienced a continued decline in credit quality, an unprecedented number of bankruptcies, and a blackout of historic proportion in August 2003. The years 2002 and 2003 were marked by a decrease in power prices in many power markets as the industry was confronted with an over-supply of power generating capacity caused by an increased level of highly leveraged investments in non-regulated power generating assets, coupled with a declining economy. Supply increased drastically (with new merchant plants financed on a short-term basis), while the economic slowdown reduced power demand. This resulted in an industry-wide decrease in credit ratings of generating companies and has constrained their access to capital markets.

According to the S&P Report, in 2003, the number of S&P credit rating downgrades in the power energy industry far outpaced the number of upgrades, with the downgrade to upgrade ratio exceeding 10:1. The average credit rating for the electric utility sector is firmly in the "BBB" category, down from the "A" category three years ago. Prospects for credit quality remain challenging, as indicated by S&P's ratings outlooks, 40% of which are negative. The Manager believes that credit concerns have affected the sector's strategic business plans, forcing some companies to liquidate assets in order to improve their balance sheets. This situation has presented acquisition opportunities for less affected power companies. Restructuring has produced a resurgence of merger and acquisition transactions in the power generation sector.

The Manager believes that merger and acquisition activity in the power generation sector over the next several years will be characterized by continued divestiture activity and focused acquisitions aimed at restructuring portfolios.

Industry Regulation

United States

In the United States, the trend towards restructuring the electric power industry and the introduction of competition in electricity generation commenced with the passage and implementation of the *Public Utility Regulatory Policies Act of 1978*, as amended ("PURPA"). Among other things, PURPA, as implemented by the United States Federal Energy Regulatory Commission ("FERC"), generally requires vertically integrated electric utilities to purchase power from qualifying facilities ("QFs") at their avoided cost. FERC had defined avoided costs as incremental costs to a utility of energy or capacity which, but for the purchase from QFs, such utility would itself generate or purchase from another source.

A QF is a distinct type of energy producer that falls into one or both of two primary classes. The first class of QFs includes energy producers that generate power using specific energy sources such as wind, solar, geothermal, hydro, biomass or waste fuels. The second class of QFs includes cogeneration facilities. For so long as a facility satisfies FERC's technical criteria for QF status and is not more than 50% owned by a person primarily engaged in the generation or sale of electric power (other than electric power solely from cogeneration facilities or small power production facilities), such facility will be exempt from regulation under the *Public Utility Holding Company Act of 1935*, as amended ("PUHCA"). Similarly, an entity directly or indirectly owning a QF is not subject to PUHCA by virtue of such ownership. FERC's implementing regulations explain that a cogeneration or small power production facility shall be considered to be owned by a person primarily engaged in the generation or sale of electric power if more than 50% of the equity interest in the facility is held by an electric utility or utilities, or by an electric utility holding company, or companies, or any combination thereof or wholly or partially owned subsidiaries thereof.

With the exception of QFs, generation, transmission and distribution of electricity remained largely owned by vertically integrated electric utilities until the enactment of the *Energy Policy Act of 1992* (the "1992 Act") and subsequent orders in 1996, along with electric industry restructuring initiated at the State level. Among other things, the 1992 Act enhanced FERC's power to open access to power transmission systems, contributing to significant growth in the independent power generation industry.

Canada

Provincial governments have legislative authority over the generation, transmission and distribution of electricity in Canada. In the past, the majority of the electrical supply within the Canadian provinces was provided by large Crown corporations such as Ontario Hydro and Hydro-Québec. These large utilities have been primarily responsible for the generation, transmission and distribution of electricity. In the mid-1980s, however, the rapid growth of projected energy demand, projections of dramatic increases in energy rates and advances in new generation technology led some provincial governments to develop policies to encourage independent power generation. These policies were meant to encourage larger utilities to purchase power from independent power producers pursuant to long-term power purchase agreements which would supply power to the provincial power grid in parallel to the utilities' own generation. In the late 1980s and early 1990s, British Columbia, Alberta, Ontario, Québec, Nova Scotia and Newfoundland established programs to actively seek independently produced power. By the late 1990s, many provinces started the process of restructuring their energy markets. To date, British Columbia, Alberta and Ontario have made progress on restructuring and introducing competition into the energy market.

THE PROJECTS

Summary Table of the Projects

The following table lists the Projects, the economic interests in the Projects that will be indirectly acquired by Atlantic Holdings, and certain key information about each Project.

Project Name	Location	Fuel Type	Total MW	Economic Interest(1)	Net MW(2)	Electricity Off-Taker	PPA Expiry	Off-Taker S&P Credit Rating
Badger Creek	California	Natural Gas	46	50.0%	23	Pacific Gas & Electric	2011	BBB−
Delta-Person	New Mexico	Natural Gas	132	40.0%(3)	53	Public Service of New Mexico	2020	BBB
Gregory	Texas	Natural Gas	400	9.45%(3)	38	Dynegy Reynolds Metals	2005 2020	B NR
JPPC	Jamaica	Fuel Oil	60	24.1%	14	Jamaica Public Service	2018	B
Koma Kulshan	Washington	Hydro	13.3	49.8%	7	Puget Sound Energy	2037	BBB−
Lake	Florida	Natural Gas	110	99.9%	110	Progress Energy	2013	BBB
MASSPOWER	Massachusetts	Natural Gas	267	17.5%	47	Boston Edison Commonwealth Electric Massachusetts Municipal Wholesale Electric	2013(4) 2008/2013(4) 2013	A A A−
Mid-Georgia	Georgia	Natural Gas	308	50.0%	154	Georgia Power	2028	A
Onondaga	New York	Natural Gas	91	100.0%	91	Niagara Mohawk	2008(5)	A
Orlando	Florida	Natural Gas	126	50.0%	63	Progress Energy Reedy Creek Improvement District	2023 2013	BBB A−
Pasco	Florida	Natural Gas	109	49.9%	54	Progress Energy	2008	BBB
Rumford	Maine	Coal/ Biomass	85	23.2%(3)	20	Central Maine Power MeadWestvaco	2005 2020	BBB+ BBB
Selkirk	New York	Natural Gas	345	18.5%(3)	64	Niagara Mohawk Consolidated Edison	2008 2014	A A
Stockton	California	Coal	55	50.0%	28	Pacific Gas & Electric Corn Products International	2008 2008	BBB− BBB−
Topsham	Maine	Hydro	14	50.0%	7	Central Maine Power	2011	BBB+

(1) Atlantic Holdings' economic interest represents the percentage ownership interest in the Project to be held indirectly by Atlantic Holdings (except as otherwise noted).

(2) Represents the interest of Atlantic Holdings in each Project's total electric generation capacity based on Atlantic Holdings' economic interest in each Project.

(3) Represents Atlantic Holdings' estimate of its share of the cash flow from the Project.

(4) MASSPOWER entered into discussions with Boston Edison and Commonwealth Electric and the parties have agreed to terminate the PPAs in exchange for a termination payment. The agreement to terminate is subject to certain contingencies. The Manager believes that, if consummated, the termination of the PPAs would be accretive to the Issuer. See "Project Descriptions — MASSPOWER Project".

(5) A swap agreement with Niagara Mohawk Power Corporation has replaced the Onondaga PPA. See "Project Descriptions — Onondaga Project".

Commercial Structure and Operation of the Projects

Following the completion of the Offering and the other transactions described in this prospectus, Atlantic Holdings will indirectly own interests in each of the Projects as described in the above table. Fourteen of the Projects are located in nine states in the U.S. and one Project is located in Jamaica. The Projects have an aggregate gross electric generation capacity of approximately 2,161 MW, and Atlantic Holdings' net economic interest in the electric generation capacity of the Projects will be approximately 773 MW. Twelve of the Projects are QFs and the three that are not QFs are exempt wholesale generators ("EWGs") under PUHCA.

The discussion below describes certain general characteristics of the commercial structure and operations of the Projects.

Ownership and Project Financing

The Projects are typically owned by the Project Operating Entities, in which the owners of the Projects hold limited partnership, general partnership or other equity interests. Atlantic Holdings' interests in each of Projects will be held, directly or indirectly, through a Project Holding Entity.

Typically, construction of the Projects was financed by non-recourse loan arrangements, certain of which remain outstanding. These loan arrangements are typically secured by the Project assets, including associated contracts, and contain extensive affirmative and negative covenants on the part of the Project Operating Entity that may restrict the Project Operating Entity's activities and, in some cases, limit or prevent distributions of cash. In addition, the partnership or other equity interests in Project Operating Entities with outstanding indebtedness, including those held indirectly by Atlantic Holdings, are in some cases pledged to the Project lenders to secure such indebtedness. In the event of a default that has not been cured, the lenders may foreclose on the equity interests of the Project Operating Entity, including those held indirectly by Atlantic Holdings.

Energy, Capacity and Steam Sales

The majority of the Projects have long-term PPAs for the sale of electricity to off-takers having investment grade credit ratings from S&P, with some of the Projects having more than one PPA. The expiry dates of the PPAs vary from 2005 to 2037. Generally, the Projects receive payments for electric energy sold under PPAs (known as energy payments) as well as for electric generation capacity (known as capacity payments). In addition, the majority of the Projects which are coal or natural gas-powered co-generation QFs sell steam under steam sales agreements to industrial purchasers.

Fuel Supply Arrangements

The coal and natural gas-powered Projects generally have long-term supply agreements for the fuel required to operate the Project. These purchase agreements may also be accompanied by fuel transportation arrangements. In many cases, the fuel supply arrangements have been designed to correspond to the term of the PPAs and most of the Projects' PPAs and steam sales agreements provide for the pass through or indexing of fuel costs to the off-takers.

Operations and Maintenance

The Projects are typically operated and maintained by third party operators under management or operations and maintenance contracts with the relevant Project Operating Entity. Some of these agreements are long-term, while others have shorter terms and provide generally for subsequent renewal terms. Teton Operating Services LLC, a subsidiary of Teton Funding, has assumed responsibility under operations and maintenance contracts for the Lake, Mid-Georgia, Onondaga and Pasco Projects. An affiliate of Caithness has been retained to perform the services to be provided by Teton Operating Services LLC under these contracts under operations and maintenance agreements (the "Caithness O&M Agreements") which either expire or can be terminated in March 2007 and which provide for successive three-year renewal options upon written agreement of the parties. Under the Caithness O&M Agreements, the operator is responsible for operations, maintenance and repair services. The agreements will remain in force following the acquisition of interests in the Projects by Atlantic Holdings.

Asset Management Strategy

The Manager's asset management strategy is to partner with recognized leaders in the independent power business. Atlantic Holdings' interests in the majority of the Projects are managed by Caithness and Delta Power

Company, LLC ("Delta Power"). On a case-by-case basis, Caithness and Delta Power provide: (i) active project-level management, such as operations and maintenance and asset management; (ii) active partnership level management, such as acting as general partner; (iii) passive partnership level management, such as acting as limited partner; and (iv) management responsibility over the investment or pool of investments. The Manager will be involved in all major decisions and drive value-creating transactions such as contract restructurings, asset-level refinancing, acquisitions and divestitures.

Caithness is one of the largest privately-held independent power producers in the United States and is actively engaged in the development, acquisition and management of power facilities for its own account as well as in ventured arrangements with other entities. During its 24 years in the independent power business, Caithness, through its subsidiaries, has assembled a domestic power generation portfolio comprised of economic interests in 34 operating power projects totaling approximately 2,490 MW of nameplate capacity. Caithness' portfolio of operating projects consists of approximately 1,438 MW of gas-fired projects, 313 MW of geothermal projects, 160 MW of solar projects, 348 MW of wind projects, 145 MW of coal-fired projects, 27 MW of hydroelectric projects and 61 MW of oil-fired projects. Fund I is an indirect minority owner of Caithness and has the right to elect one member of the Board of Directors of Caithness.

Delta Power owns and manages natural gas, hydroelectric and coal-fired power projects in the U.S. Formed in 1997, privately-owned Delta Power owns interests in and manages 31 operating power projects in the U.S. with gross capacity of over 2,500 MW.

Site Leases

The Projects are generally constructed on leased sites. Many of the sites are leased from a neighbouring electricity or steam off-taker. The site leases typically provide for terms longer than the term of the Project's PPA.

Regulation

All of the Projects are QFs, EWGs or dually-certified, pursuant to regulation of FERC. The Projects with QF status are exempt from FERC rate-making. The Onondaga and Delta-Person Projects have EWG status but are not dually-certified as EWGs and QFs. Although these Projects are subject to FERC rate-making, FERC has granted these EWGs the authority to charge market-based rates based primarily on a finding that the seller of electricity lacks market power. The JPPC Project, which is also an EWG but not a QF, does not sell power in the U.S. market and therefore is not subject to FERC rate-making. The Projects are exempt from regulation under PUHCA and the Projects with QF status are exempt from state regulation respecting the rates of electric utilities and the financial or organizational regulation of electric utilities.

PROJECT DESCRIPTIONS

Badger Creek Project

Description

The Badger Creek Project is a 46 MW simple-cycle, cogeneration facility located near Bakersfield, California which commenced commercial operation in April 1991 as a QF. The Badger Creek Project is owned by Badger Creek Limited, L.P. ("Badger"), a Texas limited partnership in which Atlantic Holdings indirectly owns a 50% general partnership interest and Juniper Generation, LLC ("Juniper"), which is indirectly owned by affiliates of ArcLight and John Hancock Life Insurance Company ("John Hancock"), indirectly owns the other 50% limited partnership interest. Electrical output is sold to Pacific Gas & Electric Corporation ("PG&E") under a PPA that was amended and reaffirmed in December 2001. Steam is sold to OXY USA Inc. ("Occidental"), an affiliate of Occidental Petroleum Corporation under a 20-year steam energy agreement that expires in 2011. Badger leases the approximately 3.5 acre site for the Badger Creek Project from the Fano Realty Trust under a ground lease. The base lease term is 25 years commencing in 1990, which the parties may extend for up to 10 additional one-year periods.

In 1990, Badger entered into a non-recourse term loan due June 30, 2006 to finance the construction of the Project. As of June 30, 2004, approximately $11.7 million in principal remained outstanding under the term loan, which is expected to be amortized over its remaining term. In addition, Badger maintains a debt service reserve account up to a maximum of $3.0 million to meet its debt service requirements, if required.

Capacity and Energy Sales

Power Purchase Agreement

Electric power generated by the Badger Creek Project is purchased by PG&E pursuant to a PPA expiring in 2011. The Badger Creek PPA provides for monthly capacity and energy payments, and Badger is entitled to receive a performance bonus if the average on-peak capacity factor, net of allowed forced outages and scheduled maintenance outages, exceeds 85%. The PPA also provides for an annual average energy price through July 15, 2006, subject to time of use adjustments. After July 15, 2006, the Manager believes the energy price will change to PG&E's short-run avoided cost calculated in accordance with a short-run avoided cost formula adopted by the California Public Utilities Commission, whose calculation of short-run avoided cost primarily takes into account spot natural gas prices.

Steam Sales Agreement

Process steam from the Badger Creek Project is sold to Occidental under a steam energy agreement which expires in 2011, but is terminable by Occidental in 2006 and thereafter upon one year's prior notice. The agreement provides for successive renewal terms of one year each unless either party gives advance notice of termination. Occidental utilizes the steam in its enhanced oil recovery operations to allow for more effective and efficient extraction of heavy crude oil. Subject to certain conditions, Occidental has an obligation to purchase steam under this agreement in an amount at least equal to the minimum requirements necessary to maintain the Project's status as a QF. Although Occidental is not currently purchasing any power from the Project, the steam energy agreement allows for up to 1 MW of electricity to be sold to Occidental.

Fuel Supply Arrangements

Initially, natural gas was supplied to the Badger Creek Project under a supply and transportation agreement with PG&E. However, as restructuring of the natural gas industry proceeded, Badger, in partnership with certain other gas-fired facilities in the area, determined that construction of a private natural gas pipeline was a prudent way to minimize curtailment and pricing risk. A joint venture was entered into to construct, own and operate a natural gas pipeline connecting these facilities, including the Badger Creek Project, with the Kern River-Mojave Pipeline thereby enabling Badger to bypass PG&E but maintain access to PG&E as a source of back-up supply. Under the joint venture arrangement, each owner must contribute funds, and shares in profits and losses, in proportion to its ownership interest. Badger's interest is approximately 21%. WCAC Gas Services LLC, an affiliate of Juniper, operates the pipeline. In August 2001, Badger entered into a five-year swap agreement with El Paso Merchant Energy, L.P. ("El Paso Merchant Energy") to provide natural gas to the Project. It is expected that the short-run avoided cost formula for energy pricing under the Badger Creek PPA after July 15, 2006 will take into account spot natural gas prices.

Operations & Maintenance

Operations and maintenance for the Badger Creek Project is performed by WCAC Operating Company California, LLC, an affiliate of Juniper, under a fixed price operations and maintenance agreement. The agreement has a term of 20 years expiring in 2011, but is terminable by either party upon six months' notice. The operator receives a base monthly fee, adjusted annually, based on changes in the GNP deflator and labour indices. In addition, the agreement provides for incentive fees and penalties based on the Project's availability.

In addition to the operations and maintenance agreement, Badger entered into a management services agreement with WCAC Operating Company California, LLC to provide all day-to-day management services required by the Project. The manager is paid a semi-annual fee for such management services based on a percentage of gross cash receipts of the Project.

Delta-Person Project

Description

The Delta-Person Project, a 132 MW natural gas-fired peaking facility located near Albuquerque, New Mexico, is an EWG that commenced commercial operation in June 2000. The Project is owned by Delta Person Limited Partnership ("Person"), a Delaware limited partnership in which Atlantic Holdings indirectly owns a 40% partnership interest and Delta Power and John Hancock own the remaining partnership interests. The Delta-Person Project is situated on the Public Service of New Mexico's retired Delta Generating Station site pursuant to a lease agreement which expires on the expiry or earlier termination of the Project's PPA. Cash distributions from the Project are split among the partners based on after-tax return hurdles. The Delta-Person Project sells all of its electrical output to the Public Service of New Mexico under a long-term PPA that expires in 2020.

Construction of the Delta-Person Project was financed through a construction loan totalling $59.7 million. The construction loan was converted to permanent project financing once commercial operation was achieved. The project financing was divided into two term loans: (i) Tranche A due March 31, 2017; and (ii) Tranche B due March 31, 2019, both of which are expected to amortize over their remaining terms. As of June 30, 2004, approximately $17.5 million and $26.5 million in principal of Tranche A and Tranche B remained outstanding, respectively. The debt service reserve requirement is currently supported by a contribution obligation. It is possible that Atlantic Holdings or a subsidiary will indirectly assume up to $1.3 million of that contribution obligation.

Capacity and Energy Sales

Power Purchase Agreement

Electrical power generated by the Delta-Person Project is purchased by the Public Service of New Mexico under a PPA that will expire in 2020. The Public Service of New Mexico has the unilateral right to extend the PPA for five years by giving written notice of such extension no later than two years prior to the end of the original term of the PPA. Subject to adjustments provided for in the PPA, the Public Service of New Mexico will purchase and accept from the Project the entire output of the plant when the Public Service of New Mexico calls upon the capacity. Payments will consist of: (i) the energy purchase price multiplied by the kWh delivered; (ii) the capacity purchase price multiplied by the dependable capacity; (iii) the Project's costs of purchasing electric service from the Public Service of New Mexico for the operations and maintenance of the facility; and (iv) any other applicable charges. In order to earn full capacity payments, the Project must maintain availability of at least 90%.

Fuel Supply Arrangements

Person purchases fuel from PNM Gas Services, a division of the Public Service of New Mexico, with fuel costs passed through to the Public Service of New Mexico under the PPA. The Project has access to interruptible gas supply and transportation like other standard industrial customers on PNM Gas Services' system.

Operations & Maintenance

As a simple cycle peaking facility, the Project operations do not require extensive staffing and technical resources. There are three employees on staff, who are employed directly by the Project. Delta Power provides asset management services, which include operational and contractual oversight of the facility, budget setting and environmental compliance.

Gregory Project

Description

The Gregory Project is a 400 MW natural gas-fired combined cycle cogeneration plant located near Corpus Christi, Texas that commenced commercial operation in July 2000 as a QF. The Gregory Project is owned by Gregory Power Partners, LP ("Gregory"), a Texas limited partnership in which Atlantic Holdings estimates that it is entitled to a 9.45% economic interest through Atlantic Holdings' indirect 18.9% ownership of Javelin Energy LLC ("Javelin"). The other owners of the Project are Delta Power, John Hancock and LG&E Energy LLC ("LG&E"). Cash distributions from the Project are split among the partners based on after-tax return hurdles. Gregory sells approximately 335 MW of its capacity to Dynegy Inc. ("Dynegy") and sells up to 33 MW of electric energy and capacity to Reynolds Metals Company ("Reynolds"), with the remainder sold in the spot market. The Project is located on a site adjacent to Reynolds' Sherwin alumina production facility, which serves as the Project's steam off-taker. Gregory leases the land on which the Gregory Project is located from Reynolds under an operating lease with a 35-year term which expires in August 2035.

The Project was initially financed by ING Capital Corporation and a consortium of lenders. The original amount of the loan was $175 million. The loan has a 17-year term commencing at term conversion, which occurred in October 2000. Fifty percent of the principal amount of the term loan is hedged, whereby Gregory pays a fixed rate and receives a floating rate based on three-month LIBOR. Gregory has the discretion to pay interest anywhere from a monthly to semi-annual basis. As of June 30, 2004, approximately $148.4 million remained outstanding under the loan, which is expected to be amortized over its remaining term. It is possible that due to current and expected power prices, a coverage test under the loan may not be met and distributions to Gregory's owners for years 2006 and 2007 may not be permitted.

Capacity and Energy Sales

Power Purchase Agreements

Gregory sells up to 335 MW of power to Dynegy pursuant to a five-year energy sales agreement that expires in July 2005. Under the terms of the agreement, Dynegy pays for energy based on a variable energy payment and an electrical capacity payment, adjusted annually for GDP. Energy payments are calculated by multiplying the price of natural gas at Houston Ship Channel by a contract heat rate. Gregory has issued a request for proposal for a replacement PPA to take effect on expiry of the existing PPA. Gregory also sells between 25 and 33 MW of electric energy and capacity to Reynolds pursuant to a 20-year steam and electricity purchase agreement that expires in 2020. The remaining capacity is sold in the merchant market.

Steam Sales Agreement

Gregory sells steam to Reynolds under the steam and electricity purchase agreement described above. Under the terms of the agreement, Gregory is the exclusive source of steam to Reynolds' Sherwin alumina plant, up to a maximum of 1,500,000 lbs/hr. Other key aspects of the agreement include: (i) 10-year take-or-pay provision for a minimum quantity of steam (930,000 lbs/hr); (ii) steam pricing based on a fixed fee with a variable gas component; and (iii) delivery of gas by Reynolds in lieu of paying cash for steam (the quantity of gas supplied is based on steam conversion efficiency).

It is possible that Atlantic Holdings or a subsidiary will assume a guarantee that supports a portion of certain obligations of another party under the energy sales and steam and electricity purchase agreements described above. The aggregate amount of such obligations is approximately $5.95 million.

Fuel Supply Arrangements

Gregory purchases natural gas under various short-term and long-term agreements. Gregory has the option of procuring 100% of its natural gas requirements from Kinder Morgan Tejas Pipeline, L.P., pursuant to a 10-year gas supply agreement that expires in 2010. Gregory has the option of terminating the agreement at the end of the fifth contract year.

Operations & Maintenance

LG&E Power Services Inc. ("LG&E Power"), a wholly-owned subsidiary of LG&E, operates the Project. The initial term of the operations and maintenance agreement is 10 years (to November 2008) with two five-year renewal options in favour of LG&E Power. LG&E Power is entitled to an annual management fee (subject to escalation) and reimbursement of all of its costs that fall within the operations and maintenance budget, which include labour, maintenance and capital expenditures.

Energy Management Services

On March 1, 2004, Gregory and Dynegy extended an existing energy management services contract through December 2006. Services under the contract include selling and marketing excess power from the Gregory Project. In addition, Dynegy will optimize Gregory's assets in the ancillary services market of the Electric Reliability Council of Texas ("ERCOT"), purchase natural gas for operations, provide scheduling services, provide back-office support (including the reconciliation of ERCOT and pipeline settlement and accounting issues and the preparation of invoices) and serve as Gregory's retail energy provider and qualified scheduling entity.

JPPC Project

Description

The JPPC Project, a 60 MW low-speed fuel oil EWG power plant located in Kingston, Jamaica, resulted from a request for proposal issued by the Government of Jamaica in 1992 as part of a national policy to privatize the generation of electric power. The project site is adjacent to Kingston Harbour, which is the plant's source for cooling water. The Project commenced commercial operation on January 7, 1998. The JPPC Project is owned by Jamaica Private Power Company Limited ("JPPC"), a limited liability company under the laws of Jamaica in which Atlantic Holdings indirectly owns a 24.1% economic interest and CMS Energy Corporation, Energy Investors Fund and Commonwealth Development Corporation own the remainder.

Construction of the JPPC Project was financed through a series of loans, all of which have been repaid except for a term loan from the National Investment Bank of Jamaica Limited which is due on October 20, 2011. As of June 30, 2004, approximately $48.9 million in principal remained outstanding under the term loan, which is expected to be amortized over its remaining term.

Capacity and Energy Sales

Power Purchase Agreement

The electrical output of the Project is sold to Jamaica Public Service Company Limited ("Jamaica Public Service") under a 20-year PPA expiring in 2018. Jamaica Public Service is a fully integrated utility and the sole provider of electricity on the island of Jamaica. The Government of Jamaica guarantees Jamaica Public Service's payment obligations under the PPA. The PPA allows Jamaica Public Service to dispatch the Project according to its requirements. Under the PPA, the Project receives a monthly energy payment for kWhs actually sold and a monthly capacity payment to cover the Project's fixed costs. Both the energy and capacity payments are indexed for inflation and are made in Jamaican currency, but are indexed, in part, to the U.S. dollar equivalent value. The energy payment component of the tariff reimburses the Project for its variable costs, including the purchase price of fuel, variable maintenance, lubricating oil, and fuel oil transportation. The capacity cost component of the tariff reimburses the Project for its hard currency and local fixed costs, and also provides for a return on investment. The reasonable cost of complying with material or unforeseeable changes in law or regulation is also passed through in the tariff.

Fuel Supply Arrangements

JPPC purchases all of its heavy fuel oil from Petrojam Limited ("Petrojam"), a government-owned refinery located west of Kingston, Jamaica. The fuel supply agreement has a term of 20 years expiring in 2018. The price of the fuel oil and transportation of the fuel oil is set by Petrojam based on published reference prices as set out in the agreement. The cost of fuel and transportation is passed through in the tariff to Jamaica Public Service, subject to minimum efficiency standards for the Project. Petrojam must furnish, either from its own assets or by contract, all local transportation from the refinery storage facilities to the point of delivery at the Project.

Operations & Maintenance

JPPC entered into an operations and maintenance agreement with Private Power Operators Limited, the initial term of which was for five years expiring on December 31, 2003. The agreement automatically renews each January 1st adding a one-year period to the end of the unexpired portion of the existing term such that there is always a rolling five-year term remaining under the agreement unless either party gives notice of its intent to terminate the agreement at the end of the then-existing five-year term. Under this agreement, the operator is responsible for all operations, maintenance and repair services, as well as substantial administrative, treasury and contract administration services. In consideration for services performed, the operator is reimbursed for allowable direct costs, and receives a fixed overhead reimbursement, and, if earned, a performance bonus.

Koma Kulshan Project

Description

The Koma Kulshan Project is a 13.3 MW run-of-the-river hydro-electric generation facility located on the slopes of Mt. Baker, approximately 80 miles north of Seattle, Washington. The Koma Kulshan Project is owned by Koma Kulshan Associates ("Koma Kulshan"), a California limited partnership in which Atlantic Holdings indirectly owns a 49.75% economic interest, Mt. Baker Corporation indirectly owns a 0.25% economic interest and Covanta Energy Corporation ("Covanta") indirectly owns the remaining 50%. The Koma Kulshan Project is certified as a QF under PURPA and was issued a 50-year hydro licence from FERC which expires in 2037. The Project commenced commercial operation in October 1990 and its electrical output is sold to Puget Sound Energy, Inc. ("Puget Sound Energy") under a 50-year PPA expiring in 2037.

On December 1, 1989, Koma Kulshan entered into a credit agreement which provided for a $22.5 million construction loan and an $18 million term loan. The construction loan has been repaid, and the outstanding principal amount under the term loan matures on December 31, 2007. As of June 30, 2004, approximately $6.4 million in principal remained outstanding which is expected to be amortized over the remaining term of the term loan. In addition, under a funding and option agreement, certain royalty payments are made to third parties in connection with the development of the Project.

Capacity and Energy Sales

Power Purchase Agreement

The power generated by the Project is sold to Puget Sound Energy pursuant to a long-term PPA expiring in 2037. Power is sold at a per kWh rate that is adjusted annually. The energy rate equals the sum of a capital component (which provides for a return on investment) plus a variable component. The capital component is designed to cover capital expenditures to improve the Project. The variable component covers operating and maintenance, tax and insurance costs. The term of the PPA is coterminous with the FERC licence. Puget Sound Energy has the right to renew the PPA for a term equivalent to the term of any subsequent licence or annual licence granted by FERC for the Project.

Operations & Maintenance

In August 2000, Covanta Hydro Operations West, Inc. ("Covanta Hydro"), a subsidiary of Covanta assumed operations and maintenance responsibilities for the Project pursuant to an operations and maintenance agreement which expires in August 2005. In addition to being reimbursed for actual costs incurred, Covanta Hydro receives an annual fee adjusted annually by the Washington Consumer Price Index (urban index).

In April 2002, Covanta and certain of its subsidiaries, including Covanta Hydro, filed voluntary petitions for reorganization under Chapter 11 of the *U.S. Bankruptcy Code*. On March 10, 2004, Covanta and 79 of its affiliates, comprising Covanta's energy and water businesses, were acquired by Danielson Holding Corporation. With the closing of this transaction, Covanta and these affiliates emerged from bankruptcy protection. The bankruptcy of Covanta and Covanta Hydro did not have a material effect on the Koma Kulshan Project, and Covanta Hydro has continued to perform its obligations under the operations and maintenance agreement.

Lake Project

Description

The Lake Project, a 110 MW dual fuel (oil and natural gas), combined-cycle, cogeneration plant located in Florida, commenced commercial operation in July 1993 as a QF. The Lake Project is owned by Lake Cogen Ltd.

(“Lake”), a Florida limited partnership in which Atlantic Holdings indirectly owns a 99.9% interest. The Project is located on a 16 acre site at a citrus processing facility in Umatilla, Florida leased from Teton Lake Land Company, LLC, an affiliate of Lake. Lake sells all of its capacity and electric energy to Progress Energy under the terms of a PPA expiring in July 2013. Steam is sold to Citrus World, Inc. (“Citrus World”) for use at its citrus processing facility and is also used to make distilled water in distillation units. Distillation equipment utilized by the Lake Project is owned by Lake’s affiliate, Teton Lake Distillation Company LLC (“Teton Distillation”), and leased to Lake. Teton Lake Land Company, LLC also owns the land and water well, as well as water rights under permit and a share of the consumptive use permit. In 1993 the Lake Project was leased from a financial institution as owner trustee for the benefit of one of its subsidiaries pursuant to a facility lease (“Facility Lease”) agreement. In September 2004, Umatilla Power Funding, LLC acquired the lessor’s position in the Facility Lease. In connection with the Offering, Atlantic Holdings will acquire Umatilla Power Funding, LLC. See “Acquisition Agreements”.

Capacity and Energy Sales

Power Purchase Agreement

Electrical output is sold to Progress Energy pursuant to a PPA that commenced in July 1993 and expires on July 1, 2013. Revenues from the sale of electricity consist of a payment for capacity and an energy payment generally comprised of a fuel component, a voltage adjustment and an hourly performance adjustment. Capacity payments are subject to the Project maintaining an on-peak capacity factor of at least 90% during on-peak hours (11 hours daily), on a 12-month rolling average basis. Lake is subject to reductions in its capacity payments should it not achieve the 90% on-peak capacity factor. Progress Energy applies a performance adjustment when its avoided cost exceeds the Project’s firm energy payments. During off-peak hours, payments are made in accordance with a prescribed formula based on the price of gas. Lake has agreed to use commercially reasonable efforts not to deliver electric energy during off-peak hours except as prescribed or as needed. Further, Progress Energy has the option to request non-delivery during on-peak hours on Saturdays and Sundays on notice to Lake. Pursuant to the Facility Lease, Umatilla Power Funding, LLC has provided a $6.0 million letter of credit in favour of Progress Energy to support the Lake Project’s obligations under the PPA.

Steam Sales Agreement

Citrus World purchases steam at market prices, but the amount is not sufficient to allow Lake to meet its QF requirements. During 2002, distillation equipment was installed with three distillation units using steam to make distilled water. The distillation business, owned by Teton Distillation, enables Lake to meet its QF requirements without the need to sell steam to Citrus World. Umatilla Power Funding, LLC has an option to purchase the distillation equipment and an option to purchase Lake’s interest in Teton Distillation at certain specified times. Lake has received a request for data from FERC staff in connection with an inquiry into the operations of Lake in connection with its status as a QF. Lake’s operator, a Caithness affiliate, intends to provide a response which it believes will show that Lake is satisfying all QF requirements.

Fuel Supply Arrangements

Duke Energy Trading and Marketing LLC (“Duke”) is the primary natural gas supplier for the Project. The gas supply agreement terminates in July 2009. Duke provides natural gas at a price that is adjusted monthly to track the PPA’s pricing factors, including energy and capacity-based components. Lake is required to make certain payments if at least 80% of the maximum daily quantity specified in the agreement is not purchased each month. Lake has not purchased the minimum quantity since 2000, however, to date, Duke has not assessed any penalties. Excess gas requirements above those supplied by Duke are to be supplied by TECO Gas Services Inc. (“TECO”). Gas purchased under this agreement is at the spot market price plus a commission. TECO also supplies certain gas management and supply services to Lake under a separate agreement. The gas for the Project is transported using firm capacity on the Florida Gas Transmission Company (“Florida Gas”) system and interruptible capacity on the Peoples Gas System, a division of Tampa Electric Company, (“Peoples Gas”) pipeline from the receipt points on the Florida Gas pipeline to the plant. The gas transportation agreements expire in July 2008 and 2013. Lake is permitted to operate each of its combustion turbines on fuel oil for up to

240 hours per rolling 12-month period under the terms of the Project's air permit. The Project includes a 170,000 gallon fuel oil storage tank.

Operations & Maintenance

An affiliate of Caithness is responsible for the operations and maintenance of the Project pursuant to one of the Caithness O&M Agreements.

MASSPOWER Project

Description

The MASSPOWER Project, a 267 MW natural gas-fired combined-cycle cogeneration facility located in Springfield, Massachusetts, commenced commercial operation in September 1993 as a QF. The MASSPOWER Project is owned by MASSPOWER ("MASSPOWER"), a Massachusetts general partnership, in which Atlantic Holdings indirectly owns a 17.5% economic interest and affiliates of Cogentrix Energy Inc., Energy Investor Funds Group LLC, National Energy Gas & Transmission, Inc. ("NEGT") and (subject to certain closing conditions) Northern Star Generation LLC ("Northern Star"), which is indirectly owned by AIG Global Investment Group and certain other investors, and The Ontario Teachers' Pension Plan Board, own the remainder. MASSPOWER sells approximately 75% of its capacity and electrical output to three Massachusetts electric utilities pursuant to long-term PPAs. The remaining 25% of the Project's capacity is sold in the wholesale electricity market. The Project is situated on two adjacent parcels of land totalling 6.8 acres leased from Solutia Inc. ("Solutia"), which serves as the Project's steam off-taker. MASSPOWER leases the site from Solutia for a term expiring in 2013, subject to an option to renew the lease until July 31, 2028. If the lease is not renewed, Solutia has the right either to purchase the facility at fair market value or to require that the site be restored to its original condition at MASSPOWER's expense.

In 2000, MASSPOWER refinanced its existing debt with a $169.8 million term loan due July 14, 2005. As of June 30, 2004, approximately $152.8 million in principal of the term loan remained outstanding, which is expected to be refinanced at maturity in 2005.

Capacity and Energy Sales

Power Purchase Agreements

Currently, MASSPOWER sells approximately 75% of the Project's electrical capacity and energy to Boston Edison Company ("BECO") under a PPA expiring in 2013, Commonwealth Electric Company ("ComElectric") under PPAs expiring in 2008 and 2013 and Massachusetts Municipal Wholesale Electric Company ("MMWEC") under a PPA expiring in 2013. The pricing under these contracts varies but, in general, energy payments are based upon variable costs and escalate periodically with inflation and other factors while capacity payments are based upon fixed costs and are subject to annual adjustments. Pursuant to the BECO PPA a portion of the amount by which the energy payment to MASSPOWER exceeds its calculated fuel cost is reimbursed to BECO quarterly with the remaining amount held in escrow until distribution to both parties upon termination of the PPA. These funds held in escrow, in addition to specified amounts borne by MASSPOWER and contributed by BECO, if any, are used to offset any deficiency that may result when those calculated fuel costs exceed the energy payment. Pursuant to the terms of the PPAs with ComElectric a bonus or penalty cost adjustment is applied to certain amounts payable based on the level of availability of the Project over a 12-month period.

The remaining approximately 25% of the Project's capacity and electrical output is sold in the wholesale electricity market through a power marketing arrangement with Select Energy, Inc. ("Select"), a subsidiary of Northeast Utilities. The agreement with Select may be terminated by either party on 60 days' prior written notice.

Pursuant to an agreement dated June 8, 2004, MASSPOWER, BECO and ComElectric have agreed to terminate their respective PPAs. Termination is subject to the approval of the Massachusetts Department of Telecommunications and Energy (the "DTE") and several other conditions. While the exact terms of the termination agreement are confidential, the Manager believes that, if consummated, the termination would result in a payment to MASSPOWER in an amount sufficient to repay all outstanding Project debt and pay a substantial dividend to the owners of MASSPOWER. The Manager believes that, if consummated, the termination of the PPAs would be accretive to the Issuer. NSTAR, the parent company of BECO and ComElectric, recently filed a petition with the DTE for approval to terminate the BECO and ComElectric PPAs. This approval process and other regulatory proceedings will likely be an extended process. MASSPOWER and NSTAR each have the right to terminate the agreement if the DTE's approval and other pre-conditions are not satisfied by June 1, 2005. If the buyout is consummated, MASSPOWER is expected to sell its power to MMWEC and into the merchant market.

Steam Sales Agreement

In July 1990, MASSPOWER entered into a 20-year steam sales agreement with Solutia. The term of the contract was subsequently extended through 2028 subject to the right of either party after July 31, 2013 to terminate the agreement on six months' notice. Under the terms of the contract, Solutia must purchase steam in quantities sufficient for MASSPOWER to maintain its QF status. Payment for the steam is based upon steam usage and is calculated using Solutia's avoided fuel cost.

On December 16, 2003, Solutia filed for bankruptcy protection. As a result, Solutia has not paid for approximately 30 days of steam purchases as "pre-petition" expenses. However, since filing, Solutia has continued to purchase and pay for contract quantities of steam. Solutia has not moved to reject the steam sales agreement and the Manager believes that the contract is an asset to Solutia's creditors.

Solutia's bankruptcy constitutes an event of default under MASSPOWER's financing arrangements. Due to the event of default, cash in excess of Project-level debt service has accumulated in a restricted payment account since the fourth quarter of 2003. The Project lenders have agreed to waive the event of default, provided that if Solutia moves to reject or rescind any of its contractual obligations to MASSPOWER or cease to accept steam, the waiver automatically terminates. Notwithstanding the waiver, MASSPOWER is not permitted to make distributions to its equity owners or borrow money for working capital, though working capital needs are being satisfied by internally generated cash flow. Upon resolution of the event of default (for example, by waiver of the Project lenders or by Solutia's assumption or affirmation of the steam sales agreement and site lease agreement with MASSPOWER), the funds in the restricted payment account will be distributed to the equity owners. The Manager believes that if the termination of the BECO and ComElectric PPAs is consummated as described above, the termination would result in a payment to MASSPOWER in an amount in excess of that required to repay all outstanding Project debt. If this were to occur, the funds in the restricted payment account would be released and distributions to MASSPOWER's equity owners would resume.

Fuel Supply Arrangements

MASSPOWER designated Orchard Gas Corporation ("Orchard Gas"), an affiliate of NEGT, as its agent to purchase Canadian natural gas and to enter into gas transportation contracts on its behalf for one-half of the Project's annual fuel supply. Orchard Gas entered into a firm gas purchase contract with ProGas Limited ("ProGas") that expires in 2009 subject to Orchard Gas' right to terminate at certain times on notice. Pursuant to the agreement with ProGas, MASSPOWER must take a certain minimum quantity of gas or else certain charges or reductions in the quantity of gas to be delivered may result. The agreement also provides for a mechanism for renegotiation and arbitration of certain gas pricing provisions by each party under specified circumstances. Orchard Gas also entered into a firm gas transportation agreement with Iroquois Gas Transmission System, L.P. ("Iroquois Gas") that expires in 2012, and a firm gas transportation contract with Tennessee Gas Pipeline Company ("Tennessee Gas") that expires in 2012. Local transportation is provided by Bay State Gas Company ("Bay State") through a firm transportation agreement with MASSPOWER that expires in 2013. Transportation rates on these pipelines are subject to regulation by various U.S. and Canadian regulatory bodies.

MASSPOWER entered into a gas supply contract for the purchase of revaporized liquefied natural gas from Distrigas of Massachusetts LLC, a subsidiary of Tractebel LNG North America LLC, that expires in 2013 unless earlier terminated in accordance with the agreement. This contract covers the remaining one-half of the Project's gas requirements. Gas is transported from Monson, Massachusetts to the project by Bay State on dedicated pipeline capacity.

MASSPOWER has also entered into firm and interruptable gas supply contracts with Bay State for the supply of gas in the event that gas supplies to MASSPOWER are disrupted. Further, MASSPOWER has agreed to sell Bay State a specified quantity of gas per day for up to 20 days during the period between November 1 to March 31 each year until March 2009.

MASSPOWER has also entered into a release gas agreement with Granite State Gas Transmission Inc. under which it may sell excess gas purchased from ProGas to help satisfy its minimum take obligations. MASSPOWER has alternate fuel capability consisting of on-site delivery facilities and storage of one million gallons (23,800 bbl) of fuel oil. Under an air permit granted by the Massachusetts Department of Environmental Protection, MASSPOWER may operate each turbine up to 840 hours on fuel oil for any consecutive 12-month period at full plant output.

Operations & Maintenance

A subsidiary of GE provides operations and maintenance services to the Project under an operations and maintenance agreement that expires on July 31, 2006, subject to a six-year extension at MASSPOWER's option. The agreement is a cost-plus contract that provides for recovery of actual operating and maintenance costs and the payment of a monthly operator fee. In addition, J. Makowski Services, Inc. ("J. Makowski Services"), an affiliate of NEGT, provides day-to-day management services to the Project through an agreement that expires in 2006.

On July 8, 2003, NEGT and certain of its subsidiaries voluntarily filed for bankruptcy protection under Chapter 11 of the *U.S. Bankruptcy Code* (the "NEGT Bankruptcy"). Neither Orchard Gas nor J. Makowski Services has filed for bankruptcy protection and each has been performing its obligations under Project contracts without interruption. The Manager believes that such parties will not be substantively consolidated with NEGT in any bankruptcy proceedings involving NEGT and that the NEGT Bankruptcy will not have a material adverse impact on the Project's operations. However, the Manager cannot be certain that the NEGT Bankruptcy will not affect NEGT's arrangements with respect to the Project or the ability of Orchard Gas or J. Makowski Services to perform its obligations under the fuel supply arrangements or management services agreement, respectively. On May 3, 2004, the U.S. Bankruptcy Court for the district of Maryland approved NEGT's plan of reorganization, but the company has not yet emerged from bankruptcy protection. On September 15, 2004, NEGT announced that it had entered into a definitive purchase agreement with GS Power Holdings II LLC (a subsidiary of The Goldman Sachs Group, Inc. ("Goldman Sachs")) to acquire NEGT's equity interests in 12 power plants, certain operating and management contracts and a natural gas pipeline for $656 million. NEGT's indirect ownership interest in and management contract for the MASSPOWER Project are included in the sale to Goldman Sachs.

Mid-Georgia Project

Description

The Mid-Georgia Project, a 308 MW dual-fuel, combined-cycle, cogeneration plant located approximately 100 miles south of Atlanta in Kathleen, Georgia, commenced commercial operation in June 1998 as a QF. The Mid-Georgia Project is owned by Mid-Georgia Cogen L.P. ("Mid-Georgia"), a Delaware limited partnership in which Atlantic Holdings indirectly owns a 50% partnership interest and El Paso Corporation ("El Paso") indirectly owns a 50% partnership interest. Mid-Georgia sells its electrical output to Georgia Power, a subsidiary of the Southern Company, and its process steam to Frito-Lay, Inc. ("Frito-Lay"). The Project is located adjacent to Frito-Lay's food processing facility on a 9.3 acre site leased from the Houston County Development Authority.

Construction of the Mid-Georgia Project was financed through a series of loans totalling $116.5 million, which mature in 2013 and 2018. As of June 30, 2004, approximately $100.7 million in principal remained outstanding under the loans which is expected to be amortized over their remaining terms.

Distributions to partners are subject to the funding level of required reserve accounts and achieving certain quarterly debt service coverage ratios. The Manager does not currently anticipate that Mid-Georgia will exceed each of the quarterly debt service ratio tests under its financing agreements and as a result, no distributions are projected to be made by Mid-Georgia until retirement of the Project's debt in 2018, although the Manager expects the Issuer to continue to receive operation, maintenance and asset management fees throughout the period.

Capacity and Energy Sales

Power Purchase Agreements

Electrical output is sold to Georgia Power under a 30-year PPA expiring in June 2028 that provides for payments for both capacity and energy. The price for energy is based on: (i) a fuel price, transportation and contract heat rate formula specified in the PPA; (ii) an SO_2 emissions component; (iii) an operations and maintenance component; and (iv) a start-up component. The Project may sell capacity and energy to third parties, subject to a right of first refusal by Georgia Power.

Mid-Georgia and El Paso Merchant Energy have entered into a power purchase agreement of indefinite term to sell any merchant power from the facility under which, from time to time, Mid-Georgia may enter into transactions to sell power to El Paso Merchant Energy at a price to be agreed upon in the future.

Steam Sales Agreement

Mid-Georgia sells process steam to Frito-Lay pursuant to a 22-year energy savings agreement which expires in June 2020. The agreement may be extended for two additional four-year terms at Frito-Lay's option. Under the agreement, Mid-Georgia is obligated to provide all of Frito-Lay's process steam requirements. As a back-up to its auxiliary boiler, Mid-Georgia leases additional boilers from Frito-Lay and is obligated to operate and maintain such boilers for the term of the lease agreement.

Fuel Supply Arrangements

Caithness was recently engaged to assume the fuel management responsibilities for Mid-Georgia after an interest in the Project was acquired by Teton Funding in 2004. Caithness is responsible for arranging natural gas and fuel oil supply, gas transportation and balancing services (the reconciliation of gas usage versus gas delivered) for Mid-Georgia through agreements with local fuel oil suppliers, the Municipal Gas Authority of Georgia and the City of Warner Robins.

Pursuant to the PPA, Mid-Georgia maintains the ability to operate each of its combustion turbines on fuel oil instead of natural gas in the event natural gas is not available. To operate, the fuel oil must have an ultra low sulfur content (less than 0.05%). The Project includes a 500,000 gallon oil storage tank with high volume off-loading capability.

Operations & Maintenance

An affiliate of Caithness is responsible for the operations and maintenance of the Project pursuant to one of the Caithness O&M Agreements.

Onondaga Project

Description

The Onondaga Project, a 91 MW dual fuel, combined-cycle, cogeneration facility located in Geddes, New York, began commercial operation in December 1993 as a QF. The Onondaga Project is operated by Onondaga Cogeneration Limited Partnership ("Onondaga"), a New York limited partnership in which Atlantic Holdings indirectly owns a 100% economic interest. Ownership of the Project has been assigned by Onondaga to Onondaga County Industrial Development Agency to take advantage of certain tax benefits, and ownership is to revert upon request by Onondaga (or upon the occurrence of certain other events). In 2000, the Project's steam supply obligations were terminated. The Project is no longer a QF, but is now an EWG and currently sells its electrical output into the New York Independent System Operator's ("NY ISO") Zone C capacity and energy markets. The Onondaga Project has no outstanding debt.

Capacity and Energy Sales

Power Purchase Agreement

The Project operates as a merchant generation facility unencumbered by any power or steam sales obligations. The Project is located in NY ISO Zone C and dispatches electricity when the day-ahead electricity price exceeds the Project's marginal operating cost. The Project also sells unforced capacity in the NY ISO — administered capacity auctions.

A swap agreement (the "Onondaga Swap") between NIMO and Onondaga has replaced the Project's original PPA. The Onondaga Swap expires on June 30, 2008. The Onondaga Swap is a financial instrument under which NIMO makes monthly payments to Onondaga based upon the differential between an indexed "contract price" and a market reference price for electricity. The indexed contract price fluctuates in relation to the market cost of natural gas and a prescribed index of inflation. The notional quantity of electricity for the purpose of these calculations is fixed for the full 10-year term of the Onondaga Swap.

In May 2004, Onondaga contributed the Onondaga Swap to a newly formed wholly-owned special purpose subsidiary, Onondaga Power Swap Holdings, LLC ("SwapCo"). Onondaga has guaranteed Swapco's obligations to NIMO under the Onondaga Swap. Also in May 2004, SwapCo entered into commodity hedges with Constellation Power Source, Inc. ("CPS"), a subsidiary of Constellation Energy Group, Inc., in order to lock in favourable gas, power and capacity pricing under the Onondaga Swap. The hedges extend from June 1, 2004 through June 30, 2008 and remove almost all commodity exposure from the Onondaga Swap through its term.

Fuel Supply Arrangements

Onondaga has entered into three gas transportation agreements to provide natural gas transportation service to the Project, firm arrangements with Dominion Transmission Inc. ("DTI") and ANR Pipeline Company ("ANR") and a limited interruptible arrangement with NIMO. The DTI and ANR contracts provide for fixed monthly demand charges in addition to variable commodity charges based upon the quantity of gas transported. The NIMO transport contract has an annual minimum payment obligation. Under the NIMO transport contract, Onondaga has issued a letter of credit in favour of NIMO in the amount of $550,000. The letter of credit must be maintained during the term of the NIMO transport contract and is cash collateralized.

Caithness engaged Cargill, Incorporated to provide fuel management services for the project including fuel purchasing, nominations, scheduling, and balancing services. The contract currently operates on an interim basis, and the Manager expects Caithness will recontract this fuel management service when the contract expires on October 31, 2004. Onondaga is permitted to operate each of its combustion turbines on fuel oil instead of natural gas for up to 1,752 hours per year under the terms of the Project's air permit. The Project includes a 380,000 gallon oil storage tank.

Operations & Maintenance

An affiliate of Caithness is responsible for the operations and maintenance of the Project pursuant to one of the Caithness O&M Agreements.

Orlando Project

Description

The Orlando Project, a 126 MW natural gas-fired combined-cycle cogeneration facility located in an industrial park near Orlando in Orange County, Florida, commenced commercial operation in September 1993 as a QF. The Orlando Project is owned by Orlando CoGen Limited, L.P. ("Orlando"), a Delaware limited partnership in which Atlantic Holdings indirectly owns a 50% partnership interest and Northern Star indirectly owns a 50% partnership interest. The Project is situated on a four acre site located adjacent to an air separation facility owned by Air Products and Chemicals, Inc. ("APCI") which serves as the Project's steam off-taker. Orlando sells all of its electric output to Progress Energy and Reedy Creek Improvement District ("Reedy Creek") pursuant to long-term PPAs and chilled water to APCI to improve the efficiency of its air separation unit.

In 1992, Orlando entered into a $84.6 million non-recourse financing due October 2008 to finance the construction of the Project. As of June 30, 2004, approximately $31.2 million in principal remained outstanding under the financing which is expected to be amortized over its remaining term.

Capacity and Energy Sales

Power Purchase Agreements

Orlando has entered into a 30-year contract to sell electrical capacity and energy to Progress Energy which expires on December 31, 2023. Orlando is obligated to sell and deliver a committed capacity of 79.2 MW and has committed to a 93% on-peak capacity factor. Orlando receives a monthly capacity payment based on achieving the on-peak capacity factor and a monthly energy payment based on the total amount of electric energy actually delivered to Progress Energy. The capacity payment is a fixed payment escalating at 5.1% annually and is reduced whenever the on-peak capacity factor is below 93%, calculated on a 12-month rolling average basis. Energy payments are based on the amount of energy delivered during the on-peak hours and off-peak hours during a month.

Orlando has entered into a 20-year contract to sell electrical capacity and energy to Reedy Creek, a municipal district serving the Walt Disney World complex, which expires in 2013. Orlando is obligated to sell and deliver 35 MW of electricity and has committed to a 93% average capacity factor. Orlando receives a monthly capacity payment based on the actual average capacity factor and a monthly energy payment based on the total amount of electric energy actually delivered to Reedy Creek. This PPA may be extended for an additional 10-year term upon the consent of both parties. The capacity payment is a fixed rate that escalates at 4.5% annually and is based upon achieving a 93% average capacity factor (calculated on a three-year rolling average basis). The agreement provides both incentive and penalty provisions for performance above and below a 93% average capacity factor, respectively. Reedy Creek reimburses Orlando for a portion of the Florida Gas reservation charges associated with the firm gas transportation agreement.

Steam Sales Agreement

Orlando has entered into an agreement with Air Products Manufacturing Corporation ("APMC"), a wholly-owned subsidiary of APCI, to supply chilled water to its cryogenic air separation facility. Orlando has the right to deliver up to 35,000 lbs/hr of steam for use in the chiller and does not have any minimum steam delivery requirements beyond the thermal and efficiency requirements required to maintain QF status pursuant to PURPA. Orlando is required to purchase its nitrogen requirements from APMC, but does not have a minimum purchase requirement. Both the purchase price of nitrogen and the sales price of chilled water produced using steam from the Project are at fixed prices that escalate at the percentage increase/decrease in the producer price index.

Fuel Supply Arrangements

Orlando has entered into 20-year gas supply agreements with affiliates of Northern Star expiring on December 31, 2013. These companies have back-to-back agreements with an affiliate of Orlando Power Holdings, LLC ("Orlando Power") which provide for the purchase and supply of natural gas from Vastar Gas Marketing, Inc. ("Vastar"), which is a wholly-owned subsidiary of BP Energy Company. Under the agreements, which expire on December 31, 2013, Vastar is obligated to provide Orlando Power with Orlando's entire daily natural gas requirement. Orlando's purchase price is tied to the coal-based and fixed escalators used for calculating the energy payments under the PPAs. Orlando also holds a gas supply agreement with TECO which is currently not utilized by the Project. Pursuant to this agreement, Orlando pays TECO for all gas consumed by the Project (whether or not supplied under the agreement with TECO). This agreement may be terminated by Orlando on July 31, 2010.

Orlando has entered into two 20-year gas transportation agreements expiring on July 31, 2010 with Peoples Gas for the delivery of natural gas to the Project. Peoples Gas has entered into 20-year back-to-back agreements with Florida Gas for the delivery of natural gas to the Project. If requested by Orlando, Peoples Gas will use its best efforts to extend or renew its firm transportation agreement with Florida Gas and, if Peoples Gas secures such an extension or renewal, the terms of both gas transportation agreements will be similarly extended. Transportation costs under the agreements are determined by Florida Gas' rate schedule as filed with FERC. These agreements became effective on March 1, 1995 and provide for the transportation of up to 23,600 MMBtu per day to the Project.

Operations & Maintenance

The Project is operated and maintained by an affiliate of Northern Star pursuant to a 30-year operations and administrative services agreement expiring on December 31, 2023. If the Progress Energy PPA is extended beyond December 31, 2023, this agreement may be extended, at the operator's option until December 31, 2033. The operator is compensated on a cost-reimbursement basis plus a fixed general and administrative charge. In addition, the operator is entitled to receive an incentive fee equal to a percentage of the excess of Orlando's operating cash flow after deducting originally anticipated maintenance capital and anticipated debt service. In 1997, Orlando entered into a maintenance agreement with ABB Power Generation Inc. ("ABB") pursuant to which ABB receives a monthly fee from the partnership and additional fees in certain circumstances. The agreement expires upon the completion of the third major inspection and overhaul of the gas turbine which is scheduled to take place in 2005.

The Orlando Project experienced a failure of its main generator step up transformer on June 16, 2004, resulting in a temporary shutdown of the facility. Further analysis has determined that the failure of a high voltage bushing was the cause of the problem. Northern Star has advised that it believes that this event falls within the definition of a *force majeure* event under both the Progress Energy and Reedy Creek PPAs. Orlando arranged for the purchase of two smaller transformers that are connected in parallel. The two transformers were installed in early August, which allowed the Project to return to service in August 2004. The Project has been operating normally since its return to service. Insurance proceeds are expected to cover the repair and the Project's loss is expected to be limited to lost power sales margin for the duration of the 54-day outage.

Pasco Project

Description

The Pasco Project, a 109 MW dual fuel, combined-cycle, cogeneration plant located in Dade City, Florida, commenced commercial operations in July 1993 as a QF. The Pasco Project is owned by Pasco Cogen, Ltd. ("Pasco"), a Florida limited partnership in which Atlantic Holdings indirectly holds a 49.9% partnership interest, an affiliate of Dana Corp. holds direct and indirect partnership interests totalling 50.089% and an affiliate of TECO Energy Inc. holds a 0.011% indirect partnership interest. Pasco provides firm capacity and energy to Progress Energy pursuant to a PPA that expires on December 31, 2008. Pasco has a thermal agreement which expires in July 2013 providing for the sale of steam to Pasco Beverage Company ("Pasco Beverage"). The Project is situated on a 2.7 acre site, adjacent to Pasco Beverage's fruit juice processing facility, approximately 45 miles north of Tampa, Florida. The Project site is owned by Pasco Beverage and leased to Pasco pursuant to a site lease which expires in July 2013.

Construction on the Pasco Project was financed with two loans totalling approximately $92.6 million, both due December 31, 2008. As of June 30, 2004, approximately $47.8 million in principal of the term loans remained outstanding which are expected to be amortized over their remaining terms.

Capacity and Energy Sales

Power Purchase Agreement

Electrical output is sold to Progress Energy pursuant to a PPA that commenced in July 1993 and expires on December 31, 2008. Revenues from the sale of electricity consist of a payment for capacity, an energy payment generally comprised of a fuel component, a voltage adjustment and an hourly performance adjustment in addition to a special monthly payment scheduled to end in 2006. Capacity payments are subject to the Project maintaining an on-peak capacity factor of at least 90% during on-peak hours (11 hours daily) on a 12-month rolling-average basis. The Project is subject to reductions in its capacity payments should it not achieve the 90% on-peak capacity factor. Progress Energy applies a performance adjustment when its avoided cost exceeds the Project's firm energy payments. Progress Energy also pays Pasco a special monthly payment scheduled to end in 2006 which is not subject to plant performance requirements.

Steam Sales Agreement

Project steam revenues are earned pursuant to a thermal agreement with Pasco Beverage, which commenced on July 1, 1993 and expires in July 2013. Pasco Beverage is required to purchase all of its steam requirements from the Project, to the extent that the Project can meet these requirements.

Pasco Beverage has reduced steam purchases from Pasco to a level below that required for the Project to maintain QF status. In addition, Pasco Beverage has sold portions of its business to other steam users and is expected to cease operations in December 2004.

On September 30, 2004, Pasco filed a petition seeking a temporary waiver of QF requirements for calendar year 2004 and 2005 with FERC. Pasco determined that the steam demands from the current and new steam users were insufficient to reliably maintain QF status. Defaults under the steam purchase agreement, and lack of enforcement by Pasco, may be defaults under Pasco's financing arrangements. In addition, loss of QF status would be a default under Pasco's financing arrangements and its PPA. Such defaults would prevent distributions from being made by Pasco to its partners. Pasco is actively pursuing alternatives to maintain the Project's QF status and has developed a plan for increasing steam demand through the installation of water distillation equipment and the selling of distilled water to counterparties in 2005. The estimated cost of the distillation system is $2.0 million and the Project has reserved sufficient cash to fund its installation. See "Risk Factors — Risks Relating to the Business and the Projects — Operations are Subject to the Provisions of Various Energy Laws and Regulations".

Fuel Supply Arrangements

An affiliate of Duke, is the primary natural gas supplier for Pasco pursuant to a gas supply agreement which terminates in June 2008. Duke provides natural gas at a price that is adjusted monthly to track the PPA's pricing factors, including energy and capacity based components. Pasco is required to make certain payments if at least 80% of the maximum daily quantity specified in the gas supply agreement is not purchased each month. Pasco has not taken the minimum quantity since 2000; however, to date, Duke has not assessed any penalties.

The gas for the Project is transported using firm capacity on the Florida Gas system and interruptible capacity on the Peoples Gas pipeline, from the receipt points on the Florida Gas pipeline to the plant. The gas transportation arrangements expire between 2008 and 2010.

Operations & Maintenance

An affiliate of Caithness is responsible for the operations and maintenance of the Project pursuant to one of the Caithness O&M Agreements.

Rumford Project

Description

The Rumford Project, a 85 MW multi-fuel (coal, wood waste and tire-derived fuel) circulating fluidized bed boiler cogeneration facility located in the town of Rumford, Maine, commenced commercial operation in May 1990 as a QF. The Rumford Project is owned by Rumford Cogeneration Company Limited Partnership ("Rumford"), a Maine limited partnership in which Atlantic Holdings indirectly owns a 24.3% limited partnership interest (an estimated 21.5% economic interest) through its ownership of Teton Funding and an estimated 1.7% economic interest in Rumford through its indirect 18.9% ownership of Javelin, which indirectly owns a 10.2% limited partnership interest (an estimated 9% economic interest) in the Project. Other interests in Rumford are owned by: MeadWestvaco Corporation ("Mead") indirectly through its 30% general partnership interest held by its affiliate, Rumford Cogeneration Inc. ("RCI"); Central Vermont Public Service Corporation indirectly through its 15.1% limited partnership interest; Nichimen Corporation indirectly through its 10.2% limited partnership interest; and Dominion Resources, Inc. indirectly through its 10.2% limited partnership interest. Cash distributions from the Project are split among the partners based on after-tax return hurdles. The Project was constructed for the dual purpose of supplying steam and electricity to an adjacent paper mill owned by a subsidiary of Mead and electricity to Central Maine Power Company ("Central Maine"). Rumford leases the site from Mead and the Project is situated adjacent to the paper mill pursuant to a lease expiring on December 31, 2020. Rumford has no outstanding debt. RCI has an assignable option to purchase all of the limited partnership interests in Rumford at a pre-determined price so that upon completion of any exercise of this option, RCI or any assignee would own 100% of Rumford. This option may be exercised on December 31 of each year until December 31, 2014. The option price is four times the average of the net pre-debt service cash flow over the four years preceding the option exercise date (after removing the lowest figure of the four).

Capacity and Energy Sales

Power Purchase Agreements

Rumford has a 15-year PPA that expires on December 31, 2005 to sell electric energy to Central Maine. Central Maine had the option to extend the term of the PPA for three successive five-year periods, but allowed the option to expire unexercised on July 1, 2004. During the remaining term of the Central Maine PPA, Rumford receives an energy payment based on the sale of 75 MW of power at rates that increase in accordance with a fixed price schedule.

Rumford's performance obligations consist of the achievement of an on-peak capacity factor of at least 45% during any 12-month period and the delivery of at least 487,620 MWh annually to Central Maine. A failure to achieve the minimum on-peak capacity factor can result in a termination of the PPA and the payment of liquidated damages to Central Maine while a failure to achieve the annual minimum results in the payment of liquidated damages to Central Maine. Further, failure to achieve an on-peak capacity factor of at least 80% during any 12-month period can result in a reduction in the rate paid to Rumford for all deliveries of electricity under the PPA.

Rumford has a long-term contract to sell electric energy to Mead that expires on December 31, 2020. The price for energy delivered to Mead pursuant to the PPA is based on the price of steam per MMBtu in the high-pressure steam agreement (described below) and the average rate paid by Mead for electricity purchased from Central Maine.

Rumford is currently evaluating certain power sales options available to it upon the expiration of the Central Maine PPA, including selling up to the Project's maximum output of 85 MW to the adjacent paper mill owned by a subsidiary of Mead. The existing contract with Mead allows for the sale of power to the mill should the Central Maine PPA terminate for any reason. Discussions relating to the potential energy rate under this scenario are in the preliminary stages. Another option being evaluated is the sale of electric energy in the merchant market. However, if subsequent power sales arrangements are not available at prices that permit the operation of the Project on a profitable basis, the Rumford Project may temporarily or permanently cease operations.

Steam Sales Agreements

Rumford has entered into a high-pressure steam purchase agreement with Mead for the sale of steam through December 31, 2020. Under the agreement, Rumford is required to purchase all of the high-pressure steam generated by the "C" recovery boiler of Mead's paper mill (net of Mead's needs for 700 psig steam). Prior to 2003, the price of steam sold to Rumford pursuant to the high-pressure steam sales agreement was a fixed price with an adjustment mechanism that responded to changes in the prices paid by Rumford for fuel, bed medium and ash disposal services. In December 2002, the steam price became fixed and will remain fixed for the remaining term of the agreement.

Rumford has entered into a low-pressure steam sales agreement with Mead for the sale of low-pressure steam to Mead through December 31, 2020. Under the agreement, Mead is required to purchase all of the low-pressure steam generated by the Rumford Project (not to exceed Mead's needs for low-pressure steam). In any event, Mead is obligated to purchase a sufficient quantity of steam to allow Rumford to maintain the Project's status as a QF. Prior to 2003, the price of steam sold to Mead pursuant to the low-pressure steam sales agreement was a fixed price with an adjustment mechanism that responded to changes in the prices paid by Rumford for fuel, bed medium and ash disposal services. In December 2002, the steam price became fixed and will remain fixed for the remaining term of the agreement.

Fuel Supply Arrangements

Subsidiaries of Mead have entered into a coal supply agreement with Massey Coal Sales Company, Inc. for all of the Project's coal supply requirements. The price of coal pursuant to this agreement may be adjusted due to (i) changes in costs for both rail and ocean barge transportation rates; and (ii) a failure to meet certain quality specifications. Delivery of the coal takes place at the Merrills Marine Terminal in Portland, Maine and coal is transported via rail to the plant site pursuant to an agreement with Maine Central Railroad/Springfield Terminal Railway Company. This agreement has expired but the supplier is still supplying transport services and the parties are currently negotiating an extension.

Pursuant to a long-term agreement with Mead and subject to certain quality specifications, Rumford purchases all chips, bark, dust and other forms of wood created by the operation of the mill that cannot be economically utilized in the operation of Mead. In addition, Rumford purchases other forms of waste wood on a spot basis from third party suppliers.

Subsidiaries of Mead have entered into a fixed-price agreement with Sprague Energy Corporation for the purchase of tire-derived fuel that expires in March 2006. Tire-derived fuel typically accounts for between 8.5% and 11.5% of the fuel utilized in the operation of the Project.

Operations & Maintenance

The Rumford Project is operated and managed by an affiliate of Mead subject to the direction and control of the general partner. The management agreement expires on December 31, 2020. The operator receives an operating fee and is eligible for an incentive fee based on production under the Central Maine PPA.

Selkirk Project

Description

The Selkirk Project, a 345 MW dual-fuel, combined-cycle, cogeneration plant located in the Town of Bethlehem in Albany County, New York, commenced commercial operation in 1994 as a QF. The Selkirk Project is owned by Selkirk Cogen Partners, L.P. ("Selkirk"), a Delaware limited partnership in which Atlantic Holdings estimates that it is entitled to an 18.5% economic interest in the cash flow and NEGT, Cogentrix Energy, Inc., affiliates of The McNair Group and Fort Point Power LLC (an affiliate of ArcLight) own the remainder. Each of the Selkirk partners has an interest in cash distributions by Selkirk which changes when certain Selkirk partners achieve a specified return on their contributions to Selkirk. The cash distributions are divided into three levels: (i) distributions in fixed amounts payable to the Selkirk partners in proportion to their equity contributions during an initial period extending until such specified return is achieved (the "Selkirk Level I Distributions"); (ii) distributions of the Selkirk available cash remaining after payment of the Selkirk Level I Distributions; and (iii) distributions after the expiration of such initial period. The 15.7 acre project site is leased by Selkirk from GE and is situated adjacent to a GE plastics manufacturing plant. The Project includes two units: Unit I sells output to both NIMO and third parties; and Unit II sells output to Consolidated Edison, Inc. ("Consolidated Edison"). Steam is sold to GE. Pursuant to the right of first offer granted to Atlantic Holdings by Fund I, Atlantic Holdings has the right to acquire an additional economic interest in the cash flow of the Selkirk Project currently held by Fund I through Fort Point Power LLC currently estimated at 22.8%. See "Atlantic Power Corporation — Issuer's Objectives and Business Strategy — Opportunity to Purchase ArcLight Projects".

On December 12, 1994, Selkirk refinanced its existing debt with the issuance by Selkirk Cogen Funding Corporation, a wholly-owned subsidiary of Selkirk, of $165 million of 8.65% First Mortgage Bonds due 2007 and $227 million of 8.98% First Mortgage Bonds due 2012. As of June 30, 2004, approximately $95.3 million remained outstanding on the 8.65% First Mortgage Bonds and approximately $227 million remained outstanding on the 8.98% First Mortgage Bonds, each of which is expected to be amortized over the remaining term of the respective bonds. Under Selkirk's financing agreements, if Selkirk has not satisfied certain conditions with the respect to the extension or replacement of its firm gas supply agreements by December 26, 2004, cash otherwise available for distribution to Selkirk's partners will be required to be deposited into a separate account until the balance in the account is sufficient to fund all scheduled principal repayments on Selkirk's outstanding bonds from June 26, 2010 through June 26, 2012. Selkirk has commenced discussions with its fuel suppliers regarding the extension of its firm gas supply agreements and is considering all of its financial options.

Capacity and Energy Sales

Power Purchase Agreements

Selkirk has a PPA that expires on July 1, 2008 to sell electric capacity and energy from Unit I to NIMO. The Unit I PPA provides for a monthly contract payment which is comprised of four indexed pricing components: a capacity payment, an energy payment, a transportation payment and an operations and maintenance payment. The capacity payment, transportation payment, operations and maintenance payment and a fixed portion of the energy payment are payable regardless of whether Selkirk sells energy or capacity. The variable portion of the energy payment varies with the quantities of energy and capacity actually sold. Selkirk retains the right to sell Unit I energy and associated capacity at the prevailing market price which mitigates the impact of any payments that may be required to be made during periods of high market prices. NIMO has a right of first refusal to purchase energy and/or capacity up to the applicable monthly contract quantity during the term of the Unit I PPA at the market energy price and, if applicable, the market capacity price.

Selkirk also has a PPA to sell electric capacity and energy from Unit II to Consolidated Edison. This PPA expires on September 1, 2014, subject to a 10-year extension at the option of Consolidated Edison under certain conditions. The Unit II PPA provides for a capacity payment, a fuel payment, an operations and maintenance payment and a wheeling payment. The capacity payment, a portion of the fuel payment, a portion of the operations and maintenance payment and the wheeling payment are fixed charges to be paid on the basis of plant availability.

Steam Sales Agreement

Selkirk is obligated to sell up to 400,000 lbs/hr of thermal output of Units I and II for use as process steam at the GE plant located adjacent to the Project through September 1, 2014. Selkirk charges GE a nominal price for steam in an amount up to the annual equivalent of 160,000 lbs/hr during each hour in which the GE plant is in production. Steam sales in excess of this amount are priced at GE's avoided variable direct cost, subject to an annual "true-up" to ensure that GE receives the annual equivalent of the discounted quantity at nominal pricing. GE is required to purchase the minimum thermal output necessary for Selkirk to maintain its QF status.

Fuel Supply Arrangements

To supply natural gas for Unit I, Selkirk has entered into a gas supply agreement expiring on November 1, 2007 with Paramount Resources Ltd. on a firm 365-day per year basis. To supply natural gas for Unit II, Selkirk entered into gas supply agreements with Imperial Oil Resources Limited, EnCana Corporation and Producers Marketing Ltd., each on a firm 365-day per year basis. Each contract expires on November 1, 2009.

Long-term contracts for the transportation of Units I and II natural gas volume on a firm 365-day per year basis have been executed with TransCanada Pipelines Limited, Iroquois Gas and Tennessee Gas. Each of the Unit I and II gas transportation contracts expire on November 1, 2012 and November 1, 2014, respectively.

Units I and II have the capability to operate on fuel oil and are able to switch fuel sources from natural gas to fuel oil and back without interrupting the generation of electricity. Selkirk's air permit allows the facility to burn oil for a maximum of 2,190 hours per year at full capacity. The Project has on-site storage for approximately 910,000 gallons of fuel oil, a supply sufficient to run all three combustion turbines for one and one half days at full capacity without refilling. The Project site is approximately five miles from the Port of Albany, New York, a major oil terminal area. Additionally, several major oil companies supply fuel oil in the Albany area through leased storage or throughput arrangements.

Operations & Maintenance

GE operates the Selkirk Project under an operations and management agreement expiring on October 31, 2007. The agreement provides for a fixed fee, a pass-through of management costs and a performance bonus. Management services for Selkirk are provided by JMCS I Management, Inc. ("JMCS"), an affiliate of NEGT, under an administrative services agreement. The term of the agreement is 20 years and expires in September 2014 unless terminated earlier in accordance with its terms. JMCS is entitled to compensation under the agreement which is subject to renegotiation every four years and provides for the full recovery of JMCS' actual costs and properly allocated overhead plus a reasonable fee which must be approved by all of the Selkirk partners.

Despite the NEGT Bankruptcy, neither Selkirk nor JMCS has filed for bankruptcy protection and each has been performing its obligations under Project contracts without interruption. The Manager believes that such parties will not be substantively consolidated with NEGT in any bankruptcy proceedings involving NEGT and that the NEGT Bankruptcy will not have a material adverse impact on the Project's operations. However, the Manager cannot be certain that the NEGT Bankruptcy will not affect NEGT's arrangements with respect to the Project or the ability of JMCS to perform its obligations under the administrative services agreement. On May 3, 2004, the U.S. Bankruptcy Court for the district of Maryland approved NEGT's plan of reorganization, but the company has not yet emerged from bankruptcy protection. On September 15, 2004, NEGT announced that it had entered into a definitive purchase agreement with a subsidiary of Goldman to acquire NEGT's equity interests in 12 power plants, certain operating and management contracts and a natural gas pipeline for $656 million. NEGT's indirect ownership interest in and management contract with the Selkirk Project are included in the sale to Goldman.

Stockton Project

Description

The Stockton Project is a 55 MW solid fuel-fired cogeneration facility located in Stockton, California that commenced commercial operation in March 1988 as a QF. The Stockton Project is owned by Stockton CoGen Company ("Stockton"), a California general partnership in which Atlantic Holdings indirectly holds a 50% partnership interest and APCI holds a 50% partnership interest. The majority of the Project's electricity is sold under a 20-year PPA with PG&E that expires in February 2008. In addition, steam and electric energy are supplied to Corn Products International, Inc. ("Corn Products") under a 20-year energy supply contract expiring in February 2008. The Project is located adjacent to Corn Products' corn wet-milling plant on a 9.5 acre industrial site that is leased from Corn Products. A ground lease was executed in 1986 with a base lease term of 20 years, which runs the duration of the Corn Products energy supply contract. Stockton has the option of extending the site lease term for a period of five years at the maturity of the Corn Products energy supply contract term. The Stockton Project has no outstanding debt.

Capacity and Energy Sales

Power Purchase Agreements

Stockton has two purchase agreements for electrical output from the Project: (i) the PG&E PPA, which is a 20-year energy and capacity PPA that expires in February 2008; and (ii) the Corn Products energy supply contract, which provides for the sale of both electricity and steam and is for a term of 20 years coinciding with the PG&E PPA.

Electric power generated by the Stockton Project is sold to PG&E pursuant to a PPA expiring in 2008. The PG&E PPA provides for monthly capacity and energy payments, and Stockton is entitled to receive a performance bonus if the average on-peak capacity factor, net of allowed forced outages and scheduled maintenance outages, exceeds 85%. The PPA also provides for an annual average energy price through July 15, 2006, subject to time of use adjustments. After July 15, 2006, the Manager believes the energy price will change to PG&E's short-run avoided cost calculated in accordance with a short-run avoided cost formula adopted by the California Public Utilities Commission, whose calculation of short-run avoided cost primarily takes into account spot natural gas prices.

Steam Sales Agreement

Under the Corn Products energy supply contract, the Stockton Project supplies up to 130,000 lbs/hr of steam and 6,200 kW of electricity to the Corn Products facility. Corn Products pays Stockton a monthly base product charge. The Corn Products energy supply contract requires Corn Products to pay monthly energy charges for back-up steam and electric power, provided the Project has satisfied its minimum requirement for availability.

Fuel Supply Arrangements

The Project's boiler system is capable of burning several solid fuels, including coal, petroleum coke and tire-derived fuel. This diverse solid fuel mix provides opportunities to source fuel from several suppliers and provides cost advantages through controlled blending for optimal performance. Stockton has experienced success in blending fuels to minimize cost and maintain efficiency.

Stockton purchases coal from two coal supply contracts that expire in December 2004 and September 2006. Stockton also blends petroleum coke with coal to reduce fuel costs and has one and two-year contracts with two major northern California suppliers of coke expiring on December 31, 2004 and March 31, 2005. Although petroleum coke does have a higher sulfur content than most coals, the Project can incorporate it up to 45% (by volume) into the overall fuel supply and still operate within its air quality permit emissions requirements.

The Project also utilizes tire-derived fuel for up to 10% of its fuel mixture. Tire-derived fuel has a high carbon content and provides an excellent source of lower-cost energy for the Project. Stockton purchases tire-derived fuel from Golden By-Products, Inc. under an agreement that expires on December 31, 2004. This contract has been in place since April 1999. It had an original term of three years and is renewable annually subject to mutual agreement on price and quantity of tire-derived fuel.

As an alternative to landfill disposal, Stockton has established programs with several local companies for the beneficial reuse of a majority of the ash produced by the Project. Stockton also maintains existing waste hauling and landfill disposal contracts for excess volumes of ash not utilized in beneficial reuse.

Operations & Maintenance

Air Products Energy Enterprises, L.P. ("APEE") a wholly-owned subsidiary of APCI, provides all operating, maintenance and administrative services for the Stockton Project. APEE receives an operating fee, adjusted annually based on inflation and labour indices, for a defined list of costs and expenses incurred. APEE can also earn an annual incentive fee based on Project cash flow which provides an incentive for APEE to control operating costs and maintain high project reliability.

Topsham Project

Description

The Topsham Project is a 14 MW hydroelectric facility located on the Androscoggin River at the Pejepscot dam near Topsham, Maine and commenced commercial operation in 1987 as a QF. The Topsham Project is leased and operated by Topsham Hydro Partners Limited Partnership ("Topsham"), a Minnesota limited partnership. A 100% undivided interest in the Topsham Project and a 100% undivided site interest in the Topsham Project site is owned by a financial institution, in its capacity as owner trustee for the benefit of a subsidiary of Atlantic Holdings (50%) and DaimlerChrysler Services North America LLC (50%) as owner participants. Electrical output is sold to Central Maine under a PPA that expires in 2011. The following discussion deals only with the lease arrangements as they relate to the Atlantic Holdings indirect interest. Pursuant to a sale and lease back transaction, Topsham leases both the 50% Project and 50% site interest until November 17, 2011. At the end of the initial term, or any renewal term, as the case may be, of the Atlantic Holdings lease, Topsham has the option to renew the lease either for a period of two to 15 years at 50% of the average rate for the initial lease term or for a period of two years to as long as December 2070 at the market rate at time of renewal. Further, Topsham has the option to purchase both the Atlantic Holdings 50% Project and site interests on the last day of the initial term or any renewal term. Lease payments made by Topsham are based on certain Project operating cash flows. Certain of such payments are used to pre-pay amounts due under the note used to finance construction of the Project and are applied against a lease balloon payment due in November 2011.

A portion of the monies used to purchase the Project and site interests was borrowed from a financial institution and a secured note was issued representing this indebtedness. Indebtedness under this note is due November 17, 2011. As of June 30, 2004, approximately $7.5 million remained outstanding under the note.

Capacity and Energy Sales

Power Purchase Agreement

Electrical output from the Topsham Project is sold to Central Maine pursuant to a PPA terminating on December 31, 2011. Central Maine has the option to terminate the PPA as of December 31, 2006 through 2010 if, as of December 31, 2005, 2006, 2007, 2008 or 2009, Central Maine does not have the sole right to provide electric service to customers in its now existing franchise territory who account for at least 50% of the total load being serviced on the applicable option date by all suppliers in the territory. If Central Maine exercises this termination option, Central Maine must make a termination payment to Topsham on the effective date of the termination.

Central Maine is required to pay for power generated by the Topsham Project based on a fixed-price schedule through December 2011.

Operations & Maintenance

Topsham operates the Project and provides all general and administrative services for the Project pursuant to an operation agreement in effect until the earlier of December 31, 2027 or upon Topsham becoming the owner of 100% of the Project and the site, subject to renewal or earlier termination.

INDEPENDENT ENGINEERS' REPORT

Stone & Webster Management Consultants, Inc. ("Stone & Webster") was retained by ArcLight to conduct an independent technical review of the Projects. Stone & Webster is a consulting engineering company based in Houston, Texas that has provided services to the power generation industry since 1907.

In its report dated July 21, 2004, Stone & Webster presented the results of its technical review of the Projects. Each of the power generation facilities was individually reviewed with regard to its overall capacity, availability, performance and operation. In preparing its report, Stone & Webster, among other things: (i) reviewed the operational history of the Projects; (ii) reviewed existing operation and maintenance records, maintenance schedules and capital expenditure budgets; (iii) reviewed and assessed the current condition of the Projects; (iv) evaluated the projected performance (capacity, forced outage rates, heat rates, etc.) based on historical performance, current conditions, general fleet performance, and maintenance plans; (v) evaluated the operating expenses and performance inputs to the financial models provided to Stone & Webster; (vi) reviewed current and projected staffing levels; (vii) reviewed the principal agreements associated with the Projects, generally including the PPAs, steam sales agreements, fuel agreements, and lease agreements; (vii) reviewed the environmental site assessment reports available for the Projects and, with the exception of Koma Kulshan and JPPC, inspected the Project sites in order to assess the presence of site contamination; and (ix) reviewed environmental licences and permits for the Projects (or a listing thereof or public records), to assess that the Projects are with in material compliance with those approvals.

To the extent possible, Stone & Webster also used information and analyses previously prepared by others in the preparation of its independent technical review. This information has been used in conjunction with Stone & Webster's knowledge of the Projects, similar facilities and the power industry.

The following are the principal opinions Stone & Webster has developed after its review of the Projects. For a full understanding of the forecasts, assumptions, considerations and calculations upon which its opinions are based, the report should be read in its entirety. A copy of Stone & Webster's report has been filed with the Canadian securities regulatory authorities and may be examined under the Issuer's profile at www.sedar.com or can be examined at the head office of the Issuer during normal business hours.

On the basis of Stone & Webster's review and analysis of the foregoing and other information described in the report, Stone & Webster is of the opinion that:

(a) The Projects are capable of operating in accordance with the technical requirements of their current PPAs provided the Projects continue to use proper maintenance practices and adhere to the projected operations and maintenance and capital investments programs.

(b) The combined cycle and simple cycle plants utilize well proven and reliable combustion turbine technologies.

(c) Based on a visual inspection conducted during the site visits and from available outage information, the sites Stone & Webster visited appeared to be in good operating condition. The existing plant management and operations personnel appear to be competent and experienced in power plant operations and management.

(d) The projected operations and maintenance expenses, including major maintenance costs, are reasonable and are consistent with other comparable projects and the Projects' historical costs.

(e) Those Projects that are QFs are currently meeting their annual QF requirements with the exception of Pasco. The requirement of Pasco's steam host is decreasing and Pasco may not meet its QF requirements in 2004. This is being monitored and funds have been reserved to install distilled water equipment in 2005. A FERC waiver may be required. See "Project Descriptions — Pasco Project".

(f) The equipment has been operated and maintained in a manner consistent with prudent industry procedures. It is Stone & Webster's opinion that if the Projects continue to follow prudent operating and maintenance procedures, which would include the renewal, replacement or refurbishment of equipment as required with recommendations of the original equipment manufacturers and continued proactive and thorough maintenance planning and execution, the Projects can be expected to be capable of continuing to operate for at least 30 years.

(g) With the possible exception of JPPC, where the environmental permit requirements are not well defined, all material permits to operate the Projects have been obtained. The Projects appear to be in compliance with the operative limits of their environmental permits. If the Projects continue to be operated in accordance with prudent industry practice, then it is reasonable, based on the Projects' historical performance, to expect the Projects will be able to continue to operate in a manner consistent with current permit limits.

(h) The projected annual capacities, heat rates, availabilities and forced outage rates are reasonable and should be achievable provided the Projects continue to use proper maintenance practices and adhere to the projected operations and maintenance and capital investments programs.

(i) The projected revenues of the Projects are reasonable based upon the Stone & Webster's review of the principal agreements associated with the Projects and Stone & Webster's forecasted dispatch and market prices.

(j) The projected operating results of the Projects are a reasonable forecast of the Projects' financial results under base case assumptions.

SUMMARY OF DISTRIBUTABLE CASH FLOW OF THE ISSUER

The following analysis has been prepared by the Issuer on the basis of the information contained in this prospectus and an estimate of the amount of expenses and expenditures that would have been incurred by the Issuer during the 12 months ended June 30, 2004 if the Issuer had been in existence and owned the interests in the Projects described herein during such period. **This analysis is not a forecast or projection of future results. The actual results of the operations of the Issuer for any period whether before or after Closing will differ from the amounts set forth in the following analysis, and such differences may be material.**

Upon completion of the Offering and the transactions described under "Acquisition Agreements", it is expected that the Issuer will incur interest expenses, incremental administrative expenses and taxes that will differ from those contained in the pro forma financial statements of the Issuer that are included elsewhere in this prospectus. Although the Issuer does not have firm commitments for all of these costs, expenses and expenditures and, accordingly, the complete financial impacts of these items are not objectively determinable, the Manager believes that the following represents a reasonable estimate of the amount of cash that would have been available to pay distributions on the IPSs in the form of interest on the Subordinated Notes and dividends on the Common Shares represented thereby for the 12 months ended June 30, 2004 had the Issuer been in existence and owned the interests in the Projects described herein during such period. In order to minimize the impact of fluctuations in the rate of exchange between the Canadian dollar and U.S. dollar, Atlantic Holdings intends to enter into hedging arrangements having the effect of fixing the rates of exchange between the Canadian dollar and U.S. dollar on a rolling five-year basis for substantially all of the amount of cash necessary to service interest on the Subordinated Notes and pay dividends on the Common Shares reflected in the following table.

	12 Months Ended June 30, 2004
	(unaudited) (US dollars in thousands except as otherwise indicated)
Net cash provided by operating activities[1]	$ 49,516
Adjustments	
Elimination of lease payments[2]	16,035
Distributions received[3]	10,111
Elimination of interest expense[4]	2,481
Reduction in insurance premiums[5]	1,598
Elimination of non-recurring items[6]	(2,336)
Adjusted net cash provided by operating activities	$ 77,405
Management believes the following items will reduce the amount available for distribution by the Issuer:	
Project operator fees and expenses[7]	$ (2,063)
Management fees and administrative expenses[8]	(2,438)
Interest expense on the Credit Facility[9]	(879)
Purchase of property, plant and equipment	(680)
Cash available to service Subordinated Notes and pay dividends on Common Shares[10]	$ 71,347
Interest on Subordinated Notes	(•)
Dividends on Common Shares[11]	(•)
Remaining cash[12]	$ •
Summary of distributable cash per IPS[10]	
Interest on Subordinated Notes per IPS	$ •
Dividends on Common Shares per IPS	•
Distributable cash per IPS	$ •
Estimated hedge rate (Cdn$ per US$)[13]	•
Distributable cash per IPS (Cdn$)	$ •

(1) Net cash provided by operating activities for the 12 months ended June 30, 2004 is obtained from the Combined Statements of Cash Flows of SaleCo and Teton Funding in this prospectus and is summarized as follows:

Six months ended June 30, 2004	$ 30,514
Year ended December 31, 2003	35,969
Six months ended June 30, 2003	(16,967)
	$ 49,516

(2) Represents the pro forma elimination of lease payments associated with the acquisition of the lessor interest in the Lake project by Umatilla Power Funding, LLC which occurred on September 23, 2004.

(3) Represents distributions received from the Issuer's interests in the Delta-Person Project, Javelin Energy LLC and the MASSPOWER Project as well as a cash flow interest in the Onondaga Project and a 1.25% partnership interest in the Badger Creek Project not historically consolidated with SaleCo or Teton Funding.

(4) Represents the elimination of interest expense associated with the senior secured debt of Teton Funding (originally incurred on March 12, 2004) which will be repaid with proceeds of the Offering.

(5) Represents Atlantic Holdings' share of the reduction of insurance premiums associated with the replacement of insurance contracts at the Lake, Mid-Georgia, Onondaga, Pasco and Stockton Projects.

(6) Represents the elimination of a one-time receipt of a cash settlement of a property tax dispute involving the Lake Project offset by the non-recurring costs incurred by Aquila East Coast Generating, LLC (now doing business as Teton East Coast Generating, LLC) and Aquila Fuels Mid-Georgia, LLC (now doing business as Teton Fuels Mid-Georgia, LLC) which are consolidated with Teton Funding.

(7) Represents the project operator fees and expenses paid to affiliates of Caithness Energy, LLC for services provided to the Lake, Mid-Georgia, Onondaga and Pasco Projects as well as asset management services to Teton Funding.

(8) Represents the fees paid to the Manager and the Manager's estimates of the costs it will incur in providing management services to Atlantic Holdings and the Issuer and its estimate of incremental operating costs that will be incurred by Atlantic Holdings and the Issuer.

(9) Represents expected interest payments on the Credit Facility based on average outstanding balances.

(10) Calculated on a fully-diluted basis.

(11) Assumes dividends are paid at a rate of $ • (Cdn $ •) per Common Share per year.

(12) Represents cash that would have been available for deposit into the Reserve Account.

(13) Estimated hedge rate based on the arithmetic average of the forward rate of exchange for the 12 month period ending • , 2005.

SELECTED FINANCIAL INFORMATION

The following tables set out selected historical consolidated financial information of SaleCo and Teton Funding for the periods indicated. The annual and interim financial information for SaleCo and the interim financial information for Teton Funding has been derived from their financial statements contained in this prospectus. The selected financial information for SaleCo and Teton Funding have been prepared in accordance with U.S. GAAP. See Note 16 to the audited financial statements of SaleCo and the unaudited consolidated financial statements of Teton Funding for a reconciliation to Canadian GAAP. See "Meaning of Certain References".

Teton Power Funding, LLC/UtilCo SaleCo LLC

	Six Months Ended June 30		Years Ended December 31	
	2004	2003	2003	2002
	(unaudited)			
	(U.S. dollars in thousands)			
Income Statement Information				
Revenues before Onondaga index swap adjustment	$ 24,742	$ 26,285	$ 51,032	$ 58,886
Onondaga index swap fair market adjustment	(14,795)	21,439	17,961	36,708
Revenues	9,947	47,724	68,993	95,594
Total operating expenses	27,761	31,763	71,926	75,968
Total equity in earnings from partnerships	18,977	23,819	38,846	52,290
Total other income (expense)	(3,381)	(584)	(774)	(2,179)
Cumulative effect of change in accounting principle	0	(13)	(13)	(7,763)
Net income (loss)	$ (2,218)	$ 39,183	$ 35,126	$ 61,974
Balance Sheet Information				
Cash and cash equivalents	$ 9,133		$ 49,033	$ 27,611
Restricted cash	10,557		14,173	10,213
Total assets	$296,603		$437,241	$416,761
Cash Flow Statement Information				
Net income (loss)	$ (2,218)	$ 39,183	$ 35,126	$ 61,974
Adjustments to reconcile net income to cash provided by operating activities:	32,732	(22,216)	843	(21,521)
Net cash provided by operating activities	$ 30,514	$ 16,967	$ 35,969	$ 40,453
Purchase of property, plant and equipment	$ (419)	$ —	$ (261)	$ (3,159)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management discussion and analysis of financial condition and results of operations should be read in conjunction with the audited financial statements of SaleCo for the years ended December 31, 2003 and 2002, the unaudited financial statements of SaleCo for the six months ended June 30, 2003 and the period beginning January 1, 2004 and ended March 12, 2004 and the unaudited financial statements of Teton Funding for the period beginning March 13, 2004 and ended June 30, 2004 (collectively, the "Financial Statements"). This management discussion and analysis only relates to Teton Funding and SaleCo as predecessor to Teton Funding. All amounts described in this management discussion and analysis of financial condition and results of operations are in thousands of U.S. dollars.

The Financial Statements have been prepared in accordance with U.S. GAAP, which, in all significant respects, conforms with Canadian GAAP except as described in the notes to the Financial Statements. This management discussion and analysis of financial condition and results of operations also contains forward-looking statements, which are subject to a variety of factors that could cause actual results to differ materially from those contemplated by these statements. See "Forward-Looking Statements". Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described under "Risk Factors".

Overview

SaleCo was a group of investments previously owned by Aquila, Inc. ("Aquila"). Aquila chose to group these projects into SaleCo as part of its reorganization effort. On November 12, 2003, Teton Funding entered into a purchase and sale agreement with Aquila to purchase SaleCo for $300,900 subject to certain pre- and post-closing adjustments. On March 12, 2004, Teton Funding completed its acquisition (the "Acquisition") of SaleCo for approximately $256,888 (the "Acquisition Price") and funded the acquisition by borrowing $195,000 of long-term acquisition debt (the "Acquisition Debt") and with a capital contribution from Fund I and Fund II (the "ArcLight Funds"). SaleCo and Teton Funding were subsequently merged, with the successor entity continuing to be known as Teton Funding. Teton Funding, through the ownership of interests in a number of limited liability companies and limited partnerships, owns interests in 12 of the Projects.

Teton Funding is comprised of the following wholly-owned and/or controlled entities:

- Badger Power Generation I, LLC and Badger Power Generation II, LLC, which together are 97% limited partners and 0.5% general partners in Badger Power Associates, L.P. ("BPA"). BPA is a 50% general partner in Badger Creek.
- Baker Lake Hydro, LLC and Olympia Hydro, LLC, which together are 99% limited partners and 0.5% general partners in Concrete Hydro Partners, L.P. ("Concrete"). Concrete is a 49% limited partner and 1% general partner in Koma Kulshan.
- Lake, which owns and operates a 110 MW cogeneration energy project in Lake County, Florida. Lake is 99.9% owned by Teton Funding through NCP Lake Power, LLC, Lake Investment, L.P., and NCP Gem, LLC and a 50% limited partnership interest in Lake (formerly owned by New Lake Corporation) and is consolidated into Teton Funding's financial statements.
- MEP Rumford, LLC, which is a 24.3% limited partner in Rumford.
- NCP Dade Power, LLC and NCP Pasco, LLC which together are 1% general partners and 48.9% limited partners in Pasco through their 100% ownership of Dade Investment, L.P.
- NCP Houston Power, LLC and NCP Perry, LLC which together are 1% general partners and 49% limited partners in Mid-Georgia.
- Onondaga, which owns and operates a 91 MW cogeneration project in Geddes, New York. Onondaga is 100% controlled by Teton Funding through Geddes II LLC and Geddes Cogeneration LLC and is consolidated into Teton Funding's financial statements.

- Orlando Power Generation I, LLC and Orlando Power Generation II, LLC, which together are a 50% general partner in Orlando.
- Rockfort Power Cayman Island LLC, which has an indirect 24.1% interest in JPPC through its wholly-owned subsidiary, Rockfort Power (Belize) Inc.
- Stockton Cogen (II), LLC which is a 50% general partner in Stockton.
- Teton Fuels Mid-Georgia, LLC, which provides fuel services to Mid-Georgia.
- Teton Operating Services, LLC, which provides operations and maintenance services to Lake, Mid-Georgia, Onondaga and Pasco.
- Teton Selkirk, LLC, which is a 13.6% limited partner in Selkirk.
- Topsham Hydroelectric Generating Facility Trust No. 2, which owns an undivided interest in Topsham Hydro Assets. The assets owned by the trust are accounted for as a leveraged lease. Teton Funding holds a 50% lessor interest in Topsham.

Critical Accounting Policies and Estimates

Teton Funding's combined financial statements include all operating divisions and majority-owned subsidiaries for which Teton Funding maintains controlling interests. Teton Funding uses equity accounting for investments that it does not control.

Due to the Acquisition on March 12, 2004, Teton Funding revalued its assets and liabilities based upon the Acquisition Price paid for SaleCo by Teton Funding under the purchase method of accounting. Based upon such revaluation, the total assets and liabilities were reduced by $140,638 when comparing the December 31, 2003 total asset balance of $437,241 versus the June 30, 2004 total asset balance of $296,603.

The Onondaga Project has an indexed swap agreement (the "Onondaga Swap") with NIMO expiring in June 2008 based upon a notional quantity of electricity. The Onondaga Swap is a financial instrument under which NIMO makes monthly payments to Onondaga based upon the differential between an indexed "contract price" and a market reference price for electricity. The Onondaga Swap is accounted for as a trading instrument and is recorded at fair value based on certain assumptions, which include forecasting future energy prices, inflation rates, discount rates, and counterparty credit risk. In May 2004, subsidiaries of the Onondaga Project entered into commodity hedges with CPS designed to reduce the future volatility of the Onondaga Swap and lock in favourable gas, energy and capacity pricing.

The Onondaga Project has certain long-term gas transportation agreements to provide natural gas transportation service to the Project through the year 2013. The Onondaga Project's obligations related to operating the Project and the long-term gas transportation agreements were recognized as liabilities in purchase accounting upon the acquisition of Onondaga Project by SaleCo. These obligations are being relieved over the remaining life of the contracts.

At one time Enron Corporation ("Enron") was entitled to receive 12.5% (which increases to 24% beginning on July 1, 2008) of cash available to be distributed by the Onondaga Project to partners through December 31, 2019 (the "Cash Flow Interest"). In 2003, Split Rock Holdings, LLC, ("Split Rock"), a wholly-owned subsidiary of Fund I, was assigned the Cash Flow Interest by Enron. SaleCo had historically accounted for the Cash Flow Interest as partnership fees of the Onondaga Project. The Financial Statements of Teton Funding account for the Cash Flow Interest as a minority equity interest in the Onondaga Project. As a result of the transactions contemplated by this prospectus, the Cash Flow Interest will be terminated.

The following items have been excluded from the Financial Statements:

- *Income taxes:* Teton Funding and its subsidiaries are treated as limited liability companies ("LLCs") which are pass-through or disregarded entities for U.S. tax purposes. Income tax expenses and related accruals have been excluded from the Financial Statements.
- *Corporate expenses:* Aquila had utilized various employees and assets for the overall management of SaleCo. Expenses for the use of such employees and assets include payroll, benefits, travel, training,

office, accounting, legal and corporate overhead. While some of the expenses are identifiable, other expenses would require subjective allocations. Corporate expenses have been removed from Financial Statements of SaleCo. The Financial Statements of Teton Funding for the period March 13, 2004 to June 30, 2004 reflect the payment of fees to affiliates of Caithness to provide such services to Teton Funding.

Results of Operations

Six Month Period ended June 30, 2004 compared to Six Month Period Ended June 30, 2003

Net income (loss) of Teton Funding for the six-month period ended June 30, 2004 decreased by $41,401 to ($2,218) from $39,183 for the six-month period ended June 30, 2003 due to the following factors:

- Revenues for the six-month period ended June 30, 2004 decreased by $37,777 to $9,947 from $47,724 for the six-month period ended June 30, 2003. The recognition of energy revenue or loss associated with the mark-to-market value of the Onondaga Swap accounted for $36,234 of the decrease in revenues and is a non-cash item for Teton Funding.

- Operating expenses for the six-month period ended June 30, 2004 decreased by $4,002 to $27,761 from $31,763 for the six-month period ended June 30, 2003. The decrease was primarily attributable to a $4,696 decline in operations and maintenance costs caused by lower general and administrative costs at the Lake Project and reduced insurance costs at the Lake and Onondaga Projects and a $2,521 decline in depreciation and amortization due to lower carrying value of investments in partnerships offset by an increase of $2,592 lease expense due to the extension of the Lake facility lease.

- Equity in earnings from partnerships for the six-month period ended June 30, 2004 decreased by $4,842 to $18,977 from $23,819 for the six-month period ended June 30, 2003. The decrease was attributable to lower earnings due to (a) decreased net margin on energy sales at the Mid-Georgia Project, (b) a reduction related to the fair value of its fuel supply arrangement and higher general and administrative costs at the Orlando Project, and (c) significantly higher depreciation and amortization charges at the Rumford Project, offset by (d) higher income due to increased energy prices and gas optimization profits at the Selkirk Project.

- Other income (expense) for the six-month period ended June 30, 2004 decreased by $2,797 to $(3,381) from $(584) for the six-month period ended June 30, 2003. The decrease was primarily due to $2,481 of interest expense associated with Acquisition Debt raised by Teton Funding on March 12, 2004.

Year Ended December 31, 2003 compared to Year Ended December 31, 2002

Net income of Teton Funding for the year ended December 31, 2003 decreased by $26,848 to $35,126 from $61,974 for the year ended December 31, 2002 due to the following factors:

- Revenues for the year ended December 31, 2003 decreased by $26,601 to $68,993 from $95,594 for the year ended December 31, 2002. The recognition of energy revenue or loss associated with the mark-to-market value of the Onondaga Swap accounted for $18,747 of the decrease in revenues in the period and is a non-cash item for Teton Funding. In addition, electricity sales declined by $7,828 in the period reflecting lower power sales at both Onondaga and Lake Projects due to lower energy production of the facilities.

- Operating expenses for the year ended December 31, 2003 decreased by $4,042 to $71,926 from $75,968 for the year ended December 31, 2002. Fuel costs declined by $4,805 during 2003 due to the lower dispatch of the Onondaga and Lake Projects.

- Equity in earnings from partnerships for the year ended December 31, 2003 decreased by $13,444 to $38,846 from $52,290 for the year ended December 31, 2002. The decrease was primarily attributable to an $11,148 decline in equity earnings from the Orlando Project related to the fair value of its fuel supply agreements. Such change in equity earnings is a non-cash item for Teton Funding.

- Other income (expense) for the year ended December 31, 2003 increased by $1,405 to $(774) from $(2,179) for the year ended December 31, 2002.
- The cumulative effect of change in accounting principles was $(13) for the year ended December 31, 2003 as compared to $(7,763) for the year ended December 31, 2002. Effective January 1, 2002, the Onondaga Project adopted Emerging Issues Task Force ("EITF") 02-03, which required it to change the accounting method used for one of the gas transportation agreements to the accrual basis of accounting from its accounting as an energy trading contract under EITF 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management. The cumulative effect of this accounting change was a loss of $7.8 million recorded in 2002.

Cash Flow from Operations

Net cash provided by operating activities of Teton Funding for the six-month period ended June 30, 2004 was $30,514, an increase of $13,547 from $16,967 for the six-month period ended June 30, 2003. The increase was primarily due to $6,117 of increased distributions from investments in the JPPC, Orlando and Selkirk Projects and the receipt of a refund of $2,573 for property taxes from the Lake County Tax Collector for years 1999 through 2002.

Net cash provided by operating activities of Teton Funding for the year ended December 31, 2003 was $35,969, a decrease of $4,484 from $40,453 for the year ended December 31, 2002. The decrease was primarily due to a $3,245 reduction in distributions from investments in the Badger, Orlando and Stockton Projects, partially offset by increases from the Rumford and Selkirk Projects.

Liquidity and Capital Resources

Cash and cash equivalents: The composition of cash and restricted cash balances at Teton Funding is summarized below:

	As at December 31, 2003	As at December 31, 2002	As at June 30, 2004
	(in thousands of U.S. dollars)		
Cash and cash equivalents	$49,033	$27,611	$ 9,133
Restricted cash	14,173	10,213	10,557
Total cash and restricted cash	$63,206	$37,824	$19,690

Teton Funding management intends to significantly reduce total cash and restricted cash held at Teton Funding versus the past practices of SaleCo management with the intention of using such funds to pay down debt or pay dividends to owners.

Below are the contractual obligations of Teton Funding and its consolidated subsidiaries. This table does not include obligations of equity accounted entities:

	Payments Due by Period, 12 months Ending June 30				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-Term Debt	$177,000	$ 1,950	$ 3,900	$ 3,900	$167,250
Operating Leases(1)	102,048	16,337	37,068	40,996	7,647
Other Long-Term Obligations(2)	22,466	5,616	11,234	5,616	0
Total Contractual Obligations	$301,514	$23,903	$52,202	$50,512	$174,897

(1) Operating lease at the Lake Project. Not a direct obligation of Teton Funding.

(2) Accrued loss on gas transportation contracts. Not a direct obligation of Teton Funding.

Lake Leases: In August 1993, the Lake Project sold its facility to affiliates of a financial institution, which leased the facility back to the Lake Project with an initial term of 11 years (the "Lake Facility Lease"). Substantially all of the Project contracts were assigned, transferred, or sold to the financial instution upon the sale of the Project. Proceeds from the sale were used to retire the construction financing for the Project and to set up a working capital account. In 2003, the Lake Project renewed the Lake Facility Lease for an additional five-year term ending in 2009. As a result, rent expense has been recorded on a straight-line basis over the remaining term of the 16-year lease period and amounted to $13,998 and $12,505 for the years ended December 31, 2003 and 2002, respectively. In September 2004, Umatilla Power Funding, LLC acquired the Lake Facility Lease. As a result of the transactions contemplated by this prospectus, Atlantic Holdings will own Umatilla Power Funding, LLC.

In addition to the Lake Facility Lease, the Lake Project entered into a 20-year site lease (the "Lake Site Lease") for the land on which the Project is located, which commenced in July 1993 and contains scheduled rent increases. An affiliate of the Lake Project, Teton Lake Land Company, purchased the site from its former owner and receives rent paid under the Lake Site Lease. For the years ended December 31, 2003 and 2002, the Lake Project recorded rent expense, including property taxes, of $360 and $379, respectively, relating to the Lake Site Lease.

Acquisition Debt: On March 12, 2004, Teton Funding borrowed the Acquisition Debt to fund the Acquisition. The Acquisition Debt is secured by a pledge of Onondaga's assets as well as all of the cashflows from Teton Funding's other subsidiaries. The Acquisition Debt matures on March 12, 2011 and carries an interest rate of LIBOR plus 3.25%. At June 30, 2004, $177,000 of the Acquisition Debt remained outstanding.

Capital Expenditures

Capital expenditures increased to $419 for the six-month period ended June 30, 2004, an increase of $419 from $0 for the six-month period ended June 30, 2003. Improvements in operational flexibility of the combustion turbines at the Lake Project account for the majority of the increase in capital expenditures. These capital expenditures do not include expenditures of equity accounted entities.

For the year ended December 31, 2003, capital expenditures amounted to $261, a decrease of $2,898 from $3,159 for the year ended December 31, 2002. The decrease was primarily due to the approximate $2,600 purchase of two distiller units, upgraded distribution control system, and purchased turbine parts at the Lake Project to maintain QF status under its PPA. These capital expenditures do not include expenditures of equity accounted entities.

On a going-forward basis, capital expenditures for consolidated entities are estimated at less than $1,000 per year.

Letters of Credit

Credit-Backed Letters of Credit: On March 12, 2004, Fund II issued the following letters of credit: (i) a $7,376 letter of credit to backstop certain obligations of the Lake Project, (ii) a $6,434 letter of credit on behalf of the Mid-Georgia Project, and (iii) a letter of credit of approximately $7,385 to Lehman Commercial Paper, Inc. associated with the Acquisition Debt (the "Acquisition L/C"). On May 5, 2004, Fund II issued Georgia Power a letter of credit of approximately $2,250 on behalf of the Mid-Georgia Project. On May 10, 2004, Fund II issued a letter of credit of $2,000 to secure certain of the Onondaga Project's obligations.

Cash-Back Letters of Credit: At Onondaga, a $550 letter of credit has been issued in favour of NIMO to collateralize certain obligations of the Onondaga Project under its gas transportation agreement with NIMO (which terminates on June 30, 2008). The letter of credit has been collateralized with a $550 compensating restricted cash account.

Outlook

As a result of the transactions contemplated by this prospectus, the principal changes for Teton Funding will be that: (i) the Acquisition Debt will be repaid with proceeds from the Offering, (ii) lease rents paid under the

Lake Project's Facility Lease will be indirectly received by Umatilla Funding, a subsidiary of Atlantic Holdings, (iii) the Acquisition L/C will be eliminated, (iv) the letters of credit issued by Fund II on behalf of the Lake, the Mid-Georgia and Onondaga Projects will be retired, (v) letters of credit will be issued by Atlantic Holdings on behalf of the Mid-Georgia and Onondaga Projects, (vi) the Lake Project letter of credit will be replaced with a direct guarantee from the Lake Project to Umatilla Power Funding, (vii) the Cash Flow Interest will be terminated, and (viii) unrestricted cash available will be dividended upstream to Atlantic Holdings on a monthly basis.

At the Pasco Project, the Project's steam host, Pasco Beverage, reduced steam purchases to a level below that required for the Pasco Project to maintain QF status. On September 30, 2004, Pasco filed a petition seeking temporary waiver of QF requirements for calendar years 2004 and 2005 with the FERC. Loss of QF status would be a default under Pasco's financing arrangements and its PPA and would prevent distributions from being made by Pasco to its partners. The Pasco Project is actively pursuing alternatives to maintain the Project's QF status and has developed a plan for increasing steam demand through the installation of water distillation equipment and the selling of distilled water to counterparties in 2005.

DIRECTORS, OFFICERS AND MANAGEMENT

The Issuer

Directors of the Issuer

The Issuer's articles of incorporation provide for a minimum of three and a maximum of 15 directors, a majority of whom must be residents of Canada and must be unrelated to the Issuer and its subsidiaries, the Existing Investors and the Manager. Initially, the Issuer will have three directors. The directors of the Issuer are Irving Gerstein, Ken Hartwick and John McNeil, all of whom are unrelated to the Issuer and its subsidiaries, the Existing Investors and the Manager. Directors will be elected at each annual meeting of shareholders of the Issuer. The term of office for each of the directors will expire at the time of the next annual meeting of shareholders of the Issuer. A director may be removed by a resolution passed by a majority of the shareholders or may resign. The vacancy created by the removal of a director must be filled at the shareholder meeting at which he or she was removed. A vacancy not so filled at a shareholder meeting, or created by the resignation of a director, may be filled by a quorum of the remaining directors. A quorum for meetings of directors is a majority of the directors, provided that a majority of directors present (or one director, where a quorum is two directors) must be residents of Canada. If there is no quorum of directors, a special shareholder meeting must be called to fill vacancies.

The directors will supervise the activities and manage the affairs of the Issuer, including acting for, voting on behalf of and representing the Issuer as a holder of membership interests in Atlantic Holdings.

Governance of the Issuer

In lieu of a corporate governance and compensation committee, the directors will be directly responsible for developing the Issuer's approach to governance issues, filling vacancies among the directors and periodically reviewing the composition and effectiveness of the directors and the contribution and compensation of individual directors.

The board of directors will also be responsible for adopting and periodically reviewing and updating the written disclosure policy for the Issuer and its subsidiaries. This policy will, among other things:

- articulate the legal obligations of the Issuer, its affiliates and their respective directors, managers, officers and employees with respect to confidential information;
- identify spokespersons of the Issuer, who are the only persons authorized to communicate with third parties such as analysts, media and investors;
- provide guidelines on the disclosure of forward-looking information;
- require advance review by senior executives of the Issuer or the Manager of any disclosure of financial information to ensure the information is not material, to prevent the selective disclosure of material

information, and to ensure that if selective disclosure of material information does occur, a news release is issued immediately; and

- establish "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results and immediately prior to the disclosure of certain material changes, during which periods the Issuer, its subsidiaries, the Manager and their respective directors, managers, officers, employees and consultants may not purchase or sell IPSs, Common Shares or Subordinated Notes or other securities of the Issuer or its subsidiaries (including securities exchangeable for or convertible into IPSs, Common Shares or Subordinated Notes).

Audit Committee

The Issuer will have an audit committee which will be comprised of a minimum of three directors. All of the members of the audit committee shall be unrelated and independent (for regulatory purposes) directors. The audit committee will be responsible for the oversight and supervision of the accounting and financial reporting practices and procedures of the Issuer, the adequacy of internal accounting controls and procedures, and the quality and integrity of financial statements of the Issuer. The independent auditors of the Issuer will report directly to the audit committee. In addition, the audit committee will be responsible for directing the auditors' examination of specific areas and for recommending to the board of directors the selection of independent auditors of the Issuer.

Remuneration of the Directors

Initial compensation for directors of the Issuer will be $20,000 per year and $1,500 per director for attending board or committee meetings in person. Directors will receive $500 for attending meetings by phone. Directors will be reimbursed for out-of-pocket expenses for attending board meetings. Directors will participate in the insurance and indemnification arrangements described below under "— Insurance Coverage for Directors and Managers and Indemnification".

Management and Administration

The Issuer will have no executive officers and will engage the Manager to provide certain services pursuant to the Management Agreement. The Issuer may directly retain professionals and other service providers from time to time to provide advice and other administrative services directly to the Issuer. See "— Management Agreement".

Atlantic Holdings

Board of Managers and Operating Agreement

Atlantic Holdings will be governed in accordance with its constating documents and the Operating Agreement. The board of managers of Atlantic Holdings will initially be comprised of seven individuals, a majority of whom are unrelated to and independent from Atlantic Holdings and its subsidiaries, the Existing Investors and the Manager and a majority of whom must be U.S. residents. The Issuer will be entitled to appoint a majority of the board of managers of Atlantic Holdings. On Closing, the board of managers of Atlantic Holdings will be comprised as follows:

- four representatives of the Issuer comprised of the three directors of the Issuer and one additional individual designated by the directors of the Issuer who will be a U.S. resident and unrelated to and independent from Atlantic Holdings and its subsidiaries, the Existing Investors and the Manager;
- two representatives of the Existing Investors; and
- one representative of the Manager.

The Existing Investors' representation on the Atlantic Holdings' board of managers will be adjusted if their retained interest in Atlantic Holdings is reduced or diluted. The Existing Investors will be entitled to appoint two managers as long as they continue to own 20% or more of the outstanding common membership interests; one manager as long as they continue to own 10% or more but less than 20% of the outstanding common membership interests; and no managers if they own less than 10% of the outstanding common membership interests. The Manager will be entitled to appoint one manager for so long as it is the manager of Atlantic Holdings under the Management Agreement.

The board of managers of Atlantic Holdings will, subject to the provisions of the Operating Agreement and the Management Agreement, have full power to manage the business and affairs of Atlantic Holdings, to make all decisions regarding Atlantic Holdings and to bind Atlantic Holdings. Certain fundamental transactions will be subject to approval by at least 80% of votes cast by holders of Atlantic Holdings' common membership interests. See "Atlantic Holdings — Operating Agreement".

The following table sets out the name, municipality of residence, positions with the Issuer and Atlantic Holdings and principal occupation of the individuals who will be directors of the Issuer and managers of Atlantic Holdings on Closing.

Name and Municipality of Residence	Position(s)	Principal Occupation
IRVING GERSTEIN(1) . . . . Toronto, Ontario	Director of the Issuer and Manager of Atlantic Holdings	Corporate Director
KEN HARTWICK(1) . . . . Milton, Ontario	Director of the Issuer and Manager of Atlantic Holdings	Chief Financial Officer of Ontario Energy Savings Corp.
JOHN MCNEIL(1) . . . . Toronto, Ontario	Director of the Issuer and Manager of Atlantic Holdings	Principal Consultant, Barker, Dunn & Rossi
BILL WHITMAN(1) . . . . Ridgewood, New Jersey	Manager of Atlantic Holdings	Senior Vice President, NW Financial Holdings LLC
DANIEL REVERS(2) . . . . Weston, Massachusetts	Manager of Atlantic Holdings	Managing Partner of ArcLight
ROBB TURNER(2) . . . . Montclair, New Jersey	Manager of Atlantic Holdings	Senior Partner of ArcLight
BARRY WELCH(3) . . . . Sherborn, Massachusetts	Manager of Atlantic Holdings and President and Chief Executive Officer of the Manager	President and Chief Executive Officer of the Manager

(1) Representative of the Issuer on the board of managers of Atlantic Holdings.

(2) Representative of the Existing Investors on the board of managers of Atlantic Holdings.

(3) Representative of the Manager on the board of managers of Atlantic Holdings.

Biographies

Irving Gerstein, C.M., O.Ont: Mr. Gerstein is a retired executive and is currently a director of Medical Facilities Corporation and Economic Investment Trust Limited, and previously served as a director of other public issuers, including CTV Inc., Traders Group Limited, Guaranty Trust Company of Canada, Confederation Life Insurance Company and Scott's Hospitality Inc., and as an officer and director of Peoples Jewellers Limited. Mr. Gerstein is a Member of the Order of Canada and a Member of the Order of Ontario. He is an honorary director of Mount Sinai Hospital (Toronto), having previously served as Chairman of the Board, Chairman Emeritus and a director over a period of twenty-five years, and is currently a member of its Research Committee. Mr. Gerstein received his BSc. in Economics from the University of Pennsylvania (Wharton School of Finance and Commerce). During Mr. Gerstein's service as a director of each of Peoples Jewellers Limited and Confederation Life Insurance Company bankruptcy proceedings were initiated (and, in the case of Peoples Jewellers Limited, claims were made against senior executives of the company, including Mr. Gerstein); all of the creditor and other claims were settled. Mr. Gerstein also entered into a settlement of personal claims arising primarily from participation in a Peoples Jewellers Limited share incentive plan.

Ken Hartwick, C.A.: Mr. Hartwick is currently the Chief Financial Officer of Ontario Energy Savings Corp. ("OESC"). OESC is a wholly-owned subsidiary of, and provides administrative services to, Energy Savings

Income Fund ("Energy Savings"), an income trust traded on the TSX. Through its subsidiaries and affiliates, Energy Savings markets natural gas to residential customers and small to mid-sized commercial businesses in Ontario, Manitoba and Illinois and solely to commercial customers in Québec and British Columbia. Energy Savings also markets electricity to mid-sized commercial and small industrial customers in Ontario. Mr. Hartwick serves on OESC's Management Committee and is involved in providing strategic direction. Prior to joining OESC, Mr. Hartwick served as Senior Vice President, Finance (October 2000 to September 2001) and Chief Financial Officer and Senior Vice President, Finance (October 2001 to April 2004) of Hydro One Inc., the largest electricity delivery company in Ontario and one of the largest in North America. Mr. Hartwick was a member of Hydro One Inc.'s Executive Committee. From May to October 2000, Mr. Hartwick was Vice President, Cap Gemini Ernst & Young and from 1994 to April 2000 Mr. Hartwick was a partner of Ernst & Young LLP. Mr. Hartwick received his B.A. (Honours) from Trent University in Peterborough, Ontario.

John McNeil: Mr. McNeil is a principal consultant at Barker, Dunn & Rossi ("BDR") based in Toronto. BDR, with headquarters in Washington D.C. and a regional office in Toronto, is an electricity consulting boutique. Prior to his appointment at BDR in 2000, Mr. McNeil was Managing Director Investment Banking with Scotia Capital Inc. from 1996 to 1999. Previously, he was a Senior Vice-President and Director of ScotiaMcLeod Inc. from 1991 to 1995. Mr. McNeil has extensive expertise in the areas of asset management models, capitalization, mergers and acquisitions, business and enterprise valuations, capital markets and market ratings and has worked extensively throughout North America and Europe. Mr McNeil has been a member of the Electricity Task Force of The Toronto Board of Trade since 1996. Mr. McNeil specializes in the electric power sector and his major focus in recent years has been in the field of corporate and enterprise unbundling and reconstitution resulting from the restructuring of the electricity sector in North America. Mr. McNeil received a B.A. (Honours) from Queens University, a Bachelor of Laws from the University of Toronto and an M.B.A. from the University of British Columbia.

Bill Whitman: Mr. Whitman is currently the Senior Vice President of NW Financial Group, LLC ("NW"), an investment bank specializing in municipal finance. Mr. Whitman has over twenty years of experience in structuring and managing waste-to-energy projects. At NW, Mr. Whitman helps clients structure and finance projects, providing essential public services such as waste disposal and water treatment. From July 2003 to March 2004, Mr. Whitman was a contract employee of MSW Energy Holdings LLC ("MSW"), where he fulfilled the duties of Chief Financial Officer. MSW owns a 50% indirect membership interest in Ref-Fuel Holdings LLC, which is one of the largest owners and operators of waste-to-energy projects in the United States. Prior to joining MSW, Mr. Whitman played a leading role in the start-up and management of Covanta's (formerly Ogden Corporation) waste-to-energy business from 1987 to 2002. At Covanta, Mr. Whitman directed financial operations, resolved contract and client issues and generally helped to manage day-to-day operations. He was also involved in the structuring and financing of several of the waste-to-energy projects and led the restructuring of distressed projects. Mr. Whitman served as Chief Financial Officer of Ogden Energy Group from 1990 to 2001 and Senior Vice-President of Covanta from 2001 to 2002. During Mr. Whitman's service as a senior officer of Covanta, Covanta filed voluntary petitions for reorganization under Chapter 11 of the *U.S. Bankruptcy Code*. On March 10, 2004, Covanta and 79 of its affiliates, comprising Covanta's energy and water businesses, were acquired by Danielson Holding Corporation. With the closing of this transaction, Covanta and these affiliates emerged from bankruptcy protection. Mr. Whitman received a Bachelor of Science degree in Environmental Engineering from Syracuse University and an M.B.A. from Carnegie Mellon University.

Daniel Revers: Prior to forming ArcLight, Mr. Revers was a Managing Director of the Bond & Corporate Finance Group at John Hancock Financial Services, Inc. ("John Hancock") from 1995 to 2001. The Bond and Corporate Finance Group of John Hancock invests approximately $10 billion annually in corporate bonds and private placement transactions and, as of March 30, 2004, had approximately $50 billion in assets under management. The group is comprised of 125 employees, including more than 40 credit analysts with expertise in a wide range of industries worldwide. While at John Hancock, Mr. Revers was responsible for the origination, execution and management of a $6 billion portfolio consisting of debt, equity and mezzanine investments in electric power, natural gas, water, transportation and other infrastructure projects and utilities. He originated over 100 investments in the sector with an aggregate investment value at the time of organization of over $5 billion. Mr. Revers was involved in the development of many of the structured private equity securities currently being utilized in the power sector. Prior to joining John Hancock, Mr. Revers held various financial positions at Wheelabrator Technologies Inc. in Hampton, New Hampshire where he specialized in the development, acquisition and financing of domestic and international power generation, water and other environmental projects. Mr. Revers received a Bachelor of Arts in Economics from Lafayette College and an M.B.A. from the Amos Tuck School of Business Administration at Dartmouth College.

Robb Turner: Prior to forming ArcLight, Mr. Turner was a Partner at the investment banking firm of Berenson Minella & Company ("BMC") from 1998 to 2001. Joining BMC in 1998, Mr. Turner founded and built BMC's energy advisory practice. From 1990 through 1998, Mr. Turner held senior positions at Smith Barney, Schroders, plc, Wasserstein Perella Group, Inc. and Kidder, Peabody & Co. During his over 15 years of energy finance, corporate finance and public and private equity investment experience, Mr. Turner was responsible for advising on buyouts, corporate finance structures, mergers and acquisitions. He developed extensive power industry and related relationships and advised on industry-related transactions representing over $25 billion in value. His assignments included large domestic and cross-border power industry M&A transactions, power plant development, coal and telecom advisory assignments and raising capital for power technology companies. His clients included many leading private equity firms as well as corporate entities employing highly-leveraged capital structures. Mr. Turner is a graduate of the U.S. Military Academy at West Point and has an M.B.A. from Harvard Business School.

Barry Welch: Prior to joining the Manager, Mr. Welch was the Senior Vice President and head or co-head of the Bond & Corporate Finance Group of John Hancock from 2000 to 2004. Mr. Welch served on several committees at John Hancock, including its Pension Investment Advisory Committee and Investment Operating Committee. Mr. Welch was Chairman of John Hancock's Bond Investment Committee and reported monthly on investment portfolio, strategy and activity to the Committee of Finance of John Hancock's board of directors. Mr. Welch also led the development and approval of Hancock's involvement with Fund I and served as a member of Fund I's Investment Committee. Previously at John Hancock, Mr. Welch headed the Bond and Corporate Finance Group's Power and Energy investment team. From 1986 to 2004, he was involved indirectly or oversaw $25 billion of investments in over 1,000 utility, project finance and oil & gas transactions. Prior to joining John Hancock, Mr. Welch spent over three years as a developer of power projects at Thermo Electron Corporation's Energy Systems Division (later known as Thermo Ecotek). There he was involved in greenfield development of natural gas, wood and waste-to-energy projects, as well as asset management roles for operating plants. Mr. Welch received a Bachelors of Science in Mechanical and Aerospace Engineering from Princeton University and an M.B.A. from Boston College. Mr. Welch serves on the board of Directors of the Walker Home and School in Needham, Massachusetts.

Remuneration of Board of Managers of Atlantic Holdings

Initial compensation for non-management managers of Atlantic Holdings (other than members of the board of managers who are also directors of the Issuer) will be $20,000 per year. Each non-management member of the board of managers of Atlantic Holdings will receive $1,500 per meeting for attending board or committee meetings in person and $500 for attending meetings by phone. Managers will also be reimbursed for out-of-pocket expenses for attending board and committee meetings. Managers will participate in the insurance and indemnification arrangements described below under "— Insurance Coverage for Directors and Managers and Indemnification".

Management

Atlantic Holdings will have no executive officers. Management and administrative services will be provided to Atlantic Holdings by the Manager pursuant to the Management Agreement. See "— Management Agreement".

Insurance Coverage for Directors and Managers and Indemnification

The Issuer will obtain or cause to be obtained a policy of insurance for the directors of the Issuer and for the managers of Atlantic Holdings. Under the policy, each of the Issuer and Atlantic Holdings will have reimbursement coverage to the extent that it has indemnified the directors or managers. The policy will include securities claims coverage, insuring against any legal obligation to pay on account of any securities claims brought against the directors of the Issuer or the managers of Atlantic Holdings. The total limit of liability will be shared among the directors of the Issuer and the managers of Atlantic Holdings so that the limit of liability will not be exclusive to any one of the respective directors or managers.

The by-laws of the Issuer and the Operating Agreement for Atlantic Holdings provide for the indemnification of their respective directors, managers and officers (if any) from and against liability and costs in respect of any action or suit brought against them in connection with the execution of their duties of office, subject to certain limitations.

The Manager

The Manager is a newly-formed Delaware limited liability company formed by ArcLight and the Existing Investors. The names, municipalities of residence, positions with the Manager and principal occupations of the officers of the Manager, together with brief biographies of those who are not members of the board of managers of Atlantic Holdings, are set out below. Barry Welch, the President and Chief Executive Officer of the Manager, is a full-time employee of the Manager. The Manager is actively searching for a full-time Controller. Until such time as a full-time Controller is hired, Carter Ward, Vice-President of ArcLight will serve as the Manager's Controller. In addition to the officers listed below, the Manager will contract with ArcLight to obtain certain back-office and support services and for possible secondment of ArcLight employees from time to time as appropriate to assist the Manager in fulfilling its responsibilities under the Management Agreement.

Name and Municipality of Residence	Position(s) with the Manager	Principal Occupation
BARRY WELCH . . . . Sherborn, Massachusetts	President and Chief Executive Officer	President and Chief Executive Officer of the Manager
CARTER WARD . . . . Boston, Massachusetts	Controller	Vice-President of ArcLight

Biographies

Carter Ward: Mr. Ward is a Vice-President at ArcLight. Mr. Ward has in-depth experience in the application of private equity, leveraged finance, project finance, restructuring and leasing to the power industry. Mr. Ward joined ArcLight in 2001 and has been responsible for the origination, execution and management of power plant acquisitions. Mr. Ward led the acquisition by Fund I of SaleCo (the predecessor to Teton Funding) and Fund I's investment in MASSPOWER.

Prior to joining ArcLight, Mr. Ward was a Vice-President at McManus & Miles, a boutique investment bank specializing in the power sector. While at McManus, Mr. Ward participated in over $1 billion of acquisition, restructuring and financing transactions involving generating assets and power contracts. Mr. Ward graduated with a Bachelor of Science in Operations Research & Industrial Engineering from Cornell University with a focused minor in Economics and Finance.

Management Agreement

The Manager will be exclusively engaged to provide or cause to be provided management and administrative services to Atlantic Holdings and its subsidiaries pursuant to the terms of the Management Agreement. These management and administrative services will include: (i) representing Atlantic Holdings' interests in the Project Holding Entities and their subsidiaries and overseeing the operation of the Projects; (ii) assisting in the development, implementation and monitoring of strategic plans; (iii) assisting in developing annual business plans, which will include operational and capital expenditure budgets; (iv) assisting with treasury, legal and compliance, financing and risk assessment activities; (v) reviewing the budgets and schedules for major maintenance proposed for the Projects; (vi) assisting in the preparation of financial reports in respect of the Projects and any future projects; (vii) assisting in the negotiation of material agreements; (viii) monitoring compliance with annual business plans; (ix) assisting in and supervising the analysis of potential acquisitions, investments and dispositions; (x) carrying out or supervising the making of acquisitions, dispositions or investments; (xi) retaining accountants, lawyers, consultants, investment bankers and other such professional advisers; and (xii) assisting in the preparation, planning and coordination of meetings of the board of managers of Atlantic Holdings and holders of membership interests in Atlantic Holdings.

Under the Management Agreement, the Manager, if requested by the Issuer, will also provide certain administrative services to the Issuer including: (i) assisting the Issuer in complying with its continuous disclosure obligations under applicable securities legislation; (ii) providing or causing to be provided to holders of securities of the Issuer, all information to which they are entitled under the constating documents of the Issuer and the Indenture and applicable laws; (iii) monitoring compliance of the Issuer with applicable tax laws; (iv) advising on and negotiating any financings by the Issuer; (v) providing for the calculation and distribution of interest payments and distributions to holders of IPSs and the Separate Subordinated Notes; and (vi) assisting in the preparation, planning and coordination of meetings of the board of directors of the Issuer and holders of Common Shares of the Issuer.

Pursuant to the Management Agreement, a number of material actions may not be authorized by the Manager without first obtaining the approval of the managers of Atlantic Holdings or the board of directors of the Issuer, as applicable, including: (i) adopting, amending or materially deviating from annual business plans; (ii) making any material expenditures or commitments outside the annual business plans or approved operational and capital expenditure budget programs; (iii) disposing of any material assets; and (iv) raising capital by way of an issuance of securities of Atlantic Holdings or the Issuer. Without the approval of a majority of the Atlantic Holdings managers who are independent of the Manager and its affiliates, the Manager, on behalf of Atlantic Holdings or the Issuer or a subsidiary or affiliate of Atlantic Holdings or the Issuer, may not (i) enter into any material transaction with the Manager or an affiliate of the Manager; or (ii) amend any existing material terms of the Management Agreement or fees payable thereunder.

In consideration for providing the management and administrative services under the Management Agreement, the Manager will receive: (i) an annual management fee; (ii) payments representing cost reimbursement; and (iii) an incentive fee. The annual management fee will be an amount equal to $300,000 (a portion of which will be paid by the Issuer), subject to adjustment for any future acquisitions or investments on the basis that the annual fee will increase by an amount agreed between the Manager and Atlantic Holdings, as approved by the managers of Atlantic Holdings who are independent of the Existing Investors and the Manager, taking into consideration the increased service levels required and the resource requirements imposed as a result of or created by such acquisition or investment. The annual fee will be subject to adjustment for inflation and will be payable monthly in arrears on the last business day of each month with the first payment to be pro rated from the closing of the Offering and paid on the same date as the first scheduled distribution of the Issuer. The Manager shall be entitled to be reimbursed for all out-of-pocket costs and expenses reasonably incurred by the Manager or its affiliates in carrying out the management and administrative services including reasonable allocations for charges incurred by the Manager for services provided by ArcLight pursuant to the agreement described below and for any other services provided by affiliates of the Manager (which charges will be reimbursed on a cost recovery basis). The allocations for such charges are subject to the approval by the managers of Atlantic Holdings who are independent of the Existing Investors and the Manager, by way of either annual budget approval or specific authorization.

The incentive fee is designed to enhance the profitability and cash flow of Atlantic Holdings and thus, that of the Issuer. The Manager will be entitled to an annual incentive fee equal to 25% of the product obtained by multiplying (i) the excess of the actual cash distributions per IPS of the Issuer in each calendar year over the targeted cash distributions per IPS of the Issuer as determined based on the "Summary of Distributable Cash Flow of the Issuer" contained herein by (ii) the weighted average number of IPSs of the Issuer and Common Shares not represented by IPSs (assuming the exchange of the Exchangeable Interests into IPSs of the Issuer) outstanding for the relevant calendar year or part thereof, subject to customary anti-dilution provisions. In 2004, the fee shall be calculated using the excess of the actual cash distributions per IPS of the Issuer from the Closing of the Offering to December 31, 2004 over the pro rated targeted cash distributions per IPS of the Issuer for such period as determined based on the "Summary of Distributable Cash Flow of the Issuer" contained herein.

The Management Agreement will have an initial 20-year term and will be automatically renewed for additional five-year terms unless, at least six months prior to the expiration of the then current term, a majority of the managers of Atlantic Holdings and the directors of the Issuer independent of the Existing Investors and the Manager determine that the Management Agreement will not be renewed and notify the Manager accordingly. Atlantic Holdings will have the right to terminate the Management Agreement earlier in circumstances of: (i) bankruptcy, insolvency or receivership of the Manager; (ii) fraud, wilful default or gross negligence committed by the Manager; or (iii) default by the Manager in the performance of a material obligation under the Management Agreement, if (1) such default is not caused by an event of *force majeure*, and (2) such default is not cured within 60 days of written notice being given by Atlantic Holdings to the Manager of the default or if such default is not reasonably capable of being cured within 60 days, the Manager has not taken all reasonable steps to cure such default as soon as possible thereafter but in any event within 120 days. The Manager will have the right to terminate the Management Agreement earlier (i) in the event of (1) the bankruptcy, insolvency or receivership of Atlantic Holdings, or (2) a default by Atlantic Holdings in the performance of a material obligation under the Management Agreement (other than as a result of the occurrence of a *force majeure* event) which is not remedied within 60 days after notice thereof has been delivered, or if such default is not reasonably capable of being cured within 60 days, Atlantic Holdings has not taken all reasonable steps to cure such default as soon as possible thereafter but in any event within 120 days; or (ii) upon 90 days' prior written notice to Atlantic Holdings.

Atlantic Holdings may terminate the Management Agreement upon 90 days' prior written notice if: (i) while the Existing Investors own the Manager, ArcLight should cease to be the manager of the Existing Investors; or (ii) in the event that the Existing Investors sell the Manager and ArcLight ceases to have a significant influence over the operation of the Manager, without, in either case, the prior written consent of the managers of Atlantic Holdings and the directors of the Issuer who are independent of the Existing Investors and the Manager, which consents shall not be unreasonably withheld.

No party shall sell or assign its rights or obligations under the Management Agreement to a third party without the prior written consent of the other parties, which consent may not be unreasonably withheld (unless the assignee is not a reputable and experienced manager), except (i) in the case of Atlantic Holdings or the Issuer, to a *bona fide* lender as security, including as security for any guarantee granted by Atlantic Holdings or the Issuer in respect of the obligations of its affiliates to any third party or parties providing *bona fide* financing to such affiliates; or (ii) in the case of the Manager, to a direct or indirect wholly-owned subsidiary of the Existing Investors or their affiliates.

The Manager may delegate certain aspects of its responsibilities under the Management Agreement, but no such delegation will relieve the Manager of its obligations thereunder. The Manager may, with the approval of the directors of the Issuer and the managers of Atlantic Holdings who are independent of the Existing Investors and the Manager, contract with affiliates to provide services to the Issuer and Atlantic Holdings not otherwise provided for in the Management Agreement, such as advisory and investment banking services.

The Manager and any person who is serving or shall have served as a director, manager, officer, employee, subcontractor, secondee or agent of the Manager shall be indemnified and saved harmless by Atlantic Holdings and the Issuer from and against all losses, claims, damages, liabilities, obligations, costs and expenses (including judgments, fines, penalties, amounts paid in settlement and counsel and accountants' fees) of whatsoever kind or nature incurred by, borne by or asserted against the Manager and any person who is serving or shall have served as a director, manager, officer, employee, subcontractor, secondee or agent of the Manager, in any way arising from or related in any manner to the Management Agreement, unless such claims arise from the fraud, wilful default or gross negligence of the Manager or any person who is serving or shall have served as a director, manager, officer, employee, subcontractor, secondee or agent of the Manager. The Manager and its affiliates and associates may rely on information provided by Atlantic Holdings, the Issuer or any employee or agent thereof unless it has actual notice that such information is inaccurate.

The Manager and ArcLight will enter into an agreement (the "Management Support Agreement") which will provide that certain ArcLight employees will be available to provide administrative and office support services to the Manager and that ArcLight employees may be seconded to the Manager from time to time as appropriate to enable the Manager to fulfill its responsibilities under the Management Agreement. Services and resources provided by ArcLight under the Management Support Agreement will be provided to the Manager on a cost recovery basis. The Management Support Agreement will require ArcLight and its affiliates to give the

Manager the opportunity to pursue, on behalf of the Issuer and Atlantic Holdings, investment opportunities that do not fit within the investment guidelines for Fund I, Fund II or other investment funds managed by ArcLight or its affiliates or that do fit within such investment guidelines but which such investment funds determine not to pursue.

Non-Exclusivity and Conflicts of Interest

Barry Welch, the President and Chief Executive Officer of the Manager, is a full-time employee of the Manager and will devote his time and efforts exclusively to and for the benefit of the business of Atlantic Holdings and the Issuer. ArcLight and its affiliates and their employees or agents may be engaged or invest directly or indirectly in a variety of other companies or other entities involved in owning, managing or advising on or otherwise engaged in the business of the generation, production, transmission, distribution, purchase and sale of electricity, other forms of energy-related projects, infrastructure projects, utility projects or other businesses.

Affiliates of ArcLight currently act, and may hereafter act, as managers to investment funds whose investment criteria encompass investments in power generation facilities in Canada and the U.S. In particular, an affiliate of ArcLight is the general partner of Fund I and Fund II, which invest in power generation, transmission and distribution assets as well as power-related fuel, services and equipment businesses, primarily in the United States. Existing and future agreements governing investment funds managed by affiliates of ArcLight, including the agreements governing Fund I and Fund II, require, and are expected to require in the case of future agreements, that suitable investments for such investment funds identified by ArcLight first be offered to the investment funds. The Management Support Agreement will require that ArcLight and its affiliates give the Manager the opportunity to pursue, on behalf of the Issuer and Atlantic Holdings, investment opportunities that do not fit within the investment guidelines for Fund I, Fund II or other investment funds managed by ArcLight or its affiliates or that do fit within such investment guidelines but which such investment funds determine not to pursue. None of ArcLight or its affiliates are prohibited by any agreement with Atlantic Holdings or the Issuer from competing with Atlantic Holdings or the Issuer, or from acquiring, investing in, or providing administrative or managerial services to, a competitor of Atlantic Holdings or the Issuer.

USE OF PROCEEDS

The estimated net proceeds from the Offering, after deducting fees payable to the Underwriters and estimated expenses of the Offering, will be approximately Cdn$ ● million. The Issuer will use such proceeds, together with approximately Cdn$ ● from the sale of the Separate Subordinated Notes, to subscribe for ● common membership interests and ● Class A preferred membership interests in Atlantic Holdings. Atlantic Holdings will in turn use approximately Cdn$ ● of the proceeds from the subscription for membership interests by the Issuer (net of any costs and expenses incurred by Atlantic Holdings), together with ● common membership interests and ● Class B preferred membership interests to be issued by it (the "Exchangeable Interests"), to acquire the Project Holding Entities from the Existing Investors. Atlantic Holdings will also use approximately Cdn$ ● of the proceeds from the subscription for membership interests by the Issuer to repay outstanding indebtedness of Teton Funding and approximately Cdn$ ● to deposit into the Reserve Account. Following Closing, the Issuer will own ● % of the common membership interests in Atlantic Holdings and the Existing Investors will own ● % of the common membership interests in Atlantic Holdings.

If the Over-Allotment Option is exercised, the Issuer will use the net proceeds to acquire additional common membership interests and Class A preferred membership interests in Atlantic Holdings, which will in turn use such amounts to redeem common membership interests and Class B preferred membership interests in Atlantic Holdings held by the Existing Investors. If the Over-Allotment Option is exercised in full, the Issuer will own ● % of the common membership interests in Atlantic Holdings and the Existing Investors will own ● % of the common membership interests in Atlantic Holdings.

See "Acquisition Agreements", "Principal Holders of IPSs (Common Shares)" and "Atlantic Holdings — Reserve Account".

RATING OF IPSs

DBRS has adapted its income funds rating methodology in order to assign stability ratings to IPSs. DBRS has assigned a preliminary stability rating of STA-3 (low) to the IPSs of the Issuer. Similar to units of income funds rated STA-3, IPSs rated STA-3 are considered by DBRS to have good stability and sustainability of distributions per IPS. Ratings categories range from STA-1 to STA-7, with STA-1 being the highest. Ratings take into consideration the following seven main factors: (1) operating and industry characteristics, (2) asset quality, (3) financial flexibility, (4) diversification, (5) size and market position, (6) sponsorship/governance, and (7) growth. A rating is not a recommendation to buy, sell or hold any security and may be subject to revision or withdrawal at any time by DBRS. DBRS stability ratings do not take such factors as pricing or stock market risk into consideration.

ACQUISITION AGREEMENTS

General

The Issuer and Atlantic Holdings will enter into an Acquisition Agreement with each Existing Investor. Pursuant to the Acquisition Agreements, Atlantic Holdings will acquire all of the outstanding membership interests in the Project Holding Entities from the Existing Investors. For an illustration of the ownership structure upon completion of the Offering and the transactions contemplated by the Acquisition Agreements, see "Post-Closing Structure". The following is a summary of certain provisions of the Acquisition Agreements, which summary is not intended to be complete. Reference is made to the Acquisition Agreements for a complete description and the full text of their provisions.

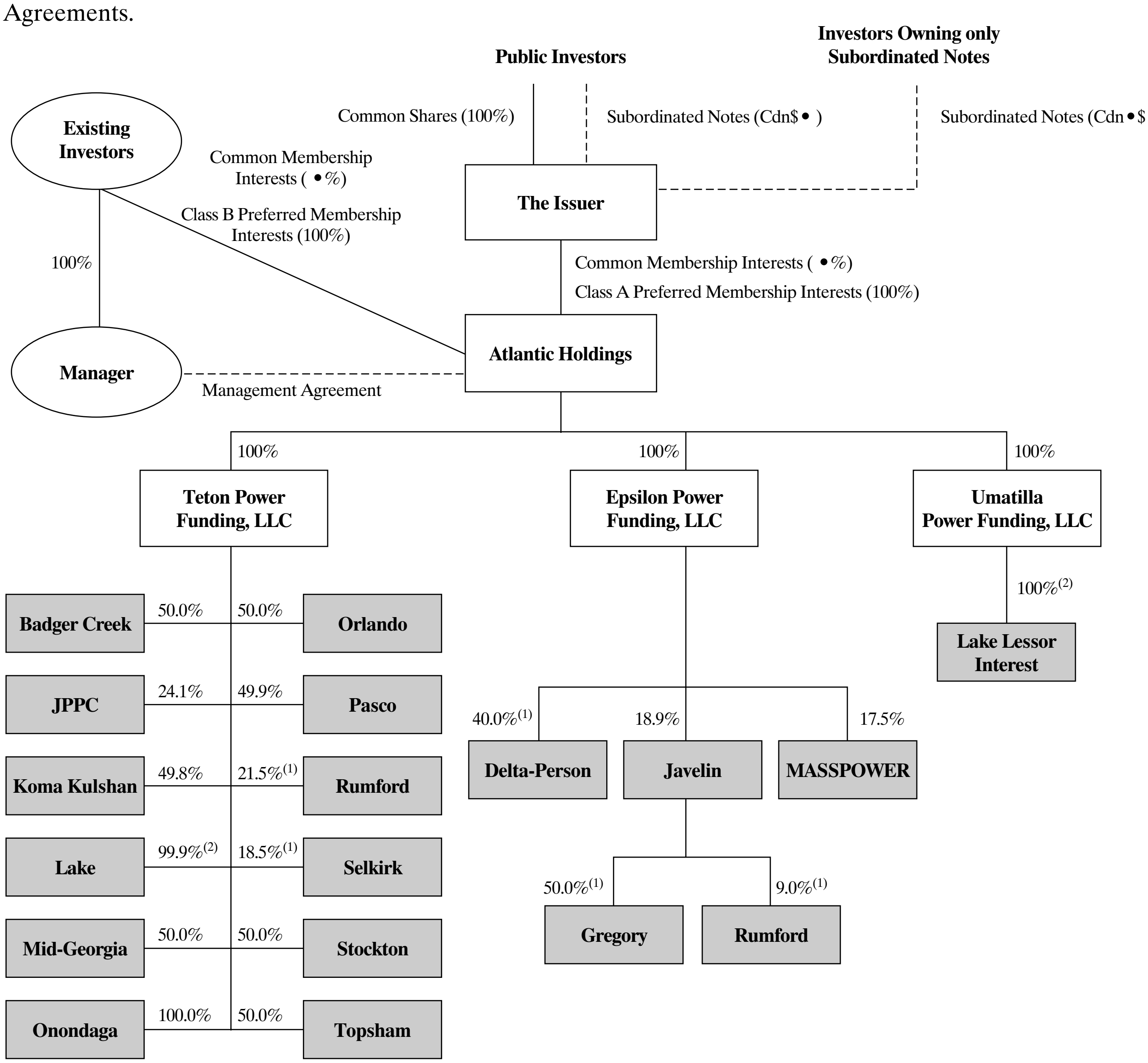
Covenants, Representations, Warranties and Indemnities

In respect of each Project Holding Entity, the respective Acquisition Agreement will contain customary covenants, representations and warranties relating to the business and affairs of the Project Holding Entity, its subsidiaries and the Projects and related indemnities from the respective Existing Investor in favour of the Issuer and Atlantic Holdings, as well as a representation that, to the best of the knowledge of the Existing Investor (after reasonable inquiry), there is no misrepresentation (as defined in the *Securities Act* (Ontario)) in this prospectus. The maximum liability of each Existing Investor under all of its representations, warranties and indemnities will be limited to the net cash proceeds of the Offering received by the Existing Investor. Such representations and warranties will survive for a period of 18 months from Closing, except for certain limited representations, warranties which survive indefinitely, representations relating to certain tax matters, which will survive for the duration of assessment and related appeal periods and the "no misrepresentation" representation, which will survive for a period of three years from Closing. No claim under the representations, warranties and indemnities may be made until the aggregate losses in each case exceed $500,000, subject to a one-time deductible of $1 million. There can be no assurance of recovery by the Issuer or Atlantic Holdings from the Existing Investors for any breach of the representations and warranties provided by the Existing Investors under the Acquisition Agreements, as there can be no assurance that the assets of the Existing Investors will be sufficient to satisfy such obligations. Only the Issuer or Atlantic Holdings may bring a claim or action for misrepresentation or breach of contract under the Acquisition Agreements and purchasers of IPSs under this prospectus will not have any contractual rights under the Acquisition Agreements. Purchasers will, however, have certain statutory rights against the Issuer and the promoters under applicable securities laws. See "Purchasers' Statutory Rights of Withdrawal and Rescission".

The Issuer's investment in Atlantic Holdings and Atlantic Holdings' acquisition of the Project Holding Entities will be conditional upon the completion of the Offering and the transactions contemplated by the Acquisition Agreements.

POST-CLOSING STRUCTURE

The following chart illustrates in simplified form the structure of the Issuer and its indirect ownership interests in the Projects upon completion of the Offering and the transactions contemplated by the Acquisition Agreements.



(1) Represents Atlantic Holdings' estimate of its share of the cash flow from the Project.

(2) Teton Power Funding, LLC owns 99.9% of the partnership interests in Lake. Lake leases the Lake Project from a trust of which Umatilla Power Funding, LLC is the sole beneficiary.

RETAINED INTEREST

Upon Closing, the Existing Investors will hold • % of the common membership interests of Atlantic Holdings (• % if the Over-Allotment Option is exercised in full) and all of the outstanding Class B preferred membership interests of Atlantic Holdings (together, the "Exchangeable Interests").

Pursuant to the terms of the Exchange Agreement, the Existing Investors will be entitled to exchange one common membership interest and one Class B preferred membership interest (an "Exchangeable Interest") for an IPS of the Issuer. On the exchange, the Class B preferred membership interests acquired by the Issuer will automatically convert into Class A preferred membership interests of Atlantic Holdings. The Existing Investors have agreed that for a period of 180 days following Closing, they will not reduce their retained interest in Atlantic Holdings and the Issuer without the prior consent of the Underwriters. See "Plan of Distribution".

Exchange Agreement

Upon Closing, the Issuer, Atlantic Holdings and the Existing Investors will enter into an exchange agreement (the "Exchange Agreement"). Subject to the limitations described below, under the Exchange Agreement, each Existing Investor will be entitled to exchange all or any portion of its Exchangeable Interests in Atlantic Holdings for IPSs. The Exchange Agreement will provide that for a period of two years from the date of Closing of the Offering, the Existing Investors may not exchange Exchangeable Interests for IPSs to the extent that such exchange would result in the Existing Investors owning less than a 10% common membership interest in Atlantic Holdings. The Exchangeable Interests will automatically convert to IPSs 30 days prior to the maturity of the Subordinated Notes.

Under the Exchange Agreement, the Issuer will grant the Existing Investors registration rights for IPSs issuable on the exchange of Exchangeable Interests providing for not more than two demand registrations per year and unlimited piggy-back registrations, with fees and expenses to be paid *pro rata* by the Issuer and the Existing Investors if the Issuer is issuing securities together with the sale by Existing Investors. If the Issuer is not issuing securities together with the sale by Existing Investors, the Existing Investors will be responsible for the payment of all fees and expenses associated with the sale. Demand registration rights may not be exercised by the Existing Investors for an aggregate anticipated offering price of less than $10 million. Treasury issuances shall have priority in the case of piggy-back registrations.

The Exchange Agreement will also provide that, in the event that a person offers to purchase more than 20% of the membership interests in Atlantic Holdings held by the Issuer pursuant to an agreement with the Issuer, or 20% of the outstanding Common Shares (directly or through purchasing IPSs) pursuant to a non-exempt take-over bid in respect of which the Issuer proposes to enter into a support agreement with such person, then it will be a condition of any such agreement or support agreement that the person will offer to purchase a *pro rata* portion of the Exchangeable Interests, on the same terms and subject to the same conditions as are applicable to the purchase of the membership interests of Atlantic Holdings held by the Issuer or the Common Shares of the Issuer in accordance with the formula and restrictions set out in the Exchange Agreement. If an unsolicited non-exempt take-over bid from a person acting at arm's length to holders of the Exchangeable Interests is made for the IPSs (or the Common Shares) and a contemporaneous offer on the same terms and conditions is not made for the Exchangeable Interests, then provided not less than 20% of the IPSs (or Common Shares), other than IPSs (or Common Shares) held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror, are taken-up and paid for pursuant to the bid, then from and after the date of first take-up under the bid the Exchangeable Interests will be exchangeable at an exchange ratio which results in the Exchangeable Interests being exchangeable for 110% of the number of IPSs into which they were exchangeable under the exchange ratio previously in effect.

DESCRIPTION OF IPSs

General

The Issuer is offering ● IPSs in this Offering. Each IPS represents:

- one Common Share; and
- Cdn$ ● aggregate principal amount of Subordinated Notes.

The ratio of Common Shares to principal amount of Subordinated Notes represented by an IPS is subject to change in the event of a stock split, recombination or reclassification, or upon a partial redemption or repurchase of the Subordinated Notes.

Voluntary Separation and Recombination

At any time after the 45th day following the date of Closing or upon the occurrence of a change of control of the Issuer, holders of IPSs may separate their IPSs into the Common Shares and Subordinated Notes represented thereby through their broker or other financial institution. Similarly, any holder of Common Shares and Subordinated Notes may, at any time, recombine the applicable number of Common Shares and principal amount of Subordinated Notes to form IPSs through their broker or other financial institution. See "— Book-Entry Settlement and Clearance" below for more information on the method by which delivery and surrender of IPSs and delivery of Common Shares and Subordinated Notes will be effected.

Automatic Separation

Upon the occurrence of any of the following, the IPSs will be automatically separated into the Common Shares and Subordinated Notes represented thereby:

- with respect to any holder of IPSs, acceptance by such holder of the Issuer's offer to repurchase the Subordinated Notes represented by that holder's IPSs in connection with a change of control of the Issuer;
- exercise by the Issuer of its right to redeem all or a portion of the Subordinated Notes which may be represented by IPSs at the time of such redemption;
- the date on which the outstanding principal amount of the Subordinated Notes becomes due and payable, whether at the stated maturity date or upon acceleration thereof; or
- if CDS is unwilling or unable to continue as securities depository with respect to the IPSs and the Issuer is unable to find a successor depository.

Book-Entry Settlement and Clearance

General

CDS will act as securities depository for the IPSs, the Subordinated Notes and the Common Shares represented by the IPSs, which are referred to collectively as the "Securities". The IPSs and the Subordinated Notes and the Common Shares represented by the IPSs will be represented by one or more global notes and global stock certificates. The global notes and global stock certificates will be issued as fully-registered in book-entry only form in the name of CDS or its nominee, CDS & Co. If an investor intends to purchase IPSs in the manner provided by this prospectus an investor must do so through direct and indirect CDS participants. The participant through which a purchase is made will receive a credit for the applicable number of IPSs on CDS's records. The ownership interest of each actual purchaser of the applicable security, referred to as a "beneficial owner", is to be recorded on the participant's records. Beneficial owners will not receive written confirmation from CDS of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the CDS participant through which the beneficial owner entered into the transaction.

All interests in the Securities will be subject to the operations and procedures of CDS. The following is a summary of those operations and is provided by the Issuer solely for convenience. The operations and procedures of each settlement system may be changed at any time. The Issuer is not responsible for those operations and procedures.

To facilitate subsequent transfers, all Securities deposited by direct CDS participants are registered in the name of CDS. The deposit of Securities with CDS and their registration in the name of CDS effect no change in beneficial ownership. CDS has no knowledge of the actual beneficial owners of the Securities. CDS's records reflect only the identity of the direct CDS participants to whose accounts such Securities are credited, which may or may not be the beneficial owners. The CDS participants will remain responsible for keeping account of their holdings on behalf of their customers.

Transfers of ownership interests in the Securities are effected by entries made on the books of the CDS participants acting on behalf of beneficial owners. Beneficial owners of Securities will not receive certificates representing their ownership interests in the applicable Security except in the event that use of the book-entry only system for the Securities is discontinued.

Cross-market transfers between CDS participants, on the one hand, and the Depositary Trust Company ("DTC") participants, on the other hand, will be effected within CDS through DTC. To deliver or receive an interest in Securities held in a DTC account, an investor must send transfer instructions to DTC under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, DTC will send instructions to its CDS depositary to take action to effect final settlement by delivering or receiving interests in the Securities in CDS and making or receiving payment under normal procedures for same-day funds settlement applicable to CDS. DTC participants may not deliver instructions directly to the CDS depositary that is acting for DTC.

Conveyance of notices and other communications by CDS to direct participants, by direct participants to indirect CDS participants, and by CDS participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Issuer and the Trustee under the Indenture will make any payments on the Common Shares and Subordinated Notes to CDS. CDS's practice is to credit direct CDS participants' accounts on the payment date in accordance with their respective holdings shown on CDS's records unless CDS has reason to believe that it will not receive payment on the payment date. Payments by CDS participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such participant and not of CDS, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time.

The Issuer and the Trustee under the Indenture will be responsible for the payment of all amounts to CDS. CDS will be responsible for the disbursement of those payments to its participants, and the participants will be responsible for disbursements of those payments to beneficial owners.

CDS may discontinue providing its service as securities depository with respect to the IPSs, the Common Shares or the Subordinated Notes at any time by giving reasonable notice to the Issuer and the Trustee under the Indenture. If CDS discontinues providing its service as securities depository with respect to the IPSs and the Issuer is unable to obtain a successor securities depository, the beneficial owners will automatically take a position in the Common Shares and Subordinated Notes represented by the IPSs and the Issuer will print and deliver certificates representing Common Shares and Subordinated Notes to the beneficial owners or their nominees. If CDS discontinues providing its service as securities depository with respect to the Common Shares or Subordinated Notes and the Issuer is unable to obtain a successor securities depository, the beneficial owners will automatically take a position in the securities and the Issuer will print and deliver certificates for the Common Shares and Subordinated Notes to the beneficial owners or their nominees.

The Issuer has the option of discontinuing the registration of any of the Securities through the book-entry only system at any time. In the event that the Issuer decides to discontinue use of the system of book-entry only system for any of the Securities, the Issuer will print and deliver certificates for the Common Shares and Subordinated Notes to the beneficial owners or their nominees.

The information in this section concerning CDS and CDS' book-entry only system has been obtained from sources that the Manager believes to be reliable, including CDS, but the Issuer, the Underwriters and the Existing Investors take no responsibility for its accuracy.

Neither the Issuer nor any trustee nor the Underwriters will have any responsibility or obligation to participants, or the persons for whom they act as nominees, with respect to:

- the accuracy of the records of CDS, its nominee, or any participant, as to any ownership interest in the Securities; or
- any payments to, or the providing of notice to, participants or beneficial owners.

Separation and Recombination.

Any voluntary or automatic separation of IPSs, and any subsequent recombination of IPSs from Subordinated Notes and Common Shares, are to be accomplished by entries made by the CDS participants on behalf of beneficial owners. In any such case, the participant's account through which a separation or recombination is effected will be credited and debited for the applicable securities on CDS's records.

Procedures Relating to Subsequent Issuances.

The Indenture and the agreements with CDS will provide that, in the event there is a subsequent issuance of Subordinated Notes, the terms of the newly issued Subordinated Notes (including interest and maturity) will be identical in all material respects to the previously issued Subordinated Notes and all such Subordinated Notes will be traded under the same CUSIP number. Any such subsequently issued Subordinated Notes may be issued at a discount or premium to the stated principal amount. See "Description of Subordinated Notes — Additional Issuances".

Ownership Restrictions

There are ownership restrictions on the IPSs. See "The Issuer — Limitations on ERISA Plan Ownership", "The Issuer — Limitation on U.S. Resident Ownership" and "The Issuer — Limitation on Ownership by Electric Utilities and Others".

DESCRIPTION OF SUBORDINATED NOTES

The Subordinated Notes are to be issued under an indenture, to be dated as of the Closing Date (the "Indenture"), between the Issuer and Computershare Trust Company of Canada, as trustee (the "Trustee"). The following is a description of the terms of the Indenture, a copy of the form of which will be filed with the Canadian securities regulatory authorities. Capitalized terms used in this "Description of Subordinated Notes" section and not otherwise defined have the meanings set forth in the Indenture and in the section "Certain Definitions" below, as applicable. The following summary of certain provisions of the Indenture is subject to, and is qualified in its entirety by reference to, all the provisions of the Indenture.

General

The Indenture will provide for the issuance of the Subordinated Notes represented by the IPSs and the issuance of the Separate Subordinated Notes. The Indenture will also provide for the issuance of an unlimited aggregate principal amount of additional Subordinated Notes having substantially identical terms and conditions to the Subordinated Notes offered hereby (the "Additional Subordinated Notes"), subject to compliance with the covenants contained in the Indenture. Any Additional Subordinated Notes will be part of the same issue as the Subordinated Notes offered hereby and the Separate Subordinated Notes and will vote on all matters with the Subordinated Notes offered hereby and the Separate Subordinated Notes.

The Subordinated Notes will be registered in book-entry only form. See "Description of IPSs — Book-Entry Settlement and Clearance". The Subordinated Notes will not be listed or traded on any exchange or market and therefore the Holders may not be able to resell Subordinated Notes. BMO Nesbitt Burns Inc. has advised the Issuer that it currently intends to facilitate a secondary market in the Subordinated Notes subject to customary market practice and applicable legal and regulatory requirements and limitations. However, BMO Nesbitt Burns Inc. is not obligated to do so and may discontinue any such activities, if commenced, at any time and without notice. Moreover, if and to the extent that BMO Nesbitt Burns Inc. facilitates a market for the Subordinated Notes, there can be no assurance that such market would provide sufficient liquidity for any holder of any such securities.

The Subordinated Notes will be secured subordinated obligations of the Issuer. The Subordinated Notes will be guaranteed by Atlantic Holdings and certain of Atlantic Holdings' direct and indirect, Wholly-Owned Subsidiaries at the time of Closing including, among others, Onondaga Cogeneration L.P. See "— Security and Guarantees" below.

None of the Separate Subordinated Notes sold concurrently with the Offering may be purchased, directly or indirectly, by Persons who are also purchasing IPSs in the Offering. Prior to Closing, each Person purchasing Separate Subordinated Notes concurrently with the Offering will represent to the Issuer that they are not purchasing IPSs under the Offering and that they have no plan or intention to acquire IPSs or Common Shares (including securities that are convertible, exchangeable or exercisable into or for equity of the Issuer) and have no plan or intention to sell any of the Separate Subordinated Notes to any Person who owns IPSs or Common Shares of the Issuer.

Maturity and Interest

The Subordinated Notes will mature on the 12th anniversary of the Closing.

The Subordinated Notes will bear interest at a rate of • % per annum from the Closing Date, or from the most recent date to which interest has been paid or provided for, payable monthly in arrears, less any tax required to be withheld, on the last Business Day of each month to holders of record at the close of business on the last Business Day of the preceding month commencing • , 2004. Payments of any premium, and, to the extent permitted by law, interest, not made when due, will bear interest from the date such payment was due until paid at a default rate of • % per annum. Holders of Subordinated Notes will receive interest payments in Canadian dollars unless a holder elects to receive interest payments in U.S. dollars. Holders of Subordinated Notes that elect to receive U.S. dollar interest payments will receive the U.S. dollar Equivalent Amount of interest payments on each payment date.

Additional Amounts for U.S. Withholding Tax

All amounts paid or credited by the Issuer under or with respect to the Subordinated Notes or by any guarantor under or in respect of its guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future tax, duty, levy, impost, assessment or other government charge (including penalties, interest and any other liabilities or expenses related thereto) imposed or levied by or on behalf of the government of the United States or any government of any political subdivision, state or territory of the United States or any authority or agency therein or thereof having power to tax (hereinafter, "Taxes"), unless the Issuer or such guarantor is required to withhold or deduct any amount for or on account of Taxes by law or by interpretation or administration of law. If the Issuer or any guarantor is required to withhold or deduct any amount for or on account of Taxes from any amounts paid or credited under or with respect to the Subordinated Notes or the guarantees of the Subordinated Notes, the Issuer or such guarantor will pay such additional amounts ("Additional Amounts") as may be necessary so that the net amount received by each owner of Subordinated Notes (an "owner" for purposes of this "Additional Amounts for U.S. Withholding Tax" section) including Additional Amounts, after such withholding or deduction (including any withholding or deduction in respect of Additional Amounts) will not be less than the amount the owner would have received if such Taxes had not been withheld or deducted; provided that Additional Amounts will only be payable with respect to a payment made to a Person if:

(a) the Person is a Non-U.S. Holder that is not a Disqualified Recipient, and

(b) either: (i) the Non-U.S. Holder certifies to the Issuer or its agent on IRS Form W-8BEN (or a suitable substitute or successor form) under penalties of perjury that such Non-U.S. Holder is not a "United States person" (as defined in the Code) and provides its name and address; or (ii) a "qualified intermediary" (as defined in applicable Treasury Regulations) receives documentation upon which it can rely to treat the Non-U.S. Holder as not a United States person and provides the Issuer with an IRS Form W-8IMY (or a suitable substitute or successor form).

The Issuer and any guarantors will also:

(a) make such withholding or deduction; and

(b) remit the full amount deducted or withheld to the relevant authority;

in accordance with and in the time required under applicable law.

The Issuer and any guarantors will furnish to the holders of the Subordinated Notes that are outstanding on the date of the withholding or deduction, within 30 days after the date of the payment of any taxes due under applicable law, certified copies of tax receipts evidencing such payment by the Issuer or such guarantor.

At least 30 days prior to each date on which any payment under or with respect to the Subordinated Notes is due and payable, on which the Issuer or any guarantor will be obligated to pay Additional Amounts with respect to such payment, the Issuer or such guarantor will deliver to the Trustee an officers' certificate stating the fact that such Additional Amounts will be payable and specifying the amounts so payable and will set forth such other information necessary to enable the Trustee to pay such Additional Amounts to holders of notes or owners on the payment date. Whenever in the Indenture or in this prospectus there is mentioned, in any context, principal, premium, if any, interest or any other amount payable under or with respect to any Subordinated Note, such mention will be considered to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

The Issuer or a guarantor will pay any present or future stamp, court, documentary or other similar taxes, charges or levies that arise in any taxing jurisdiction from the execution, delivery or registration of, or enforcement of rights under, the Subordinated Notes, the Indenture or any related document ("Documentary Taxes").

The obligation to pay Additional Amounts (and any reimbursement) and Documentary Taxes under the terms and conditions described above will survive any termination, defeasance or discharge of the Indenture.

Canadian Withholding Tax

The Issuer will be entitled to deduct and withhold any applicable withholding taxes pursuant to the Tax Act from any payment to be made on the Subordinated Notes and the amount of any such deduction or withholding will be considered an amount paid in satisfaction of the Issuer's obligation under such Subordinated Notes and there is no obligation on the Issuer to gross-up amounts paid to a Holder of the Subordinated Notes in respect of such deductions or withholding.

Optional Redemption

Except for a tax redemption described below, the Issuer may not redeem the Subordinated Notes at its option prior to the fifth anniversary of the Closing.

On or after the fifth anniversary of the Closing, the Issuer may redeem the Subordinated Notes, at its option, at any time in whole and from time to time in part, upon not less than 30 nor more than 60 days notice to Holders, for cash, at a redemption price equal to: (i) 105% of the principal amount of Subordinated Notes being redeemed where the redemption occurs on or after the fifth anniversary but before the seventh anniversary of the Closing; (ii) 104% of such amount where the redemption occurs on or after the seventh anniversary but before the ninth anniversary of the Closing; (iii) 103% of such amount where the redemption occurs on or after the ninth anniversary but before the 10^{th} anniversary of the Closing; (iv) 102% of such amount where the redemption occurs on or after the 10^{th} anniversary but before the 11^{th} anniversary of the Closing; and (v) 101% of such amount where the redemption occurs on or after the 11^{th} anniversary but before the 12^{th} anniversary of the Closing, together with, in each case, accrued but unpaid interest to the date of redemption. Any exercise by the Issuer of its option to redeem the Subordinated Notes, in whole or in part, will result in an automatic separation of the IPSs.

The Issuer may, at its option, redeem all, but not less than all, of the Subordinated Notes, at any time upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the Subordinated Notes plus accrued and unpaid interest to the redemption date, during any period that for U.S. federal income tax purposes the Issuer: (i) is not, or would not be, in the opinion of nationally recognized tax counsel, permitted to deduct all or a substantial portion of the interest payable on the Subordinated Notes from its income; or (ii) is required to withhold or deduct any amount for or on account of Taxes from any amounts paid or credited under or with respect to the Subordinated Notes and the Issuer is required to pay Additional Amounts. See "— Additional Amounts for U.S. Withholding Tax".

In the case of any partial redemption, selection of the Subordinated Notes for redemption will be made by the Trustee on a *pro rata* basis, by lot or by such other method as the Trustee deems fair and appropriate (and in such manner as complies with the applicable legal and regulatory requirements). If any Subordinated Note is to be redeemed in part only, the notice of redemption relating to such Subordinated Note will state the portion of the principal amount thereof to be redeemed. A new Subordinated Note in principal amount equal to the unredeemed portion thereof will be issued in the name of the holder thereof upon cancellation of the original Subordinated Note. On and after the redemption date, interest will cease to accrue on Subordinated Notes or portions thereof called for redemption, so long as the Issuer has deposited with the depositary funds sufficient to pay the principal of, plus accrued and unpaid interest and the premium (if any) on, the Subordinated Notes to be redeemed.

Security and Guarantees

The Subordinated Notes will be secured by a pledge of the Issuer's membership interests in Atlantic Holdings and will be guaranteed by Atlantic Holdings and certain of Atlantic Holdings' direct and indirect Wholly-Owned Subsidiaries at the time of Closing including, among others, Onondaga Cogeneration L.P. The Guarantee of Atlantic Holdings will be secured by a pledge of the membership interests of the Project Holding Entities and the Guarantees of certain of Atlantic Holdings' direct and indirect Wholly-Owned Subsidiaries will be secured by pledges of the membership interests or other securities they hold in subsidiary entities subject to the provisions of agreements governing or affecting interests in such subsidiaries which may restrict or prevent pledges in certain cases.

Onondaga Cogeneration L.P.'s Guarantee will be secured by a pledge of certain of the Onondaga Project assets. None of the other Project Operating Entities are providing a Guarantee and none of the other Project assets will be pledged to secure a guarantee of, or indebtedness under, the Subordinated Notes. As a result, in the event of a bankruptcy, liquidation or reorganization of any Project Operating Entity other than Onondaga Cogeneration L.P., such Project Operating Entity will be required to pay the holders of its debt and its trade creditors before any monies or assets would be available to distribute to its equity holders.

Ranking

The Subordinated Notes will be secured subordinated Indebtedness of the Issuer and will be subordinated in right of payment, as set forth in the Indenture, to all existing and future Senior Indebtedness of the Issuer, including the Issuer's guarantee of Atlantic Holdings' obligations under the Credit Facility, but will rank senior to any unsecured Indebtedness of the Issuer (including trade payables).

The Indebtedness evidenced by each secured Guarantee will be secured subordinated Indebtedness of each such Guarantor, and will be subordinated in right of payment, as set forth in the Indenture, to all existing and future Senior Indebtedness of such Guarantor, including the Senior Indebtedness under the Credit Facility, but will rank senior to any unsecured Indebtedness of each such Guarantor (including trade payables).

The Indebtedness evidenced by each unsecured Guarantee will be unsecured subordinated Indebtedness of each such Guarantor and will be subordinated in right of payment, as set forth in the Indenture, to all existing and future secured Indebtedness of such Guarantor, including the Senior Indebtedness under the Credit Facility, and will rank *pari passu* in right of payment with all existing and future unsecured Indebtedness of each such Guarantor (including trade payables).

As of June 30, 2004, on a *pro forma* basis giving effect to the Offering and the transactions contemplated by the Acquisition Agreements, Atlantic Holdings would have had approximately $ • million of Senior Indebtedness outstanding under the Credit Facility. This Senior Indebtedness would rank senior to the Indebtedness evidenced by the Subordinated Notes and each Guarantee. Although the Indenture will contain limitations on the amount of additional Indebtedness which the Issuer and its Subsidiaries may incur, the amount of such Indebtedness could be substantial. See "— Certain Covenants — Limitations on Incurrence of Indebtedness".

Additional Issuances

Subject to certain covenants on the Incurrence of Indebtedness, the Indenture provides for additional issuances of Subordinated Notes. The terms of any Additional Subordinated Notes will be identical in all material respects to the Subordinated Notes distributed as part of IPSs under this prospectus. The Issuer may issue additional Subordinated Notes at a discount or premium to the principal amount.

Acceleration Forebearance Periods

The principal amount of the Subordinated Notes will not be due and payable during any Acceleration Forebearance Period. "Acceleration Forebearance Period" means, so long as the Issuer has Senior Indebtedness outstanding which requires subordinated debt of the Issuer to have a forebearance provision, the period beginning on the date when the Trustee or the holders of at least 25% in principal amount of the outstanding Subordinated Notes provide the Issuer with a notice of acceleration and ending on the earliest of: (a) 179 days after the commencement of such period, provided, however, that in the event that there has been any prior Acceleration Forebearance Period in the immediately preceding 12-month period, the duration of the Acceleration Forebearance Period will be automatically reduced by the cumulative duration of all prior Acceleration Forebearance Periods that occurred during the preceding 12-month period; (b) the date the holders of Senior Indebtedness accelerate the Senior Indebtedness or any enforcement or collection action shall have been commenced with respect thereto; (c) the occurrence or existence of an Event of Default described in clause (vii) under "Defaults under the Indenture"; and (d) the maturity of the Subordinated Notes.

The Indenture will contain substantially equivalent forebearance provisions relating to each Guarantor's Obligations under its Guarantee.

Change of Control

Upon the occurrence of any of the following events (each, a "Change of Control"), the Issuer will have the obligation to make an offer to repurchase all or any part of a Holder's Subordinated Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of repurchase (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date): (i) the sale, lease or transfer to any Person or group, in one or a series of related transactions, of the Issuer's or Atlantic Holdings' assets generating more than 66⅔% of Issuer Cash Flow for the 12-month period ended on the last day of the most recent fiscal quarter, (ii) the adoption of a plan relating to the liquidation or dissolution of the Issuer or Atlantic Holdings, (iii) the acquisition by any Person or group of a direct or indirect interest in more than 50% of the Common Shares of the Issuer or the common membership interests of Atlantic Holdings, or the voting power of the Voting Stock of the Issuer or Atlantic Holdings, by way of purchase, merger or consolidation or otherwise (other than the creation of a holding company that does not involve a change in the beneficial ownership of the Issuer or Atlantic Holdings as a result of such transaction), or (iv) the merger or consolidation of the Issuer or Atlantic Holdings with or into another Person or the merger of another Person into the Issuer or Atlantic Holdings with the effect that immediately after such transaction the shareholders of the Issuer or the holders of common membership interests of Atlantic Holdings immediately prior to such transaction hold, directly or indirectly, less than 50% of the total voting power of all securities generally entitled to vote in the election of directors, managers, or trustees of the Person surviving such merger or consolidation, in each case other than creation of a holding company that does not involve a change in the beneficial ownership of the Issuer or Atlantic Holdings as a result of such transaction.

Future Senior Indebtedness of the Issuer may contain prohibitions on certain events which would constitute a Change of Control or require the Issuer to repay or repurchase, or to make an offer to repurchase, such Senior Indebtedness upon a Change of Control. The Senior Indebtedness may prohibit any purchase by the Issuer of the Subordinated Notes. Moreover, the exercise by the Holders of their right to require the Issuer to repurchase the Subordinated Notes could cause a default under other Senior Indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on the Issuer. The Issuer's ability to pay cash to the Holders upon a repurchase may be limited by the Issuer's then existing financial resources and the terms of any Senior Indebtedness then in effect. There can be no assurance that sufficient funds will be available when necessary to make any repurchases. See "Risk Factors".

If at the time of such Change of Control the terms of any Senior Indebtedness restrict or prohibit the repurchase by the Issuer of Subordinated Notes pursuant to this covenant, then prior to the mailing of the notice to Holders provided for in the immediately following paragraph but in any event within 30 days following any Change of Control, the Issuer shall (i) repay in full all Senior Indebtedness or offer to repay in full all Senior Indebtedness and repay the Senior Indebtedness of each lender who has accepted such offer, or (ii) obtain the requisite consent under the agreements governing the Senior Indebtedness to permit the Issuer to make an offer to repurchase the Subordinated Notes as provided for in the immediately following paragraph.

Within 30 days following any Change of Control, unless the Issuer has exercised its right to redeem the Subordinated Notes as described above under "— Optional Redemption", the Issuer will mail a notice (a "Change of Control Offer") to each Holder with a copy to the Trustee stating: (1) that a Change of Control has occurred, together with an offer to purchase such Holder's Subordinated Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase (subject to the right of Holders of record on a record date to receive interest on the relevant interest payment date); (2) the circumstances and relevant facts and financial information regarding such Change of Control; (3) the repurchase date (which will be no earlier than 30 days nor later than 60 days from the date such notice is mailed); and (4) the instructions determined by the Issuer, consistent with this covenant, that a Holder must follow in order to have its Subordinated Notes purchased. A holder of IPSs will not be able to have its Subordinated Notes purchased unless the Holder separates the IPS and receives delivery of the Common Shares and Subordinated Notes represented thereby.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by the Issuer and purchases all Subordinated Notes validly tendered and not withdrawn under such Change of Control Offer.

Recombination of Notes and Common Shares into IPSs

The Indenture will provide that as long as any Subordinated Notes are outstanding, any Holder of Subordinated Notes and Common Shares may at any time and from time to time, recombine these securities to form IPSs.

Certain Covenants

The Indenture will contain covenants including, among others, the covenants listed below. The covenants listed below shall not be provided directly by the Subsidiaries and the Issuer's ability to require compliance with such covenants will be limited to circumstances where the Issuer controls a Subsidiary or where the Issuer indirectly has contractual approval rights with respect to the action in question.

Limitations on Incurrence of Indebtedness. The Indenture will provide that the Issuer will not, and will not permit Subsidiaries in which it owns more than 50% of the total voting or equity interests, and will not permit (to the extent that its indirect approval rights would be triggered) any of its other Subsidiaries to, directly or indirectly, Incur any Indebtedness or issue any shares of Disqualified Stock or Preferred Stock; provided, however, that the Issuer or any Subsidiary may Incur Indebtedness or issue shares of Disqualified Stock or Preferred Stock if the Cash Flow Coverage Ratio for the Issuer for the most recently ended four full fiscal quarters of the Issuer for which financial statements are available immediately preceding the date on which such additional Indebtedness is Incurred or such Disqualified Stock or Preferred Stock is issued would have exceeded 1.5 to 1.0 determined on a *pro forma* basis (including a *pro forma* application of the net proceeds therefrom), as if the additional Indebtedness had been Incurred or the Disqualified Stock or Preferred Stock had been issued, as the case may be, and the application of proceeds therefrom had occurred at the beginning of such four-quarter period.

The foregoing limitations will not apply to:

(a) the Incurrence by the Issuer and its Subsidiaries of Indebtedness pursuant to the Credit Facility or otherwise in an amount which will not exceed 15% of the amount outstanding under the Subordinated Notes (on a fully-diluted basis) at that time;

(b) the Incurrence by the Issuer and its Subsidiaries of Indebtedness represented by the Subordinated Notes and Separate Subordinated Notes issued on Closing and the Guarantees;

(c) Indebtedness, Disqualified Stock or Preferred Stock existing on the Closing Date;

(d) Indebtedness to be issued in the form of additional Subordinated Notes upon the exchange of any Exchangeable Interests and the related issuance of Class A preferred membership interests of Atlantic Holdings in connection with such issuance;

(e) Indebtedness arising from agreements of the Issuer or a Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, Incurred in connection with the acquisition or disposition of any business, assets or a Subsidiary of the Issuer in accordance with the terms of the Indenture, other than guarantees of Indebtedness Incurred by any Person acquiring all or any portion of such business, assets or Subsidiary for the purpose of financing such acquisition;

(f) Indebtedness of the Issuer to a Subsidiary of the Issuer; provided that any such Indebtedness is subordinated in right of payment to the Subordinated Notes; provided further that any subsequent issuance or transfer of any Capital Stock or any other event which results in any such Subsidiary ceasing to be a Subsidiary of the Issuer or any other subsequent transfer of any such Indebtedness (except to the Issuer or another Subsidiary) will be deemed, in each case, to be an Incurrence of such Indebtedness;

(g) Indebtedness of a Subsidiary to the Issuer or another Subsidiary of the Issuer; provided that (i) any such Indebtedness is made pursuant to an intercompany note, and (ii) if a Guarantor Incurs such Indebtedness to a Subsidiary that is not a Guarantor such Indebtedness is subordinated in right of payment to the Guarantee of such Guarantor; provided further that any subsequent issuance or transfer of any Capital Stock or any other event which results in any Subsidiary lending such Indebtedness ceasing to be a Subsidiary or any other subsequent transfer of any such Indebtedness (except to the Issuer or another Subsidiary of the Issuer) will be deemed, in each case, to be an Incurrence of such Indebtedness;

(h) Hedging Obligations that are incurred in the ordinary course of business (1) for the purpose of fixing or hedging interest rate risk with respect to any Indebtedness that is permitted by the terms of the Indenture to be outstanding, (2) for the purpose of fixing or hedging currency exchange rate risk with respect to any currency exchanges, or (3) for the purpose of fixing or hedging commodity price risk with respect to any commodity purchases;

(i) any guarantee by the Issuer or a Subsidiary of other obligations of the Issuer or any of its Subsidiaries so long as the Indebtedness by the Issuer or such Subsidiary is permitted under the terms of the Indenture; provided that if such Indebtedness is by its express terms subordinated in right of payment to the Subordinated Notes or the Guarantee of such Subsidiary, as applicable, any such guarantee of such Subsidiary with respect to such Indebtedness will be subordinated in right of payment to such Subsidiary's Guarantee with respect to the Subordinated Notes substantially to the same extent as such Indebtedness is subordinated to the Subordinated Notes or the Guarantee of such Subsidiary, as applicable;

(j) the Incurrence by the Issuer or any of its Subsidiaries of Indebtedness which serves to refund or refinance any Indebtedness Incurred as permitted under this covenant and clauses (a), (b), (c) and (d) above, or any Indebtedness issued to so refund or refinance such Indebtedness (subject to the following proviso, "Refinancing Indebtedness") prior to its respective maturity, provided, however, that such Refinancing Indebtedness:

    (i) has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is Incurred which is not less than the remaining Weighted Average Life to Maturity of the Indebtedness being refunded or refinanced;

    (ii) has a Stated Maturity which is no earlier than the Stated Maturity of the Indebtedness being refunded or refinanced;

(iii) to the extent such Refinancing Indebtedness refinances Indebtedness *pari passu* with the Subordinated Notes or the Obligations of the Subsidiaries that are Guarantors of such Subordinated Notes, as applicable, is *pari passu* with or subordinated to the Subordinated Notes or the obligations of such Subsidiaries under such guarantee, as applicable; and

(iv) is Incurred in an aggregate amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced plus premium and fees Incurred in connection with such refinancing;

(k) Indebtedness of Persons that are acquired by the Issuer or any of its Subsidiaries or merged into a Subsidiary in accordance with the terms of the Indenture; provided, however, that such Indebtedness is not Incurred in contemplation of such acquisition or to provide all or a portion of the funds or credit support required to consummate such acquisition or merger; provided further, however, that the Cash Flow Coverage Ratio described in this covenant on a *pro forma* basis, after giving effect to such acquisition and the Incurrence of such Indebtedness, would be greater than the actual Cash Flow Coverage Ratio for such period without giving effect to such acquisition;

(l) the Incurrence by the Issuer or any of its Subsidiaries of Indebtedness which serves to finance in whole or in part the making of capital improvements required to maintain compliance with Applicable Laws or Project Documents provided, however, that the principal amount of such Indebtedness does not exceed $20 million and an Independent Engineer confirms that such capital improvements are required to maintain compliance with Applicable Laws or Project Documents; and

(m) the Incurrence by the Issuer or any of its Subsidiaries of Indebtedness in connection with performance, surety or similar bonds, letters of credit or performance guarantees or other similar obligations in the ordinary course of business, provided, however, that the principal amount of such Indebtedness does not exceed $15 million.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of permitted Indebtedness described in clauses (a) through (m) above or is entitled to be Incurred pursuant to this covenant, the Issuer will, in its sole discretion, classify or reclassify such item of Indebtedness in any manner that complies with this covenant and such item of Indebtedness will be treated as having been Incurred pursuant to only one of such clauses. Accrual of interest and the accretion of accreted value will not be deemed to be an Incurrence of Indebtedness for purposes of this covenant.

Limitation on Restricted Payments. The Indenture will provide that the Issuer will not, and shall not permit any of its Subsidiaries in which it owns more than 50% of the total voting or equity interests, and will not permit (to the extent that its indirect approval rights would be triggered) any of its other Subsidiaries to, directly or indirectly:

(a) declare or pay any dividend or make any distribution on account of the Issuer's or any of its Subsidiaries' Equity Interests, including any payment made in connection with any merger or consolidation involving the Issuer (other than (A) dividends or distributions by the Issuer payable solely in Equity Interests (other than Disqualified Stock) of the Issuer or (B) dividends or distributions by a Subsidiary so long as, in the case of any dividend or distribution payable on or in respect of any class or series of securities issued by a Subsidiary other than a Wholly-Owned Subsidiary, the Issuer or a Subsidiary receives at least its *pro rata* share of such dividend or distribution in accordance with the terms of such Equity Interests); or

(b) purchase, redeem or otherwise acquire or retire for value any Equity Interests of the Issuer or any Subsidiary, other than exchanges of the Exchangeable Interests for IPSs pursuant to and in accordance with the Exchange Agreement; or

(c) make a Restricted Investment;

(all such payments and other actions set forth in clauses (a), (b) and (c) above being collectively referred to as "Restricted Payments"), unless, at the time of such Restricted Payment:

(a) no Default or Event of Default will have occurred and be continuing or would occur as a consequence thereof;

(b) immediately after giving effect to such Restricted Payment on a *pro forma* basis, the Issuer could Incur $1.00 of additional Indebtedness under the provisions of the covenant described under "Limitations on Incurrence of Indebtedness"; and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Subsidiaries after the Closing Date (including Restricted Payments permitted by clauses (a), (c) and (e) of the next succeeding paragraph, but excluding all other Restricted Payments permitted by the next succeeding paragraph), is less than the sum of, without duplication:

  (i) 100% of the Issuer Cash Flow less Interest Expense of the Issuer and any required principal repayments on outstanding Indebtedness of the Issuer for the period (taken as one accounting period) from the first date of the fiscal quarter in which the Closing Date occurs to the end of the Issuer's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment, plus

  (ii) 100% of the aggregate net proceeds, including cash and the Fair Market Value (as determined in accordance with the next paragraph) of property other than cash, received by the Issuer after the Closing Date from the issue or sale of Equity Interests of the Issuer (subject to certain exceptions), including Equity Interests issued upon conversion of Indebtedness or upon exercise of warrants or options (other than an issuance or sale to a Subsidiary of the Issuer), plus

  (iii) 100% of the aggregate amount of contributions to the capital of the Issuer received in cash and the Fair Market Value (as determined in accordance with the next paragraph) of property other than cash received by the Issuer as a contribution to capital after the Closing Date (subject to certain exceptions), plus

  (iv) 100% of the aggregate amount received in cash and the Fair Market Value (as determined in accordance with the next paragraph) of property other than cash received since the Closing Date from (A) the sale or other disposition (other than to the Issuer or a Subsidiary) of Restricted Investments made by the Issuer and its Subsidiaries and from repurchases and redemptions of such Restricted Investments from the Issuer and its Subsidiaries by any Person (other than the Issuer or any of its Subsidiaries) and from repayments of loans or advances which constituted Restricted Investments, and (B) the sale (other than to the Issuer or a Subsidiary) of the Capital Stock of a Subsidiary.

  The Fair Market Value of property other than cash referred to in clauses (ii), (iii) and (iv) above will be determined in good faith by the Issuer and (A) in the case of property with a Fair Market Value in excess of $2.5 million, shall be set forth in an officers' certificate or (B) in the case of property with a Fair Market Value in excess of $10 million, shall be set forth in a resolution approved by at least a majority of the board of directors.

The foregoing provisions of this covenant will not prohibit:

(a) the payment of any dividend or distribution within 60 days after the date of declaration thereof, if at the date of declaration such payment would have been permitted under the provisions of the Indenture;

(b) (i) the repurchase, retirement or other acquisition of any Equity Interests ("Retired Capital Stock") or Subordinated Indebtedness of the Issuer in exchange for, or out of the proceeds of the substantially concurrent sale of, Equity Interests of the Issuer or contributions to the equity capital of the Issuer (other than any Disqualified Stock or any Equity Interests sold to a Subsidiary of the Issuer or to an employee stock ownership plan or any trust established by the Issuer or any of its Subsidiaries) (collectively, including any such contributions, "Refunding Capital Stock"); and (ii) the declaration and payment of accrued dividends on the Retired Capital Stock out of the proceeds of the substantially concurrent sale (other than to a Subsidiary of the Issuer or to an employee stock ownership plan or any trust established by the Issuer or any of its Subsidiaries) of Refunding Capital Stock;

(c) the declaration and payment of dividends or distributions to holders of any class or series of Disqualified Stock of the Issuer or any of its Subsidiaries issued or incurred in accordance with the covenant entitled "— Limitation on Incurrence of Indebtedness";

(d) the declaration and payment of dividends on the Class A preferred membership interests and Class B preferred membership interests of Atlantic Holdings in accordance with their terms;

(e) the payment of dividends on the Common Shares up to an aggregate amount in any fiscal quarter not to exceed the Quarterly Base Dividend Level, provided that the Cash Flow Coverage Ratio of the Issuer is at least 1.25 to 1.0;

(f) other Restricted Payments in an aggregate amount specified in the Indenture which may not exceed $5 million; and

(g) repurchases of Equity Interests deemed to occur upon exercise of stock options if such Equity Interests represent a portion of the exercise price of such options,

provided, however, that at the time of and after giving effect to, any Restricted Payment permitted under clauses (a), (c), (e), (f) and (g), no Default or Event of Default shall have occurred and be continuing or would occur as a consequence thereof.

Dividend and Other Payment Restrictions Affecting Subsidiaries. The Indenture will provide that the Issuer will not, and will not permit (to the extent that any of its indirect approval rights are triggered) any of its Subsidiaries to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Subsidiary to:

(a) (i) pay dividends or make any other distributions to the Issuer or any of its Subsidiaries (1) on its Capital Stock, or (2) with respect to any other interest or participation in, or measured by, its profits, or (ii) pay any Indebtedness owed to the Issuer or any of its Subsidiaries;

(b) make loans or advances to the Issuer or any of its Subsidiaries; or

(c) sell, lease or transfer any of its properties or assets to the Issuer or any of its Subsidiaries;

except in each case for such encumbrances or restrictions existing under or by reason of:

(i) contractual encumbrances or restrictions in effect on the Closing Date, including pursuant to the Credit Facility;

(ii) the Indenture and the Subordinated Notes;

(iii) applicable law or any applicable rule, regulation or order;

(iv) any agreement or other instrument relating to Indebtedness of a Person acquired by the Issuer or any Subsidiary which was in existence at the time of such acquisition (but not created in contemplation thereof or to provide all or any portion of the funds or credit support utilized to consummate such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(v) any restriction with respect to a Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Subsidiary pending the closing of such sale or disposition;

(vi) Secured Indebtedness otherwise permitted to be Incurred pursuant to the covenants described under "— Limitations on Incurrence of Indebtedness" and "— Liens" that limit the right of the debtor to dispose of the assets securing such Indebtedness;

(vii) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business;

(viii) customary provisions in joint venture agreements, limited partnership agreements and other similar agreements entered into in the ordinary course of business;

(ix) customary provisions contained in leases and other similar agreements entered into in the ordinary course of business; or

(x) any encumbrances or restrictions of the type referred to in clauses (a), (b) and (c) above imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (i) through (ix) above; provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are, in the good faith judgment of the board of directors, no more restrictive with respect to such dividend and other payment restrictions than those contained in the dividend or other payment restrictions prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing.

Asset Sales. The Indenture will provide that the Issuer will not, and will not permit any of its Subsidiaries to (to the extent that it has any indirect contractual or other approval rights with respect to the relevant actions of the Subsidiaries), cause or make an Asset Sale, unless the Issuer, or its Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the Fair Market Value (as determined in good faith by the Issuer) of the assets sold.

Within 365 days after the Issuer's or any Subsidiary's receipt of the net proceeds of any Asset Sale, the Issuer or such Subsidiary shall apply the net proceeds from such Asset Sale, at its option:

(a) to permanently reduce Obligations under Senior Indebtedness or Indebtedness of a Subsidiary, in each case other than Indebtedness owed to the Issuer or an affiliate of the Issuer;

(b) to make an investment in any one or more businesses, capital expenditures or acquisitions of other assets in each case used or useful in a similar business; and/or

(c) to make an investment in properties or assets that replace the properties and assets that are the subject of such Asset Sale.

Pending the final application of any such Net Proceeds, the Issuer or such Subsidiary may temporarily reduce Indebtedness under a revolving credit facility, if any, or otherwise invest such Net Proceeds in cash equivalents or Investment Grade Securities. The Indenture will provide that any net proceeds from any Asset Sale that are not applied as provided and within the time period set forth in the first sentence of the prior paragraph will be deemed to constitute "Excess Proceeds". When the aggregate amount of Excess Proceeds exceeds $10 million, the Issuer will have the obligation to make an offer to all Holders of Subordinated Notes (an "Asset Sale Offer") to purchase the maximum principal amount of Subordinated Notes that may be purchased out of the Excess Proceeds at an offer price in cash in an amount equal to lesser of (i) 105% of the principal amount, and (ii) the redemption amount at such date, plus, in each case, accrued and unpaid interest, if any, to but not including the date fixed for the closing of such offer, in accordance with the procedures set forth in the Indenture. A holder of IPSs will not be able to have its Subordinated Notes purchased under an Asset Sale Offer unless the Holder separates the IPS and receives delivery of the Common Shares and Subordinated Notes represented thereby.

Notices of an Asset Sale Offer shall be mailed by first class mail, postage prepaid, at least 30 but not more than 60 days before the purchase date to each Holder of Subordinated Notes at such Holder's registered address. If any Subordinated Note is to be purchased in part only, any notice of purchase that relates to such Subordinated Note shall state the portion of the principal amount thereof that has been or is to be purchased.

A new Subordinated Note in principal amount equal to the unpurchased portion of any Subordinated Note purchased in part will be issued in the name of the Holder thereof upon cancellation of the original Subordinated Note. On and after the purchase date, unless the Issuer defaults in payment of the purchase price, interest shall cease to accrue on Subordinated Notes or portions thereof purchased.

The terms of any Senior Indebtedness of the Issuer and its Subsidiaries may prohibit the completion of sales and/or the application of the proceeds of sales as provided in the Indenture.

Transactions with Affiliates. The Indenture will provide that the Issuer will not, and will not permit any Subsidiaries in which it owns more than 50% of the total voting or equity interests, and will not permit (to the extent that any of its indirect approval rights are triggered) any of its other Subsidiaries to, directly or indirectly, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction or series of transactions, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any affiliate of the Issuer, the Manager or any affiliate of the Manager (each of the foregoing, an "Affiliate Transaction"), unless:

(a) such Affiliate Transaction is on terms that are not materially less favourable to the Issuer or the relevant Subsidiary than those that could have been obtained in a comparable transaction by the Issuer or such Subsidiary with an unrelated Person;

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $5 million but less than or equal to $10 million, the Issuer delivers to the Trustee a resolution adopted by the majority of the board of directors of the Issuer, approving such Affiliate Transaction and an officers' certificate certifying that such Affiliate Transaction complies with clause (a) above; and

(c) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $10 million, the Issuer delivers to the Trustee a resolution adopted by the majority of the board of directors of the Issuer, approving such Affiliate Transaction and a letter from an independent financial advisor of recognized standing stating that such transaction is fair to the Issuer or such Subsidiary from a financial point of view or meets the requirement of clause (a) above.

The foregoing provisions will not apply to the following:

(i) Permitted Investments and Restricted Payments permitted by the provisions of the Indenture described above under the covenant "— Limitation on Restricted Payments";

(ii) the payment of arm's length reasonable and customary fees to, and indemnity provided on behalf of, officers, directors, employees or consultants of the Issuer, or any Subsidiary or the Manager including, for greater certainty, any fees payable under the Management Agreement;

(iii) any agreement as in effect as of the Closing Date or any amendment thereto (so long as any such amendment is not disadvantageous to the Holders of the Subordinated Notes in any material respect) or any transaction contemplated thereby; and

(iv) the existence of, or the performance by the Issuer or any of its Subsidiaries of its obligations under the terms of, any stockholders agreement (including any registration rights agreement or purchase agreement related thereto) to which it is a party as of the Closing Date and any similar agreements (including any operating agreements or limited partnership agreements) which it may enter into thereafter; provided, however, that the existence of, or the performance by the Issuer or any of its Subsidiaries of its obligations under any future amendment to any such existing agreement or under any similar agreement entered into after the Closing Date shall only be permitted by this clause (iv) to the extent that the terms of any such amendment or new agreement are not otherwise disadvantageous to the Holders of the Subordinated Notes in any material respect.

Liens. The Indenture will provide that the Issuer will not and will not permit (to the extent that it has any indirect contractual or other approval rights with respect to the relevant actions of the Subsidiaries) any of its Subsidiaries to, directly or indirectly, create, Incur or suffer to exist any Lien on any asset or property of the Issuer or such Subsidiary, or any income or profits therefrom, or assign or convey any right to receive income therefrom, that secures any obligations of the Issuer or any of its Subsidiaries or any other Person (other than Senior Indebtedness) unless the Subordinated Notes are equally and ratably secured with (or on a senior basis to, in the case of obligations subordinated in right of payment to the Subordinated Notes) the obligations so secured or until such time as such obligations are no longer secured by a Lien. The preceding sentence will not require the Issuer or any Subsidiary to secure the Subordinated Notes if the Lien consists of a Permitted Lien.

The Indenture will provide that no Guarantor will directly or indirectly create, Incur or suffer to exist any Lien on any asset or property of such Guarantor or any income or profits therefrom, or assign or convey any right to receive income therefrom, that secures any obligation of such Guarantor or any other Person (other than Senior Indebtedness) unless the Guarantee of such Guarantor of the Subordinated Notes is equally and ratably secured with (or on a senior basis to, in the case of obligations subordinated in right of payment to such Guarantor's Guarantee or the Subordinated Notes, as applicable) the obligations so secured or until such time as such obligations are no longer secured by a Lien. The preceding sentence will not require any Guarantor to secure its Guarantee or the Subordinated Notes, as applicable, if the Lien consists of a Permitted Lien.

Reporting Obligations. The Indenture will provide that the Issuer deliver to the Trustee within 90 days after the end of each fiscal year of the Issuer and 45 days after the end of each fiscal quarter (other than the last fiscal quarter) of each fiscal year, a consolidated balance sheet of the Issuer and related statements of income and changes in financial position for the fiscal year or fiscal quarter and year-to-date, as applicable in accordance with Canadian GAAP (audited with respect to annual financial statements). The Issuer will also be subject to other customary reporting obligations.

Hedging Obligations. The Indenture will require that the Issuer or a Subsidiary of the Issuer have in place currency hedges to fix the rates of exchange between the Canadian dollar and the U.S. dollar on not less than a rolling three year basis covering 50% or more of the interest payable by the Issuer on outstanding Subordinated Notes at any time.

Merger, Consolidation, or Sale of All or Substantially All Assets

The Indenture will provide that the Issuer may not consolidate or merge with or into or wind up into (whether or not the Issuer is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions, to any Person unless (i) the Issuer is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than the Issuer) or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made is a corporation, partnership or limited liability company organized or existing under the laws of Canada or any province or territory thereof (the Issuer or such Person, as the case may be, being herein called the "Successor Issuer"); (ii) the Successor Issuer (if other than the Issuer) expressly assumes all the obligations of the Issuer under the Indenture and the Subordinated Notes pursuant to a supplemental indenture or other documents or instruments in form reasonably satisfactory to the Trustee; (iii) all of the Guarantees of the Subordinated Notes, and related security, remain in full force and effect or replacement guarantees and security reasonably satisfactory to the Trustee are provided; (iv) immediately after giving effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Issuer or any of its Subsidiaries as a result of such transaction as having been Incurred by the Successor Issuer or such Subsidiary at the time of such transaction) no Default or Event of Default will have occurred and be continuing; (v) immediately after giving *pro forma* effect to such transaction, as if such transaction had occurred at the beginning of the applicable four-quarter period the Cash Flow Coverage Ratio for the Successor Issuer and its Subsidiaries would be greater than or equal to such ratio for the Issuer and its Subsidiaries immediately prior to such transaction; (vi) each party to the Subordinated Notes and Guarantees, unless they are the other party to the transactions described above, will have by supplemental notes and guarantees confirmed that such notes and guarantees will apply to such Person's obligations under the Subordinated Notes and Guarantees (or, such parties will have entered into guarantees of the Subordinated Notes in form and substance substantially the same as the Guarantees); and (vii) the Issuer will have delivered to the Trustee an officers' certificate or an opinion of legal counsel stating that such consolidation, merger or transfer and such supplemental notes and guarantees (or guarantees of the Subordinated Notes) comply with the Indenture. The Successor Issuer will succeed to, and be substituted for, the Issuer under the Indenture and the Subordinated Notes. Notwithstanding the foregoing clauses (iv) and (v), (a) any Subsidiary may consolidate with, merge into or transfer all or part of its properties and assets to the Issuer or to another Subsidiary, and (b) the Issuer may merge with an affiliate incorporated solely for the purpose of reincorporating the Issuer in another province or territory of Canada so long as the amount of Indebtedness of the Issuer and its Subsidiaries is not increased thereby.

The Indenture will further provide that, subject to certain limitations described in the Indenture governing release of a Guarantee upon the sale or disposition of a Guarantor, each Guarantor will not, and the Issuer will not permit a Guarantor to, consolidate or merge with or into or wind up into (whether or not such Guarantor is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of its properties or assets in one or more related transactions to, any Person unless (i) such Guarantor is the surviving corporation or the Person formed by or surviving any such consolidation or merger (if other than such Guarantor) or to which such sale, assignment, transfer, lease, conveyance or other disposition will have been made is a corporation, partnership or limited liability company organized or existing under the laws of Canada or the United States, or any province or territory of Canada or state of the United States (such Guarantor or such Person, as the case may be, being herein called the "Successor Guarantor"); (ii) the Successor Guarantor (if other than such Guarantor) expressly assumes all the obligations of such Guarantor under the Indenture and such Guarantor's guarantee and related security pursuant to a supplemental indenture or other documents or instruments in form reasonably satisfactory to the Trustee; (iii) immediately after giving effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Guarantor or any of its Subsidiaries as a result of such transaction as having been Incurred by the Successor Guarantor or such Subsidiary at the time of such transaction) no Default or Event of Default shall have occurred and be continuing; and (iv) the Guarantor shall have delivered or caused to be delivered to the Trustee an officers' certificate and opinion of legal counsel, stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture. Subject to certain limitations described in the Indenture, the Successor Guarantor will succeed to, and be substituted for, such Guarantor under the Indenture and such Guarantor's guarantee and related security. Notwithstanding the foregoing clause (iii), a Guarantor may merge with an affiliate incorporated solely for the purpose of reincorporating such Guarantor in another state of the United States or province or territory of Canada so long as the amount of Indebtedness of the Guarantor is not increased thereby.

Defaults Under the Indenture

An Event of Default will be defined in the Indenture as (i) a default in any payment of interest on any Subordinated Notes when due continuing for 30 days, (ii) a default in the payment of principal or premium, if any, of any Subordinated Note when due at its maturity date, upon optional redemption, upon required repurchase, upon acceleration or otherwise or upon any extensions of the maturity date in accordance with the Indenture, (iii) the failure by the Issuer to comply with its obligations under the covenant described under "— Merger, Consolidation or Sale of All or Substantially All Assets" above, (iv) the failure by the Issuer to comply for 30 days after notice with any of its obligations under the covenants described under "— Change of Control" or "— Certain Covenants" above (in each case, other than a failure to purchase Subordinated Notes), (v) the failure by the Issuer to comply for 60 days after notice with its other agreements contained in the Subordinated Notes or the Indenture, (vi) the failure by the Issuer or any Major Subsidiary to pay any Indebtedness (other than Indebtedness owing to the Issuer or a wholly-owned Subsidiary) within any applicable grace period after final maturity or the acceleration of any such Indebtedness by the holders thereof because of a default if the total amount of such Indebtedness unpaid or accelerated exceeds $5 million or its foreign currency equivalent (the "cross acceleration provision"), (vii) certain events of bankruptcy, insolvency or reorganization of the Issuer or a Major Subsidiary (the "bankruptcy provisions"), (viii) the rendering of any judgment or decree for the payment of money (other than judgments which are covered by enforceable insurance policies issued by solvent carriers) in excess of $25 million or its foreign currency equivalent against the Issuer or a Major Subsidiary if (A) an enforcement proceeding thereon is commenced and not discharged or stayed within 90 days thereafter or (B) such judgment or decree remains outstanding for a period of 60 days following such judgment and is not discharged, waived or stayed (the "judgment default provision"), or (ix) the Subordinated Notes or any Guarantee or any security therefor cease to be in full force and effect, except as contemplated by the terms thereof, or the Issuer or any Guarantor denies or disaffirms its obligations under the Subordinated Notes or any Guarantee or any security therefor, except as contemplated by the terms thereof, and the Default continues for 10 days.

The foregoing will constitute Events of Default whatever the reason for any such Event of Default and whether it is voluntary or involuntary or is effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body.

However, a Default under clause (iv) or (v) will not constitute an Event of Default until the Trustee or the Holders of 25% (or at least 10% in the case of a Default resulting from the declaration or payment of any dividend by the Issuer on account of the Issuer's Equity Interests in contravention of its obligations under the covenants described under "— Certain Covenants — Limitation on Restricted Payments (a "Dividend Default")), in principal amount of the outstanding Subordinated Notes notify the Issuer of the Default and the Issuer does not cure such Default within the time specified in clauses (iv) or (v) hereof after receipt of such notice.

Subject to any Acceleration Forebearance Periods during which the principal amount of the Subordinated Notes will not be due and payable by the Issuer or any Guarantor (see "Acceleration Forebearance Periods" above), if an Event of Default (other than a Default relating to certain events of bankruptcy, insolvency or reorganization of the Issuer for which acceleration is automatic) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the outstanding Subordinated Notes by notice to the Issuer may declare the principal of, premium, if any, and accrued but unpaid interest on all the Subordinated Notes to be due and payable. Upon such a declaration, such principal, premium and interest will be due and payable immediately. If an Event of Default relating to certain events of bankruptcy, insolvency or reorganization of the Issuer occurs, the principal of, premium, if any, and interest on all the Subordinated Notes will become immediately due and payable without any declaration or other act on the part of the Trustee or any Holders. Except in the case of a Default or Event of Default in the payment of interest or premium (if any) on, or the principal of, the Subordinated Notes or a Dividend Default, the holders of a majority in principal amount of the outstanding Subordinated Notes may rescind any such acceleration with respect to the Subordinated Notes and its consequences.

Subject to the provisions of the Indenture relating to the duties of the Trustee, if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee reasonable indemnity or security against any loss, liability or expense. Except to preserve or enforce the right to receive payment of principal, premium (if any) or interest when due, no Holder may pursue any remedy with respect to the Indenture or the Subordinated Notes unless (i) such Holder has previously given the Trustee notice that an Event of Default is continuing, (ii) holders of at least 25% (or at least 10% in respect of a remedy (other than acceleration) for a Dividend Default) in principal amount of the outstanding Subordinated Notes have requested the Trustee to pursue the remedy, (iii) such Holders have offered the Trustee reasonable security or indemnity against any loss, liability or expense, (iv) the Trustee has not complied with such request within 60 days after the receipt of the request and the offer of security or indemnity, and (v) except for a remedy (other than an acceleration) for a Dividend Default, the Holders of a majority in principal amount of the outstanding Subordinated Notes have not given the Trustee a direction inconsistent with such request within such 60-day period. Subject to certain restrictions, the holders of a majority in principal amount of the outstanding Subordinated Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Indenture provides that if an Event of Default has occurred and is continuing, the Trustee is required to exercise the rights and powers vested in it by the Indenture, and use the same degree of care and skill in its exercise as a reasonable Canadian trust company would exercise or use under the circumstances in the conduct of its own affairs. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or that the Trustee determines is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. Prior to taking any action under the Indenture, the Trustee will be entitled to indemnification satisfactory to it in its sole discretion against all losses and expenses caused by taking or not taking such action.

The Indenture will provide that if a Default occurs and is continuing and is actually known to the Trustee, the Trustee must mail to each Holder notice of the Default within the earlier of 90 days after it occurs or 30 days after it is actually known to a trust officer or written notice of it is received by the Trustee. Except in the case of a Default in the payment of principal or premium, if any, or interest on any Subordinated Note or in the case of a Dividend Default, the Trustee may withhold notice if and so long as a committee of its trust officers in good faith determines that withholding notice is in the interests of the Holders. In addition, the Issuer is required to deliver to the Trustee, within 90 days after the end of each fiscal year, a certificate indicating whether the signers thereof know of any Default that occurred during the previous year. The Issuer also is required to deliver to the Trustee, within 30 days after the occurrence thereof, written notice of any event which would constitute certain Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

Amendments and Waivers

Subject to certain exceptions, the Indenture may be amended with the consent of the Holders of a majority in principal amount of the Subordinated Notes then outstanding of all series affected by such amendment and any past default in compliance with any provisions may be waived with the consent of the Holders of a majority in principal amount of the Subordinated Notes then outstanding. However, without the consent of each Holder of an outstanding Subordinated Note affected, no amendment or waiver may, among other things, (i) reduce the amount of Subordinated Notes whose Holders must consent to an amendment; (ii) reduce the rate of or extend the time for payment of interest on any Subordinated Note; (iii) reduce the principal of or reduce or extend the Stated Maturity of any Subordinated Note; (iv) reduce the premium payable upon the redemption of any Subordinated Note or change the time at which any Subordinated Note may be redeemed as described under "Optional Redemption" above; (v) make any Subordinated Note payable in a currency other than that stated in the Subordinated Note; (vi) make any change to the subordination provisions of the Indenture that adversely affects the rights of any Holder; (vii) impair the right of any Holder to receive payment of principal or premium, if any, and interest on such Holder's Subordinated Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Subordinated Notes; (viii) except in connection with an offer by the Issuer to purchase all of the Subordinated Notes (A) waive a Dividend Default; or (B) amend the covenants described above under "— Certain Covenants — Limitation on Restricted Payments" in any way that would permit a Dividend Default or that would permit the Issuer to take any action described in clause (b) of the first paragraph of such covenant when it would not have otherwise been permitted to take such action under the terms of such covenant as in effect on the date of the Indenture; (ix) make any changes in the amendment provisions which require each Holder's consent or in the waiver provisions; or (x) modify the Guarantees or any related security in any manner adverse to the Holders.

Without the consent of any Holder, the Issuer and Trustee may amend the Indenture to cure any ambiguity, omission, defect or inconsistency, to provide for the assumption by a successor corporation, partnership or limited liability company of the obligations of the Issuer under the Indenture, to provide for uncertificated Subordinated Notes in addition to or in place of certificated Subordinated Notes, to add guarantees with respect to the Subordinated Notes, to secure the Subordinated Notes, to add to the covenants of the Issuer for the benefit of the holders or to surrender any right or power conferred upon the Issuer, to make any change that does not adversely affect the rights of any Holder, or to make certain changes to the Indenture to provide for the issuance of Additional Subordinated Notes. However, no amendment may be made to the subordination provisions of the Indenture that adversely affects the rights of providers of the Senior Indebtedness then outstanding unless the holders of such Senior Indebtedness (or any group or representative thereof authorized to give a consent) consent to such change.

The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

Under future Senior Indebtedness, the Issuer may not be permitted to effect any amendment or modification if the effect would be to (i) increase the interest rate applicable to the Subordinated Notes, (ii) change to an earlier date the scheduled dates of payment on any component of principal, interest or other amounts on the Subordinated Notes, (iii) alter the redemption, prepayment or subordination provisions of the Subordinated Notes, (iv) add to or alter the covenants (including, without limitation, the financial covenants), defaults and Events of Defaults set forth in the Indenture in a manner that would make such provisions more onerous or restrictive to the Issuer, or (v) otherwise increase the Obligations of the Issuer or any Guarantor in respect of the Subordinated Notes or confer additional rights upon the holders thereof which individually or in the aggregate would be adverse to the Issuer, any Guarantor or the lenders of the Senior Indebtedness.

Defeasance

The Issuer at any time may terminate all its Obligations under the Subordinated Notes and the Indenture ("legal defeasance"), except for certain Obligations, including those respecting the defeasance trust and Obligations to register the transfer or exchange of the Subordinated Notes, to replace mutilated, destroyed, lost or stolen Subordinated Notes and to maintain a registrar and paying agent in respect of the Subordinated Notes. The Issuer at any time may terminate its Obligations under the covenants described under "Certain Covenants" and "Change of Control", the operation of the cross acceleration provision, the bankruptcy provisions with respect to Major Subsidiaries and the judgment default provision described under "— Defaults Under the Indenture" above and the limitations contained in clause (v) of the first paragraph under "Merger, Consolidation or Sale of All or Substantially All Assets" above and certain other covenants ("covenant defeasance"). If the Issuer exercises its legal defeasance option or its covenant defeasance option, each Guarantor will be released from all of its Obligations with respect to its Guarantee.

If the Issuer exercises its legal defeasance option, payment of the Subordinated Notes may not be accelerated because of an Event of Default with respect thereto. If the Issuer exercises its covenant defeasance option, payment of the Subordinated Notes may not be accelerated because of an Event of Default specified in clause (iv), (vi), (vii) with respect only to Major Subsidiaries or (viii) with respect only to Major Subsidiaries under "— Defaults Under the Indenture" above or because of the failure of the Issuer to comply with clause (v) of the first paragraph under "— Merger, Consolidation or Sale of All or Substantially All Assets" above. The Issuer may exercise its legal defeasance option notwithstanding its prior exercise of its covenant defeasance option.

In order to exercise either defeasance option, the Issuer must irrevocably deposit in trust (the "defeasance trust") with the Trustee money or Government of Canada obligations for the payment of principal, premium (if any) and interest on the Subordinated Notes to redemption or maturity, as the case may be, and must comply with certain other conditions, including (i) delivery to the Trustee of an opinion of counsel to the effect that Holders of the Subordinated Notes will not recognize income, gain or loss for U.S. federal or Canadian income tax purposes as a result of such deposit and defeasance and will be subject to U.S. federal or Canadian income tax on the same amounts and in the same manner and at the same times as would have been the case if such deposit and defeasance had not occurred (and, in the case of legal defeasance only, such opinion of counsel must be based on a ruling of the Internal Revenue Service or the Canada Revenue Agency, and (ii) so long as, on the date or dates the respective amounts were paid into the trust, such payments were made with respect to the Subordinated Notes without violating the subordination provisions of the Indenture or any other material agreement binding on the Issuer.

Meetings of Holders

The Indenture provides that meetings of the Holders may be convened at any time and for any purpose and must be convened if (i) requested by the Issuer or the Holders representing not less than 25% of the principal amount of all outstanding Subordinated Notes, and (ii) the Trustee receives funding and is indemnified by the Issuer or Holders requesting the meeting against the costs which may be incurred in calling and holding such a meeting. Notice of any meeting must be provided to the Holders at least 21 days before the meeting is held.

Holders may be present and vote at any meeting of Holders either in person or by proxy and a proxyholder need not be a Holder. Holders present in person or by proxy and representing at least 25% in principal amount of the outstanding Subordinated Notes shall constitute a quorum for the transaction of business at all such meetings. At any meeting where a quorum is not present within one-half hour from the time fixed for the holding of such meeting, the meeting, if summoned by the Holders or pursuant to a request of the Holders, shall be dissolved, but in any other case the meeting shall be adjourned to the same day in the next week at the same time and (if reasonably practicable) place with no notice required to be given in respect of such adjourned meeting or at such other time and place as the chair of the meeting may decide and notice shall be given to Holders at least five days prior to such day. At such adjourned meeting, the Holders present in person or by proxy shall constitute a quorum and may transact the business for which the meeting was originally convened whether or not they represent 25% of the principal amount of the outstanding Securities.

Voting at any such meeting can be taken by way of a show of hands or by a poll. On a show of hands every Person who is present and entitled to vote, whether as a Holder or as proxy for one or more Holders, shall have one vote. On a poll each Holder present in person or represented by a proxy is entitled to one vote for each $10.00 principal amount of Subordinated Notes for which they are the holder where any fractional amount shall be rounded to the nearest $10.00. Except for business which requires an Extraordinary Resolution, every question submitted to a meeting shall be decided by a majority of the votes.

The Indenture provides that certain powers are exercisable only by way of an Extraordinary Resolution which must be passed by not less then 66⅔% of the principal amount of the Subordinated Notes present or represented by proxy at the meeting and voted upon on a poll on such resolution. Holders have the following powers exercisable by Extraordinary Resolution, among other things: (i) power to sanction any change or arrangement of their rights or those of the Trustee against the Issuer or against its property or assets, (ii) subject to certain requirements, the power to assent to any change to the provisions of the Indenture, the Subordinated Notes, the Guarantees or any security therefor that is agreed to by the Issuer and/or the Guarantors, as applicable, (iii) power to sanction the reconstruction, reorganization or recapitalization of the Issuer or the consolidation, amalgamation or merger of the Issuer with any Person or for the sale, leasing, transfer or other disposition of all of the undertaking, property and assets of the Issuer, (iv) power to authorize the Trustee or any other person to bid at any sale of the Issuer's properties or assets and to borrow money in connection with such bid and to mortgage the property or assets so purchased as security for the repayment of the money so borrowed and to hold the property or assets so purchased in trust for all the Holders, or (v) power to remove the Trustee and appoint a new Trustee or Trustees.

Concerning the Trustee

Computershare Trust Company of Canada is to be the Trustee under the Indenture.

Governing Law

The Indenture will provide that it and the Subordinated Notes will be governed by, and construed in accordance with, the laws of the Province of Ontario.

Certain Definitions

Certain definitions used in this section "Description of the Subordinated Notes" will have the following meanings and if not otherwise defined shall have the meanings as set out in the "Glossary of Terms":

"affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise.

"Applicable Laws" means any and all laws, including all federal, state, provincial and local statutes, codes, ordinances, decrees, rules, regulations and municipal by-laws and all judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, orders, decisions, rulings or awards or other requirements of any other Governmental Entity, binding on or affecting the Person referred to in the context in which the term was used.

"Asset Sale" means:

(a) the sale, conveyance, transfer or other disposition (whether in a single transaction or a series of related transactions) of property or assets (including by way of a Sale/Leaseback Transaction) of the Issuer or any Subsidiary (each referred to in this definition as a "disposition"); or

(b) the issuance or sale of Equity Interests of any Subsidiary (other than to the Issuer or a Wholly-Owned Subsidiary) (whether in a single transaction or a series of related transactions), in each case other than:

  (i) a disposition of cash equivalents or Investment Grade Securities or obsolete or worn out equipment in the ordinary course of business;

  (ii) the disposition of all or substantially all of the assets of the Issuer in a manner permitted in the Indenture or any disposition that constitutes a Change of Control;

  (iii) any Restricted Payment or Permitted Investment that is permitted to be made, and is made;

  (iv) any disposition of property or assets by a Subsidiary to the Issuer or by the Issuer or a Subsidiary to a Wholly-Owned Subsidiary;

(v) any exchange of like property for use in a similar business;

(vi) sales of assets received by the Issuer upon the foreclosure on a Lien; and

(vii) sales of inventory in the ordinary course of business consistent with past practices and sales of equipment upon termination of a contract with a client entered into in the ordinary course of business pursuant to the terms of such contract.

"Business Day" means a day other than a Saturday, Sunday or other day on which banking institutions in the Province of Ontario are authorized or required by law to close.

"Capitalized Lease Obligation" means, at the time any determination thereof is to be made, the amount of the liability in respect of a capital lease that would at such time be required to be capitalized and reflected as a liability on a balance sheet (excluding the footnotes thereto) in accordance with GAAP.

"Capital Stock" means:

(a) in the case of a corporation, corporate stock or equity interests, including, without limitation, corporate stock represented by IPSs and corporate stock outstanding upon the separation of IPSs into the securities represented thereby;

(b) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(c) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and

(d) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Cash Flow Coverage Ratio" means, for any period, the ratio of Issuer Cash Flow for such period to the total Interest Expense of the Issuer plus any principal repayments on outstanding Indebtedness of the Issuer for such period.

"Cash Taxes" means the cash taxes of the Issuer computed as if the Retained Interests were fully exchanged for IPSs pursuant to the Exchange Agreement.

"Closing Date" means the date of the Indenture.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Disqualified Stock" means, with respect to any Person, any Capital Stock of such Person which, by its terms (or by the terms of any security into which it is convertible or for which it is redeemable or exchangeable), or upon the happening of any event:

(a) matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise;

(b) is convertible or exchangeable for Indebtedness or Disqualified Stock; or

(c) is redeemable at the option of the holder thereof, in whole or in part;

in each case prior to the maturity date of the Subordinated Notes; provided, however, that only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to the maturity date will be deemed to be Disqualified Stock; provided further, however, that if such Capital Stock is issued to any director, manager, officer, employee or to any plan for the benefit of such parties of the Issuer or its Subsidiaries or by any such plan to such parties, such Capital Stock will not constitute Disqualified Stock solely because it may be required to be repurchased by the Issuer in order to satisfy applicable statutory or regulatory obligations or as a result of such parties' termination, death or disability.

“Dividend Default” means a Default resulting from the declaration or payment of any dividend by the Issuer on account of the Issuer’s Equity Interests in contravention of its obligations under the covenants described under “— Certain Covenants — Limitation on Restricted Payments”.

“Equity Interests” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“Fair Market Value” means, with respect to any asset or property, the price which could be negotiated in an arm’s-length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

“GAAP” means generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants.

“Governmental Entity” means any: (i) multinational, federal, provincial, state, municipal, local or other governmental or public department, regulatory authority, central bank, court, commission, board, bureau, agency or instrumentality, domestic or foreign; (ii) any subdivision or authority of any of the foregoing; (iii) any quasi-governmental, self-regulatory organization or private body exercising any regulatory, expropriation or taxing authority under or for the account of its members or any of the above; or (iv) any arbitrator exercising jurisdiction over the affairs of the applicable Person, asset, obligation or other matter;

“guarantee” means a guarantee (other than by endorsement of negotiable instruments for collection in the ordinary course of business) direct or indirect, in any manner (including, letters of credit and reimbursement agreements in respect thereof), of all or any part of any Indebtedness or other obligations.

“Guarantee” means any guarantee of the obligations of the Issuer under the Indenture and the Subordinated Notes by any Person in accordance with the provisions of the Indenture.

“Guarantor” means any Person that Incurs a Guarantee; provided that upon the release or discharge of such Person from its Guarantee in accordance with the Indenture, such Person ceases to be a Guarantor.

“Hedging Obligations” means, with respect to any Person, the obligations of such Person under (i) currency exchange, interest rate or commodity swap agreements, currency exchange, interest rate or commodity cap agreements and currency exchange, interest rate or commodity collar agreements, and (ii) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange, interest rates or commodity prices.

“Holder” means a holder of Subordinated Notes.

“Incur” means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Subsidiary (whether by merger, consolidation, acquisition or otherwise) will be deemed to be Incurred by such Person at the time it becomes a Subsidiary, and “Incurred” or “Incurrence” will have a corresponding meaning.

“Indebtedness” means, with respect to any Person:

(a) the principal of any indebtedness of such Person, whether or not contingent:

   (i) in respect of borrowed money,

   (ii) evidenced by bonds, notes, debentures or similar instruments or letters of credit or bankers’ acceptances (or, without duplication, reimbursement agreements in respect thereof),

   (iii) representing the deferred and unpaid purchase price of any property, except any such balance that constitutes a trade payable or similar obligation to a trade creditor due within six months from the date on which it is Incurred, and Incurred in the ordinary course of business, which purchase price is due more than six months after the date of placing the property in service or taking delivery and title thereto, or

   (iv) in respect of Capitalized Lease Obligations;

(b) to the extent not otherwise included, any obligation of such Person to be liable for, or to pay, as obligor, guarantor or otherwise, on the Indebtedness of another Person (other than by endorsement of negotiable instruments for collection in the ordinary course of business); and

(c) to the extent not otherwise included, Indebtedness of another Person secured by a Lien on any asset owned by such Person (whether or not such Indebtedness is assumed by such Person); provided, however, that the amount of such Indebtedness will be the lesser of (i) the Fair Market Value of such asset at such date of determination, and (ii) the amount of such Indebtedness of such other Person;

provided, further, that any obligation of Issuer or any Subsidiary in respect of account credits or participants under any employee, director or officer compensation plan of the Issuer or Subsidiary, will be deemed not to constitute Indebtedness.

"Independent Engineer" means Stone & Webster Management Consultants, Inc. or another independent engineering firm, engineer and/or industry consultant who is widely recognized as an expert in electric power or thermal energy generation or cogeneration and retained as independent engineer or consultant by the Issuer;

"Interest Expense" means, in respect of any Person, for any period, the total cash interest expense (including that attributable to Capitalized Lease Obligations) of such Person for such period with respect to all outstanding Indebtedness of such Person (including, without limitation, all commissions, discounts and other fees and charges owed by such Person with respect to letters of credit and bankers' acceptance financing and net costs of such Person under hedge agreements in respect of interest rates to the extent such net costs are allocable to such period in accordance with GAAP).

"Investment Grade Securities" means (i) securities issued or directly and fully guaranteed or insured by the United States or Canadian government or any agency or instrumentality thereof (other than Cash Equivalents), (ii) debt securities or debt instruments with a rating of BBB (low) or higher by DBRS, BBB− or higher by S&P or Baa3 or higher by Moody's or the equivalent of such rating by such rating organization, or if no rating of S&P or Moody's then exists, the equivalent of such rating by any other nationally recognized securities rating agency, but excluding any debt securities or instruments constituting loans or advances among the Issuer and its Subsidiaries, and (iii) investments in any fund that invests exclusively in investments of the type described in clauses (i) and (ii) which fund may also hold immaterial amounts of cash pending investment and/or distribution.

"Investments" means, with respect to any Person, all investments by such Person in other Persons (including affiliates) in the form of loans (including guarantees), advances or capital contributions (excluding accounts receivable, trade credit and advances to customers and commission, travel and similar advances to officers, employees and consultants made in the ordinary course of business), purchases or other acquisitions for consideration (including agreements providing for the adjustment of purchase price) of Indebtedness, Equity Interests or other securities issued by any other Person and investments that are required by GAAP to be classified on the balance sheet of the Issuer in the same manner as the other investments included in this definition to the extent such transactions involve the transfer of cash or other property.

"Issuer Cash Flow" means, for any period, the difference of (i) the aggregate amount of all cash distributions received or receivable in respect of a period, by the Issuer from Atlantic Holdings or any other source during such period plus the Issuer's *pro rata* share (based on its common membership ownership interest in Atlantic Holdings) of any cash distributions received by Atlantic Holdings in respect of a period and retained by Atlantic Holdings minus (ii) any amounts paid by the Issuer in respect of expenses (other than Interest Expense) including taxes determined on a *pro forma*, annual basis for a full tax year.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law (including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the *Personal Property Security Act* (Ontario) (or equivalent statutes) of any jurisdiction); provided that in no event will an operating lease be deemed to constitute a Lien.

"Major Project Operating Entity" means a Project Operating Entity if the cash distributions received indirectly by Atlantic Holdings from such Project Operating Entity during the 12-month period ended on the last day of the most recent fiscal quarter represent, in the aggregate, 20% or more of the consolidated cash flow of Atlantic Holdings for such period.

"Major Subsidiary" means a Subsidiary of the Issuer if the cash flow of the Subsidiary for the 12-month period ended on the last day of the most recent fiscal quarter, on a consolidated basis, is equal to or greater than 20% of the consolidated cash flow of the Issuer for such period and includes each Major Project Operating Entity.

"Moody's" means Moody's Investors Service, Inc.

"Obligations" means any principal, interest, penalties, fees, indemnifications, reimbursements (including, reimbursement obligations with respect to letters of credit and bankers' acceptances), damages and other liabilities payable under the documentation governing any Indebtedness; provided that Obligations with respect to the Subordinated Notes will not include fees or indemnifications in favour of the Trustee and other third parties other than the Holders of the Subordinated Notes.

"Permitted Investments" means:

(a) any Investment in the Issuer or any Subsidiary;

(b) any Investment in Cash Equivalents or Investment Grade Securities;

(c) any Investment by the Issuer or any Subsidiary of the Issuer in a Person that is primarily engaged in a similar business;

(d) any Investment in securities or other assets not constituting Cash Equivalents and received in connection with an Asset Sale permitted under to the Indenture or any other disposition of assets not constituting an Asset Sale;

(e) any Investment existing on the Closing Date;

(f) advances to employees or consultants of the Issuer or any Subsidiary not in excess of $5 million outstanding at any one time in the aggregate;

(g) any Investment acquired by the Issuer or any of its Subsidiaries (a) in exchange for any other Investment or accounts receivable held by the Issuer or any such Subsidiary in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization of the issuer of such other Investment or accounts receivable, or (b) as a result of a foreclosure by the Issuer or any of its Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(h) Hedging Obligations permitted under the Indenture;

(i) additional Investments having an aggregate Fair Market Value, taken together with all other Investments made pursuant to this clause that are at that time outstanding, not to exceed the greater of 7.5% of total assets of the Issuer on a consolidated basis or $5 million at the time of such Investment (with the Fair Market Value of each Investment being measured at the time made and without giving effect to subsequent changes in value);

(j) loans and advances to officers, directors and employees for business-related travel expenses, moving expenses and other similar expenses, in each case Incurred in the ordinary course of business, and account credits and payments to participants under the Issuer's or its Subsidiaries' long-term incentive plan or any successor or similar compensation plan;

(k) Investments the payment for which consists of Equity Interests of the Issuer (other than Disqualified Stock) ("Equity Payment Investments");

(l) Guarantees incurred in accordance with the Indenture;

(m) any Investment by Subsidiaries in other Subsidiaries;

(n) Investments consisting of purchases and acquisitions of inventory, supplies, materials and equipment or purchases of contract rights or licences or leases of intellectual property, in each case in the ordinary course of business; and

(o) loans and advances to current or former management personnel of the Issuer and/or any entity in which any current or former management personnel of the Issuer has a beneficial or equity interest pursuant to any management equity plan or stock option plan or any other management or employee benefit or incentive plan or agreement or any other agreement pursuant to which stock is held for the benefit of such Persons not to exceed $5 million in aggregate principal amount at any time outstanding, the proceeds of which will be used to purchase or redeem, directly or indirectly, shares of Capital Stock of the Issuer.

"Permitted Liens" means, with respect to any Person:

(a) pledges or deposits by such Person under workmen's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or Canadian or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business;

(b) Liens imposed by law, such as carriers', warehousemen's and mechanics' Liens, in each case for sums not yet due or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person will then be proceeding with an appeal or other proceedings for review;

(c) Liens for taxes, assessments or other governmental charges not yet due or payable or subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings;

(d) Liens in favour of issuers of performance and surety bonds or bid bonds or completion guarantees or with respect to other regulatory requirements or letters of credit issued pursuant to the request of and for the account of such Person in the ordinary course of its business;

(e) minor survey exceptions, minor encumbrances, easements or reservations of, or rights of others for, licences, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real properties or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(f) Liens on property or shares of stock of a Person at the time such Person becomes a Subsidiary; provided, however, that such Liens are not created or Incurred in connection with, or in contemplation of, such other Person becoming such a Subsidiary; provided, further, however, that such Liens may not extend to any other property owned by the Issuer or any Subsidiary;

(g) Liens on property at the time the Issuer or a Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into the Issuer or any Subsidiary; provided, however, that such Liens are not created or Incurred in connection with, or in contemplation of, such acquisition; provided, further, however, that the Liens may not extend to any other property owned by the Issuer or any Subsidiary;

(h) Liens securing Indebtedness or other obligations of a Subsidiary owing to the Issuer or another Subsidiary permitted to be Incurred in accordance with the Indenture;

(i) Liens securing Hedging Obligations so long as the related Indebtedness is, and is permitted to be under this Indenture, secured by a Lien on the same property securing such Hedging Obligations;

(j) leases and subleases of real property which do not materially interfere with the ordinary conduct of the business of the Issuer or any of its Subsidiaries;

(k) Liens arising from Personal Property Registry filings or Uniform Commercial Code financing statement filings regarding operating leases entered into by the Issuer and its Subsidiaries in the ordinary course of business;

(l) Liens in favour of the Issuer;

(m) Liens encumbering deposits made in the ordinary course of business to secure obligations arising from statutory, regulatory, contractual or warranty requirements, including rights of offset and set-off; and

(n) Liens to secure any refinancing, refunding, extension, renewal or replacement or successive refinancings, refundings, extensions, renewals or replacements, as a whole, or in part, of any Indebtedness secured by any Lien referred to in the foregoing clauses (g), (h), (i), (j), and (l); provided, however, that (A) such new Lien will be limited to all or part of the same property that secured the original Lien (plus improvements on such property) and (B) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (x) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clauses (g), (h), (i), (j), and (l) at the time the original Lien became a Permitted Lien under the Indenture and (y) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement.

"Person" means any individual, corporation, partnership, business trust, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"Preferred Stock" means any Equity Interest with preferential right of payment of dividends or upon liquidation, dissolution, or winding up.

"Project Documents" includes all power purchase agreements, steam sales contracts, operating and maintenance agreements, administrative services contracts, lease agreements, construction contracts (other than purchase orders), transmission agreements, fuel supply and transportation contracts, Project loan agreements, partnership agreements, limited liability company agreements and other organizational documents that relate to a Project, other than any such agreement that has a term of one year or less or that may be cancelled or terminated by a party thereto on less than one year's notice without substantial economic detriment.

"Quarterly Base Dividend Level" is Cdn$ • per Common Share, divided by four.

"Restricted Investment" means an Investment other than a Permitted Investment.

"Senior Indebtedness" means, with respect to the Issuer or any Subsidiary, all secured Indebtedness of the Issuer, or any such Subsidiary, including interest thereon (including interest accruing on or after the filing of any petition in bankruptcy or for reorganization relating to the Issuer or any Subsidiary of the Issuer whether or not a claim for post-filing interest is allowed in such proceeding) and other amounts (including make-whole, fees, expenses, reimbursement obligations under letters of credit and indemnities) owing in respect thereof, whether outstanding on the Closing Date or thereafter Incurred, unless in the instrument creating or evidencing the same or pursuant to which the same is outstanding it is provided that such obligations are not superior in right of payment to the Subordinated Notes or such Subsidiary's Guarantee, as applicable; provided, however, that Senior Indebtedness shall not include, as applicable, (i) any obligation of the Issuer to any Subsidiary of the Issuer, or of such Subsidiary to the Issuer or any other Subsidiary of the Issuer, (ii) any liability for federal, state, provincial, local or other taxes owed or owing by the Issuer or such Subsidiary, (iii) any accounts payable or other liability to trade creditors arising in the ordinary course of business (including guarantees thereof or instruments evidencing such liabilities), and (iv) any obligations with respect to any Capital Stock.

"Subordinated Indebtedness" means, with respect to the Issuer or any Subsidiary, all Indebtedness of the Issuer or any Subsidiary which is not Senior Indebtedness.

"Subsidiary" means, with respect to any Person,

(a) any corporation, association or other business entity (other than a partnership, joint venture or limited liability company) of which 40% or more of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; and

(b) any partnership, joint venture or limited liability company of which 40% or more of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise and such Person owns or controls, directly or indirectly, 40% or more of the total equity and voting rights of the general partner of such entity.

"Voting Stock" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the board of directors or equivalent body or Person of such Person.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness or Disqualified Stock, as the case may be, at any date, the quotient obtained by dividing (i) the sum of the products of the number of years from the date of determination to the date of each successive scheduled principal payment of such Indebtedness or redemption or similar payment with respect to such Disqualified Stock multiplied by the amount of such payment, by (ii) the sum of all such payments.

"Wholly-Owned Subsidiary" of any Person means a Subsidiary of such Person 100% of the outstanding Capital Stock on other ownership interests of which will at the time be owned by such Person or by one or more Wholly-Owned Subsidiaries of such Person.

EARNINGS COVERAGE RATIOS

The Issuer's interest requirements, after giving effect to the issue of the Subordinated Notes as a component of the IPSs and the Separate Subordinated Notes, would have amounted to $ ● for the 12 months ended December 31, 2003 and $ ● for the 12 months ended June 30, 2004. The Issuer's *pro forma* earnings before interest and income tax for the 12 months ended December 31, 2003 would have been $ ● which is ● times the interest requirements for this period. The Issuer's *pro forma* earnings before interest and income tax for the 12 months ended June 30, 2004 would have been $ ● , which is ● times the interest requirements for this period.

CONSOLIDATED CAPITALIZATION OF THE ISSUER

The following table sets out the consolidated capitalization of the Issuer as at June 30, 2004 and as at ● , 2004, both before and after giving effect to the Offering and the transactions contemplated by the Acquisition Agreements.

Designation	Authorized	At June 30, 2004	At ●, 2004 before giving effect to the Offering and the transactions contemplated by the Acquisition Agreements	At ●, 2004, after giving effect to the Offering and the transactions contemplated by the Acquisition Agreements (in thousands of dollars)
Common Shares	Unlimited	Cdn$10.00 (1 Common Share)(1)	Cdn$10.00 (1 Common Share)	Cdn$ ● (●)(2)
Subordinated Notes	Unlimited	—	—	Cdn$ ●
Long-Term Debt	Unlimited	—	—	US$ ●

(1) The Issuer was incorporated on June 18, 2004 and issued one Common Share for Cdn$10.00.

(2) Sufficient Common Shares will be reserved for issuance to satisfy the Issuer's obligations to issue IPSs on the exchange by the Existing Investors of Exchangeable Interests in Atlantic Holdings. See "Retained Interest".

CREDIT FACILITY

Atlantic Holdings has arranged for a senior credit facility (the "Credit Facility") initially in the form of a $50 million revolving term credit facility, of which $ ● is expected to be drawn at Closing. The Credit Facility will be used for working capital purposes, including management of cash flows with respect to timing differences in the payment and refund of U.S. withholding taxes and for other general corporate purposes of Atlantic Holdings. The Credit Facility will be guaranteed by the Issuer, the Project Holding Entities and Onondaga Cogeneration L.P. The obligations of Atlantic Holdings, the Issuer, the Project Holding Entities and Onondaga Cogeneration L.P. in respect of the Credit Facility will be secured by: (i) a first priority security interest in the assets of Atlantic Holdings; (ii) a pledge by the Issuer of its equity interest in Atlantic Holdings; (iii) a pledge by Atlantic Holdings of its equity interests in each of the Project Holding Entities; and (iv) pledges of the equity interests held by the Project Holding Entities in their direct, wholly-owned subsidiaries subject to the provisions of agreements governing or affecting interests in such subsidiaries which may restrict or prevent pledges in certain cases. The obligations of Atlantic Holdings and each of the guarantors of the Credit Facility under the Credit Facility will rank senior to their obligations with respect to the Subordinated Notes.

The Credit Facility will have a term of three years from Closing. Atlantic Holdings may request a one-year extension of the maturity date of the Credit Facility no earlier than 60 days prior to the first anniversary of the Closing. Such an extension is subject to the approval of the lenders that have provided the Credit Facility. Upon maturity of the Credit Facility, Atlantic Holdings intends to renew or refinance the Credit Facility at then-current market rates. If Atlantic Holdings is unable to refinance or renew the Credit Facility on comparable or better terms, there may be an adverse effect on cash available for distribution.

Loans under the Credit Facility will bear interest at a rate equal to LIBOR or a U.S. Base Rate, plus an applicable margin to those rates. Base Rate committed advances may be prepaid at any time on one business day's notice. LIBOR committed advances may be prepaid on not less than three business days' notice, subject to funding loss indemnity. Atlantic Holdings may at any time upon at least five business days' notice permanently reduce the unused portion of the Credit Facility without penalty by an amount equal to $5 million and in multiples of $1 million in excess thereof.

The Credit Facility will contain customary representations, warranties, covenants (including restrictions on incurring additional indebtedness), conditions to funding and events of default. Among other things, no cash distributions shall be permitted during the existence of a default or an event of default under the Credit Facility. Any change of control of Atlantic Holdings is an event of default under the Credit Facility. The Credit Facility will contain restrictive covenants that will limit the discretion of management with respect to certain business matters. The Credit Facility will also be subject to financial covenant regarding cash flow coverage.

The Credit Facility is repayable or guaranteed by entities from which the Issuer receives its cash distributions and as a result, the amounts owing under the Credit Facility and any interest thereon will be payable in priority to any cash distributions to holders of IPSs, Common Shares and Subordinated Notes.

THE ISSUER

The Issuer is a corporation incorporated under the *Business Corporations Act* (Ontario).

Share Capital of the Issuer

The authorized share capital of the Issuer consists of an unlimited number of common shares. Upon closing of the Offering, all of the issued and outstanding Common Shares of the Issuer will be represented by the IPSs sold pursuant to the Offering.

Holders of Common Shares of the Issuer will be entitled to receive dividends as and when declared by the board of directors and are entitled to one vote per Common Share on all matters to be voted on at all meetings of shareholders. Upon the voluntary or involuntary liquidation, dissolution or winding-up of the Issuer, the holders of Common Shares are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities.

Upon completion of the Offering, the Issuer will also have issued and outstanding IPSs (see "Description of IPSs") and Subordinated Notes (see "Description of Subordinated Notes").

Limitations on ERISA Plan Ownership

To avoid having the Issuer become subject to the fiduciary and prohibited transaction provisions of ERISA and Section 4975 of the Code, at no time may the IPSs, Subordinated Notes or Common Shares be beneficially owned by any "ERISA Plan" (which includes plans subject to such statutory provisions and entities that, by regulation, are deemed to hold assets of such plans). Any transferee of beneficial ownership of IPSs, Subordinated Notes or Common Shares (whether by initial purchase or subsequent transfer) will be deemed to represent to the Issuer that it is not an ERISA Plan. Any purported transfer (whether or not the result of a transaction entered into through the facilities of the Toronto Stock Exchange) that, if effective, would result in any ERISA Plan beneficially owning any IPSs, Subordinated Notes or Common Shares will be void from the date of the purported transfer, and the ERISA Plan that pursuant thereto would purport to have beneficial ownership of the IPSs will not acquire any interest in the IPSs, Subordinated Notes or Common Shares. In the event of such a purported transfer, such IPSs, Subordinated Notes or Common Shares will be transferred to a trust created by the Issuer and sold. The ERISA Plan will not have any beneficial interest in the trust, and the ERISA Plan's sole right with respect to the IPSs, Subordinated Notes or Common Shares that were the subject of the purported transfer to the ERISA Plan will be to receive the net proceeds of sale of such IPSs, Subordinated Notes or Common Shares by the trust. The Issuer may require any person who attempts to acquire IPSs, Subordinated Notes or Common Shares or who otherwise is purported to beneficially own IPSs, Subordinated Notes or Common Shares, to provide a written statement or affidavit to the Issuer stating such information as the Issuer may request in order to determine whether such person is an ERISA Plan or not.

The Indenture will contain substantively identical provisions concerning prohibitions on ERISA Plan ownership of the Subordinated Notes as described above, including the right to compel an ERISA Plan to dispose of the Subordinated Notes.

Limitation on U.S. Resident Ownership

The articles of incorporation of the Issuer provide that at no time may more than 100 U.S. persons (as determined by the Issuer) be the beneficial owners of the Issuer's securities, nor may any U.S. person be the beneficial owner of more than 10% of the IPSs, the Subordinated Notes or the Common Shares. The Issuer may require declarations as to the jurisdictions in which beneficial owners of the Issuer's securities are resident. If the Issuer becomes aware that either of the foregoing limitations may be contravened, the transfer agent and registrar of the Issuer will make a public announcement and will not accept a subscription for the Issuer's securities from or issue or register a transfer of the Issuer's securities to a person unless the person provides a declaration that the person is not a U.S. person. If, notwithstanding the foregoing, the Issuer determines that more than 100 U.S. persons are beneficial owners of any class of the Issuer's securities (on either a non-diluted or fully-diluted basis), the Issuer may send a notice to the U.S. holders of such securities, chosen in inverse order to the order of acquisition or registration or in any manner as the Issuer may consider equitable and practicable, requiring them to sell their securities or a portion of their securities within a specified period of not less than 10 days. If the holders of the Issuer's securities receiving the notice have not sold the specified number of securities, or provided the Issuer with satisfactory evidence that they are not U.S. persons within that period, the Issuer may, on behalf of those holders of the Issuer's securities, sell those securities, and, in the interim, will suspend the voting and distribution rights attached to those securities. Upon that sale, the affected holders will cease to be holders of the securities, and their rights will be limited to receiving the net proceeds of the sale.

Limitation on Ownership by Electric Utilities and Others

The Projects include QFs that qualify under FERC's rules implementing PURPA and EWGs under PUHCA with market-based rates on file with FERC pursuant to the FPA. Ownership of the Issuer must be restricted in order to continue to satisfy FERC's ownership criteria for QFs and to ensure that the Projects with market-based rates on file with FERC comply with representations made to FERC, and continue to qualify for market-based rates. Such ownership restrictions generally relate to persons or companies having equity ownership or operation of certain utility assets in the U.S. or affiliation with an entity that owns or operates such assets. As a result, the articles of incorporation of the Issuer provide that no U.S. entity (other than entities that have made certain regulatory filings such as Teton Holdings) may hold more than 10% of the IPSs or Common Shares. In addition, should any entity wish to hold more than 5% but less than 10% of the IPSs or Common Shares, that entity must agree to cooperate with the Issuer and provide information necessary to make any filings with FERC that may be required pursuant to the FPA. Further, the articles of incorporation of the Issuer provide that no person may own IPSs or Common Shares if such person (i) is engaged primarily in the electric or gas business; (ii) is otherwise affiliated with any franchised electric utility; (iii) has controlling ownership interests in any electric generating, transmission, or distribution facilities; (iv) is affiliated with any power marketers; (v) is a "public-utility company" or a "holding company" or an "associate company", "affiliate", or "subsidiary company" of a "holding company" as each term is defined in section 2(a) of PUHCA; (vi) is subject to regulation under PUHCA; (vii) is subject to regulation as a "public utility" under the FPA; or (viii) is subject to regulation with respect to rates or to financial or organizational matters as an electric utility, public utility, or public service company or corporation under the laws of any state unless such person satisfies the Issuer that the ownership of the IPSs or Common Shares by such person will not adversely affect the Projects' qualification for QF status under FERC's rules implementing PURPA, the order issued under the FPA with respect to certain Projects, or the Projects' qualification for market-based rates under the FPA. Determination of such potential adverse effect is at the sole discretion of the Issuer, and the Issuer may elect to strictly enforce any or all of the restrictions set forth above against such entity. If the Issuer becomes aware that any of the foregoing restrictions may be contravened, the transfer agent and registrar of the Issuer will make a public announcement and will not accept a subscription for IPSs or Common Shares from or issue or register a transfer of IPSs or Common Shares to a person unless the person provides a declaration that the person is not an entity described above. If, notwithstanding the foregoing, the Issuer determines that an owner of IPSs or Common Shares violates the foregoing restrictions, the Issuer may send a notice to such owner of IPSs or Common Shares requiring it to provide specified information to the Issuer such that Issuer can determine whether such person's ownership may have an adverse affect upon the Issuer. Upon such determination, the Issuer may send a further notice requiring such owner to sell its IPSs or Common Shares within a specified period of not less than 10 days. If the holder of IPSs or Common Shares receiving the notice has not sold the IPSs or Common Shares, as applicable, or provided the Issuer with satisfactory evidence that it does not contravene the foregoing restrictions, the Issuer may, on behalf of that holder of IPSs or Common Shares, sell those IPSs or Common Shares, and, in the interim, will suspend the voting and distribution rights attached to those IPSs or Common Shares. Upon that sale, the affected holder will cease to be a holder of the IPSs or the Common Shares, as applicable, and its rights will be limited to receiving the net proceeds of the sale.

Interest Payments and Distribution Policy

Distributions of the Issuer will be paid in Canadian dollars unless a holder of IPSs, Common Shares or Subordinated Notes elects to receive distributions in U.S. dollars. Holders of IPSs, Common Shares or Subordinated Notes that elect to receive U.S. dollar distributions will receive the U.S. dollar Equivalent Amount of distributions by the Issuer. A holder of IPSs, Common Shares or Subordinated Notes may from time to time elect to change the currency of the distributions it receives on all or any part of the IPSs, Common Shares or Subordinated Notes it holds from Canadian dollars to U.S. dollars or *vice versa* upon notice to the securities broker through which the holder holds its IPSs, Common Shares or Subordinated Notes.

The Issuer will pay interest on the Subordinated Notes and dividends on the Common Shares (if declared) on the last business day of each month to holders of record at the close of business on the last business day of the preceding month commencing ● , 2004.

The Issuer intends to pay equal monthly dividends on the Common Shares at a stable and sustainable level, subject to applicable law and the covenants contained in the Credit Facility and the Indenture, after:

- satisfying its debt service obligations under any credit facilities or other agreements with third parties, if any;
- making interest payments at the rate of ● % per annum of the aggregate principal amount of the Subordinated Notes outstanding;
- satisfying its other expense obligations, including withholding and other applicable taxes; and

• retaining reasonable reserves for working capital and other expenses.

The Issuer may make additional distributions in excess of monthly dividends during the year, as the board of directors may determine in its sole discretion. Initially, the dividend policy is expected to result in an annual dividend of approximately Cdn$ ● (or the Equivalent Amount in US dollars) per Common Share.

The Indenture and the Credit Facility contain restrictions on the ability of the Issuer to declare and pay dividends on the Common Shares. The board of directors of the Issuer may, in its discretion, modify or repeal the Issuer's dividend policy. No assurances can be made that the Issuer will pay dividends at the level contemplated in the future or at all. Assuming that the Issuer makes the scheduled interest payments on the Subordinated Notes and pays dividends on the Common Shares in the amount contemplated by the dividend policy described above, an investor would receive, in the aggregate, approximately Cdn$ ● (or the Equivalent Amount in U.S. dollars) per year per IPS in dividends on the Common Shares and interest on the Subordinated Notes.

The initial cash distribution on both the Subordinated Notes and Common Shares for the period from Closing to ● , 2004 is expected to be paid on ● , 2004 (assuming Closing occurs on or about ● , 2004).

Administration

The Issuer will have no executive officers and will engage the Manager to provide certain services pursuant to the Management Agreement. Under the Management Agreement, the Manager, if requested by the Issuer, will: (i) assist the Issuer in complying with its continuous disclosure obligations under applicable securities legislation; (ii) provide or cause to be provided to holders of securities of the Issuer, all information to which they are entitled under the constating documents of the Issuer and the Indenture and applicable laws; (iii) monitor compliance of the Issuer with applicable tax laws; (iv) provide for the calculation of interest payments and distributions to holders of IPSs and the Separate Subordinated Notes; and (v) assist in the preparation, planning and coordination of meetings of the board of directors of the Issuer and the holders of Common Shares of the Issuer. The Issuer may directly retain professionals and other service providers from time to time to provide advice and other administrative services directly to the Issuer. See "Directors, Officers and Management — Management Agreement".

ATLANTIC HOLDINGS

Atlantic Holdings is a Delaware limited liability company.

Capital of Atlantic Holdings

The authorized capital of Atlantic Holdings will consist of an unlimited number of common membership interests, an unlimited number of Class A preferred membership interests and an unlimited number of Class B preferred membership interests. Upon closing of the Offering and the transactions contemplated under "Acquisition Agreements", ● common membership interests and ● Class A preferred membership interests of Atlantic Holdings will be owned by the Issuer and ● common membership interests and ● Class B preferred membership interests will be owned by the Existing Investors.

Class A Preferred Membership Interests

The Class A preferred membership interests will be non-voting membership interests. Each Class A preferred membership interest will have a liquidation preference of $ ● and will be entitled to a cumulative preferred return of ● %, plus an amount equal to all of the Issuer's ongoing expenses and costs. The Class A preferred membership interests will be entitled to full payment of any unpaid preferred return prior to distributions being made to any other class of membership interests. The Class A preferred membership interests will not have any right to distributions from Atlantic Holdings in excess of their liquidation preference and preferred return.

The Class A preferred membership interests will be redeemable at the option of the holder upon the maturity date of the Subordinated Notes, or upon any redemption or prepayment of the Subordinated Notes being required under the Indenture, for a price equal to their liquidation preference plus any accumulated preferred return. The Class A preferred membership interests will be redeemable at the option of Atlantic Holdings on or after the fifth anniversary of the Closing at a redemption price equal to: (i) 105% of the liquidation preference of the Class A preferred membership interests being redeemed where the redemption occurs on or after the fifth anniversary but before the seventh anniversary of the Closing; (ii) 104% of such amount where the redemption occurs on or after the seventh anniversary but before the ninth anniversary of the Closing; (iii) 103% of such amount where the redemption occurs on or after the ninth anniversary but before the 10^{th} anniversary of the Closing; (iv) 102% of such amount where the redemption occurs on or after the 10^{th} anniversary but before the 11^{th} anniversary of the Closing; and (v) 101% of such amount where the redemption occurs on or after the 11^{th} anniversary but before the 12^{th} anniversary of the Closing, together with, in each case, any accumulated preferred return to the date of redemption. The Class A preferred membership interests will be redeemable at the option of the holder, at a redemption price equal to 100% of the liquidation preference of the Class A preferred membership interests plus any accumulated preferred return, during any period that for U.S. federal income tax purposes the Issuer: (i) is not, or would not be, in the opinion of nationally recognized tax counsel, permitted to deduct all or a substantial portion of the interest payable on the Subordinated Notes from its income; or (ii) is required to withhold or deduct any amount for or on account of taxes from any amounts paid or credited under or with respect to the Subordinated Notes and the Issuer is required to pay additional amounts. The Class A preferred membership interests will be redeemable at the option of the holder for an amount equal to 101% of the liquidation preference of the Class A preferred membership interests plus any accumulated preferred return, in the event that a Change of Control (as defined in the Indenture) occurs.

Class B Preferred Membership Interests

The Class B preferred membership interests will be non-voting membership interests. Each Class B preferred membership interest will have a liquidation preference of $ ● and will be entitled to a cumulative preferred return of ● %. The Class B preferred membership interests will be entitled to full payment of any unpaid preferred return prior to distributions being made on the common membership interests, but only after preferred returns are paid on the Class A preferred membership interests. The Class B preferred membership interests will not have any right to distributions from Atlantic Holdings in excess of their liquidation preference and preferred return.

The Class B preferred membership interests will be redeemable at the option of the holder at any time after redemption in full of the Class A preferred membership interests. Upon exercise by a holder of its redemption right with respect to the Class B preferred membership interests, all distributions of available cash (other than tax distributions) will be paid to the holders of the Class B preferred membership interests until they have received payment in full of their liquidation preference plus any accumulated preferred return. Upon any transfer of Class B preferred membership interests from a holder to the Issuer pursuant to the terms of the Exchange Agreement, the transferred Class B preferred membership interests will automatically convert into Class A preferred membership interests.

Common Membership Interests

Each common membership interest carries one vote on all matters to be voted on at all meetings of members. Holders of common membership interests will be entitled to receive distributions as and when declared by the board of managers after payment in full of all cumulative preferred returns on the Class A and Class B preferred membership interests. Upon the voluntary or involuntary liquidation, dissolution or winding-up of Atlantic Holdings, the holders of common membership interests are entitled to share rateably in the remaining assets available for distribution, after payment of liabilities and the liquidation preference to which the Class A and Class B preferred membership interests are entitled.

Exchangeable Interests

Upon Closing, the Issuer, Atlantic Holdings and the Existing Investors will enter into the Exchange Agreement. Pursuant to the terms of the Exchange Agreement, the Existing Investors will be entitled to exchange each Exchangeable Interest for an IPS of the Issuer. See "Retained Interest — Exchange Agreement".

Distribution Policy

Atlantic Holdings intends to pay equal monthly distributions on its common membership interests at a stable and sustainable level, subject to applicable law and the covenants contained in the Credit Facility and the Indenture, after:

- satisfying its debt service obligations under the Credit Facility or other agreements with third parties, if any;
- satisfying its other expense obligations, including management and administration expenses, and withholding and other applicable taxes;
- paying distributions on the outstanding Class A preferred membership interests;
- paying distributions on the outstanding Class B preferred membership interests;
- retaining reasonable reserves for working capital and other expenses; and
- making deposits into the Reserve Account to be used to stabilize distributions and fund acquisitions and other growth opportunities.

Reserve Account

At Closing, approximately $12.5 million of the net proceeds of the Offering and cash on hand will be deposited into the Reserve Account. In addition, Atlantic Holdings intends to make additional deposits into the Reserve Account from time to time in accordance with its distribution policy. The funds in the Reserve Account will be available to: (a) stabilize future cash distributions; and (b) fund acquisitions and other growth opportunities to enhance the long-term stability of cash distributions. Any such acquisition or growth opportunity will need to meet the acquisition and investment guidelines established by the Issuer. All acquisitions are subject to the approval of the members of the board of managers of Atlantic Holdings, and to the extent a conflict of interest exists with ArcLight or its affiliates, the approval of the independent members of the board of managers. See "Atlantic Power Corporation — Issuer's Objectives and Business Strategy".

Amounts in the Reserve Account generally will be invested at the direction of the Manager in book-based securities, negotiable instruments, or securities represented by instruments in bearer or registered form which evidence: (a) direct obligations of, and obligations fully guaranteed as to timely payment by, the Governments of Canada or the United States or any agency or instrumentality thereof the obligations of which are backed by the full faith and credit of the Governments of Canada or the United States as the case may be, or (b) debt securities or debt instruments with a rating of A (low) or higher by DBRS or A3 or higher by Moody's Investors Service, Inc. or A− or higher by S&P, but excluding any debt securities or instruments constituting loans or advances among the Issuer and its Subsidiaries.

In connection with the Reserve Account, the Manager will seek such advice and retain such experts as the Manager may deem prudent or as otherwise may be required by applicable laws. The investment parameters and objectives of the Reserve Account will also be periodically reviewed and approved by the independent members of the board of managers of Atlantic Holdings.

Operating Agreement

On Closing, the Issuer, Atlantic Holdings and the Existing Investors will enter into the Operating Agreement with respect to the operations and affairs of Atlantic Holdings. The following is a summary of certain provisions of the Operating Agreement, which summary is not intended to be complete. Reference is made to the Operating Agreement for a complete description and the full text of its provisions.

Managers. The Operating Agreement will provide for a board of managers of Atlantic Holdings consisting of seven managers. A majority of the managers must be U.S. residents. All representatives of the Existing Investors and the Manager must be U.S. residents. The Issuer will be entitled to appoint a majority of the board of managers of Atlantic Holdings. On Closing, the board of managers of Atlantic Holdings will be comprised of a majority of managers unrelated to Atlantic Holdings and its subsidiaries, the Existing Investors and the Manager, as follows:

- four representatives of the Issuer (the three directors of the Issuer and one individual designated by the three directors of the Issuer);
- two representatives of the Existing Investors; and
- one representative of the Manager.

The board representation rights of the Existing Investors will be adjusted as their aggregate ownership of common membership interests in Atlantic Holdings is reduced. As the board representation rights of the Existing Investors are reduced, the size of the board of managers of Atlantic Holdings will be correspondingly reduced. The Existing Investors' board representation rights will be adjusted as follows:

Ownership of Common Membership Interests of Atlantic Holdings	Board Representation Rights
More than or equal to 20%	two representatives
Less than 20% but not less than 10%	one representative
Less than 10%	no representative

Special Approvals. In addition to majority approval of the board of managers of Atlantic Holdings, Atlantic Holdings may not, without the approval by at least 80% of the votes cast by holders of outstanding common membership interests: (i) other than in connection with an event of default under the Indenture, enter into a merger, consolidation, combination or other material transaction of a similar nature; (ii) other than in connection with an event of default under the Indenture, directly or indirectly sell or otherwise dispose of all or substantially all of its assets; (iii) redeem any of the outstanding Class A preferred membership interests where such redemption is made at its discretion; (iv) adopt any plan or proposal for the liquidating, dissolving, reorganizing or recapitalizing of Atlantic Holdings or to commence any action seeking relief under any laws relating to bankruptcy, insolvency, conservatorship or relief of debtors; (v) change its fiscal year (unless required or indicated for tax reasons) or make a material change in its accounting policies or procedures unless required under the applicable generally accepted accounting principles; (vi) change the size of the board of managers of Atlantic Holdings; (vii) take, or permit, any action which would prevent the business from continuing on an ongoing basis; or (viii) agree to do any of the preceding. The Operating Agreement will also contain pre-emptive rights in favour of the Issuer and the Existing Investors, co-sale rights in favour of the Existing Investors and drag-along rights in favour of the Issuer.

Executives. Pursuant to the terms of the Management Agreement, the Manager will have the exclusive authority to manage the business and affairs of Atlantic Holdings, to make all decisions regarding Atlantic Holdings and to bind Atlantic Holdings subject to approval, in certain circumstances, by the board of managers of Atlantic Holdings. See "Directors, Officers and Management — Management Agreement". The Manager has appointed a full-time chief executive officer and will appoint such other officers as are considered necessary to fulfil its obligations under the Management Agreement. The board of managers of Atlantic Holdings will appoint a compensation, nominating and corporate governance committee and an audit committee each of which shall meet all regulatory guidelines which would apply if Atlantic Holdings were a listed reporting issuer.

Amendment. The Operating Agreement will provide that it can only be amended, modified or waived with the approval of the Issuer, Atlantic Holdings and the Existing Investors (for so long as they hold membership interests in Atlantic Holdings).

PRINCIPAL HOLDERS OF IPSs (COMMON SHARES)

To the knowledge of the Issuer, no person or company will, as at Closing, own beneficially, directly or indirectly, more than 10% of the Common Shares (or securities convertible into or exchangeable for Common Shares) of the Issuer other than Teton Power Holdings, LLC. The information is determined assuming the exchange of all outstanding Exchangeable Interests held by the Existing Investors for IPSs pursuant to the Exchange Agreement and assumes that the Existing Investors beneficially own the IPSs issued upon the exchange of the Exchangeable Interests and are not acting in concert with each other. See "Retained Interest — Exchange Agreement".

PRIOR ISSUANCES

The only issuance of securities by the Issuer in the 12 months prior to the date of this prospectus was the issuance of one Common Share upon incorporation at a price of $10.00. This Common Share will be repurchased by the Issuer for $10.00 and cancelled in connection with the Closing of the Offering.

RISK FACTORS

An investment in the IPSs and the Common Shares and Subordinated Notes represented thereby involves a number of risks. In addition to the other information contained in this prospectus, prospective investors should give careful consideration to the following factors. Any of the matters highlighted in these risk factors could have a material adverse effect on the Issuer's results of operations, business prospects or financial condition, the cash available to the Issuer for distribution to holders of IPSs, Common Shares and Subordinated Notes or on the market price or value of IPSs, Common Shares or Subordinated Notes.

Risks Related to the Business and the Projects

Revenue May be Reduced Upon Expiration or Termination of PPAs

Power generated by the Projects, in most cases, is sold under PPAs that expire at various times. In addition, these PPAs may be subject to termination in certain circumstances, including default by the Project owner or operator. When a PPA expires or is terminated, it is possible that the price received by the relevant Project for power under subsequent arrangements may be reduced significantly. It is possible that subsequent power purchase arrangements may not be available at prices that permit the operation of the Project on a profitable basis. If this occurs, the affected Project may temporarily or permanently cease operations.

The Projects Depend on their Electricity and Thermal Energy Customers

Each Project relies on one or more power purchase agreements, steam sales agreements or other agreements with one or more utilities or other customers for a substantial portion of its revenue. The amount of cash available for distribution to holders of IPSs, Common Shares and Subordinated Notes is highly dependent upon customers under such agreements fulfilling their contractual obligations. There is no assurance that these customers will perform their obligations or make required payments to the Project Operating Entities.

Certain Projects are Exposed to Fluctuations in the Price of Electricity

While a majority of the off-takers of the Projects are contractually obligated to purchase electricity under long-term PPAs, those Projects with power purchase arrangements based on market pricing will be exposed to fluctuations in the wholesale price of electricity. In addition, should any of the long-term PPAs expire or terminate, the Manager or the relevant Project operator will be required to either negotiate new PPAs or sell into the electricity wholesale market, in which case the prices for electricity will depend on market conditions at the time.

Operations are Subject to the Provisions of Various Energy Laws and Regulations

If any Project that is a QF were to lose its status as a QF, then such Project may no longer be entitled to exemption from provisions of the PUHCA and/or the FPA and state law and regulations as described under "Power Industry Overview — Industry Regulation". This could subject such Projects to rate regulation as public utilities under the FPA and state law and could, unless such Project was dually-certified as an EWG, result in the Issuer or certain of its affiliates inadvertently becoming a public utility holding company by owning more than 10% of the voting securities of, or controlling, a facility that would no longer be exempt from PUHCA. This could cause some or all of the remaining Projects that are QFs to lose their QF status, because QFs may not be controlled, or more than 50% owned, by public utility holding companies as defined by PUHCA.

Loss of QF status could trigger defaults under covenants to maintain QF status in the PPAs, steam sales agreements and Project-level debt agreements and result in termination, penalties or acceleration of indebtedness under such agreements, plus interest. A Project may lose its QF status on a retroactive or prospective basis.

While legislation to repeal and amend certain sections of PURPA currently pending before the United States Senate and the United States House of Representatives protects existing contracts of QFs from a repeal of the obligation of electric utilities to purchase electricity from QFs, there is no guarantee that such proposed legislation will become law or that such legislation, in its final form, or any other legislation, will contain provisions to grandfather existing PPAs. Loss of QF status by any of the Projects on a retroactive basis could lead to, among other things, an order from FERC against the applicable Project for refunds of payments previously made under the PPAs, with interest.

If those Projects that are EWGs were to lose their EWG status, this could result in certain affiliates of the Issuer inadvertently becoming a public utility holding company by owning more than 10% of the voting securities of, or controlling, a facility that would no longer be exempt from PUHCA. This could cause some or all of the remaining Projects to lose their QF status. Loss of exemption from PUHCA would also trigger defaults under loan covenants to maintain exemptions from PUHCA.

Under the FPA, FERC has exclusive rate-making jurisdiction over wholesale sales of electric energy and the transmission of electric energy in interstate commerce. These rates may be determined on either a cost-of-service basis or, if the applicable standards are met, using a market-based approach. If any of the Projects were to lose its QF status, the rates set forth in the applicable PPA would have to be filed with FERC and would be subject to initial and potentially subsequent reviews by FERC under the FPA, which could result in reductions to the rates.

Pasco Beverage has reduced steam purchases from Pasco to a level below that required for the Project to maintain QF status. In addition, Pasco Beverage has sold portions of its business to other steam users and is expected to cease operations in December 2004. On September 30, 2004, Pasco filed a petition seeking a temporary waiver of QF requirements for calendar year 2004 and 2005 with FERC. Pasco determined that the steam demands from the current and new steam users were insufficient to reliably maintain QF status. Defaults under the steam purchase agreement, and lack of enforcement by Pasco, may be defaults under Pasco's financing arrangements. In addition, loss of QF status would be a default under Pasco's financing arrangements and its PPA. Such defaults would prevent distributions from being made by Pasco to its partners. Pasco is actively pursuing alternatives to maintain the Project's QF status and has developed a plan for increasing steam demand through the installation of water distillation equipment and the selling of distilled water to counterparties in 2005. The estimated cost of the distillation system is $2.0 million and the Project has reserved sufficient cash to fund its installation.

Lake has received a request for data from FERC staff in connection with an inquiry into the operations of Lake in connection with its status as a QF. Lake's operator, a Caithness affiliate, intends to provide a response which it believes will show that Lake is satisfying all QF requirements.

Projects May Not Operate as Planned

The revenue generated by the Projects is dependent, in whole or in part, on the amount of electric energy and steam generated by them. The ability of the Projects to generate the maximum amount of power to be sold to customers under the PPAs is the primary determinant in the amount of cash that will be distributed to the Issuer, and that will in turn be available for distribution to holders of IPSs, Common Shares and Subordinated Notes. With respect to each of the Projects, there is a risk of equipment failure due to wear and tear, latent defect, design error or operator error, among other things, which could adversely affect revenues and cash available for distribution. To the extent that the Projects' equipment requires longer than forecast down times for maintenance and repair, or suffers disruptions of power generation for other reasons, the amount of cash available for distribution may be adversely affected.

In general, the Projects transmit electric power to the transmission grid for purchase under the PPAs through a single, main step up transformer. As a result, the transformer represents a single point of failure and the transformer may exhibit no abnormal behaviour in advance of a catastrophic failure which could cause a temporary shutdown of the facility until a spare transformer can be found or a replacement manufactured. In the case of a shutdown, the Projects may be able to claim a *force majeure* under the Project contracts such as the PPA, fuel supply, steam sales agreement, loan agreements or insurance policies. If successful, such a claim may prevent a default under such contracts. However, a *force majeure* claim may be challenged by the contract counterparty and, to the extent the challenge is successful, it may have a materially adverse effect on the Project.

The Orlando Project experienced a failure of its main generator step up transformer on June 16, 2004, resulting in a temporary shutdown of the facility. Further analysis determined that the failure of a high voltage bushing was the cause of the problem. Northern Star has advised that it believes that this event falls within the definition of a *force majeure* event under both the Progress Energy and Reedy Creek PPAs. Orlando arranged for the purchase of two smaller transformers that are connected in parallel. The two transformers were installed in early August 2004, which allowed the Project to return to service in August 2004. The Project has been operating normally since its return to service. Insurance proceeds are expected to cover the repair and the Project's loss is expected to be limited to lost power sales margin for the duration of the 54-day outage.

The Projects are Subject to Significant Environmental and Other Regulations

The Projects are subject to numerous and significant federal, state and local laws, including statutes, regulations, by-laws, guidelines, policies, directives and other requirements governing or relating to, among other things: air emissions; discharges into water; the storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual materials, such as chemicals; the prevention of releases of hazardous materials into the environment; the prevention, presence and remediation of hazardous materials in soil and groundwater, both on and off site; land use and zoning matters; and workers' health and safety matters. As such, the operation of the Projects carries an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, fines and other penalties), and may result in the Projects being involved from time to time in administrative and judicial proceedings relating to such matters.

The Projects have obtained environmental permits and other approvals that are required for their operations. Compliance with applicable laws and future changes to them is material to the Issuer's businesses. Although the Manager believes the operations of the Projects are currently in material compliance with applicable environmental laws, licences, permits and other authorizations required for the operation of the Projects and although there are environmental monitoring and reporting systems in place with respect to all the Projects, there is no guarantee that more stringent laws will not be imposed, that there will not be more stringent enforcement of applicable laws or that such systems may not fail, which may result in material expenditures. Failure by the Projects to comply with any environmental, health or safety requirements, or increases in the cost of such compliance, including as a result of unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, could result in additional expense, capital expenditures, restrictions and delays in the Projects' activities, the extent of which cannot be predicted.

The Projects Depend on Suppliers Under Fuel Supply Agreements and Increases in Fuel Costs may Adversely Affect the Profitability of the Projects

Revenues in respect of the Projects may be affected by the availability, or lack of availability, of a stable supply of fuel at reasonable prices. To the extent possible, the Projects attempt to match fuel costs to PPA energy payments. To the extent that fuel costs are not matched directly to PPA energy payments, increases in fuel costs may adversely affect the profitability of the Projects.

The amount of energy generated at the Projects is highly dependent on suppliers under certain fuel supply agreements fulfilling their contractual obligations. The loss of significant fuel supply agreements or an inability or failure by any supplier to meet its contractual commitments may adversely affect cash distributions by the Issuer.

Upon the expiry or termination of existing fuel supply agreements, the Manager or Project operators will have to renegotiate these agreements or may need to source fuel from other suppliers. There can be no assurance that the Manager or Project operators will be able to renegotiate these agreements or enter into new agreements on similar terms. Furthermore, there can be no assurance as to availability of the supply or pricing of fuel under new arrangements.

The amount of energy generated at the Projects is dependent upon the availability of natural gas, coal, oil or biomass. There can be no assurance that the long-term availability of such resources will remain unchanged.

Increasing Competition Could Adversely Affect the Performance of the Issuer and the Projects

The power generation industry is characterized by intense competition, and the Projects encounter competition from utilities, industrial companies and other independent power producers. In recent years, there has been increasing competition among generators in an effort to obtain power sales agreements, and this competition has contributed to a reduction in electricity prices in certain markets. In addition, many states are implementing or considering regulatory initiatives designed to increase competition in the U.S. power industry.

The Projects Depend on a Favourable Regulatory Regime

The profitability of the Projects will be in part dependent upon the continuation of a favourable regulatory climate with respect to the continuing operations and the future growth and development of the independent power industry. Should the regulatory regime in an applicable jurisdiction be modified in a manner which adversely affects the Projects, including increases in taxes and permit fees, cash available for distribution may be adversely affected. The failure to obtain all necessary licences or permits, including renewals thereof or modifications thereto, may also adversely affect cash available for distribution.

ArcLight May Manage Entities that Compete with the Issuer and Atlantic Holdings

Certain officers of the Manager will be full-time employees of the Manager and will devote their time and efforts exclusively to or for the benefit of the business of Atlantic Holdings and the Issuer. ArcLight and their affiliates and employees or agents may be engaged or invest directly or indirectly in a variety of other companies or other entities involved in owning, managing or advising on or otherwise engaged in the business of the generation, production, transmission, distribution, purchase and sale of electricity, other forms of energy-related projects, infrastructure projects, utility projects or other businesses.

Affiliates of ArcLight currently act, and may hereafter act, as managers to investment funds whose investment criteria encompass investments in power generation facilities in Canada and the U.S. In particular, an affiliate of ArcLight is the general partner of Fund I and Fund II, which invest in power generation, transmission and distribution assets as well as power-related fuel, services and equipment businesses, primarily in the United States. Existing and future agreements governing investment funds managed by affiliates of ArcLight, including the agreements governing Fund I and Fund II, require, and are expected to require in the case of future agreements, that suitable investments for such investment funds identified by ArcLight first be offered to the investment funds. The Management Support Agreement will require that ArcLight and its affiliates give the Manager the opportunity to pursue, on behalf of the Issuer and Atlantic Holdings, investment opportunities that do not fit within the investment guidelines for Fund I, Fund II or other investment funds managed by ArcLight or its affiliates or that do fit within such investment guidelines but which such investment funds determine not to pursue. None of ArcLight or its affiliates are prohibited by the Management Agreement or any other agreement with Atlantic Holdings or the Issuer from competing with Atlantic Holdings or the Issuer, or from acquiring, investing in, or providing administrative or managerial services to, a competitor of Atlantic Holdings or the Issuer.

The Issuer Has Limited Control Over the Operation of Certain Projects

In most cases, the Projects are not wholly-owned by the Issuer, and in many cases the Issuer has limited control over the operation of the Projects. Third-party operators manage the operations of many of the Projects. As such, the Issuer must rely on the technical and management expertise of these third-party operators. To the extent that such third party operators do not fulfill their obligations to manage the operations of the Projects or are not effective in doing so, the amount of cash available for distribution may be adversely affected.

Sufficient Capital May Not be Available to Fund Acquisitions, Investments, Expansions or Capital Expenditures

Future acquisitions, investments, expansions and other capital expenditures by the Issuer and its subsidiaries will be financed out of cash generated from operations, sales of additional securities of the Issuer and borrowings. There can be no assurance that sufficient capital will be available on acceptable terms to fund acquisitions, investments, capital expenditures or expansion projects.

The Issuer May Face Significant Competition for Acquisitions and May Not Successfully Integrate Acquisitions

The Issuer's business plan includes growth through identifying suitable acquisition or investment opportunities, pursuing such opportunities, consummating acquisitions or investments and effectively integrating acquisitions or investments with the Issuer's business. There can be no assurance that the Manager will be able to identify attractive acquisition candidates in the power industry in the future, that the Issuer will be able to make acquisitions or investments on an accretive basis or that acquisitions or investments will be successfully integrated into the Issuer's existing operations. Although the U.S. power industry is continuing to undergo consolidation and may offer attractive acquisition and investment opportunities, the Manager believes that the Issuer is likely to confront significant competition for those opportunities and, due to the constriction in the availability of capital resources for acquisitions, investments and other expansion, to the extent that any opportunities are identified, the Issuer may be unable to effect acquisitions or investments.

Any acquisition or investment may involve potential risks, including an increase in indebtedness, the inability to successfully integrate operations, the potential disruption of the Issuer's ongoing business and the diversion of management's attention from other business concerns and the possibility that the Issuer pays more than the acquired company or interest is worth. There may also be liabilities that the Manager failed to discover or was unable to discover in its due diligence prior to the consummation of the acquisition or investment and the Issuer may not be indemnified for some or all these liabilities. In addition, the Issuer's funding requirements associated with acquisitions or investments and integration costs may reduce the funds available to the Issuer to make distributions.

Operations are Subject to a Number of Natural and Inherent Risks

The occurrence of a significant event which disrupts the ability of the Projects to produce or sell power for an extended period, including events which preclude existing customers from purchasing power, could have a material adverse effect on the amount of cash that will be available for distribution to holders of IPSs, Common Shares and Subordinated Notes. A certain portion of the events that might give rise to *force majeure* may, however, be mitigated by the Projects' insurance programs.

Insurance May Not be Sufficient to Cover All Losses

While the Manager believes that the Projects' insurance coverage addresses all material insurable risks, provides coverage that is similar to what would be maintained by a prudent owner/operator of similar facilities and are subject to deductibles, limits and exclusions which are customary or reasonable given the cost of procuring insurance, current operating conditions and insurance market conditions, there can be no assurance that such insurance will continue to be offered on an economically feasible basis, nor that all events that could give rise to a loss or liability are insurable, nor that the amounts of insurance will at all times be sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Projects or the Issuer.

Financing Arrangements Could Impact the Business of the Issuer

Current or future borrowings by the Issuer or its subsidiaries will increase the level of financial risk to the Issuer and, to the extent that the interest rates are not fixed or that borrowings are refinanced at different rates, will increase the sensitivity of cash available for distribution to interest rate variations. Contractual arrangements in respect of those borrowings may also adversely affect cash available for distribution. In addition, most of the Projects currently have term loan or other financing arrangements in place with various lenders. These financing arrangements are typically secured by all of the Project assets and contracts as well as the equity interests in the Project Operating Entities (including those owned by the Issuer). See "The Projects — Commercial Structure and Operation of the Projects" and "Project Descriptions". The terms of these financing arrangements generally impose many covenants and obligations on the part of the Project Operating Entity and other borrowers and guarantors. In many cases, a default by any party under other Project operating agreements (such as a PPA or a steam sales agreement) will also constitute a default under the Project's term loan or other financing arrangement. Failure to comply with the terms of these term loans or other financing arrangements, or events of default thereunder, may prevent cash distributions by the Project or the Project Operating Entity and may entitle the lenders to demand repayment and enforce their security against Project assets. In addition, if an event of default should occur, the lenders are entitled to take possession of the equity interests in Project Operating Entities held by the owners of the Project that have been pledged to such lenders.

In December 2003, the steam off-taker for the MASSPOWER Project (Solutia Inc.) filed for bankruptcy protection. Solutia's bankruptcy constitutes an event of default under MASSPOWER's financing arrangements. Due to the event of default, cash in excess of Project-level debt service has accumulated in a restricted payment account since the fourth quarter of 2003. The Project lenders have agreed to waive the event of default, provided that if Solutia moves to reject or rescind any of its contractual obligations to MASSPOWER or cease to accept steam, the waiver automatically terminates. Notwithstanding the waiver, MASSPOWER is not permitted to make distributions to its partners or borrow money for working capital. Upon resolution of the event of default (for example, by waiver of the Project lenders or by Solutia's assumption or affirmation of the steam sales agreement and site lease agreement with MASSPOWER), the funds in the restricted payment account will be distributed to the equity owners.

Under Selkirk's financing agreements, if Selkirk has not satisfied certain conditions with the respect to the extension or replacement of its firm gas supply agreements by December 26, 2004, cash otherwise available for distribution to Selkirk's partners will be required to be deposited into a separate account until the balance in the account is sufficient to fund all scheduled principal repayments on Selkirk's outstanding bonds from June 26, 2010 through June 26, 2012. Selkirk has commenced discussions with its fuel suppliers regarding the extension of its firm gas supply agreements and is considering all of its financial options.

Equity Interests in the Project Operating Entities are Typically Subject to Transfer Restrictions

In addition to the pledges referred to above, the partnership or other agreements governing the Project Operating Entities typically limit a partner's ability to deal with its interest. Specifically, such agreements generally prohibit any sale, pledge, transfer, assignment or other conveyance of the interest in a Project Operating Entity without the consent of the other partners or shareholders. In some cases, other partners may have rights of first offer or rights of first refusal in the event of a proposed sale or transfer. Such restrictions may limit or prevent the Issuer from dealing with its interests in the Project Operating Entities in the manner it sees fit, and may have an adverse effect on the Issuer's ability to realize on its investments.

The Projects' Operations are Subject to the Risk of Future Proceedings

The Projects' operations are subject to all operating hazards and risks normally incidental to the generation of electricity. As a result, at any given time, the Projects, Project Operating Entities and other entities associated with the operation of the Projects may be defendants in various legal proceedings and litigation arising in the ordinary course of business. The Projects maintain insurance policies with insurers in amounts and with coverages and deductibles that the Manager believes to be reasonable and prudent. However, there can be no assurance that this insurance will be adequate to protect the Projects from all material expenses related to potential future claims for loss or damage or that these levels of insurance will be available in the future at economical prices. A significant judgment against any Project or Project Operating Entity, the loss of a significant permit or other approval or the imposition of a significant fine or penalty could have a material adverse effect on the Issuer's business, financial condition and future prospects and could adversely affect cash distributions by the Issuer.

The Project Operating Entities are Exposed to Risks Inherent in the Use of Derivative Instruments

The Project Operating Entities use derivative instruments, including futures, forwards, options and swaps, to manage their commodity and financial market risks. In addition, the Project Operating Entities purchase and sell commodity-based contracts in the natural gas, electricity and oil markets for trading purposes. In the future, the Project Operating Entities could recognize financial losses on these contracts as a result of volatility in the market values of the underlying commodities or if a counterparty fails to perform under a contract. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these contracts involves judgement or use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts. See "Project Descriptions".

Risks Related to the Structure of the Issuer and the Offering

The Issuer is Dependent on the Projects for all Cash Available for Distributions

The Issuer is dependent on the operations and assets of the Projects through its indirect ownership of interests in the Projects. The Issuer's ability to make payments on the Subordinated Notes and to make cash distributions to holders of IPSs and Common Shares will be dependent on the ability of Atlantic Holdings to make distributions to the Issuer, which in turn will be dependent on the ability of the Project Holding Entities and the partnerships and other entities in which they hold interests, directly or indirectly, to make distributions to Atlantic Holdings. The actual amount of cash available for payments to holders of Subordinated Notes and distribution to holders of IPSs and Common Shares will depend upon numerous factors relating to each of the Projects, including profitability, changes in revenues, fluctuations in working capital, capital expenditure levels, applicable laws, compliance with contracts and contractual restrictions contained in the instruments governing any indebtedness. Any reduction in the amount of cash available for distribution, or actually distributed, by the Projects or Atlantic Holdings will reduce the amount of cash available for the Issuer to make payments to holders of Subordinated Notes and distributions to holders of IPSs and Common Shares. While the Issuer is contractually obligated to make interest payments on the Subordinated Notes, cash distributions by the Issuer on the Common Shares, including the Common Share component of an IPS, are not guaranteed and will fluctuate with the performance of the Projects. Generally, the interest in the Projects held indirectly by the Issuer is 50% or less. Accordingly, the Issuer's influence on the operations and assets of the Projects may be limited.

Distribution of all Available Cash May Restrict Potential Growth of Atlantic Holdings and the Issuer

The payout by the Issuer and Atlantic Holdings of substantially all of their operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of these funds could limit the future growth of the Issuer and Atlantic Holdings and their cash flow. In addition, the Issuer may be precluded from pursuing otherwise attractive acquisitions or investments because they may not be accretive to the Issuer on a short-term basis.

Future Distributions are not Guaranteed

While the Issuer is contractually obligated to make interest payments on the Subordinated Notes, the Issuer's board of directors or Atlantic Holdings' board of managers may, in their respective discretion, amend or repeal the existing distribution policy relating to equity distributions. Future equity distributions from these companies, if any, will depend on, among other things, the results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the board of directors or managers may deem relevant. Either of these boards of directors or managers may decrease the level of equity distributions provided for in their existing distribution policies or entirely discontinue such distributions.

Exchange Rate Fluctuations May Impact the Amount of Cash Available for Distribution by the Issuer

A substantial portion of the Issuer's distributions to holders of IPSs, Common Shares and Subordinated Notes is expected to be denominated in Canadian dollars. Conversely, all of the Projects' revenues and expenses, together with distributions received by Atlantic Holdings from the Projects, will be denominated in U.S. dollars. As a result, the Issuer will be exposed to currency exchange rate risks.

Although Atlantic Holdings intends to directly or indirectly enter into hedging arrangements to mitigate this exchange rate risk, there can be no assurance that these arrangements will be sufficient to fully protect against this risk. If hedging transactions do not fully protect against this risk, changes in the currency exchange rate between U.S. and Canadian dollars could have a material adverse effect on the Issuer's results of operations and may adversely affect cash distributions by the Issuer. The costs associated with the conversion of U.S. dollars to Canadian dollars and these hedging arrangements will be borne by Atlantic Holdings.

Substantial Indebtedness Could Negatively Impact the Business of the Issuer and the Projects

The degree to which the Issuer is leveraged on a consolidated basis could have important consequences to the holders of IPSs, Common Shares and Subordinated Notes, including:

- the Issuer's ability in the future to obtain additional financing for working capital, capital expenditures or other purposes may be limited;
- the Issuer may be unable to refinance indebtedness on terms acceptable to the Issuer or at all;
- a significant portion of the Issuer's cash flow (on a consolidated basis) is likely to be dedicated to the payment of the principal of and interest on its indebtedness, including the Subordinated Notes, thereby reducing funds available for future operations, capital expenditures and/or dividends on its Common Shares; and
- the Issuer may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

The Indenture governing the Subordinated Notes will not limit the Issuer's ability to issue additional Subordinated Notes to be represented by additional IPSs, including in connection with the exchange of the Exchangeable Interests pursuant to the Exchange Agreement.

The Issuer May Not be Able to Repurchase the Subordinated Notes Upon a Change of Control

Upon the occurrence of certain specific kinds of change of control events, the Issuer will be required to offer to repurchase outstanding Subordinated Notes at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase. However, it is possible that the Issuer will not have sufficient funds at the time of the change of control to make any required repurchases. Failure to purchase tendered notes would constitute a default under the Indenture, which, in turn, would constitute a default under the Credit Facility. See "Description of Subordinated Notes — Change of Control".

Changes in the Issuer's Creditworthiness May Affect the Value of the IPSs, Common Shares and Subordinated Notes

The perceived creditworthiness of the Issuer, Atlantic Holdings and their respective subsidiaries that have guaranteed the Subordinated Notes, as well as changes in ratings of the IPSs, may affect the market price or value and the liquidity of the IPSs, Common Shares and Subordinated Notes. There is no assurance that a rating will remain for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if in its judgement circumstances so warrant. The rating of the IPSs is not a recommendation to purchase, hold or sell such securities.

Restrictive Covenants in Credit Facilities Could Impact the Business of the Issuer

The Credit Facility contains restrictive covenants that limit the discretion of Atlantic Holdings with respect to certain matters. The ability of Atlantic Holdings to make distributions will be subject to the restrictive covenants contained in the Credit Facility. If an event of default occurs under the Credit Facility or other senior indebtedness of Atlantic Holdings and the lender enforces a guarantee provided by the Issuer, the Issuer will be restricted or prevented from making distributions on its Common Shares and from making payments on the Subordinated Notes.

Future Issuances of IPSs or Common Shares Could Result in Dilution

The Issuer's articles of incorporation authorize the issuance of an unlimited number of Common Shares for such consideration and on such terms and conditions as are established by the board of directors without the approval of any shareholders. Additional IPSs or Common Shares may be issued by the Issuer pursuant to the Exchange Agreement or in connection with a future financing or acquisition by the Issuer. The issuance of additional IPSs or Common Shares may dilute an investor's investment in the Issuer and reduce distributable cash per Common Share or per IPS.

Limitations on Enforcement of Certain Civil Judgments by Canadian Investors

The Existing Investors are organized under the laws of the State of Delaware. All of the assets of the Projects are located outside of Canada and certain of the experts named in this prospectus are residents of the United States. As a result, it may be difficult or impossible for investors to effect service within Canada upon the Existing Investors or their managers or officers who are not residents of Canada, or such experts, or to enforce or realize against them upon judgments of courts of Canada predicated upon the civil liability provisions of applicable Canadian provincial securities laws.

The Existing Investors have signed this prospectus as promoters. The Existing Investors have been advised by counsel in the United States that there is some doubt as to the enforceability in the United States by a court in original actions, or in actions to enforce judgments of Canadian courts, of civil liabilities predicated upon such applicable Canadian provincial securities laws.

Each Existing Investor has indemnified the Issuer for breaches of representations and warranties given by it under the Acquisition Agreements. However, the indemnification obligations are limited as described under "Acquisition Agreements" and accordingly the Issuer may not be able to recover the full amount of any losses or damages suffered by it as a result of such breach to the detriment of the Issuer and ultimately holders of IPSs, Common Shares or Subordinated Notes. Finally, there can be no assurance that the Existing Investors will have sufficient assets to satisfy any liability under Canadian provincial securities laws or any indemnification liability.

Investment Eligibility and Foreign Property

There can be no assurance that the Common Shares and Subordinated Notes represented by the IPSs will continue to be qualified investments for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans or that the Common Shares and Subordinated Notes represented by the IPSs will not be foreign property under the Tax Act (see "Eligibility for Investment"). The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments and on excess holdings of foreign property. In particular, if the Issuer ceases to have a "substantial Canadian presence" (as that term is understood for the purposes of the Tax Act), the Common Shares and Subordinated Notes represented by the IPSs may become foreign property. There can be no assurance that the Issuer will continue to have a substantial Canadian presence.

On March 23, 2004, the Minister of Finance (Canada) proposed amendments to the Tax Act (the "Budget Proposals") to restrict direct and indirect holdings in "business income trusts" (as defined in the Budget Proposals) by certain tax exempt investors. On May 18, 2004, the Minister of Finance (Canada) suspended the Budget Proposals pending consultation with representatives of the pension fund industry, the investment industry, provincial governments and other interested parties. The Department of Finance has indicated that it will continue to evaluate the development of the income trust market as part of its ongoing monitoring and assessment of Canadian financial markets and the Canadian tax system. While the Budget Proposals did not reference ownership of subordinated notes and common shares of a company as represented by IPSs, IPSs share many characteristics of income trust units. Accordingly, further changes in this area, in addition to the Budget Proposals, are possible. Such changes could result in the income tax considerations described under "Certain Canadian Federal Income Tax Considerations" being materially different in certain respects.

U.S. Federal Income Tax Risks

There can be no assurance that U.S. federal income tax laws and IRS administrative policies respecting the U.S. federal income tax consequences described in this prospectus will not be changed in a manner which adversely affects Non-U.S. Holders. See "Certain U.S. Federal Income Tax Considerations".

There is no authority that directly addresses the tax treatment of securities similar to the Subordinated Notes which are offered in circumstances similar to the Offering (i.e., as part of a unit that includes common shares of the issuer). In light of this absence of direct authority, U.S. Tax Counsel cannot conclude with certainty that the Subordinated Notes will be treated as debt for U.S. federal income tax purposes, and, although the Issuer intends to take the position that the Subordinated Notes are debt for U.S. federal income tax purposes, there can be no assurance that this position will not be challenged by the IRS. If such a challenge were sustained, interest payments on the Subordinated Notes would be recharacterized as non-deductible distributions with respect to the Issuer's equity, and the Issuer's net taxable income which is ECI and thus its U.S. federal income tax liability would be materially increased. As a result, the Issuer's after-tax cash flow would be reduced and the Issuer's ability to make interest payments on Subordinated Notes and distributions with respect to Common Shares could be materially and adversely impacted.

Certain U.S. Tax Considerations May Discourage Third Parties from Pursuing a Tender Offer or other Change of Control Transaction

Under certain circumstances, Code Section 163(j) limits a corporation's deductions for interest paid to related foreign persons exempt from U.S. tax. For these purposes, a corporation and a creditor of the corporation will generally be "related" if the creditor owns, directly or by attribution, more than 50% of the corporation by vote or value. The purchase of an IPS should be treated for U.S. tax purposes as a purchase of both an equity interest and a creditor's interest in the Issuer. As a result, a purchase by any non-U.S. person of more than 50% of the IPSs could result in the Issuer's interest deductions being limited with respect to the Subordinated Notes forming part of those IPSs or otherwise owned by such person. Furthermore, if any non-U.S. person owns, directly or by attribution, 10% or more of the outstanding voting stock of the Issuer (including stock owned through IPSs), or certain other relationships exist, then the Issuer may be required to withhold U.S. tax at a rate of up to 30% on interest payable on any Subordinated Notes owned by that person (including Subordinated Notes owned through IPSs), unless an exemption or reduced rate of U.S. withholding tax applies. Either of these factors could discourage third parties from pursuing a tender offer or other change of control transaction with respect to the Issuer, which otherwise might have led to a premium being paid for IPSs.

The Issuer May Not be Able to Make all Principal Payments on the Subordinated Notes

The Subordinated Notes will mature 12 years after the date of issuance. The Issuer may not be able to refinance the principal amount of the Subordinated Notes in order to repay the principal outstanding or may not have generated enough cash from operations to meet this obligation. There is no guarantee that the Issuer will be able to repay the outstanding principal amount upon maturity of the Subordinated Notes.

As a result of the subordinated nature of the guarantees of the Subordinated Notes, upon any distribution to creditors of Atlantic Holdings in a bankruptcy, liquidation or reorganization or similar proceeding relating to Atlantic Holdings or its property or assets, the holders of Atlantic Holdings' senior indebtedness will be entitled to be paid in full in cash before any payment may be made with respect to the Subordinated Notes under the guarantee provided by Atlantic Holdings. In the event of a bankruptcy, liquidation or reorganization or similar proceeding relating to any of the Project Operating Entities or the Projects (other than the Onondaga Project and the Lake Project), the holders of the Subordinated Notes will not have a claim against the assets of such Projects.

Holders of IPSs, Common Shares and Subordinated Notes May Have Limited Liquidity

Neither the IPSs nor the Common Shares have a public market history. No assurance can be made that an active trading market for the IPSs will develop in the future, and the Issuer currently does not expect that an active trading market for the Common Shares will develop until the Subordinated Notes mature. While it is a condition of Closing that the Common Shares be listed on the Toronto Stock Exchange, the Common Shares will not be posted for trading on the Toronto Stock Exchange until there exists a sufficient public distribution (for the purposes of the listing requirements of the Toronto Stock Exchange) of Common Shares that are held separately from Subordinated Notes. See "Plan of Distribution". There is no intention to list the Subordinated Notes on any stock exchange. BMO Nesbitt Burns Inc. has advised the Issuer that it currently intends to facilitate a secondary market in the Subordinated Notes and Common Shares subject to customary market practice and applicable legal and regulatory requirements and limitations. However, BMO Nesbitt Burns Inc. is not obligated to do so and may discontinue any such activities, if commenced, at any time and without notice. Moreover, if and to the extent that BMO Nesbitt Burns Inc. facilitates a market for the Subordinated Notes and Common Shares, there can be no assurance that such market would provide sufficient liquidity for any holder of any such securities.

Amounts in the Reserve Account may not be Sufficient to Stabilize Future Cash Distributions of the Issuer and Fund Acquisitions and Other Growth Opportunities

The Reserve Account will be established to stabilize future cash distributions and to fund acquisitions and other growth opportunities with the objective of enhancing the long-term stability of cash distributions to holders of IPSs. There can be no assurance that amounts in the Reserve Account and the return on investment on such amounts will be sufficient to stabilize future cash distributions or fund growth opportunities. Investments held in the Reserve Account will be subject to all risks applicable to such investments. Atlantic Holdings may lose all or part of the funds in the Reserve Account due to factors that are beyond the control of Atlantic Holdings. Although the Manager will seek professional investment advice in situations where it deems it necessary or prudent or in situations where it is otherwise required by law to do so, it is expected that investments in the Reserve Account will not provide a rate of return equal to the rate paid out by the Issuer to holders of IPSs.

The Market Price for the IPSs, Common Shares or Subordinated Notes May be Volatile

Prior to the Offering, there has been limited public market for income participating securities. The offering price of the IPSs offered in the Offering has been determined by negotiations between the Issuer, the Existing Investors and the Underwriters and may not be indicative of the market price of the IPSs after the Offering is completed. Factors such as variations in the Issuer's financial results, announcements by the Issuer, the Projects or others, developments affecting the business of the Issuer or the Projects, general interest rate levels, the market price of the Common Shares and general market volatility could cause the market price of the IPSs, the Common Shares or the Subordinated Notes to fluctuate significantly.

In addition, future sales or the availability for sale of substantial amounts of IPSs or Common Shares or a significant principal amount of Subordinated Notes in the public market could adversely affect the prevailing market price of the IPSs, the Common Shares and the Subordinated Notes and could impair the Issuer's ability to raise capital through future sales of its securities.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated ● , 2004 (the "Underwriting Agreement") among the Issuer, Atlantic Holdings, the Existing Investors and the Underwriters, the Issuer has agreed to sell ● IPSs and the Underwriters have severally agreed to purchase, as principals, on Closing, subject to the conditions stipulated in the Underwriting Agreement, all but not less than all of such IPSs at a price of Cdn$10.00 per IPS payable in cash. The Underwriting Agreement provides that the Underwriters will be paid a fee of Cdn$ ● per IPS purchased in consideration for services performed in connection with the Offering. The terms of the distribution, including the price and number of IPSs offered, were determined by negotiation between the Issuer, the Existing Investors and the Underwriters.

The obligations of the Underwriters under the Underwriting Agreement are conditional and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated in certain stated circumstances and upon the occurrence of certain stated events. The Underwriters are, however, severally obligated to take up and pay for all offered IPSs that they are obliged to purchase if any of the offered IPSs are purchased under the Underwriting Agreement.

The Issuer has granted the Underwriters the Over-Allotment Option, to cover over-allotments, if any, and for market stabilization purposes. This prospectus also qualifies the distribution of the Over-Allotment Option and the distribution of up to ● IPSs issuable upon exercise of the Over-Allotment Option.

The Underwriting Agreement contains customary representations and warranties and related indemnities from the Issuer, Atlantic Holdings and the Existing Investors in favour of the Underwriters as to various matters. In addition, the Issuer and Atlantic Holdings have represented and warranted to the Underwriters that there is no misrepresentation in this prospectus and each Existing Investor has represented and warranted to the Underwriters that, to the best of its knowledge (after reasonable inquiry), there is no misrepresentation in this prospectus and has agreed to indemnify the Underwriters up to an amount equal to the consideration it receives (consisting of cash and the Exchangeable Interests) for the sale of the Project Holding Entities.

Subscriptions for IPSs will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

The IPSs have not been and will not be registered under the United States *Securities Act of 1933*, as amended (the "U.S. Securities Act"), or any state securities laws and, subject to certain exemptions, may not be offered or sold in the United States or to, or for the account or benefit of, U.S. Persons (as defined by Regulation S under the U.S. Securities Act). The Underwriters have agreed that, except in accordance with Rule 144A and Regulation S under the U.S. Securities Act, they will not offer or sell the IPSs within the United States or to, or for the account or benefit of, U.S. Persons.

In addition, until 40 days after the Closing, an offer or sale of IPSs within the United States by a dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

Pursuant to policy statements of the Ontario Securities Commission and the Autorité des marchés financiers, the Underwriters may not, throughout the period of distribution, bid for or purchase IPSs. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, IPSs. These exceptions include a bid or purchase permitted under the by-laws and rules of the Toronto Stock Exchange relating to market stabilization and passive market-making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution. Under the first-mentioned exception, in connection with this Offering, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the IPSs at levels other than those which might otherwise prevail in the open market. Those transactions, if commenced, may be discontinued at any time.

The Issuer has agreed not to, directly or indirectly, sell or issue, or negotiate or enter into an agreement to sell or issue, any of its securities and each Existing Investor has agreed not to exchange its Exchangeable Interests for a period of 180 days following the date of Closing, without the prior consent of BMO Nesbitt Burns Inc., on behalf of the Underwriters, other than in connection with specific types of transactions. In addition, the Exchange Agreement will provide that for a period of two years from the date of Closing of the Offering, the Existing Investors may not exchange Exchangeable Interests for IPSs to the extent that such exchange would result in the Existing Investors owning, in the aggregate, less than a 10% common membership interest in Atlantic Holdings.

There is currently no market through which the IPSs, and the Common Shares and Subordinated Notes represented thereby, may be sold and purchasers may not be able to resell securities purchased under this prospectus. Closing of the Offering will be conditional on, among other things, the approval for listing of the IPSs and the Common Shares on the Toronto Stock Exchange. While it is a condition of Closing that the Common Shares be listed on the Toronto Stock Exchange, the Common Shares will not be posted for trading on the Toronto Stock Exchange until there exists a sufficient public distribution (for the purposes of the listing requirements of the Toronto Stock Exchange) of Common Shares that are held separately from Subordinated Notes. For the purposes of the listing requirements of the Toronto Stock Exchange, a sufficient public distribution of Common Shares will exist when at least one million freely tradeable Common Shares having an aggregate market value of Cdn$4 million are held by at least 300 public holders, each holding one board lot or more. BMO Nesbitt Burns Inc. has advised that until the Common Shares are posted for trading, it currently intends to facilitate a secondary market in the Common Shares subject to customary market practice and applicable legal and regulatory requirements and limitations. However, BMO Nesbitt Burns Inc. is not obligated to do so and may discontinue any such activities, if commenced, at any time and without notice. Moreover, if and to the extent that BMO Nesbitt Burns Inc. facilitates a market for the Common Shares, there can be no assurance that such market would provide sufficient liquidity for any holder of any such securities.

The Separate Subordinated Notes, which will constitute 10% of the aggregate principal amount of the Subordinated Notes at Closing (assuming the exercise in full of the Over-Allotment Option), will be issued other than as part of the IPSs on a private placement basis concurrently with the Closing of the Offering. Closing of the Offering of the IPSs is conditional upon the closing of the sale of the Separate Subordinated Notes.

An affiliate of BMO Nesbitt Burns Inc. has arranged for the Credit Facility. It is expected that Atlantic Holdings will draw approximately $ ● million under the Credit Facility at Closing. Accordingly, under applicable securities laws, the Issuer may be considered a "connected issuer" to BMO Nesbitt Burns Inc. An affiliate of BMO Nesbitt Burns Inc. is also an investor in Fund I and Fund II. The decision to issue the IPSs and the determination of the terms of the distribution were made through negotiation between the Issuer, the Existing Investors and the Underwriters. The affiliate of BMO Nesbitt Burns Inc. which arranged for the Credit Facility did not have any involvement in such decision or determination. Other than as described above, neither the Underwriters nor their affiliates will receive any benefit from the Offering except for underwriting commissions payable by the Issuer. See "Credit Facility".

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Issuer and Atlantic Holdings are KPMG LLP.

The transfer agent and registrar for the IPSs and the Common Shares is Computershare Investor Services Inc. at its principal office in Toronto, Ontario.

MATERIAL CONTRACTS

The only material contracts, other than contracts entered into in the ordinary course of business, to which the Issuer or Atlantic Holdings will become a party prior to or at Closing are as follows:

- the Acquisition Agreements referred to under "Acquisition Agreements";
- the Subordinated Note Indenture referred to under "Description of Subordinated Notes";
- the Underwriting Agreement referred to under "Plan of Distribution";
- the Exchange Agreement referred to under "Retained Interest";
- the Operating Agreement referred to under "Atlantic Holdings";
- the Management Agreement referred to under "Directors, Officers and Management — Management Agreement"; and
- the Credit Facility.

Copies of these agreements and the report of Stone & Webster may be examined at the head and principal office of the Issuer during normal business hours.

LEGAL PROCEEDINGS

In the ordinary course of business, the Issuer and its subsidiaries and each Project Operating Entity may, from time to time, be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. To the knowledge of the Issuer, none of the Issuer or its subsidiaries or any Project Operating Entity is involved in any legal proceeding which is expected to have a material effect on the Issuer and no legal proceedings of a material nature are pending or to the knowledge of the Issuer threatened against the Issuer or its subsidiaries or any Project Operating Entity.

PROMOTERS

The Existing Investors are considered to be promoters of the Issuer by reason of their initiative in organizing the business and affairs of the Issuer.

The Existing Investors are organized under the laws of a foreign jurisdiction and reside outside Canada. Although the promoters have appointed the Issuer, Suite 2400, 250 Yonge Street, Toronto, Ontario, Canada, M5B 2M6 as their agent for service of process in Ontario, it may not be possible for investors to collect from the promoters judgments obtained in Canada predicated on the civil liability provisions of securities legislation of certain of the provinces and territories of Canada. See "Risk Factors — Risks Related to the Structure of the Issuer and the Offering — Limitations on Enforcement of Certain Civil Judgments by Canadian Investors".

EXPERTS

The matters referred to under "Eligibility for Investment" and "Certain Canadian Federal Income Tax Considerations" and certain other Canadian legal matters relating to the IPSs offered by this prospectus will be passed upon at the date of Closing on behalf of the Issuer and Atlantic Holdings by Goodmans LLP and on behalf of the Underwriters by Blake, Cassels & Graydon LLP. The matters referred to under "Certain U.S. Federal Income Tax Considerations" and certain other U.S. legal matters relating to the IPSs offered by this prospectus will be passed upon at the date of Closing on behalf of the Issuer and Atlantic Holdings by Goodwin Procter LLP and on behalf of the Underwriters by Paul, Weiss, Rifkind, Wharton & Garrison LLP.

As of the date hereof, the partners and associates of Goodmans LLP, Blake, Cassels & Graydon LLP, Goodwin Procter LLP and Paul, Weiss, Rifkind, Wharton & Garrison LLP, did not beneficially own, directly or indirectly, any of the outstanding securities of the Issuer.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Goodmans LLP, Canadian counsel to the Issuer and Atlantic Holdings and Blake, Cassels & Graydon LLP, Canadian counsel to the Underwriters, the following is, as of the date of this prospectus, a summary of the principal Canadian federal income tax considerations generally applicable under the Tax Act to a Holder who acquires Common Shares and Subordinated Notes as represented by IPSs pursuant to the Offering and who, for purposes of the Tax Act and at all relevant times, is resident or is deemed to be resident in Canada, holds the Common Shares and Subordinated Notes represented by IPSs as capital property and deals at arm's length and is not affiliated with the Issuer. Generally, the Common Shares and Subordinated Notes will be considered to be capital property to a Holder provided that the Holder does not hold such securities in the course of carrying on a business of buying and selling securities and has not acquired them in one or more transactions considered to be an adventure in the nature of trade. Certain Holders who might not otherwise be considered to hold their Common Shares and Subordinated Notes represented by IPSs as capital property may, in certain circumstances, be entitled to have them treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act.

This summary is not applicable to a Holder that is a financial institution (as defined in the Tax Act for purposes of the mark-to-market rules), a specified financial institution or a Holder an interest in which is a tax shelter investment (all as defined in the Tax Act).

This summary is based upon the facts set out in this prospectus, the provisions of the Tax Act in force on the date of this prospectus, counsels' understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency and a certificate from the Issuer as to certain factual matters. This summary takes into account all specific proposals to amend the Tax Act which have been publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date of this prospectus. There can be no assurance that any such tax proposals will be implemented in their current form or at all. This summary does not otherwise take into account or anticipate any changes in law, whether by legislative, governmental or judicial decision or action, or administrative policies or assessing practices, and does not take into account any provincial, territorial or foreign tax legislation or considerations which may differ significantly from those discussed in the prospectus.

This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Common Shares and Subordinated Notes represented by IPSs. Moreover, the income or other tax consequences of acquiring, holding or disposing of Common Shares and Subordinated Notes represented by IPSs will vary depending on the Holder's particular circumstances, including the province or provinces in which the Holder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Common Shares and Subordinated Notes represented by IPSs. Investors should consult their own tax advisors for advice with respect to the tax consequences of an investment in Common Shares and Subordinated Notes represented by IPSs based on their particular circumstances.

Nature of IPSs

In acquiring an IPS, a Holder will be acquiring ownership of the Common Share and Subordinated Notes represented by such IPS. The Common Share and Subordinated Notes represented by an IPS are separate properties and, accordingly, the price paid by a Holder for an IPS must be allocated on a reasonable basis between the Common Share and Subordinated Notes represented by the IPS in order to determine their respective cost to the Holder for purposes of the Tax Act. Such cost will establish a Holder's initial adjusted cost base of the Common Share and Subordinated Notes represented by the Holder's IPS (subject to the identical property averaging rules). The Issuer proposes to allocate the price paid for each IPS on the basis of Cdn$ ● to the Common Share and Cdn$ ● to the Subordinated Notes and, by purchasing an IPS, a Holder is deemed to agree to such allocation. Although the Issuer believes this allocation to be reasonable, such allocation is not binding on the Canada Revenue Agency.

In disposing of an IPS, a Holder will be disposing of the Common Share and Subordinated Notes represented by such IPS. Any proceeds from the disposition (or deemed disposition) of an IPS must be allocated on a reasonable basis between the Common Share and Subordinated Notes represented by such IPS.

The separation by a Holder of an IPS into the Common Share and Subordinated Notes represented by such IPS will not be a disposition for purposes of the Tax Act, and, as such, the Holder will not realize a gain or loss upon such separation of the IPS into a Common Share and Subordinated Notes. The Holder's adjusted cost base of the Common Share and Subordinated Notes represented by an IPS will not be affected by such separation of an IPS into a Common Share and Subordinated Notes. Similarly, the combination by a Holder of a Common Share and Subordinated Notes and the contemporaneous receipt of an IPS representing such Common Share and Subordinated Notes by the Holder from CDS will not be a disposition for purposes of the Tax Act, and, as such, the Holder will not realize a gain or loss upon such delivery of the Common Share and Subordinated Notes in return for an IPS representing such Common Share and Subordinated Notes. The Holder's adjusted cost base of the Common Share and Subordinated Notes will not be affected by such delivery of the Common Share and Subordinated Notes in return for an IPS representing such Common Share and Subordinated Notes.

Taxation of the Issuer

The Issuer will be taxable on its income determined under the Tax Act for each taxation year. The Issuer has advised counsel that it expects that all or substantially all of the income of the Issuer will consist of distributions from Atlantic Holdings. Atlantic Holdings will be considered to be a corporation for Canadian income tax purposes and will be a "foreign affiliate" and a "controlled foreign affiliate" of the Issuer for Canadian income tax purposes. Distributions from Atlantic Holdings to the Issuer will be considered to be dividends paid by Atlantic Holdings to the Issuer and will be included in computing the income of the Issuer. However, to the extent that such dividends are considered to have been paid out of the "exempt surplus" of Atlantic Holdings with respect to the Issuer, the amount of such dividends will be deductible in computing the taxable income of the Issuer. Furthermore, to the extent dividends are considered to have been paid out of the "pre-acquisition surplus" of Atlantic Holdings with respect to the Issuer, the amount of such dividends will also be deductible in computing the taxable income of the Issuer. However, the adjusted cost base to the Issuer of its membership interest in Atlantic Holdings will be reduced to the extent that such dividends are considered to have been paid out of the "pre-acquisition surplus" of Atlantic Holdings with respect to the Issuer. If the adjusted cost base to the Issuer of its membership interest in Atlantic Holdings becomes a negative amount, the Issuer will be deemed to realize a capital gain equal to such amount for that year. To the extent that Atlantic Holdings or any other controlled foreign affiliate of the Issuer earns income that qualifies as "foreign accrual property income" ("FAPI"), the FAPI allocable to the Issuer must be included in computing the income of the Issuer for Canadian income tax purposes, whether or not the Issuer actually receives a distribution of FAPI. Any amount so included in the income of the Issuer will increase the adjusted cost base to the Issuer of its membership interest in Atlantic Holdings. At such time as the Issuer receives a dividend of this type of income that was previously treated as FAPI ("previously included FAPI"), that dividend will effectively not be taxable to the Issuer and there will be a corresponding reduction in the adjusted cost base to the Issuer of its membership interest in Atlantic Holdings. FAPI earned by a non-controlled foreign affiliate of the Issuer will be treated as "taxable surplus" which will only be taxed when distributed to the Issuer. The Issuer has advised counsel that it reasonably expects that dividends to be paid by Atlantic Holdings to the Issuer will be considered to be paid substantially out of the "exempt surplus" and "pre-acquisition surplus" of Atlantic Holdings with respect to the Issuer and, to a much lesser extent, out of "previously included FAPI" or "taxable surplus". The Issuer has advised counsel that it reasonably expects that the total of (i) the amount of FAPI allocable to the Issuer, (ii) the amount of dividends considered to have been paid by Atlantic Holdings to the Issuer out of the "taxable surplus" of Atlantic Holdings with respect to the Issuer (other than those paid out of "previously included FAPI"), and (iii) the amount of taxable capital gains arising from the receipt of dividends out of the "pre-acquisition surplus" of Atlantic Holdings with respect to the Issuer, if any, in respect of a period will be less than the amount of interest payable on the Subordinated Notes during the period.

To the extent that the proceeds from the issuance of the Subordinated Notes are used for the purpose of earning income, the Issuer will generally be entitled to deduct the interest paid by it on the Subordinated Notes in computing its income. To the extent that the deduction for interest on the Subordinated Notes and other deductible expenses of the Issuer creates a loss in a taxation year of the Issuer that loss will be a non-capital loss which may be carried back for three taxation years and forward for seven taxation years (proposed to be increased to 10 taxation years pursuant to proposals released in connection with the March 23, 2004 Federal budget) and applied against the income of the Issuer (including taxable capital gains) for such years subject to the detailed rules in the Tax Act in that regard. Tax proposals (the "Tax Proposals"), applicable to taxation years that begin after 2004, will only allow a taxpayer to recognize a loss for a taxation year from a source which is a business or property if, in the taxation year in question, it is reasonable to expect the taxpayer to realize a cumulative profit from that business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on that business, or has held, or can reasonably be expected to hold, that property. Profit, for these purposes, is intended to mean profit determined in accordance with generally accepted commercial principles. The Issuer has advised counsel that it reasonably expects to realize a cumulative profit from its properties during the period it reasonably expects to hold such properties. The Issuer will continue to monitor the Tax Proposals as their proposed effective date approaches.

Taxation of Dividends, Interest and Capital Gains

Since a Holder who holds an IPS will own the Common Share and Subordinated Notes represented by such IPS, the income tax consequences under the Tax Act of owning and disposing of an IPS (including the taxation of dividends and interest on the Common Share and Subordinated Notes, respectively, and the tax treatment of disposing of the Common Share and Subordinated Notes upon the disposition of an IPS representing such securities) will not differ from those associated with owning and disposing of those securities as is described below.

Interest on the Subordinated Notes

A Holder that is a corporation, partnership, unit trust or a trust of which a corporation or partnership is a beneficiary will be required to include in computing its income for a taxation year all interest that accrues to such Holder on the Subordinated Notes to the end of that year or that becomes receivable or is received by the Holder before the end of that year, except to the extent that such interest was included in computing the Holder's income for a preceding taxation year. Any other Holder, including an individual, will be required to include in computing its income for a taxation year all interest on the Subordinated Notes that is received or receivable by such Holder in that year (depending on the method regularly followed by the Holder in computing income) to the extent that such interest was not included in computing the Holder's income for a preceding taxation year. In addition, a Holder may be required to include in computing its income for a taxation year any interest that accrues to the Holder on the Subordinated Notes up to any "anniversary day" (as defined in the Tax Act) of the Subordinated Notes in the year to the extent that such amount was not otherwise included in the Holder's income for that or a preceding taxation year.

A Holder that is a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay a refundable tax of 6⅔% on investment income, including interest income on the Subordinated Notes.

The amount of interest on the Subordinated Notes to be included in income as described above will include United States withholding tax, if any, imposed in respect of the interest. To the extent that United States withholding tax is imposed in respect of interest on the Subordinated Notes, the amount of such tax generally will be eligible for foreign tax credit or deduction treatment where applicable, subject to the detailed rules and limitations under the Tax Act, and provided the imposition of such United States withholding tax is in accordance with the Canadian Treaty. Holders are advised to consult their own tax advisors with respect to the availability of a credit or deduction to them having regard to their particular circumstances.

Disposition of Subordinated Notes

On a disposition or a deemed disposition (which will include a redemption of the Subordinated Notes or repayment at maturity) of Subordinated Notes, a Holder will generally be required to include in computing its income for the taxation year in which the disposition occurs the amount of interest accrued on the Subordinated Notes from the date of the last interest payment to the date of disposition, except to the extent that such interest has otherwise been included in computing the Holder's income for that year or a preceding taxation year.

Any amount paid by the Issuer as a penalty or bonus because of early repayment of all or part of the principal amount of the Subordinated Notes will be deemed to be received by the Holder as interest on the Subordinated Notes and included in computing the Holder's income as described above, to the extent such amount can reasonably be considered to relate to, and does not exceed the value at the time of payment of, interest that would otherwise have been payable on the Subordinated Notes for periods ending after the payment of such amount.

In general, a disposition or a deemed disposition of a Subordinated Note by a Holder will give rise to a capital gain (or a capital loss) equal to the amount by which the proceeds of disposition, net of any amount included in computing the Holder's income as interest and any reasonable costs of disposition, exceed (or are exceeded by) the adjusted cost base of the Subordinated Note to the Holder immediately before the disposition. See "— Capital Gains and Losses" below.

Dividends on the Common Shares

Dividends received or deemed to be received by a Holder on the Common Shares will be required to be included in computing the Holder's income for purposes of the Tax Act. Dividends received or deemed to be received by a Holder who is an individual will be subject to the gross-up and dividend tax credit rules generally applicable to taxable dividends received by an individual from taxable Canadian corporations. A Holder that is a corporation generally will be entitled to deduct the amount of the dividend received or deemed to be received in computing its taxable income. A Holder that is a "private corporation" or "subject corporation" (as such terms are defined in the Tax Act) will generally be liable under Part IV of the Tax Act to pay a refundable tax of 33⅓% of the dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing the Holder's taxable income.

Disposition of the Common Shares

A disposition or deemed disposition of Common Shares by a Holder will generally give rise to a capital gain (or capital loss) to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Holder of the Common Shares immediately before the disposition. See "— Capital Gains and Losses" below.

Capital Gains and Losses

One-half of the amount of any capital gain (a "taxable capital gain") realized by a Holder in a taxation year must be included in computing such Holder's income for that year, and one-half of any capital loss (an "allowable capital loss") realized by a Holder in a taxation year may be deducted from any taxable capital gains realized by the Holder in the year. Allowable capital losses in excess of taxable capital gains realized in a taxation year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any following taxation year against taxable capital gains realized in such years, subject to and in accordance with the provisions of the Tax Act. A capital loss realized by certain Holders in respect of the disposition or deemed disposition of Common Shares may be reduced in certain circumstances by the amount of any dividends, including deemed dividends, that have been received by such Holders on the Common Shares to the extent and in the manner provided for in the Tax Act.

A holder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6⅔% on investment income, including taxable capital gains.

Alternative Minimum Tax

Individuals, including certain trusts, are subject to an alternative minimum tax. Dividends received or deemed to be received on the Common Shares and capital gains realized on a disposition or deemed disposition of Common Shares or Subordinated Notes may increase a Holder's liability for alternative minimum tax. Holders should consult their own advisors with respect to alternative minimum tax.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Goodwin Procter LLP, U.S. tax counsel to the Issuer and Atlantic Holdings, and Paul, Weiss, Rifkind, Wharton & Garrison LLP, U.S. tax counsel to the Underwriters, together, "U.S. Tax Counsel", the following summary describes, as of the date of this prospectus, the material U.S. federal income tax considerations applicable to Non-U.S. Holders with respect to the purchase, ownership and disposition of IPSs, Subordinated Notes or Common Shares. This summary is directed only to prospective purchasers of IPSs who are not U.S. persons under the Code. In addition to this summary, see "Risk Factors — Risks Related to the Structure of the Issuer and the Offering — U.S. Federal Income Tax Risks".

Prospective purchasers of IPSs should note that no rulings have been or will be sought from the IRS with respect to any of the U.S. federal income tax issues discussed in this summary. No statutory, administrative or judicial authority directly addresses the treatment of IPSs or instruments similar to IPSs for U.S. federal income tax purposes. As a result, there can be no assurance that the IRS will not successfully challenge the conclusions reached in this summary. U.S. federal income tax treatment that is different from the conclusions reached in this summary could result in reduced payments to Non-U.S. Holders.

This summary does not address all aspects of U.S. federal income taxation that may be relevant to Non-U.S. Holders in light of their personal circumstances. This summary does not address the U.S. federal income taxation of Non-U.S. Holders whose income from the ownership or disposition of IPSs, Subordinated Notes or Common Shares is effectively connected with the conduct of a trade or business within the United States under the Code, nor does this summary address the U.S. federal income taxation of Non-U.S. Holders subject to special treatment under U.S. federal income tax laws, such as financial institutions, broker-dealers, life insurance companies and tax-exempt organizations. This summary does not address the tax considerations applicable to persons who hold IPSs, Subordinated Notes or Common Shares through a partnership. The U.S. federal income tax rules covering partnerships are complex. Persons that hold IPSs, Subordinated Notes or Common Shares through one or more partnerships should consult their own tax advisors regarding the application of the U.S. federal income tax considerations discussed in this summary. This summary does not address the U.S. state or local tax considerations applicable to Non-U.S. Holders, nor does it address any tax consequences applicable to U.S. Holders.

This summary is not exhaustive of all possible U.S. federal income tax considerations applicable to an investment in IPSs. This summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of IPSs. Prospective purchasers should consult their own tax advisors in determining the application to them of the U.S. federal income tax consequences set forth below and any other U.S. federal, state, local, foreign or other tax consequences to them of the purchase, ownership and disposition of IPSs, Subordinated Notes or Common Shares.

This summary is based on the Code, Treasury Regulations, IRS rulings and official pronouncements, judicial decisions and the Canadian Treaty, all as in effect on the date of this prospectus and all of which are subject to change, possibly with retroactive effect, or different interpretations, which could affect the accuracy of the statements and conclusions set forth below and the U.S. federal income tax consequences to Non-U.S. Holders. This summary is also based on certain certifications and determinations made by the Issuer and an independent financial advisor.

For purposes of this summary, a "Non-U.S. Holder" means a Holder that is not: (i) a citizen or individual resident in the United States for U.S. federal income tax purposes; (ii) a corporation or other entity taxable as a corporation created or organized under the laws of the United States or a political subdivision thereof; (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (A) a court within the United States is able to exercise primary supervision over the trust's administration and one or more United States persons have the authority to control all of its substantial decisions, or (B) the trust was in existence on August 20, 1996 and has properly elected under applicable Treasury Regulations to continue to be treated as a United States person. A "U.S. Holder" means any Holder that is not a Non-U.S. Holder.

Taxation of Non-U.S. Holders

Allocation of Purchase Price

Ownership of IPSs should be treated for U.S. federal income tax purposes as direct ownership of the Subordinated Notes or Common Shares constituting the IPSs. The Issuer intends to treat the IPSs in this manner for all purposes and, by purchasing IPSs, the Non-U.S. Holder agrees to such treatment. If the treatment of the IPSs as ownership of the two underlying securities is not respected, then the IPSs could be treated as only a single security, which likely would be treated as equity of the Issuer rather than debt from a U.S. tax perspective. The remainder of this discussion assumes that the Issuer's intended treatment of ownership of an IPS as direct ownership of two separate securities will be respected for U.S. federal income tax purposes.

For U.S. federal income tax purposes, the purchase price of an IPS should be allocated between its constituent Common Share and Subordinated Notes in proportion to the respective fair market values of each at the time of purchase. For each IPS in this Offering, the Issuer will report the initial fair market value of the constituent Common Share as Cdn$ ● and the initial fair market value of the constituent Subordinated Notes as equal to their face amount of Cdn$ ● and, by purchasing IPSs in this Offering, the Non-U.S. Holder agrees to such allocation and agrees to not take a contrary position for any purpose. This allocation, however, is not binding on the IRS or the courts, and the IRS may challenge this allocation. If this allocation is not respected, it is possible that the Subordinated Notes will be treated as having been issued with original issue discount ("OID"). Assuming a Non-U.S. Holder satisfies the Portfolio Interest Exemption requirements described below under "Interest Received on Subordinated Notes", such Non-U.S. Holder would not be subject to withholding with respect to such OID. If a Non-U.S. Holder failed to satisfy those requirements, OID on the Subordinated Notes would be subject to a 30% U.S. withholding tax, unless such Non-U.S. Holder otherwise establishes an exemption from or reduced rate of withholding under a tax treaty and satisfies certain documentation requirements. In general, under the Canadian Treaty, Canadian residents would be entitled to a 10% withholding tax rate. The remainder of this discussion assumes that the Issuer's allocation of the Offering purchase price will be respected for U.S. federal income tax purposes.

Interest Received on Subordinated Notes

Provided that the Subordinated Notes are respected as debt for U.S. federal income tax purposes (see "Taxation of the Issuer — Classification of Subordinated Notes as Debt" below), since more than 80% of the assets of the Issuer are U.S. assets, interest paid on the Subordinated Notes will be "branch interest" under Code section 884 and will be treated as if paid by a U.S. corporation. As such, interest paid on the Subordinated Notes to Non-U.S. Holders should qualify for the "Portfolio Interest Exemption" from U.S. federal income tax, provided:

(a) the Non-U.S. Holder is not a Disqualified Recipient, and

(b) either: (i) the Non-U.S. Holder certifies to the Issuer or its agent on IRS Form W-8BEN (or a suitable substitute or successor form) under penalties of perjury that such Non-U.S. Holder is not a "United States person" (as defined in the Code) and provides its name and address; (ii) a "qualified intermediary" (as defined in applicable Treasury Regulations) receives documentation upon which it can rely to treat the Non-U.S. Holder as not a United States person and provides the Issuer with an IRS Form W-8IMY (or a suitable substitute or successor form); or (iii) certain other documentation requirements are met.

If a Non-U.S. Holder does not satisfy these requirements, interest paid on the Subordinated Notes to such Non-U.S. Holder will be subject to a 30% U.S. withholding tax, unless such Non-U.S. Holder otherwise establishes an exemption from or reduced rate of withholding under a tax treaty and satisfies certain documentation requirements. In general, under the Canadian Treaty, Canadian residents are entitled to the reduced U.S. withholding tax rate of 10% on U.S. source interest.

Distributions with Respect to Common Shares

Provided a Non-U.S. Holder satisfies certain documentation requirements (generally as described in paragraph (b) under "Interest Received on Subordinated Notes" above), distributions paid with respect to the Common Shares to such Non-U.S. Holder should not be subject to U.S. withholding tax. If such documentation requirements are not satisfied, the Non-U.S. Holder may be subject to backup withholding. See "Information Reporting and Backup Withholding" below.

Disposition, Separation and Recombination of IPSs

A Non-U.S. Holder should not be subject to U.S. federal income tax on any gain realized on the sale, exchange, or other disposition of IPSs, Subordinated Notes or Common Shares unless: (i) the Non-U.S. Holder is an individual who is present in the U.S. for a period or periods aggregating 183 or more days in the taxable year of the disposition and certain other conditions are met; or (ii) the Non-U.S. Holder is subject to tax pursuant to the provisions of U.S. tax law applicable to certain U.S. expatriates.

If a Non-U.S. Holder separates an IPS into its constituent Common Share and Subordinated Notes or recombines a Common Share with Subordinated Notes to form an IPS, the Non-U.S. Holder should not recognize gain or loss for U.S. federal income tax purposes upon such separation or recombination. The U.S. federal income tax consequences described in this summary should not be affected by a separation or recombination.

Information Reporting and Backup Withholding

The Issuer will, where required, report to the IRS the amount of any interest paid on the Subordinated Notes and dividends paid on its Common Shares and the amounts, if any, of federal income tax withheld with respect to such payments. Backup withholding tax, currently at a rate of 28%, may apply to amounts paid by the Issuer with respect to Common Shares held by a Non-U.S. Holder if the Non-U.S. Holder fails to satisfy certain documentation requirements (generally as described in paragraph (b) under "Interest Received on Subordinated Notes" above). Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded, provided certain required information is provided to the IRS.

Taxation of the Issuer

Generally

For U.S. federal income tax purposes, the Issuer's distributive share of Atlantic Holdings' income arising from the Projects' business operations in the U.S. will generally be treated as effectively connected with a U.S. trade or business ECI, and all or a portion of the Issuer's other income, including the Issuer's distributive share of other income of Atlantic Holdings, could be treated as ECI. The Issuer will generally be subject to a 35% U.S. federal income tax on its net taxable income which is ECI or, if applicable, the "alternative minimum tax" of 20% on "alternative minimum taxable income" which is ECI. In computing its U.S. taxable income, however, subject to the discussion under "Classification of Subordinated Notes as Debt" and "Earnings Stripping Rules — Section 163(j)" below, the Issuer should be able to deduct interest paid on the Subordinated Notes or other deductible expenses incurred by the Issuer, including the Issuer's distributive share of expenses of Atlantic Holdings, in each case to the extent that any such deductions are allocable to the Issuer's income which is ECI. In addition to the U.S. federal income tax on taxable income which is ECI, the Issuer will be liable for a 5% branch profits tax on its after-tax earnings attributable to ECI. See "Branch Profits Tax" below.

The Issuer may also be subject to a 30% U.S. withholding tax on certain types of income which are not ECI, but are derived by the Issuer from U.S. sources (whether directly or indirectly through one or more partnerships it owns), unless the Issuer otherwise establishes an exemption from, or reduced rate of, withholding under the Canadian Treaty. These types of income generally include dividends, rents, royalties, compensation, certain interest and other "fixed or determinable annual or periodic" income (collectively referred to as "FDAP"). Unless an exception applies, the Issuer will be subject to withholding tax on the gross amount of any FDAP income, and will not be entitled to a U.S. tax deduction for any expenses, including interest on the Subordinated Notes, to the extent allocable to FDAP income. However, the Issuer may elect to treat rents from real property situated in the U.S. and certain other income that would otherwise be FDAP as ECI, in which case the income and its allocable expenses would be taxable as described in the preceding paragraph.

Issuer Taxed on Distributive Share of Projects' Income

The Projects will be treated as owned by partnerships for U.S. federal income tax purposes (the "Project partnerships"), except to the extent that they are directly or indirectly wholly-owned by Atlantic Holdings, in which case they will be treated as owned directly by Atlantic Holdings. Atlantic Holdings will also be treated as a partnership for U.S. federal income tax purposes for any period during which it has more than one owner, and as a disregarded branch of its owner (e.g., the Issuer) if at any time it has only one owner for U.S. federal income tax purposes. As such, the Project partnerships and Atlantic Holdings will not themselves be subject to U.S. federal income tax. Rather, each Project partnership will compute its income, gains, losses, deductions and credits under U.S. tax rules and will allocate such items to its partners, including Atlantic Holdings, generally in accordance with their percentage interests. Similarly, Atlantic Holdings will compute its distributive share of income, gains, losses, deductions and credits from the Project partnerships, as well as any items it realizes directly or through disregarded entities, and will allocate such items to its partners, including the Issuer. However, assuming that a Code section 754 election is in effect for each partnership for the taxable year of the Offering, the Issuer's taxable income from Atlantic Holdings (including its indirect income from each Project partnership) should be reduced by depreciation and amortization deductions in amounts generally determined in a manner similar to what they would have been if the Issuer had purchased a ratable portion of the assets of Atlantic Holdings and each Project partnership for an aggregate amount equal to the amount paid for its interest in Atlantic Holdings, increased by the Issuer's portion of any debt of the Project partnership.

Atlantic Holdings will be subject to the withholding tax rules of Code section 1446. Therefore, Atlantic Holdings will generally be required to deduct and withhold, on a quarterly basis, 35% of the taxable income realized by it (whether directly or through a Project partnership) that is effectively connected with a U.S. trade or business and is allocable to the Issuer. Any amounts so withheld will be treated for all purposes as distributed to the Issuer. The amounts withheld will be calculated using only income, gains, losses, deductions and credits realized by Atlantic Holdings, whether directly or through a Property partnership (including depreciation and amortization deductions allocated to the Issuer), and only to the extent that such income, gains, losses, deductions and credits are effectively connected with a U.S. trade or business. Other deductions, including deductions attributable income of Atlantic Holdings which is not ECI and deductions for any expenses incurred directly by the Issuer, including interest paid on the Subordinated Notes, will not reduce the amount withheld. However, the Code section 1446 withholding tax is not an additional tax and will be credited against the U.S. tax liability of the Issuer. Thus, if the amount withheld by Atlantic Holdings under Section 1446 for a taxable year exceeds the Issuer's actual U.S. federal income tax liability attributable to its net income which is ECI, such excess will be refundable. Provided that the Subordinated Notes are respected as debt for U.S. federal income tax purposes (see "Classification of Subordinated Notes as Debt" below), in determining its net income which is ECI, the Issuer should be able to deduct interest payments on the Subordinated Notes as discussed above, and accordingly expects a significant portion of such withheld amount to be refundable for periods during which the Subordinated Notes are outstanding.

Classification of Subordinated Notes as Debt

U.S. Tax Counsel has advised the Issuer and the Underwriters, as applicable, that the Subordinated Notes should be treated as debt for U.S. federal income tax purposes. Such advice is based in part on facts described in this prospectus and on various other opinions, assumptions, customary representations and determinations discussed in more detail in the following paragraphs. Any alteration or incorrectness of such facts, opinions, assumptions, representations or determinations could adversely affect such advice, and such advice is not binding on the IRS or the courts, which could disagree. The Issuer intends, and by acquiring Subordinated Notes (directly or as part of an IPS) each holder of Subordinated Notes agrees, to treat the Subordinated Notes as debt of the Issuer for all purposes.

The determination of whether the Subordinated Notes are debt or equity for U.S. federal income tax purposes is based on an analysis of the facts and circumstances. Generally, the IRS will not issue a ruling on whether an advance is to be treated as debt or equity. There is no clear statutory definition of debt and its characterization is governed by principles developed in case law, which analyzes numerous factors that are intended to identify the economic substance of the investor's interest in the corporation. U.S. Tax Counsel's determination that the Subordinated Notes should be treated as debt for U.S. federal income tax purposes relies upon certain customary representations and determinations by the Issuer and an independent financial advisor, including, among others, representations and determinations substantially to the effect that:

- The principal amount, interest rate, term, security and other material provisions of the Subordinated Notes, when taken together and considered as a whole, are commercially reasonable and are substantially similar to those terms to which an unrelated third party lender, not owning equity in the Issuer and bargaining at arm's length with the Issuer, would reasonably agree, where such lender would ordinarily be considered by knowledgeable corporate finance experts to be a lender in the corporate bond market or other market for corporate debt and not primarily an investor in equity.
- The ratio of the aggregate amount of indebtedness of the Issuer to its aggregate capital and the Issuer's Cash Flow Coverage Ratio (as defined in the Indenture) are commercially reasonable under the circumstances.
- The Issuer expects to be able to pay the interest and principal due on the Subordinated Notes in full in accordance with their terms.
- After the completion of the Offering, the ratio of the sum of all debt of the Issuer (including the Subordinated Notes) to the value of the Common Shares will not exceed ● to one.

The lead Underwriter has made similar determinations in connection with the due diligence investigations of the Issuer's board of directors. In light of the representations and determinations described above and their relevance to several of the factors analyzed in case law, and taking into account the facts and circumstances relating to the issuance of the Subordinated Notes, in the opinion of U.S. Tax Counsel the Subordinated Notes should be treated as debt for U.S. federal income tax purposes. However, there is no authority that directly addresses the tax treatment of securities similar to the Subordinated Notes which are offered in circumstances similar to this Offering (i.e., as part of a unit that includes common shares of the issuer). In light of this absence of direct authority, U.S. Tax Counsel cannot conclude with certainty that the Subordinated Notes will be treated as debt for U.S. federal income tax purposes, and, although the Issuer intends to take the position that the Subordinated Notes are debt for U.S. federal income tax purposes, there can be no assurance that this position will not be challenged by the IRS. If such a challenge were sustained, interest payments on the Subordinated Notes would be recharacterized as non-deductible distributions with respect to the Issuer's equity, and the Issuer's net taxable income which is ECI and thus its U.S. federal income tax liability would be materially increased. As a result, the Issuer's after-tax cash flow would be reduced and the Issuer's ability to make interest payments on Subordinated Notes and distributions with respect to Common Shares could be materially and adversely impacted. In addition, if such challenge were sustained, interest payments on the Subordinated Notes would be treated for U.S. federal income tax in the same manner as distributions with respect to Common Shares, as could all or a portion of any repayment of principal on the Subordinated Notes. See "Taxation of Non-U.S. Holders — Distributions with Respect to Common Shares" above.

Even if the IRS accepts the characterization of the Subordinated Notes as debt, there can be no assurance that the IRS will not claim that the interest rate on the Subordinated Notes is in excess of an arm's length rate, or that Non-U.S. Holders paid more for the Subordinated Notes than their face amount. If any such challenge were sustained, the Issuer would not be able to deduct all of the interest paid on the Subordinated Notes and the Issuer's taxable income and U.S. federal income tax liability could be materially increased. As a result, the Issuer's after-tax cash flow could be reduced and the Issuer's ability to make interest payments on Subordinated Notes and/or distributions with respect to Common Shares could be materially and adversely impacted.

Earnings Stripping Rules — Section 163(j)

Code section 163(j) is another potentially limiting factor on the Issuer's ability to deduct interest paid on the Subordinated Notes. In general, Code section 163(j) limits a corporation's deductions for interest paid to related foreign persons exempt from U.S. tax in years that: (i) the debt-to-equity ratio of the U.S. corporate taxpayer exceeds 1.5 to 1 (based on the tax basis of assets), and (ii) the corporation's net interest expense (i.e., the excess of interest expense over interest income) exceeds 50% of "adjusted taxable income". Adjusted taxable income is generally defined as the corporation's taxable income before net interest expense, depreciation, and amortization. For purposes of Code section 163(j), a corporation and a creditor of the corporation will generally be "related" if the creditor owns, directly or by attribution, more than 50% of the corporation by vote or value. Under current law, assuming no Non-U.S. Holder owns more than 50%, directly or by attribution, of the Common Shares, Code Section 163(j) should not apply to limit the Issuer's ability to deduct interest paid on the Subordinated Notes.

Various proposals have been introduced in the U.S. Congress to amend Code section 163(j). Prospects for the enactment of such legislation are uncertain. Although U.S. Tax Counsel believes that none of the current proposals to amend Code section 163(j) would affect the deductibility of interest paid by the Issuer on the Subordinated Notes, the ultimate form of legislation amending Code section 163(j), if any is enacted, is uncertain.

Branch Profits Tax

Under the "branch profits tax" rules of Code section 884 (as modified by the Canadian Treaty), distributions from the Atlantic Holdings to the Issuer, to the extent such distributions are not in excess of the Issuer's earnings and profits attributable to ECI, will be subject to a 5% tax. If deductions for interest paid on the Subordinated Notes are denied or limited (as discussed above) the Issuer's earnings and profits and hence its liability for branch profits tax could increase substantially. As a result, the Issuer's after-tax cash flow could be reduced and/or the Issuer's ability to make interest payments on Subordinated Notes and distributions with respect to Common Shares could be materially and adversely impacted.

PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or damages in some jurisdictions if the prospectus or any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

GLOSSARY OF TERMS

In this prospectus, the following terms will have the meanings set forth below, unless otherwise indicated. Words importing the singular include the plural and vice versa and words importing any gender include all genders:

"**affiliate**" has the meaning ascribed thereto in the *Securities Act* (Ontario).

"**Acquisition Agreements**" means, collectively, the agreements among the Issuer, Atlantic Holdings and each of the Existing Investors respecting, among other things, the acquisition by Atlantic Holdings of the Project Holding Entities from the Existing Investors.

"**ArcLight**" means ArcLight Capital Partners, LLC.

"**Atlantic Holdings**" means Atlantic Power Holdings, LLC, a limited liability company formed under the laws of Delaware.

"**avoided cost**" means the incremental expense that a utility would incur to either generate or purchase from an outside source electricity, capacity or both.

"**Btu**" means British thermal unit.

"**business day**" means a day other than a Saturday, Sunday or other day on which banking institutions in the Province of Ontario are authorized or required by law to close.

"**Canadian GAAP**" means the accounting principles generally accepted in Canada.

"**Canadian Treaty**" means the Canada-United States Income Tax Convention, as amended.

"**CDS**" means The Canadian Depository for Securities Limited.

"**Closing**" means the closing of the Offering, including the completion of the transactions contemplated by the Acquisition Agreements.

"**Code**" means the *United States Internal Revenue Code of 1986*, as amended.

"**cogeneration**" means the simultaneous production of electricity and thermal energy in the form of heat or steam from a single fuel source.

"**Common Shares**" or "**Common Share**" means the common shares in the capital of the Issuer.

"**Credit Facility**" means the credit facility to be provided by a syndicate of financial institutions to Atlantic Holdings on Closing in an aggregate amount of $50 million.

"**DBRS**" means Dominion Bond Rating Service Limited.

"**Disqualified Recipient**" means (i) any person that owns, directly or indirectly (through ownership of IPSs or otherwise) and after application of the constructive ownership rules of Code section 871(h)(3), 10% or more of the total combined voting power of all classes of equity of the Issuer entitled to vote, (ii) a controlled foreign corporation related to the Issuer within the meaning of Code section 881(c)(3)(C), or (iii) a bank described in Code section 881(c)(3)(A) with respect to the Subordinated Notes.

"**Equivalent Amount**" on any given date in one currency (the "first currency") of any amount denominated in another currency (the "second currency") means the amount of the first currency which could be purchased with such amount of the second currency at the rate of exchange approximately equal to the noon rate of exchange quoted by the Bank of Canada on such day for the purchase of the first currency with the second currency.

"**ERISA**" means the *United States Employee Retirement Income Security Act of 1974*, as amended.

"**ERISA Plan**" shall mean any employee benefit plan that is subject to the fiduciary and prohibited transaction provisions of ERISA and/or any plan that is subject to Section 4975 of the Code, any trust holding assets of such a plan, and any entity that is deemed to hold the assets of such a plan pursuant to 29 C.F.R. Section 2510.3-101, issued by the United States Department of Labor.

"**EWG**" means an exempt wholesale generator as defined under PUHCA.

"**Exchange Agreement**" means the agreement to be entered into on Closing among the Issuer, Atlantic Holdings and the Existing Investors and any other parties agreeing to be bound by that agreement regarding various exchange rights.

"**Exchangeable Interests**" means the common membership interests and Class B membership interests in Atlantic Holdings held by the Existing Investors that are exchangeable for IPSs.

"**Existing Investors**" means Teton Power Holdings, LLC, Epsilon Power Holdings, LLC and Umatilla Power Holdings, LLC.

"**FERC**" means the United States Federal Energy Regulatory Commission, an independent regulatory agency within the United States Department of Energy that, among other things, oversees regulatory matters relating to electricity projects.

"**FPA**" means the *United States Federal Power Act*, as amended.

"**gigawatt**" or "**GW**" means 1,000 megawatts of energy.

"**GWh**" means an amount of energy equivalent to one gigawatt of energy delivered continuously for one hour.

"**Holder**" means a holder of IPSs, Subordinated Notes or Common Shares.

"**Indenture**" means the Subordinated Note Indenture between the Issuer and Computershare Trust Company of Canada to be entered into on Closing.

"**IRS**" means the United States Internal Revenue Service.

"**Issuer**" means Atlantic Power Corporation.

"**kWh**" means an amount of energy equivalent to one kilowatt of energy delivered continuously for one hour.

"**kilowatt**" or "**kW**" means 1,000 watts of energy.

"**Manager**" means Atlantic Power Management, LLC.

"**Management Agreement**" means the management agreement to be entered into on or prior to Closing between the Manager, the Issuer and Atlantic Holdings, as it may be amended, supplemented and restated from time to time.

"**MWh**" means an amount of energy equivalent to one megawatt of energy delivered continuously for one hour.

"**megawatt**" or "**MW**" means 1,000 kilowatts of energy.

"**MMBtu**" means one million Btu.

"**NERC**" means the North American Electric Reliability Council.

"**Non-U.S. Holder**" means a Holder that is not: (i) a citizen or individual resident in the U.S. for U.S. federal tax purposes; (ii) a corporation or other entity taxable as a corporation created or organized under the laws of the U.S. or a political subdivision thereof; (iii) an estate, the income of which is subject to U.S. federal income tax regardless of the source; or (iv) a trust, if (A) a court within the U.S. is able to exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (B) the trust was in existence on August 20, 1996 and has properly elected under applicable Treasury Regulations to continue to be treated as a United States person.

"**Offering**" means the offering of the IPSs qualified under this prospectus.

"**Operating Agreement**" means the operating agreement in respect of Atlantic Holdings to be entered into among the Issuer, Atlantic Holdings and the Existing Investors on Closing.

"**PPA**" means power purchase agreement.

"**Projects**" means the 15 power generation projects described under "The Projects — Summary Table of the Projects" and "Project Descriptions".

"**Project Holding Entities**" means Teton Funding, Epsilon Power Funding, LLC and Umatilla Power Funding, LLC.

"**Project Operating Entities**" means the limited partnerships, corporations or other entities that directly own the Projects.

"**PUHCA**" means *Public Utility Holding Company Act of 1935*, as amended.

"**PURPA**" means the *Public Utility Regulatory Policies Act of 1978*, as amended.

"**QF**" means a qualifying facility under the FPA, as amended by PURPA.

"**Reserve Account**" means the reserve account to be established by Atlantic Holdings to stabilize future cash distributions and fund acquisitions and other growth opportunities.

"**S&P**" means Standard and Poor's, a division of The McGraw-Hill Companies, Inc.

"**SaleCo**" means UtilCo SaleCo LLC, a predecessor of Teton Funding.

"**Separate Subordinated Notes**" means the $ ● principal amount of Subordinated Notes to be issued and sold separately at the time of Closing.

"**Stone & Webster**" means Stone & Webster Management Consultants, Inc.

"**Subordinated Notes**" means the ● % subordinated notes of the Issuer issued in accordance with the Indenture.

"**Tax Act**" means the *Income Tax Act* (Canada) and the regulations thereunder, in each case in effect on the date hereof.

"**Teton Funding**" means Teton Power Funding, LLC.

"**Treasury Regulations**" means the U.S. Treasury regulations (including final, temporary and proposed regulations) promulgated under the Code.

"**Trustee**" means Computershare Trust Company of Canada.

"**Underwriters**" means BMO Nesbitt Burns Inc., CIBC World Markets Inc., RBC Dominion Securities Inc., Scotia Capital Inc., National Bank Financial Inc., TD Securities Inc., Canaccord Capital Corporation, Desjardins Securities Inc., Dundee Securities Corporation, First Associates Investments Inc., HSBC Securities (Canada) Inc., Lehman Brothers Inc. and Raymond James Ltd.

"**Underwriting Agreement**" means the underwriting agreement among the Issuer, Atlantic Holdings, the Existing Investors and the Underwriters dated ● , 2004.

"**U.S. GAAP**" means the accounting principles generally accepted in the United States.

"**U.S. Holder**" means any Holder that is not a Non-U.S. Holder.

"**U.S. Securities Act**" means the United States *Securities Act of 1933*, as amended.

"**U.S. Tax Counsel**" means Goodwin Procter LLP, counsel to the Issuer and Atlantic Holdings and Paul, Weiss, Rifkind, Wharton & Garrison LLP, counsel to the Underwriters.

AUDITOR'S CONSENT

We have read the prospectus of the Issuer dated ● , 2004 relating to the issue and sale of IPSs. We have complied with Canadian generally accepted standards for an auditor's involvement with offering documents. We consent to the use in the above-mentioned prospectus of our report to the directors of the Issuer on the balance sheet of the Issuer as at ● , 2004. Our report is dated ● , 2004, except as to note 2 which is as of ● , 2004.

Toronto, Ontario

●
Chartered Accountants

INDEX TO FINANCIAL STATEMENTS

AUDITORS' REPORT

To the Board of Directors of Atlantic Power Corporation

We have audited the balance sheet of Atlantic Power Corporation as at June 30, 2004. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the balance sheet is free of material misstatement. An audit of a balance sheet includes examining, on a test basis, evidence supporting the amounts and disclosures in that balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation.

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of the Company as at June 30, 2004 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada
June 30, 2004 except
as to note 2 which is
as of , 2004

●
Chartered Accountants

ATLANTIC POWER CORPORATION

BALANCE SHEET

As at June 30, 2004

Assets	
Cash	Cdn $10
Shareholders' Equity	
Capital stock:	
1 common share (note 1)	Cdn $10
Subsequent event (note 2)	

On behalf of the Board:

●	●
Director	Director

See accompanying notes to balance sheet.

ATLANTIC POWER CORPORATION

NOTES TO BALANCE SHEET

June 30, 2004

1. FORMATION

Atlantic Power Corporation (the "Company" or "Atlantic Power" or the "Issuer") was incorporated on June 18, 2004 under the laws of the Province of Ontario. The Company's authorized capital consists of an unlimited number of common shares. One common share was issued on June 18, 2004.

2. SUBSEQUENT EVENT

On • , 2004, the Company filed a final prospectus for an initial public offering (the "Offering") of • income participating securities ("IPSs") at a price of $10 per IPS. Each IPS represents (a) one common share of the Company, and (b) $ • aggregate principal amount of • % subordinated notes of the Company. Costs of the Offering, including underwriters' fees, are estimated to be $ • . These costs will be allocated between shareholders' equity and deferred financing costs.

The Issuer has formed Atlantic Power Holdings, LLC ("Atlantic Holdings"), a Delaware limited liability company, for the purpose of acquiring indirect interests in 15 power generation projects ("the Projects") from Teton Power Holdings, LLC, Epsilon Power Holdings, LLC and Umatilla Power Holdings, LLC (the "Existing Investors"). The interests of the Existing Investors in the Projects are held by their wholly-owned subsidiaries, Teton Power Funding, LLC, Epsilon Power Funding, LLC and Umatilla Power Funding, LLC (the "Project Holding Entities").

The estimated net proceeds from the Offering, after deducting fees payable to the underwriters of the Offering (the "Underwriters") and estimated expenses of the Offering, will be approximately $ • million. In addition to the $ • million of • % subordinated notes that will be represented by IPSs following the completion of the Offering, $ • of such subordinated notes will be sold separately (the "Separate Subordinated Notes"). The Issuer will use the net proceeds from the Offering, together with approximately $ • from the sale of the Separate Subordinated Notes, to subscribe for • common membership interests and • Class A preferred membership interests in Atlantic Holdings. Atlantic Holdings will in turn use approximately $ • of the proceeds from the subscription for membership interests by the Issuer (net of any costs and expenses incurred by Atlantic Holdings), together with • common membership interests and • Class B membership interests to be issued by it (the "Exchangeable Interests"), to acquire the Project Holding Entities from the Existing Investors. Atlantic Holdings will also use approximately $ • of the proceeds from the subscription for membership interests by the Issuer to repay outstanding indebtedness of Teton Power Funding, LLC and will deposit approximately U.S. $12.5 million into a reserve account (the "Reserve Account"). Following closing of the Offering, the Issuer will own • % of the common membership interests in Atlantic Holdings and the Existing Investors will own • % of the common membership interests in Atlantic Holdings.

The Issuer has granted the Underwriters an over-allotment option (the "Over-Allotment Option") to purchase up to a total of • additional IPSs for the purpose of covering over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised, the Issuer will use the net proceeds to acquire additional common membership interests and Class A preferred membership interests in Atlantic Holdings, which will in turn use such amounts to redeem common membership interests and Class B preferred membership interests in Atlantic Holdings held by the Existing Investors. If the Over-Allotment Option is exercised in full, the Issuer will own • % of the common membership interests in Atlantic Holdings and the Existing Investors will own • % of the common membership interests in Atlantic Holdings.

The acquisition will be accounted for using the purchase method. The purchase price of U.S.$ • has been preliminarily allocated to the assets and liabilities of the Projects as follows:

Net assets acquired at fair value, based on preliminary allocation:	
Current assets less current liabilities	$ •
Property and equipment	•
Investment in Partnerships	•
Investment in Leveraged Lease	•
Other intangibles	•
Bank loan	•
Long-term debt	•
Minority interest	•
	•
Goodwill	•
	$ •

COMPILATION REPORT ON PRO FORMA FINANCIAL STATEMENTS

To the Board of Directors of Atlantic Power Corporation

We have read the accompanying unaudited *pro forma* consolidated balance sheet of Atlantic Power Corporation (the "Company" or "Atlantic Power") as at June 30, 2004 and the unaudited pro forma consolidated statements of income for the six months then ended and for the year ended December 31, 2003 and have performed the following procedures:

1. Compared the figures in the column captioned "Atlantic Power" in the pro forma consolidated balance sheet of the Company to the audited balance sheet of Atlantic Power as at June 30, 2004.

2. Compared the figures in the column captioned "Teton Funding" in the pro forma consolidated balance sheet of the Company to the unaudited balance sheet of Teton Funding as at June 30, 2004.

3. Compared the figures in the columns captioned "SaleCo" and "Teton Funding" in the pro forma consolidated statement of income of the Company for the six months ended June 30, 2004 to unaudited combined statement of income of SaleCo for the period January 1, 2004 to March 12, 2004 and to the unaudited consolidated statement of income of Teton Funding for the period March 13, 2004 to June 30, 2004, respectively.

4. Compared the figures in the column captioned "SaleCo" for the year ended December 31, 2003 to the audited combined financial statements of SaleCo for the year ended December 31, 2003 and found them to be in agreement.

5. Made enquiries of certain officials of the Company who have responsibility for financial and accounting matters about:

   (a) the basis for determination of the *pro forma* adjustments; and

   (b) whether the *pro forma* consolidated financial statements comply as to form in all material respects with the published requirements of Canadian securities legislation.

   The officials:

   (a) described to us the basis for determination of the *pro forma* adjustments; and

   (b) stated that the *pro forma* consolidated financial statements comply as to form in all material respects with the published requirements of Canadian securities legislation.

6. Read the notes to the *pro forma* consolidated financial statements, and found them to be consistent with the basis described to us for determination of the *pro forma* adjustments.

7. Recalculated the application of the *pro forma* adjustments to the aggregate of the amounts in the columns captioned "Atlantic Power", "Teton Funding" and "SaleCo" as at June 30, 2004 and for the six months then ended, and for the year ended December 31, 2003 and found the amounts in the columns captioned "Pro forma consolidated" to be arithmetically correct.

A *pro forma* financial statement is based on management assumptions and adjustments which are inherently subjective. The foregoing procedures are substantially less than either an audit or a review, the objective of which is the expression of assurance with respect to management's assumptions, the *pro forma* adjustments, and the application of the adjustments to the historical financial information. Accordingly, we express no such assurance. The foregoing procedures would not necessarily reveal matters of significance to the *pro forma* consolidated financial statements, and we therefore make no representation about the sufficiency of the procedures for the purposes of a reader of such statements.

Toronto, Canada
● , 2004

●
Chartered Accountants

ATLANTIC POWER CORPORATION

PRO FORMA CONSOLIDATED BALANCE SHEET

(In thousands of U.S. dollars)

June 30, 2004
(Unaudited)

	Atlantic Power	Teton Funding	Pro forma Adjustments	Note 3	Pro forma Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$	$ 9,133	$ •	a,c	$ •
Restricted cash		10,557	•	a	
Accounts receivable, net		6,534	•	f,h	•
Accounts receivable — related party		61			
Inventories and supplies		1,136			
Indexed swap agreement — current		29,899	•	c	•
Prepayments and other		1,688			
Total current assets		59,008	•		•
Property, plant and equipment, net		7,677		c	•
Investments in partnerships		165,004	•	c	•
Investment in leveraged lease		1,327			
Indexed swap agreement		56,371			
Deferred financing costs		7,216	•	d	
Other intangibles		—	•	c	
Goodwill		—	•	c	
Future tax asset		—		k	
Total assets	$	$296,603	$ •		$ •
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	$	$ 8,931	$		$
Accounts payable — related party		829			
Current portion of deferred lease payable		554	•	m	
Current portion of the long-term debt		1,950	•	c	
Current portion of accrued loss on gas transportation contracts		5,616			
Other current liabilities		—		f,h,k	
Total current liabilities		17,880	•		•
Long-term liabilities:					
Accrued loss on gas transportation contracts		16,850			
Long-term debt		175,050	•	b,g	
Other liabilities		19			
Future tax liability		—		k	
Total liabilities		209,799			
Minority interests		10,711	•	c,i	
Total shareholders' equity:					
Shareholders' equity		75,059	•	a	
Accumulated other comprehensive income (loss)		1,034	(1,034)	l	•
Total owner's net investment	$	76,093	$ •		$ •
Total liabilities and shareholders' equity		$296,603	•		•

On behalf of the Board:

•	•
Director	Director

See accompanying notes to pro forma consolidated financial statements.

ATLANTIC POWER CORPORATION
PRO FORMA CONSOLIDATED STATEMENT OF INCOME
(In thousands of U.S. dollars)
Six months ended June 30, 2004
(Unaudited)

	Atlantic Power	SaleCo Jan. 1 to March 12, 2004	Teton Funding Mar. 13 to June 30, 2004	Total Six Months Ended June 30, 2004	Pro forma Adjustments	Note 3	Pro forma Consolidated
Revenue:							
Electricity sales	$	$ 12,508	$11,997	$ 24,505	$		$ 24,505
Index swap fair value adjustment		(15,422)	627	(14,795)			(14,795)
Management fee		50	149	199			199
Other		38		38			38
		(2,826)	12,773	9,947	•		•
Operating expenses:							
Fuel	$	7,070	5,370	12,440			12,440
Lease		4,202	4,500	8,702	(8,702)	m	0
Amortization of accrued loss on gas transportation contracts		(1,607)	(1,446)	(3,053)			(3,053)
Operations and maintenance		2,989	2,647	5,636	(366)	h	5,270
Project operator fees and expenses		664	293	957	688	h	1,645
Management fees and administrative expenses					1,219	h	1,219
Impairments							•
Depreciation and amortization		2,526	553	3,079	(879)	e	2,200
		15,844	11,917	27,761	•		•
Other income (expense):							
Equity in earnings from partnerships		6,173	12,804	18,977	4,819	j	23,796
Interest income		122	59	181			181
Interest expense					•	b,g	•
Earnings from leveraged lease		127	128	255			255
Other		(1,035)	(2,782)	(3,817)	•	f	•
		5,387	10,209	15,596	•		•
Income before minority interests and income taxes							
Minority interests						i	
Income tax expense						k	
Net income before cumulative effect of accounting change		(13,283)	11,065	(2,218)	•		•
Cumulative effect of accounting change		—	—	—	—		—
Net income	$	$(13,283)	$11,065	$ (2,218)	$ •		$ •
Other comprehensive income:							
Proportionate share of equity method investees' other comprehensive income		2,009	1,043	3,052	(5,040)	l	—
Comprehensive income	$	$(11,274)	$12,108	$ 834	$ •		$ •
Earnings per share							$

See accompanying notes to pro forma consolidated financial statements.

ATLANTIC POWER CORPORATION

PRO FORMA CONSOLIDATED STATEMENT OF INCOME

(In thousands of U.S. dollars)

Year ended December 31, 2003
(Unaudited)

	Atlantic Power	SaleCo	Pro forma Adjustments	Note 3	Pro forma Consolidated
Revenue:					
Electricity sales	$	$50,604	$		$50,604
Index swap fair value adjustment		17,961			17,961
Management fee		215			215
Other		213			213
		68,993			●
Operating expenses:					
Fuel	$	$25,163	$		$25,163
Lease		13,998	(13,998)	m	0
Amortization of accrued loss on gas transportation contracts		(3,546)			(3,546)
Operations and maintenance		16,234	●	h	●
Project operator fees and expenses		1,147	2,750	h	3,897
Management fees and administrative expenses			2,438	h	2,438
Impairments		8,796	(8,796)		0
Depreciation and amortization		10,134	(5,734)	e	4,400
		71,926	●		●
Other income (expense):					
Equity in earnings from partnerships		38,846	2,073	j	40,919
Interest income		6,281	(6,170)		111
Interest expense				b,g	0
Earnings from leveraged lease		449			449
Other		(7,504)	7,780	f	276
		38,072	●		●
Income before minority interests and income taxes					
Minority interests				i	
Income tax expense				k	
Net income before cumulative effect of accounting change		35,139	●		●
Cumulative effect of accounting change		(13)	13		0
Net income	$	$35,126	$ ●		$ ●
Other comprehensive income:					
Proportionate share of equity method investees' other comprehensive income		5,040	(5,040)	l	0
Comprehensive income	$	$40,166	$ ●		$ ●
Earnings per share					$ ●

See accompanying notes to pro forma consolidated financial statements.

ATLANTIC POWER CORPORATION

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(In thousands of U.S. dollars)
Six months ended June 30, 2004 and year ended December 31, 2003
(Unaudited)

Atlantic Power Corporation (the "Company" or "Atlantic Power" or the "Issuer") is a corporation established under the laws of the Province of Ontario on June 18, 2004. The Company will issue income participating securities ("IPSs") for cash pursuant to an initial public offering (the "Offering"). Each income participating security consists of one common share of the Company and Cdn$ ● of aggregate principal amount of ● % subordinated notes of the Company.

The Company will use the net proceeds from the Offering to acquire indirect interests in 15 power generation projects located primarily in the United States of America (collectively, the "Projects").

The Company intends to make monthly payments of interest on its ● % subordinated notes and dividends on its Common Shares.

1. BASIS OF PREPARATION

The *pro forma* consolidated balance sheet as at June 30, 2004 and the *pro forma* consolidated statements of income for the six months ended June 30, 2004 and for the year ended December 31, 2003 have respectively been prepared from the audited balance sheet of Atlantic Power as at June 30, 2004, the unaudited consolidated balance sheet as at June 30, 2004 of Teton Power Funding, LLC ("Teton Funding"), the owner of interests in 12 out of the 15 Projects, the unaudited combined statement of income for the period January 1, 2004 to March 12, 2004 of UtilCo SaleCo LLC ("SaleCo" — the predecessor to Teton Funding) the unaudited consolidated statement of income for the period March 13, 2004 to June 30, 2004 of Teton Funding, the audited combined statement of income for the year ended December 31, 2003 of SaleCo.

The financial statements of SaleCo and Teton Funding are included elsewhere in the prospectus. Selected financial information on MASSPOWER, Delta Person Limited Partnership and Javelin Energy LLC ("Other Projects") has been derived from the financial statements of the respective Projects which are not included in the prospectus. Information on the operating revenue, net income and total assets of the Other Projects and their proportionate share in the *pro forma* consolidated financial statements is disclosed in Note 3.

The *pro forma* consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The unaudited and audited financial statements of SaleCo and Teton Funding have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The significant differences between US GAAP and Canadian GAAP that affect the Company's pro forma consolidated financial statements are described in note 3(l).

The *pro forma* consolidated balance sheet gives effect to the adjustments in note 3 as if they had occurred on June 30, 2004. The *pro forma* consolidated statements of income for the periods presented give effect to the adjustments in note 3 as if the transactions occurred on January 1, 2003.

The pro forma consolidated financial statements are not necessarily indicative of the results that would have actually occurred had the transactions been consummated at the dates indicated nor are they necessarily indicative of future operating results or the financial position of Atlantic Power.

2. ACQUISITION

The Issuer has formed Atlantic Power Holdings, LLC ("Atlantic Holdings"), a Delaware limited liability company, for the purpose of acquiring indirect interests in the Projects from Teton Power Holdings, LLC, Epsilon Power Holdings, LLC and Umatilla Power Holdings, LLC (the "Existing Investors"). The interests of the Existing Investors in the Projects are held by their wholly-owned subsidiaries, Teton Funding, Epsilon Power Funding, LLC and Umatilla Power Funding, LLC (the "Project Holding Entities").

The estimated net proceeds from the Offering, after deducting fees payable to the underwriters of the Offering (the "Underwriters") and estimated expenses of the Offering, will be approximately Cdn$ ● million. In addition to the Cdn$ ● million of ● % subordinated notes that will be represented by IPSs following the completion of the Offering, Cdn$ ● of such subordinated notes will be sold separately (the "Separate Subordinated Notes"). The Issuer will use the net proceeds from the Offering, together with approximately Cdn$ ● from the sale of the Separate Subordinated Notes, to subscribe for ● common membership interests and ● Class A preferred membership interests in Atlantic Holdings. Atlantic Holdings will in turn use approximately Cdn$ ● of the proceeds from the subscription for membership interests by the Issuer (net of any costs and expenses incurred by Atlantic Holdings), together with ● common membership interests and ● Class B membership interests to be issued by it (the "Exchangeable Interests"), to acquire the Project Holding Entities from the Existing Investors. Atlantic Holdings will also use approximately Cdn$ ● of the proceeds from the subscription for membership interests by the Issuer to repay outstanding indebtedness of Teton Funding and approximately Cdn$ ● to deposit into a reserve account (the "Reserve Account"). Following closing of the Offering, the Issuer will own ● % of the common membership interests in Atlantic Holdings and the Existing Investors will own ● % of the common membership interests in Atlantic Holdings.

2. ACQUISITION (Continued)

The Issuer has granted the Underwriters an over-allotment option (the ''Over-Allotment Option'') to purchase up to a total of ● additional IPSs for the purpose of covering over-allotments, if any, and for market stabilization purposes. If the Over-Allotment Option is exercised, the Issuer will use the net proceeds to acquire additional common membership interests and Class A preferred membership interests in Atlantic Holdings, which will in turn use such amounts to redeem common membership interests and Class B preferred membership interests in Atlantic Holdings held by the Existing Investors. If the Over-Allotment Option is exercised in full, the Issuer will own ● % of the common membership interests in Atlantic Holdings and the Existing Investors will own ● % of the common membership interests in Atlantic Holdings.

3. PRO FORMA ADJUSTMENTS

(a) Initial Public Offering

The Company will issue ● IPSs pursuant to the Offering for net proceeds of Cdn$ ● on closing of the Offering after deducting estimated expenses of the Offering and the underwriters' fees of Cdn$ ● . The U.S. dollar equivalent of the net proceeds of the Offering based on an exchange rate of Cdn$ ● per US$ is:

Subordinated notes (including Separated Subordinated Notes)	$ ●
Common shares	●
	$ ●
Total expenses	(●)
	$ ●

Following closing of the Offering, approximately $12,500 will be deposited into the Reserve Account which is included in restricted cash.

(b) Credit Facilities

Atlantic Holdings has arranged for a senior credit facility (the ''Credit Facility'') in the form of a $50,000 revolving term credit facility. The Credit Facility will be used for working capital purposes, including management of cash flows with respect to differences in the payment and refund of U.S. withholding taxes and for other general corporate purposes of Atlantic Holdings.

Loans under the Credit Facility will bear interest at a rate equal to LIBOR or a U.S. Base Rate, plus an applicable margin to those rates.

Interest expense has been adjusted to reflect the Credit Facility and to eliminate interest expense associated with the senior secured debt of Teton Funding (originally incurred on March 12, 2004) which will be repaid with proceeds of the Offering. Interest is assumed to be at a rate of 4.5% per annum on an average balance of $11,000. In addition, fees are assumed to accrue on letters of credit commitments of $14,600 at a rate of 2.0% per annum.

3. PRO FORMA ADJUSTMENTS (Continued)

(c) Acquisition

The acquisitions will be accounted for using the purchase method. The net purchase price of $ ● has been preliminarily allocated to the assets and liabilities of the Projects at December 31, 2003 as follows:

Net assets acquired at fair value, based on preliminary allocation, are as follows:

Current assets less current liabilities	$ ●
Property and equipment	●
Investments in Partnerships	●
Investments in Leveraged Leases	●
Other intangibles	●
Term debt	●
Note payable to minority interests	●
Minority interests	●
Goodwill	●
	$ ●

The actual determination and allocation of the purchase price will be based upon the assets purchased and liabilities assumed at the effective date of the acquisition and other information available at that date. Accordingly, the actual amounts for each of the assets will vary from the *pro forma* amounts and the variation may be material.

Other intangibles principally represent power purchase agreements entered into by the Projects and will be amortized over the term of the agreements.

(d) Deferred Expenses

Certain costs incurred in connection with the IPO have been advanced to the Company by ● and will be repaid out of the proceeds of the Offering.

(e) Depreciation and Amortization

To adjust depreciation and amortization expense and reflect the fair value adjustment to property and equipment and other intangibles on acquisition.

(f) Other Income (Expense)

Interest and other income and management fees that are non-recurring have been eliminated. The amounts eliminated are as follows: ●

(g) Subordinated Notes

To record interest of $ ● on the ● % subordinated notes of $ ● and $ ● of amortization of deferred financing costs.

(h) General and Administration Expense

Operations and maintenance expense has been adjusted to account for the Issuer's share of the reduction in insurance premiums associated with the replacement of insurance contracts at the Lake, Mid-Georgia, Onondaga, Pasco and Stockton Projects.

Project operator fees and expenses represents the estimated project operator fees and expenses to be paid to affiliates of Caithness Energy, LLC for services provided to the Lake, Mid-Georgia, Onondaga and Pasco Projects as well as asset management services to Teton Funding.

3. PRO FORMA ADJUSTMENTS (Continued)

Management fees and administrative expenses represents the estimated fees paid to Atlantic Power Management, LLC (the "Manager") and the Manager's estimates of the costs it will incur in providing management services to Atlantic Holdings and the Issuer and its estimate of incremental operating costs that will be incurred by Atlantic Holdings and the Issuer.

(i) Minority Interest

Minority interest is calculated at ● % of the net income of ● .

(j) Selected financial information on Other Projects

(i) Investment in Delta Person L.P.

Epsilon Power Funding, LLC is a 40% limited partner in Delta Person L.P., which owns a gas-fuelled generation facility in Albuquerque, New Mexico placed in service in June 2000 with a gross capacity of 132 MW. Below is summarized financial information (in thousands of US Dollars) as of June 30, 2004 and for the six months then ended and as of December 31, 2003 and for the year then ended for Delta Person L.P., of which Atlantic Holdings will own a 40% effective interest.

	Delta Person, L.P.	
	Six Months Ended June 30, 2004	2003
Assets:		
Current assets	$ 2,208	$ 2,310
Noncurrent assets	47,082	48,494
Total assets	$49,290	$50,804
Liabilities:		
Current liabilities	$ 1,682	$ 2,118
Noncurrent liabilities	43,870	44,568
Total liabilities	$45,552	$46,686
Operating results:		
Sales	$ 2,807	$ 6,304
Gross profit	2,657	5,555
Net income	(381)	(852)
Equity in earnings (loss)	$ (152)	$ (341)

(ii) Investment in Javelin Energy, LLC

Epsilon Power Funding, LLC is an 18.9% limited partner in Javelin Energy, LLC, which owns a 50% interest in Gregory, a gas-fuelled generation facility near Corpus Christi, Texas placed in service in July 2000 with a gross capacity of 400 MW and a 10.22% interest in Rumford, a coal-fueled generation facility in Rumford, Maine placed in service in January 1990 with a gross capacity of 85 MW. Below is summarized financial information (in thousands of US Dollars) as of June 30, 2004 and for the six

3. PRO FORMA ADJUSTMENTS (Continued)

months then ended and as of December 31, 2003 and for the year then ended for Javelin Energy, LLC., of which Atlantic Holdings will own a 18.9% effective interest.

	Javelin Energy, LLC	
	Six Months Ended June 30, 2004	2003
Assets:		
Current assets	$ 7,386	$ 5,825
Noncurrent assets	87,162	84,791
Total assets	$94,548	$ 90,616
Liabilities:		
Current liabilities	$ 237	$ 217
Noncurrent liabilities	38,488	40,037
Total liabilities	$38,725	$ 40,254
Operating results:		
Sales	$ —	$ —
Gross profit	—	—
Net income (loss)	4,052	(23,413)
Equity in earnings (loss)	$ 766	$ (4,426)

(iii) Investment in MASSPOWER

Epsilon Power Funding, LLC is a 17.5% indirect general partner in MASSPOWER, which owns a gas-fuelled generation facility in Springfield, Massachusetts placed in service in September 1993 with a gross capacity of 267 MW. Below is summarized financial information (in thousands of US Dollars) as of June 30, 2004 and for the six months then ended and as of December 31, 2003 and for the year then ended for MASSPOWER, of which Atlantic Holdings will own a 17.5% effective interest.

	MASSPOWER	
	Six Months Ended June 30, 2004	2003
Assets:		
Current assets	$ 68,946	$ 48,498
Noncurrent assets	167,068	171,888
Total assets	$236,014	$220,386
Liabilities:		
Current liabilities	$137,411	$ 31,600
Noncurrent liabilities	42,165	158,659
Total liabilities	$179,576	$190,259
Operating results:		
Sales	$ 75,429	$161,749
Gross profit	38,409	69,176
Net income	22,960	30,446
Equity in Earnings	$ 4,018	$ 5,328

(In thousands of U.S. dollars)

3. PRO FORMA ADJUSTMENTS (Continued)

(k) Income Taxes

The Project Holding Entities and/or the Projects are each required to withhold U.S. income tax on operating income allocable to the Issuer. The tax withheld is treated as a pre-payment of taxes for the account of the Issuer. The Issuer, when filing its U.S. income tax return, will deduct its expenses from the income allocated to it from the Projects to determine its taxable income and taxes payable thereon. To the extent that the Issuer's U.S. taxes payable are less than the taxes withheld by the Projects, the Issuer will receive a refund of such withheld taxes. For the six months ended June 30, 2004 and for the fiscal year 2003, the Issuer would have received a full refund of all such withheld tax.

(l) Reconciliation of Canadian and US GAAP

These pro forma financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), which in most respects conform to Canadian GAAP. Significant differences between Canadian and US GAAP are as follows:

Net income and comprehensive income

		Six months ended June 30, 2004	2003
Comprehensive income (loss) — US GAAP		$ ●	$ ●
Proportionate share of unrealized net gain from cash flow hedges included in equity method investees' other comprehensive income	(i)	(3,043)	(5,040)
Cumulative effect of change in accounting principle	(ii)	—	13
Net income (loss) — Canadian GAAP		●	●

Balance sheet items

June 30, 2004

	2004 US GAAP	2004 Canadian GAAP
Investments in partnerships	$ ●	$ ●
Accumulated other comprehensive income (loss)	1,034	—

(i) Under US GAAP, other comprehensive income, investments in partnerships and accumulated other comprehensive income, included in equity method investment investees' financial statements arise as a result of changes in fair value of certain derivative financial instruments that qualify as cash flow hedges, for the portion of change in the fair value of the hedge that is effective.

Under Canadian GAAP, the Company applies settlement accounting to derivative financial instruments. Under this method, the gains and losses on derivative financial instruments that qualify for hedge accounting are not recorded until they are realized. The notional amounts are not recorded in the financial statements as they do not represent amounts exchanged by the counterparties.

(ii) Under US GAAP, the cumulative effect of change in accounting principles has been charged to income with no restatement of prior periods. Under Canadian GAAP the cumulative effect of change in accounting principles is applied retroactively with restatement of prior periods. The impact of the cumulative effect of change in accounting principle in 2003 is not material.

(m) To eliminate lease expense associated with the acquisition of the lessor interest in the Lake Project by Umatilla Power Funding, LLC which occurred on September 23, 2004. Expenses under the lease totalled $8,702 in the six months ended June 30, 2004 and $13,998 for the year ended December 31, 2003.

4. COMMITMENTS AND CONTINGENCIES

The following information reflects the commitments and contingencies described in the consolidated financial statements of Teton Power Funding, LLC as of June 30, 2004 and for the six months then ended.

(a) Cash Flow Interest Agreement

In July 1998, Enron waived its right to a 50% limited partnership interest in Onondaga in exchange for an amended and restated gas sales agreement and was entitled to a certain percentage of Onondaga's cash distributions to its partners. In 2003, Split Rock Holdings, LLC, ("Split Rock") a wholly-owned subsidiary of Arclight Energy Partners Fund I, LP ("Arclight") was assigned Enron's cash flow interest as part of Enron's bankruptcy filing. For the period from March 13, 2004 through June 30, 2004, Onondaga recorded approximately $906 of expense related to this cash flow interest, which is included in interest and other expense on the consolidated statement of income and comprehensive income. Onondaga made approximately $1,438 of distributions to Split Rock for the period March 13, 2004 through June 30, 2004.

(b) Lake Payment Dispute

Through September 2001, FPC had been paying Lake amounts for energy that were generally less than the formula price under the PPA. As a result of the lower FPC payments, Lake had been recognizing lower gas costs under its gas purchase agreement with Duke Energy ("Duke"). Lake had entered into an agreement with Duke whereby Duke had agreed not to pursue legal action against Lake for the lower payments pending the issuance of a final order in the Lake/FPC litigation proceeding.

Pursuant to a letter dated February 20, 2003, Duke and Lake settled all matters related to the payment dispute. As part of the settlement, Lake was required to remit approximately $2,100 to Duke on or before March 5, 2003. The remaining settlement amount of approximately $1,200 will be paid in 35 monthly instalments beginning April 5, 2003. Should Lake fail to remit any portion of the settlement amount, Duke is entitled to accelerate the remaining balance due and demand the remaining balance be paid immediately.

(c) FERC Waiver

On August 6, 2002, Lake filed for a temporary waiver with the FERC of its Operating and Efficiency Standards for calendar year 2002 due to the bankruptcy of its steam host. FERC granted the limited waiver of Operating and Efficiency Standards for calendar year 2002 on November 1, 2002. For the period ended June 30, 2004, Lake has maintained adequate FERC Operating and Efficiency Standards.

(d) Lake's Property Tax Settlement

On March 16, 2004, Lake received $2,573, included in interest and other income from the Lake County Tax Collector for a refund for property taxes for the years 1999 through 2002.

5. PRO FORMA EARNINGS PER SHARE

The calculation of earnings per share on the pro forma consolidated statement of income is based on the pro forma number of Common Shares outstanding for the year ended December 31, 2003 and for the six months ended June 30, 2004 had the issuance of Common Shares taken place on January 1, 2003.

INDEPENDENT AUDITORS' REPORT

The Board of Managers of Teton Power Holdings, LLC:

We have audited the accompanying combined balance sheets of UtilCo SaleCo LLC (the "Company") as of December 31, 2003 and 2002, and the related combined statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of certain equity method investee companies. The Company's investment in these companies at December 31, 2003 and 2002 was $100,693 and $89,068, respectively, and its equity in earnings was $38,287 and $51,137 for the years ended 2003 and 2002, respectively. The financial statements of these investees were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for them, is based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the Company as of December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations,* in 2003 and adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* and Emerging Issues Task Force 02-03, *Recognition and Reporting of Gains and Losses on Energy Trading Contracts Under Issues 98-10 and 00-17*, in 2002.

September 8, 2004

UTILCO SALECO LLC
(A Group of Investments Owned by Aquila, Inc.)

COMBINED BALANCE SHEETS

December 31, 2003 and 2002
(In thousands)

	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	$ 49,033	$ 27,611
Restricted cash	14,173	10,213
Accounts receivable, net	9,264	6,800
Account receivable — related parties	655	609
Inventories and supplies	981	990
Indexed swap agreement — current	32,659	25,770
Prepayments and other	915	797
Total current assets	107,680	72,790
Property, plant and equipment, net	5,164	5,399
Investments in partnerships	232,262	231,442
Investment in leveraged lease	9,445	9,039
Indexed swap agreement	82,690	98,091
Total assets	$437,241	$416,761
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 10,287	$ 12,845
Account payable — related party	458	—
Current portion of deferred lease payable	2,854	3,463
Accrued loss on gas transportation contracts	6,598	3,546
Deferred bonus payable	2,400	—
Other current liabilities	7,714	2,238
Total current liabilities	30,311	22,092
Long-term liabilities:		
Accrued loss on gas transportation contracts	26,382	32,980
Deferred lease payable	9,245	10,425
Deferred bonus payable	—	5,858
Other liabilities	17	—
Total liabilities	65,955	71,355
Total shareholders' equity:		
Shareholders' equity	373,429	352,589
Accumulated other comprehensive loss	(2,143)	(7,183)
Total shareholders' equity	371,286	345,406
Total liabilities and shareholders' equity	$437,241	$416,761

See accompanying notes to combined financial statements.

UTILCO SALECO LLC
(A Group of Investments Owned by Aquila, Inc.)
COMBINED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(In thousands)

	Jan. 1 2004 to March 12, 2004	Jan. 1, 2003 to June 30, 2003	Year ended December 31, 2003	Year ended December 31, 2002
	(Unaudited)	(Unaudited)		
Revenues:				
Electricity sales	$ 12,508	$26,019	$50,604	$58,432
Index swap fair value adjustment	(15,422)	21,439	17,961	36,708
Management fee revenue	50	119	215	238
Other revenue	38	147	213	216
Total revenues	(2,826)	47,724	68,993	95,594
Operating expenses:				
Fuel	7,070	10,965	25,163	29,968
Lease expense	4,202	6,110	13,998	12,505
Amortization of accrued loss on gas transportation contracts	(1,607)	(1,773)	(3,546)	(3,507)
Operations and maintenance expenses	2,989	10,332	16,234	16,242
Management fees	664	529	1,147	1,057
Impairments	—	—	8,796	9,473
Depreciation and amortization	2,526	5,600	10,134	10,230
Total operating expenses	15,844	31,763	71,926	75,968
Other income (expense):				
Equity in earnings from partnerships, net	6,173	23,819	38,846	52,290
Interest and other income	122	105	6,281	202
Earnings from leveraged lease	127	181	449	387
Interest and other expense	(1,035)	(870)	(7,504)	(2,768)
Total other income	5,387	23,235	38,072	50,111
Earnings before cumulative effect of accounting change	(13,283)	39,196	35,139	69,737
Cumulative effect of change in accounting principle	—	(13)	(13)	(7,763)
Net (loss) income	(13,283)	39,183	35,126	61,974
Other comprehensive income:				
Proportionate share of equity method investees' other comprehensive income	2,009	2,500	5,040	4,609
Comprehensive (loss) income	$(11,274)	$41,683	$40,166	$66,583

See accompanying notes to combined financial statements.

UTILCO SALECO LLC
(A Group of Investments Owned by Aquila, Inc.)

COMBINED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended December 31, 2003 and 2002
(In thousands)

	2003	2002
Shareholders' equity:		
Balance at beginning of year	$352,589	$323,989
Net income	35,126	61,974
Settlements with owners	(14,286)	(33,374)
Balance at end of year	373,429	352,589
Other comprehensive income:		
Balance at beginning of year	(7,183)	(11,792)
Current year comprehensive income	5,040	4,609
Balance at end of year	(2,143)	(7,183)
Total shareholders' equity	$371,286	$345,406

See accompanying notes to combined financial statements.

UTILCO SALECO LLC
(A Group of Investments Owned by Aquila, Inc.)
COMBINED STATEMENTS OF CASH FLOWS
(In thousands)

	Jan. 1 2004 to March 12, 2004	Jan. 1, 2003 to June 30, 2003	Year ended December 31, 2003	Year ended December 31, 2002
	(Unaudited)	(Unaudited)		
Cash flows from operating activities:				
Net (loss) income	$(13,283)	$ 39,183	$ 35,126	$ 61,974
Adjustments to reconcile net income to net cash provided by operating activities:				
Impairments	—	—	8,796	9,473
Depreciation and amortization	2,526	5,600	10,135	10,230
Equity earnings from partnerships	(6,173)	(23,819)	(38,846)	(52,290)
Earnings on leveraged lease	(127)	(181)	(449)	(387)
Distributions from investments	723	12,200	24,631	27,876
Amortization of accrued loss on gas transportation contracts	(1,607)	(1,773)	(3,546)	(3,507)
Cumulative effect of accounting change	—	—	13	7,763
Changes in assets and liabilities:				
Restricted cash	3,419	(3,141)	(3,960)	1,092
Receivables	736	(907)	(2,216)	(1,847)
Indexed swap agreement	22,036	(8,164)	8,512	(18,229)
Amounts due from affiliates	391	609	(46)	—
Amounts due to affiliates	(406)	—	458	—
Prepayments and other assets	286	(175)	(109)	1,291
Accounts payable and accrued liabilities	(1,429)	(1,009)	(2,763)	(959)
Deferred lease and bonus payable	255	(1,464)	(5,247)	(2,264)
Other	—	8	5,480	237
Net cash provided by operating activities	7,347	16,967	35,969	40,453
Cash flows used in investing activities:				
Acquisitions	(7,714)	—	—	—
Purchase of property, plant and equipment	—	—	(261)	(3,159)
Net cash used in investing activities	(7,714)	—	(261)	(3,159)
Cash flows used in financing activities:				
Settlements with owners	(36,221)	(11,062)	(14,286)	(33,374)
Net cash used in financing activities	(36,221)	(11,062)	(14,286)	(33,374)
Net increase in cash	(36,588)	5,905	21,422	3,920
Cash and cash equivalents, beginning of year	49,033	27,611	27,611	23,691
Cash and cash equivalents, end of year	$ 12,445	$ 33,516	$ 49,033	$ 27,611

See accompanying notes to combined financial statements.

UTILCO SALECO LLC
(A Group of Investments Owned by Aquila, Inc.)
NOTES TO COMBINED FINANCIAL STATEMENTS
December 31, 2003 and 2002
(In thousands)
(Information for the period January 1, 2004 to March 12, 2004 and for the six months ended June 30, 2003 is unaudited)

1. ORGANIZATION AND BUSINESS

UtilCo SaleCo LLC ("SaleCo" or the "Company") was a group of investments previously owned by Aquila, Inc. ("Aquila"). Aquila chose to group these businesses as part of its reorganization effort, which included selling all nonstrategic assets. On March 12, 2004, Aquila sold SaleCo to Teton Power Funding LLC ("TPF") (see note 15). The accompanying combined financial statements reflect net assets and results of operations of SaleCo. The accompanying financial statements have been prepared to reflect the investments acquired by TPF.

The Company owns interests in a number of "qualifying facilities" ("QFs") and "exempt wholesale generators" ("EWGs"), which have long-term contracts to sell power. QFs are small power producers or cogenerators (power producers that produce steam as a byproduct of the electricity generating process for use in a second industrial process) that meet certain operating, efficiency, and fuel-use standards set forth by the Federal Energy Regulatory Commission ("FERC"). Electric utilities are required to purchase generating capacity and electric energy from QFs at a price approved by state regulatory bodies. EWGs are independent power projects that are exempt from the *Public Utility Holding Company Act* ("PUHCA"), but must obtain FERC approval for wholesale rates. The Company's EWGs have been granted market-based rate authority.

SaleCo comprised the following entities, which are accounted for as wholly-owned entities:

- Baker Lake Hydro, LLC and Olympia Hydro, LLC, which together are 99% limited partners and 0.5% general partners in Concrete Hydro Partners, L.P. ("Concrete"). Concrete is a 1% general partner and a 49% limited partner in Koma Kulshan Associates ("Koma"), which Concrete accounts for under the equity method. The Company's investment in Concrete is accounted for under the equity method.
- Topsham Hydroelectric Generating Facility Trust No. 2 (the "Trust"), which owns an undivided interest in Topsham Hydro Assets. The assets owned by the Trust are accounted for as a leveraged lease (see note 12).
- Badger Power Generation I, LLC and Badger Power Generation II, LLC, which together are 97% limited partners and 0.5% general partners in Badger Power Associates, L.P. Badger Power Associates, L.P. is a 50% general partner in Badger Creek Limited, L.P. The investment in Badger Power Associates, L.P. is accounted for under the equity method.
- Stockton CoGen (II), LLC, which is a 50% general partner in Stockton CoGen Company (Stockton). The investment in Stockton CoGen Company is accounted for under the equity method.
- Orlando Power Generation I, LLC and Orlando Power Generation II, LLC, which together are a 50% general partner in Orlando CoGen Limited, L.P. The investment in Orlando CoGen Limited, L.P. is accounted for under the equity method.
- Rockfort Power-Cayman Island LLC, which has an indirect 24.1% interest in Jamaica Private Power Company Limited (Jamaica) through their wholly-owned subsidiary, Rockfort Power (Belize) LLC. The investment in Jamaica Private Power Company Limited is accounted for under the equity method.
- MEP Rumford, LLC, which is a 24.3% limited partner in Rumford Cogeneration Company Limited Partnership ("Rumford"). The investment in Rumford is accounted for under the equity method.
- Aquila East Coast Generation, LLC, which is the holding company for a number of the companies included in SaleCo. The following are wholly-owned subsidiaries of Aquila East Coast Generation, LLC:
  - Aquila Fuels Mid-Georgia, LLC, which provides fuel services to Mid-Georgia Cogen, L.P.
  - NCP Lake Power, LLC ("NCP Lake"), which is the sole 1% general partner in Lake Cogen, Ltd. ("Lake") and a 1% general partner is Lake Investment, L.P. ("LILP"). LILP is a 48.9% limited partner in Lake. Lake owns and operates a 110-megawatt ("MW") cogeneration energy project in Lake County, Florida, which was placed into service in July 1993. The Company effectively controls Lake; therefore, the financial results of Lake are combined within the SaleCo financial statements.
  - NCP Gem, LLC is a 99% limited partner in LILP. The financial results of LILP are combined within the SaleCo financial statements.
  - NCP Houston Power, LLC ("NCP Houston") and NCP Perry, LLC together are a 1% general partner and a 49% limited partner in Mid-Georgia Cogen, L.P. The investment in Mid-Georgia Cogen, L.P. is accounted for under the equity method.

1. ORGANIZATION AND BUSINESS (Continued)

- NCP Dade Power, LLC is a 1% general partner in Pasco Cogen Ltd. and a 1% general partner in Dade Investment, L.P. Dade Investment, L.P. is a 48.9% limited partner in Pasco Cogen Ltd. The investment in Pasco Cogen Ltd. is accounted for under the equity method.
- NCP Pasco, LLC is a 99% limited partner in Dade Investment, L.P. The financial results of Dade Investment, L.P. are combined within the SaleCo financial statements.
- Geddes II LLC ("Geddes II") and Geddes Cogeneration LLC ("Geddes") together are a 1% general partner and a 99% limited partner in Onondaga Cogeneration Limited Partnership ("Onondaga"). Onondaga owns and operates an 91-megawatt cogeneration project in Geddes, New York, which was placed in service in December 1993. Geddes is the general partner of Onondaga and, as such, is responsible for the general management, supervision, and administration of Onondaga's business and affairs. In July 1998, Enron Capital & Trade Resources ("Enron") waived its right to a 50% limited partnership interest in exchange for an amended and restated gas sales agreement, and is entitled to a certain percentage of Onondaga's cash distributions to its partners. As a result of the waiver, Geddes II became a 50% limited partner. In 2003, Split Rock Holdings LLC was assigned Enron's cash flow interest (note 13). The financial results of Onondaga are combined within the SaleCo financial statements.
- Aquila Selkirk, LLC is a 13.6% limited partner is Selkirk Cogen Partners, L.P. The investment in Selkirk Cogen Partners, L.P. is accounted for under the equity method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America. These accounting principles are different in some respects from Canadian generally accepted accounting principles and the significant differences that impact the Company's financial statements are described in note 16.

The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the combined financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company follows the accrual method of accounting.

(a) Principles of Combination

SaleCo's combined financial statements include all of the majority-owned businesses described in note 1 for which Aquila maintains controlling interests. The Company uses equity accounting for investments in limited partnerships of 5% or greater or in which it has significant influence but does not control. SaleCo eliminates intercompany accounts and transactions.

Since SaleCo was not a legal entity at December 31, 2002, direct ownership relationships did not exist among all of the various operations reflected in the accompanying combined financial statements during the year presented. On September 15, 2003, SaleCo was registered as a Delaware limited liability company.

(b) Cash and Cash Equivalents

For the purposes of the statements of cash flows, cash is defined as unrestricted cash and investments with original maturities of three months or less.

Restricted cash and investments represent deposits made for compensating balances and overhaul costs related to the Onondaga and Lake projects.

(c) Inventories and Supplies

Inventories and supplies are stated at the lower of average cost or market.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, Plant, and Equipment

The Company's property, plant, and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful life of the related asset.

Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the combined balance sheet and any gain or loss is reflected in the combined statements of income and comprehensive income. The Company capitalizes and depreciates overhaul and maintenance expenses when the useful life of the asset has been extended. Otherwise, these costs are expensed as incurred.

(e) Revenue Recognition

The Company recognizes revenue when electricity and steam are delivered under the terms of the related contracts and as the fair value of the indexed swap changes.

The Company recognizes management fees as they are earned. Management fees earned from entities that are accounted for under the equity method are eliminated to the extent of the Company's investment percentage.

(f) Income Taxes

In March of 2004, SaleCo and all entities accounted for as wholly-owned entities of SaleCo (note 1) were converted to limited liability corporations ("LLC"), which are nontaxable entities for income tax purposes. As each entity is subject to flowthrough taxation, each LLC's income, gains, losses, and tax credits are allocated to the owners who individually report their share of those items in their income tax returns. Accordingly, in order to reflect the ongoing expenses of the Company, no provision has been made for income taxes within these combined financial statements.

(g) Financial Instruments

In 1998, Onondaga entered into an indexed swap agreement with Niagara Mohawk Power Corporation ("NIMO") in connection with the restructuring of the Onondaga project. The indexed swap agreement is accounted for as a trading instrument and is recorded at fair value based on certain assumptions, which includes forecasting future energy prices, inflation rates, discount rates, and counterparty credit risk (see note 9).

(h) Gas Transportation Contracts

Onondaga has certain long-term gas transportation agreements to provide natural gas transportation service to the Onondaga project through the year 2013 and other obligations related to operating the Onondaga project. Onondaga's obligations related to operating the Onondaga project and the long-term gas transportation agreements were recognized as liabilities in purchase accounting upon the acquisition of Onondaga by Aquila, Inc. These obligations are being relieved over the remaining lives of the contracts.

All of SaleCo's other gas transportation costs are expensed as incurred.

(i) Accounting for Derivatives

The Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Investments and Hedging Activities, which establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheets as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133, as amended, has been adopted by SaleCo effective January 1, 2001. The adoption of SFAS 133 did not have an effect on SaleCo's financial statements.

In October 2002, Emerging Issues Task Force ("EITF") Issue No. 02-3, Recognition and Reporting of Gains and Losses on Energy Trading Contracts Under Issues 98-10 and 00-17, required all energy trading contracts that do not fall within the scope of SFAS 133

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

no longer be marked to market through earnings, but to be accounted for on the accrual basis of accounting. The consensus was effective for all new contracts executed after October 25, 2002, and required a cumulative effect of an accounting change be recognized for all contracts executed prior to October 25, 2002. Onondaga elected early adoption of this requirement effective January 1, 2002, and ceased marking to market certain portions of Onondaga's transportation agreements that can be traded on the open market. The cumulative effect of this change has been reported as of the beginning of 2002 (see note 9).

(j) Asset Retirement Obligations

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which a legal obligation associated with the retirement of tangible long-lived assets is incurred. When the liability was initially recorded, the Company capitalized the estimated cost by increasing the carrying amount of the related long-lived asset. The liability will be accrued to its present value each subsequent period. The capitalized cost of the asset will be depreciated over the life of the related asset. Upon satisfaction of the liability, the Company will record a gain or loss for the difference between the actual cost incurred and the recorded liability. This standard became effective on January 1, 2003.

The adoption of SFAS No. 143 required the Company's recognition of future costs to settle legal liabilities. These legal liabilities included the removal and disposal of storage tanks and generators. The Company measured these liabilities based on engineering estimates of third-party costs to remove the assets in satisfaction of legal obligations, discounted by the Company's credit-adjusted risk–free borrowing rate, depending on the anticipated settlement date.

In connection with the adoption of SFAS No. 143 in January 2003, the Company recorded an asset retirement obligation of $15 and increased property, plant, and equipment, net of accumulated depreciation, by an immaterial amount. The cumulative effect of an accounting change for the adoption of SFAS No. 143 was a loss of $13 in 2003.

(k) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows that is expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the combined balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the combined balance sheets.

(l) Goodwill and Other Intangible Assets

On January 1, 2002, the Company was required to adopt SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 142 requires that goodwill no longer be amortized to expenses. Instead, goodwill must be tested for impairment at least annually and, if impaired, be written off against earnings at that time. The Company completed an initial assessment of the realizability of goodwill and determined that, as of January 1, 2002, no goodwill impairments existed. When performing the annual assessment of the realizability of goodwill on November 30, 2002, the Company concluded that the goodwill was impaired and thus recorded an impairment charge for $5,200 in the fourth quarter of 2002.

3. NEW ACCOUNTING STANDARDS

In November 2002, the FASB issued FASB Interpretation No. 45 ("Fin 45"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This is an interpretation of FASB Statements No. 5, Accounting for Contingencies, No. 57, Related Party Disclosures, and No. 107, Disclosures about Fair Value of Financial Instruments, and a rescission of FASB Interpretation No. 34, Disclosures of Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the

(In thousands)

3. NEW ACCOUNTING STANDARDS (Continued)

disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The Interpretation is being applied prospectively to guarantees issued or modified after December 31, 2002. At December 31, 2003, the Company's only guarantee relates to the lease payable (see note 11). This guarantee is not within the scope of FIN 45.

In May 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement clarified under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133. It also clarified when a derivative contains a financing component that warrants special reporting in the combined statements of cash flows. SFAS No. 149 also amended certain other existing pronouncements regarding derivatives. It is effective for contracts entered into or modified after June 30, 2003. The adoption of this standard had no material impact on the Company's financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (revised December 2003), ("FIN 46"), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation is to be applied in the first fiscal year or interim period beginning after December 15, 2003, to enterprises that hold a variable interest in all entities that are not special purpose entities. Adoption of FIN 46 should not have a material impact on the Company's financial position or results of operations.

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS

Investments in domestic and international independent power projects that are not controlled by SaleCo, but over which it has significant influence, are accounted for using the equity method. SaleCo owns investments in nine independent power projects located in six states and Jamaica. SaleCo received distributions of approximately $24,631 and $27,876 in 2003 and 2002 from those investments. For the unaudited period ended March 12, 2004 SaleCo received $723 in distributions and recorded $6,173 in equity earnings. SaleCo's share of net income from these uncombined affiliates is reflected in the combined statements of income and comprehensive income as equity in earnings from partnerships. The table below summarizes our investments and related equity earnings for the years ended December 31, 2003 and 2002, respectively:

Entity	Year End 2003 Equity Earnings	Investment in Partnerships as of December 31, 2003
Concrete Hydro Partners, L.P. (g)	$ 373	$ 4,042
Badger Power Associates, L.P. (a)	3,518	16,437
Stockton CoGen Company (g)	1,552	8,710
Orlando CoGen Limited, L.P. (b)	11,599	41,480
Jamaica Private Power Company Limited (g)	3,021	13,538
Rumford Cogeneration Company Limited Partnership (c)	2,670	15,881
Mid-Georgia Cogen, L.P. (d)	(993)	14,298
Pasco Cogen Ltd. (e)	6,664	14,218
Selkirk Cogen Partners, L.P. (f)	10,442	(4,903)
	38,846	123,701
Investment in excess of underlying net assets, net of accumulated amortization	—	108,561
Total	$38,846	$232,262

(In thousands)

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

Entity	Year end 2002 Equity Earnings	Investment in Partnerships as of December 31, 2002
Concrete Hydro Partners, L.P. (g)	$ 541	$ 3,669
Badger Power Associates, L.P. (a)	4,455	11,093
Stockton CoGen Company (g)	1,197	9,908
Orlando CoGen Limited, L.P. (b)	22,747	30,381
Jamaica Private Power Company Limited (g)	2,043	11,962
Rumford Cogeneration Company Limited Partnership (c)	7,192	28,616
Mid-Georgia Cogen, L.P. (d)	(44)	14,266
Pasco Cogen Ltd. (e)	6,615	11,838
Selkirk Cogen Partners, L.P. (f)	7,544	(8,491)
	52,290	113,242
Investment in excess of underlying net assets, net of accumulated amortization	—	118,200
Total	$52,290	$231,442

The Company evaluates the carrying value of its equity method investments periodically or when there are specific indications of potential impairments, such as continuing operating losses or a substantial decline in market price, if publicly traded. In assessing these investments, the Company considers the following factors, among others, relating to the investment: financial performance and near-term prospects of the company, condition and prospects of the industry, and our investment intent. For the year ended 2003, the Company recorded an impairment on its investment in Rumford of $8,796. For the year ended 2002, the Company recorded an impairment on its investment in Rumford and Jamaica of $4,300 and $3,500, respectively.

The investment in excess of underlying net assets and any acquisition and transaction costs, included in the investment in partnership balances, are being amortized on a straight-line basis over the remaining lives of the partnerships' related contracts or facilities, ranging from nine to forty years. For the years ended December 31, 2003 and 2002, amortization expense amounted to approximately $9,600 and $10,000, respectively, included in depreciation and amortization expense on the combined statements of income and comprehensive income. For the unaudited period ended March 12, 2004, amortization expense amounted to approximately $2,410, included in depreciation and amortization expense.

The following are the summarized financial results of the entities accounted for under the equity method by SaleCo.

(a) Investment in Badger Power Associates, L.P.

Badger Power Associates, L.P. ("Badger Power") is a 50% general partner in Badger Creek Limited, L.P. (QF), which owns a gas-fueled generation facility in Bakersfield, California placed in service April 1991 with a gross capacity of 50 MW. The following

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

is summarized financial information (in thousands) of Badger Creek Limited, L.P. as of December 31, 2003 and 2002 and the years then ended, of which SaleCo has a 48.75% effective interest.

	Badger Creek Limited	
	2003	**2002**
Assets:		
Current assets	$ 9,344	$ 6,761
Noncurrent assets	35,975	35,580
Total assets	$45,319	$42,341
Liabilities:		
Current liabilities	$ 8,270	$ 8,917
Noncurrent liabilities	8,990	16,505
Total liabilities	$17,260	$25,422
Operating results:		
Sales	$29,649	$28,188
Gross profit	15,112	13,864
Net income	7,394	8,773

(b) Investment in Orlando CoGen Limited, L.P.

Orlando CoGen Limited, L.P. (QF) is a 50%-owned, gas-fueled generation facility in Orlando, Florida placed in service September 1993 with a gross capacity of 126 MW. Below is summarized financial information (in thousands) as of December 31, 2003 and 2002 and the years then ended.

	Orlando Cogen Limited, L.P.	
	2003	**2002**
Assets:		
Current assets	$ 42,134	$25,039
Noncurrent assets	85,391	66,574
Total assets	$127,525	$91,613
Liabilities:		
Current liabilities	$ 16,275	$13,526
Noncurrent liabilities	28,292	35,213
Total liabilities	$ 44,567	$48,739
Operating results:		
Sales	$ 58,563	$52,659
Gross profit	25,784	23,764
Net income	23,198	39,324

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

(c) Investment in Rumford Cogeneration Company Limited Partnership

Rumford (QF) is a 24.3%-owned, coal-fueled generation facility in Rumford, Maine placed in service May 1990 with a gross capacity of 85 MW. Below is summarized financial information (in thousands) as of December 31, 2003 and 2002 and the years then ended.

	Rumford	
	2003	**2002**
Assets:		
Current assets	$ 20,190	$ 19,814
Noncurrent assets	87,128	107,753
Total assets	$107,318	$127,567
Liabilities:		
Current liabilities	$ 10,288	$ 10,383
Noncurrent liabilities	—	—
Total liabilities	$ 10,288	$ 10,383
Operating results:		
Sales	$ 98,205	$104,326
Gross profit	31,612	36,530
Net income	10,987	29,522

(d) Investment in Mid-Georgia Cogen, L.P.

Mid-Georgia Cogen, L.P. (QF) is a 50%-owned, gas-fueled generation facility in Kathleen, Georgia placed in service June 1998 with a gross capacity of 300 MW. Below is summarized financial information (in thousands) as of December 31, 2003 and 2002 and the years then ended.

	Mid-Georgia Cogen, L.P.	
	2003	**2002**
Assets:		
Current assets	$ 25,407	$ 26,734
Noncurrent assets	114,986	119,017
Total assets	$140,393	$145,751
Liabilities:		
Current liabilities	$ 5,071	$ 4,985
Noncurrent liabilities	106,512	112,234
Total liabilities	$111,583	$117,219
Operating results:		
Sales	$ 31,731	$ 34,914
Gross profit	16,732	18,808
Net loss	(1,772)	(346)

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

(e) Investment in Pasco Cogen Ltd.

Pasco Cogen Ltd. (QF) is a 49.9%-owned, gas-fueled generation facility in Dade City, Florida placed in service July 1993 with a gross capacity of 109 MW. Below is summarized financial information (in thousands) as of December 31, 2003 and 2002 and the years then ended.

	Pasco Cogen Ltd.	
	2003	**2002**
Assets:		
Current assets	$11,262	$ 9,894
Noncurrent assets	73,422	77,165
Total assets	$84,684	$87,059
Liabilities:		
Current liabilities	$10,237	$ 9,492
Noncurrent liabilities	45,745	53,843
Total liabilities	$55,982	$63,335
Operating results:		
Sales	$49,900	$49,246
Gross profit	30,471	29,499
Net income	13,564	13,048

(f) Investment in Selkirk Cogen Partners, L.P.

Selkirk Cogen Partners, L.P. (QF) is a 13.6%-owned, gas-fueled generation facility in Selkirk, New York placed in service, March 1992/September 1994 with a gross capacity of 345 MW. Aquila Selkirk, LLC, a wholly-owned subsidiary of SaleCo, is entitled to receive: (i) 13.6% of distributions of available cash, up to a fixed semiannual amount ("Priority Distributions"); (ii) 20% of 99% of the amount distributed in excess of the Priority Distribution dates; and (iii) 17.7% of all distributions made after the later of the date on which the last Priority Distribution is made or 18 years after the completion of Unit II. On a projected basis, the Company expects to receive an average of 19.9% of all cash distributions from Selkirk Cogen Partners, L.P. and, as such, records equity earnings accordingly. Below is summarized financial information (in thousands) as of December 31, 2003 and 2002 and the years then ended.

	Selkirk Cogen Partners, L.P.	
	2003	**2002**
Assets:		
Current assets	$ 46,930	$ 36,040
Noncurrent assets	287,471	303,915
Total assets	$334,401	$339,955
Liabilities:		
Current liabilities	$ 44,689	$ 41,385
Noncurrent liabilities	320,959	344,283
Total liabilities	$365,648	$385,668
Operating results:		
Sales	$262,832	$227,578
Gross profit	88,387	74,219
Net income	53,003	37,950

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

(g) Investments in Other Partnerships

Following is a description of other uncombined equity investments of the Company. These investments consist of Stockton; Concrete; and Jamaica.

Stockton (QF) is a 50%-owned, coal-fueled generation facility in Stockton, California placed in service March 1988 with a gross capacity of 60 MW. The financial information in the table below includes the results of Stockton as of September 30, 2003 and 2002 and for the years then ended.

Concrete is a 1% general partner and a 49% limited partner in Koma (QF). Koma owns a hydroelectric generation facility in Mount Baker, Washington that was placed in service in October 1990 with a gross capacity of 14 MW. As a result of this ownership structure, SaleCo has a 49.75% effective ownership in Koma. The financial information in the table below includes the results of Concrete as of December 31, 2003 and 2002 and for the years then ended.

Jamaica is a 24.1%-owned, diesel-fueled generation facility in Rockfort, Jamaica placed in service January 1998 with a gross capacity of 58 MW. The financial information in the table below includes the results of Jamaica as of December 31, 2003 and 2002 and for the years then ended.

The combined summarized financial information (in thousands) for these investments is shown in the table below.

	Other Investments	
	2003	2002
Assets:		
Current assets	$ 38,255	$ 35,980
Noncurrent assets	114,981	119,560
Total assets	$153,236	$155,540
Liabilities:		
Current liabilities	$ 12,691	$ 16,703
Noncurrent liabilities	53,697	56,281
Total liabilities	$ 66,388	$ 72,984
Operating results:		
Sales	$ 78,683	$ 78,874
Gross profit	51,740	55,265
Net income	16,122	16,952

5. RELATED-PARTY TRANSACTIONS

(a) Management Fees

NCP Houston, accounted for as a wholly-owned subsidiary of SaleCo, manages Mid-Georgia Cogen, L.P. (“MGC”), an uncombined affiliate, for which it receives an annual general partner fee of $50. The general partner fee is payable quarterly and is escalated each year by the change in the U.S. Gross Domestic Product Implicit Price Deflator (“GDPIPD”). For the years ended December 31, 2003 and 2002, NCP Houston earned approximately $56 and $55 in general partner fees. NCP Houston’s general partner fees from MGC, net of eliminations, were $28 and $28 for the years ended December 31, 2003 and 2002 and are recorded as management fee revenue on the combined statements of income and comprehensive income.

For the years ended December 31, 2003 and 2002, NCP Dade Power, LLC (“NCP Dade”), accounted for as a wholly-owned subsidiary of SaleCo, received a fixed annual fee from Pasco Cogen Ltd. (“Pasco”), an uncombined affiliate, for administrative and operating management functions totaling approximately $211 and $208, respectively. NCP Dade’s fees from Pasco, net of eliminations, were $105 and $104, respectively, for the years ended December 31, 2003 and 2002 and are recorded as management fee revenue on the combined statements of income and comprehensive income.

5. RELATED-PARTY TRANSACTIONS (Continued)

(b) Operation and Maintenance Fees

MGC has an operation and maintenance ("O&M") agreement with Aquila Services, Inc. ("ASI"), a wholly-owned subsidiary of Aquila. MGC pays an annual O&M fee of $500 and an operator incentive fee for exceeding specified operational levels. Each of these fees is payable quarterly and is escalated annually by the change in the U.S. GDPIPD. For the years ended December 31, 2003 and 2002, MGC expensed approximately $538 and $536 for the O&M fee. No operator incentive fees were earned in 2003 or 2002.

Pasco has hired ASI to be the contractual operator of the Pasco facility. As such, ASI is entitled to receive reimbursement for expenses incurred on Pasco's behalf, as well as an O&M fee. For the years ended December 31, 2003 and 2002, Pasco expensed approximately $568 and $551 for these O&M fees.

Onondaga receives O&M services from ASI. Under the O&M agreement, ASI is entitled to a management fee based upon 3.5% of gross revenues. For the years ended December 31, 2003 and 2002, Onondaga incurred expenses related to this contract of approximately $1,800 and $1,500, respectively, which are reflected within management fee expense on the combined statements of income and comprehensive income.

(c) Fuel Supply Agreement

MGC has entered into a fuel supply and management agreement with Aquila Fuels Mid-Georgia, LLC ("Aquila Fuels"), accounted for as a wholly-owned subsidiary of SaleCo. For the years ended December 31, 2003 and 2002, Aquila Fuels earned gas supply and management fees of approximately $158 and $204, respectively. Gas supply and management fees, net of eliminations, were $79 and $102, for the years ended December 31, 2003 and 2002 and are included within management fee revenue on the combined statements of income and comprehensive income.

Onondaga utilizes Aquila Merchant Services, Inc. ("AMS"), a wholly-owned subsidiary of Aquila, to purchase all of Onondaga's gas needs. AMS is responsible for scheduling and transporting gas to the plant and remarkets all excess gas purchases for a fee. For the years ended December 31, 2003 and 2002, Onondaga purchased approximately $4,900 and $4,700 of gas (including remarketing fees) from AMS. As of December 31, 2003 and 2002, Onondaga had $0 and $780 due to AMS under this agreement.

6. RESTRICTED CASH

Restricted cash at SaleCo comprised primarily cash and cash equivalents held in trust in accordance with the escrow agreement relating to the lease of the Lake facility. Under the terms of the escrow agreement, all transactions require the approval of the lessor, General Electric Capital Corporation ("GECC").

In addition, SaleCo has compensating cash deposits used to collateralize a $2,000 letter of credit with Enron, Onondaga's former gas supplier, and a $550 letter of credit issued in favor of NIMO, for a total of approximately $600 and $2,600 at December 31, 2003 and 2002, respectively. This amount has been classified as restricted cash in the accompanying combined balance sheets. In 2003, the letter of credit with Enron was terminated when the gas supply agreement was terminated by the bankruptcy court through Enron's Chapter 11 bankruptcy filing. As a result, Onondaga received its cash deposits and related interest from the Enron trustee and reclassified amounts to unrestricted cash in 2003 (note 13).

6. RESTRICTED CASH (Continued)

The balances in SaleCo's restricted accounts as of December 31 consisted of the following:

	2003	2002
	(in thousands)	
Collection account	$ 80	$ 216
Operating account	14	149
Turbine repair account	1,244	241
Accrual account	2,267	1,396
Lease reserve account	2,638	3,551
Working capital fund	—	2,100
Collateral for letter of credit	7,930	2,560
Restricted cash	$14,173	$10,213

7. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of December 31 comprised the following:

	2003	2002
	(in thousands)	
Land and land improvements	$ 901	$ 901
Office equipment	45	45
Plant in service	2,513	2,426
Machinery and equipment	109	63
Leasehold improvements	2,350	2,224
Asset retirement	3	—
Property, plant and equipment, gross	5,921	5,659
Less accumulated depreciation	(757)	(260)
Property, plant and equipment, net	$5,164	$5,399

In September 2000, Onondaga's right to sell power under a power put agreement with NIMO was terminated. As a result, Onondaga became a merchant plant subject to prevailing market prices for its energy and capacity. When Aquila acquired Onondaga in December 2000, no value was assigned to the plant due to the termination of the power put agreement. During 2001 and 2002, Onondaga made certain cycling modifications to the facility, which included, in part, the installation of an auxiliary boiler and the automation of certain manual valve controls. As of December 31, 2003, Onondaga has capitalized approximately $2,100 of costs related to the cycling modifications, which are being depreciated over a useful life of 15 years.

During 2002, Lake capitalized $2,600 of costs related to the purchase of two distiller units and turbine parts, as well as upgrades to its distribution control system. The distiller units are being depreciated over their useful life of 15 years. The system upgrades and turbine parts are being depreciated over the original remaining life of the facility lease (note 11). Lake's computer equipment is being depreciated on a straight-line basis over its estimated useful life of three years.

For the years ended December 31, 2003 and 2002, the Company's depreciation expense amounted to approximately $496 and $230, respectively. For the unaudited period ended March 12, 2004, depreciation expense was $116.

8. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

(In thousands)

8. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Restricted Cash, Accounts Receivable, and Accounts Payable

The carrying amount of each of these items approximates fair value because of the short-term maturity of the instruments.

(b) Indexed Swap Agreement

As of December 31, 2003 and 2002, Onondaga's indexed swap agreement is recorded at fair value based on estimated future cash flows taking into account certain assumptions, including forecasts of future energy prices, inflation rates, discount rates, and credit risk. Energy prices can be volatile and other assumptions can change from period to period. These factors can create significant fluctuations in the estimated fair value of this agreement.

Changes related to the index swap agreement are summarized below:

Fair value as of December 31, 2002	$123,861
Increase in fair value during the period	17,961
Settlements	(26,473)
Fair value as of December 21, 2003	115,349
Decrease in fair value during the unaudited period ended March 12, 2004	(15,422)
Settlements	(6,614)
Fair value as of March 12, 2004	$ 93,313

9. ONONDAGA CONTRACTUAL AGREEMENTS

(a) Onondaga Power Sales Agreements

In June 1998, NIMO consummated a master restructuring agreement whereby substantially all of its independent power project ("IPP") agreements were renegotiated resulting in lump-sum payments to the IPPs and/or new contracts with NIMO. As a result of this transaction, NIMO and Onondaga amended the existing Power Purchase Agreement ("PPA") with the Power Put Agreement and an indexed swap agreement, each of which expire in 2008. In September 2000, Onondaga's ability to sell power under the Power Put Agreement with NIMO was terminated, which caused Onondaga to become a merchant plant subject to prevailing market prices for its energy and capacity. Onondaga currently sells its electrical output to the New York Independent System Operator ("NYISO") at prevailing market prices.

The indexed swap agreement is a financial instrument under which Onondaga pays NIMO a market price and NIMO pays Onondaga a contract price for electricity, which is adjusted monthly according to an indexing formula for the remaining term of the contract. The notional amount of the swap is based on a fixed quantity of energy and capacity. The market price that Onondaga pays NIMO under the indexed swap agreement is equivalent to the market price that Onondaga would receive from either NIMO under the PPA or a third party for sales to the NYISO. The difference between the market price payment and the contract amount received is reflected within index swap fair value adjustment in the combined statements of income and comprehensive income.

The indexed swap agreement is a derivative under SFAS 133 and is recorded at fair value in the combined balance sheets. Gains or losses from changes in fair value are reported as index swap fair value adjustments in the combined statements of income and comprehensive income. The fair value of the indexed swap agreement is based on certain assumptions, including forecasts of future energy prices, inflation rates, discount rates, and counterparty credit risk. For December 31, 2003 and 2002, Onondaga recorded income of $18,000 and $36,700, respectively, related to the fair value of the index swap. For the unaudited period ended March 12, 2004, Onondaga recorded a loss of $15,422, related to the fair value of the index swap.

(b) Onondaga Gas Supply Agreements

In 2002, Onondaga had a long-term gas supply agreement with Enron to provide natural gas. The contract provided for a fixed monthly demand charge, in addition to variable commodity charges based on the quantity of gas purchased and prevailing market

9. ONONDAGA CONTRACTUAL AGREEMENTS (Continued)

prices. Onondaga has not used this agreement for fuel supply and has not paid the monthly demand charge since Enron's bankruptcy filing in December 2001. In 2003, the bankruptcy court terminated the long-term gas supply agreement.

Fuel supply and fuel management services for Onondaga are currently provided by Aquila at prevailing market prices for the years ended December 31, 2003 and 2002, respectively, (see note 5).

(c) Onondaga Transportation Agreements

Onondaga has entered into three long-term gas transportation agreements to provide natural gas transportation service to the plant site. The contracts all provide for fixed monthly demand charges, in addition to variable commodity charges based on the quantity of gas transported.

One of the transportation agreements represents a transportation leg that was an energy trading contract under EITF No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. As a result in 2001, this contract was marked to fair value. Effective January 1, 2002, Onondaga adopted EITF No. 02-03, which required the partnership to account for the transportation agreement using the accrual basis of accounting. The cumulative effect of this accounting change was reported in the 2002 combined statements of income and comprehensive income as a loss of $7,800.

The accrued loss on the two remaining gas transportation contracts are in geographical areas that do not have a market demand. The liability under these contracts will be relieved over the remaining lives of the contracts. For the years ended December 31, 2003 and 2002, $3,500 of amortization of accrued loss on commitments was recognized as a reduction to operating expenses. For the unaudited period ended March 12, 2004 $1,607 of amortization of accrued loss on commitments was recognized as a reduction to operating expenses.

10. LAKE CONTRACTUAL AGREEMENTS

(a) Lake Power and Steam Sales Agreements

Lake sells all of the net electrical output of the facility to Florida Power Corporation ("FPC") pursuant to a 20-year PPA that commenced in July 1993. Lake is required to have in place a letter of credit for benefit of FPC as security against damages to FPC should the facility not perform its obligations under the PPA. This $6,000 letter of credit has been provided by GECC, and carries a fixed rate fee of 1.75% on the amount available to draw upon pursuant to the PPA. Fees on this letter of credit amounted to approximately $61 and $60 for the years ended December 31, 2003 and 2002, and are included as operating expenses in the combined statements of income and comprehensive income. There was no outstanding balance on this letter of credit as of December 31, 2003 and 2002.

In 2001, Lake provided steam to Golden Gem Growers, Inc. ("Golden Gem") for use in Golden Gem's citrus/food processing, concentrate packaging, and cold storage warehouse facilities pursuant to a 20-year cogeneration services agreement that commenced in July 1993. The cogeneration services agreement had two five-year term renewal options under the same terms and conditions as the original 20-year term. In September 2001, Golden Gem filed for bankruptcy protection and rejected the cogeneration services agreement. As a result, Lake filed a claim against Golden Gem in 2002 for damages incurred (note 13).

For 2002, Lake provided steam to Citrus World on an as-available, as-required basis under a verbal agreement effective March 2002. Citrus World leases the former Golden Gem facility from Boeing Capital. Either party may terminate the agreement upon 30 days' written notice. Citrus World's payments are based on the net steam energy used, and Citrus World receives a discount based on the volume of net steam energy used.

(b) Lake Gas Supply and Transportation Agreements

All of the natural gas requirements for Lake are provided by Duke Energy Trading and Marketing, LLC ("Duke Energy") and Teco Gas Services ("Teco"), (formerly, Gator Gas Marketing, Inc.).

Duke Energy provides Lake with up to 20,472 MMBtu's of natural gas per day pursuant to a 16-year gas purchase agreement commencing in July 1993. Under certain circumstances, the agreement may be extended for an additional four years. The base

10. LAKE CONTRACTUAL AGREEMENTS (Continued)

purchase price under the agreement is $2.38 per MMBtu. This price is adjusted monthly based on FPC's coal and variable O&M costs and capacity rates under the PPA between Lake and FPC.

Teco provides Lake with up to 4,000 MMBtu's of natural gas per day pursuant to a 16-year natural gas sales agreement. Natural gas from Teco is purchased at the spot market price. In addition, Lake has agreed to pay Teco a commission of $0.10 per MMBtu for gas delivered to the facility by Duke Energy under the Duke Energy agreement.

Natural gas is delivered by Duke Energy to certain designated receipt points on the pipeline transmission system owned by Florida Gas Transmission Company ("FGT") and transported to FGT's pipeline system utilizing firm transportation held by Peoples Gas System, Inc. ("PGS"). The gas transportation agreement between FGT and PGS has been renewed such that the expiration date is consistent with the July 2013 expiration date of the PPA.

(c) Lake Operations and Maintenance Agreement

Effective December 31, 2002, ASI, an indirect wholly-owned subsidiary of Aquila, Inc., assumed the operations and maintenance of the facility. Under the agreement, ASI is reimbursed for its costs and expenses and is paid an annual operator fee of $400, with an escalation provision based on changes in the Consumer Price Index, and a handling fee of $40. For the years ended December 31, 2003 and 2002, operator fees of $440 and $0, respectively, were recorded in operations and maintenance expense for such services.

Prior to December 31, 2002, an unaffiliated company, General Electric Contractual Services ("GECS"), operated and maintained the facility for the partnership pursuant to an amended cogeneration facility operation and maintenance ("O&M") agreement. GECS was reimbursed for its costs and expenses and was paid an annual management fee of $300, escalated by the changes in the Consumer Price Index. For the year ended December 31, 2002, $385 of fees was included in operations and maintenance expense.

11. LEASES

In August 1993 (the "Commencement Date"), Lake sold its facility to GECC, which leased the facility back to Lake with an initial term of 11 years (the "facility lease"). Substantially all of the facility contracts (that is, PPAs, site lease, operation and maintenance agreements, and the gas sales agreement) were assigned, transferred, or sold to GECC upon the sale of the facility. Proceeds from the sale were used to retire the construction financing for the facility and to set up a working capital account. At the end of the initial 11-year lease term, Lake has the option to extend the facility lease an additional five years under the same terms and conditions as in the initial facility lease term. Lake has the option at the end of the first 16 years to renew the facility lease for a term no less than one year and no more than five years at quarterly rents equal to 65% of the average quarterly rent payments paid during the first 16 years of the facility lease. Subsequent renewals are allowable for periods not less than one year and no more than five years at the mutually agreed-upon fair market rental value. Lake has a purchase option exercisable at any time after the 16-year term for a purchase price equal to the fair market sales value of the facility as of the date of purchase.

The facility lease has been classified as an operating lease and has scheduled rent increases. Lake originally recorded rent expense on a straight-line basis over the term of the lease. Prior to 2003, the facility lease term was defined as 11 years, as it was management's intent to exit the lease after the 11-year term and pay the $7,000 early termination penalty. As such, the $7,000 early termination fee was being accrued for over the life of the lease. In 2003, changes to the Lake and its parent's operating environments prompted Lake's management to change its original exit strategy and renewed the facility lease for an additional five-year term. As a result, rent expense has been recorded on a straight-line basis over the remaining term of the 16-year lease period and amounted to $13,998 and $12,505 for the years ended December 31, 2003 and 2002, respectively. The termination penalty accrual is being reversed as a reduction to rent expense on a straight-line basis over the remaining term of the 16-year lease period.

In 2003, GPU notified Aquila it would not be renewing the $7,000 guarantee of Lake's lease payments to GECC. As a result, Aquila terminated its assumption agreement with GPU, and replaced GPU's guarantee with a $7,400 letter of credit in favor of GECC in September 2003 (see note 15).

In addition to the facility lease, Lake entered into a 20-year site lease ("Site Lease") on which the facility is located, which commenced in July 1993 and contains scheduled rent increases. The Site Lease with Golden Gem ("Gem") has two five-year renewal options under the same terms and conditions as the original 20-year term. Lake records rent expense on a straight-line basis over the initial 11-year

(In thousands)

11. LEASES (Continued)

term of the facility lease. Upon exiting the facility lease at the end of the lease, the facility lessor GECC will assume all obligations under the site lease. The difference between the amount expensed and the amount currently payable under the provisions of the lease has been included in the combined balance sheets as deferred lease payable. For the years ended December 31, 2003 and 2002, Lake recorded rent expense, including property taxes, of $360 and $379, respectively, relating to the Site Lease.

Pursuant to an asset purchase agreement dated January 21, 2004, Aquila Lake Land agreed to acquire the Site, the Site Lease, and certain easements and rights from Gem with financing provided by Boeing Capital Corporation ("BCC"). BCC has been named a secured lender to Gem in the course of Gem's bankruptcy proceedings. Upon closing of the asset purchase agreement, Aquila Lake Land will take ownership of the site and lease it to Lake under substantially the same terms and conditions as stated above. Any rental and other obligations that have accrued from Gem's bankruptcy filing to the date of the asset purchase closing and are owed by Lake under the Site Lease will be released. Lake has guaranteed Aquila Lake Land's obligations to BCC under the BCC financing. In addition, in the event of default, the Owner Trustee (the Bank of New York) and the Owner Participant (TIFD III-C Inc.) have the option to purchase Aquila Lake Land's right, title, and interest in the site and certain easements for a nominal amount plus the assumption of the mortgage note.

Future minimum rentals on Lake's facility and site leases, including the renewal of the facility lease in 2003, as noted above, as of December 31, 2003 are as follows:

2004	$ 16,241
2005	16,907
2006	18,687
2007	19,489
2008	20,368
Thereafter	18,450
Total	$110,142

12. INVESTMENT IN LEVERAGED LEASE

In 1987, the Company entered into a sale and leaseback transaction under which a hydroelectric generating facility was sold to the Company and leased back to Topsham Hydro Partners Limited Partnership for an initial lease term of 16 years. The Company holds 50% of the lessor interest. The Company's equity investment represented approximately 32% of the purchase price; the remaining 68% was furnished by a third party in the form of long-term, nonrecourse debt. This debt is secured by a first lien on the property and by a pledging of all major contracts of the lessee partnership. At the end of the initial lease term the lessee had the option to purchase the facility for the lessor of fair market value or 59% of the original cost. The residual value used in recording the lease was 50% of fair market value at inception of the lease.

In 1996, the lessee executed an amendment to the power purchase agreement, which extended the term by eight years and adjusted the rates thereunder. The parties to the leveraged lease also restructured the financing as a result of this amendment.

For Federal income tax purposes, the Company received the investment tax credit for this lease, and received the benefit of tax deductions for accelerated depreciation on the portion of the leased assets attributable to its lessor interests. In addition, the Company received the deductions for interest on the long-term debt. During the earlier years of the lease those deductions exceed the lease rental income and, as a result, excess deductions are available to offset other taxable income of the Company's owners. In later years, the rental income will exceed the deductions. The Company's owners will pay these taxes and receive the tax benefits; therefore, taxes have not been reflected in these combined financial statements. For the unaudited period ended March 12, 2004 the Company recorded $127 in earnings.

12. INVESTMENT IN LEVERAGED LEASE (Continued)

SaleCo's net investment in the remaining leveraged lease comprised the following elements at December 31, 2003 and 2002:

	2003	2002
	(in thousands)	
Rents receivable (net of principal and interest on the nonrecourse debt)	$ 6,112	$ 6,361
Estimated residual value of the leased assets	14,996	14,996
Less unearned and deferred income	(11,663)	(12,318)
Investment in leveraged lease	$ 9,445	$ 9,039

13. COMMITMENTS AND CONTINGENCIES

(a) Onondaga Letter of Credit

On December 15, 2002, a $550 letter of credit was reissued in favor of NIMO to collateralize certain obligations of Onondaga under its gas transportation agreement with NIMO (which terminates on June 30, 2008). The letter of credit was scheduled to expire on December 14, 2003, and has been collateralized with a $550 compensating cash account. Upon expiration, Onondaga is required by the gas transportation agreement to replace this letter of credit annually during the remaining term of the agreement.

On July 17, 2002, a $2,000 letter of credit was reissued in favor of Enron, Onondaga's gas supplier. The letter of credit was issued to collateralize certain obligations of Onondaga under its 10-year gas purchase agreement (which terminates on June 30, 2008) with Enron. The letter of credit was collateralized with a $2,000 compensating cash account. In 2003, the letter of credit was terminated when the gas supply agreement was terminated by the bankruptcy courts through Enron's Chapter 11 bankruptcy filing. As a result, Onondaga received its $2,000 cash deposits and related interest from the trustee and reclassified amounts as unrestricted cash.

The compensating cash deposits made by Onondaga totalled, approximately $600 and $2,600 in 2003 and 2002, respectively, and are classified as restricted cash on the combined balance sheets.

(b) Cash Flow Interest Agreement

In July 1998, Enron waived its right to a 50% limited partnership interest in Onondaga in exchange for an amended and restated gas sales agreement and was entitled to a certain percentage of Onondaga's cash distributions to its partners. In 2003, Split Rock Holdings, LLC, ("Split Rock") a wholly-owned subsidiary of Arclight Energy Partners Fund I, LP ("Arclight") was assigned Enron's cash flow interest as part of Enron's bankruptcy filing. For the years ended December 31, 2003 and 2002, Onondaga recorded $2,000 and $2,100, respectively, of expense related to this cash flow interest, which is included as other expense on the combined statements of income and comprehensive income. Onondaga made approximately $0 and $857 of distributions to Split Rock and Enron in 2003 and 2002, respectively. For the unaudited period ended March 12, 2004, Onondaga recorded $981, included in interest and other expense and paid $3,250 to Split Rock.

(c) Tellus Agreement

Geddes acquired a 50% ownership in Onondaga from Tellus Cogeneration Limited Partnership 1986 and Tellus Cogeneration Limited Partnership 1987 (together referred to as "Tellus") in April 1989 (the "Acquisition Agreement"). The Acquisition Agreement was restated in 1992 ("Restated Agreement") in exchange for Tellus's waiver of its rights under the original Acquisition Agreement. Pursuant to the Restated Agreement, Tellus is entitled to a percentage of Onondaga's cash distributions once Geddes achieves a specified target return on its aggregate capital contribution to Onondaga. On December 1, 2003, the Company agreed to purchase the Tellus interest in the Restated Agreement for approximately $7,700, which is included in other current liabilities. For the years ended December 31, 2003 and 2002, Geddes recorded approximately $5,780 and $800 of expense related to their obligation to Tellus, which is included in other expense on the combined statements of income and comprehensive income. Geddes made $0 and $281 of distributions to Tellus in 2003 and 2002, respectively. In the unaudited period ended March 12, 2004, the Company purchased the Tellus interest for approximately $7,700.

13. COMMITMENTS AND CONTINGENCIES (Continued)

(d) Lake Payment Dispute

Through September 2001, FPC had been paying Lake amounts for energy that were generally less than the formula price under the PPA. As a result of the lower FPC payments, Lake had been recognizing lower gas costs under its gas purchase agreement with Duke Energy (“Duke”). Lake had entered into an agreement with Duke whereby Duke had agreed not to pursue legal action against Lake for the lower payments pending the issuance of a final order in the Lake/FPC litigation proceeding.

On February 11, 2001, FPC filed a motion for rehearing, which was ruled upon by the Florida Court of Appeals in favor of Lake. Lake and FPC agreed to a stipulated amount of damages that has been paid by FPC. In October 2001, Lake remitted approximately $12,700 to Duke as its share of the FPC settlement under the gas purchase agreement. During 2002, Duke notified Lake that it disagreed with Lake’s determination of the amount owed and remitted to them.

Pursuant to a letter dated February 20, 2003, Duke and Lake settled all matters related to the payment dispute. As part of the settlement, Lake was required to remit approximately $2,100 to Duke on or before March 5, 2003. The remaining settlement amount of approximately $1,200 will be paid in 35 monthly instalments beginning April 5, 2003. Should Lake fail to remit any portion of the settlement amount, Duke is entitled to accelerate the remaining balance due and demand the remaining balance be paid immediately. The difference between the amount paid to Lake by FPC for damages and the settlement Lake paid to Duke has been recorded as electricity revenues on the combined statements of income and comprehensive income as of December 31, 2002.

(e) Bankruptcy of Lake’s Thermal Host

In January 2002, Lake filed its Proof of Claim against Gem’s estate. The claim consisted of receivables secured by liens and priority claims, and unsecured, unpaid, pre-petition steam sales and estimated damages resulting from the potential loss of qualified facility status. In October 2003, a memorandum of understanding was signed, whereby Gem and Lake agreed to settle their respective claims against each other and, in connection therewith, Lake or an entity related to Lake, agreed to purchase the land leased under the site lease for approximately $1,000 (see note 11). Pursuant to the Final Settlement Agreement that was approved by the bankruptcy court, all claims and appeals by Gem and Lake were withdrawn or waived and Lake agreed to adjust its unsecured claims in Gem’s bankruptcy case to approximately $1,500.

(f) FERC Waiver

On August 6, 2002, Lake filed for a temporary waiver with the FERC of its Operating and Efficiency Standards for calendar year 2002 due to the bankruptcy of its steam host. FERC granted the limited waiver of Operating and Efficiency Standards for calendar year 2002 on November 1, 2002. For the period ended December 31, 2003, Lake has maintained adequate FERC Operating and Efficiency Standards.

(g) Lake’s Property Tax Settlement

On March 16, 2004, Lake received $2,573, included in interest and other income from the Lake County Tax Collector for a refund for property taxes for the years 1999 through 2002.

14. DEFERRED BONUS PAYABLE

Lake agreed to pay the facility’s construction contractor certain performance bonuses. Deferred bonus payable, including accrued interest, amounted to $2,400 and $5,858, respectively, as of December 31, 2003 and 2002. All unpaid bonuses earn interest at the prime rate, which was 4.00% and 4.25%, respectively, as of December 31, 2003 and 2002. The interest expense incurred during 2003 and 2002 was approximately $138 and $167, respectively. On May 6, 2004, Lake entered into a $2,400 settlement agreement with the facility’s construction contractor, which resulted in a gain of $3,597, included in interest and other income.

15. SUBSEQUENT EVENTS

On November 12, 2003, affiliates of Arclight Capital Partners, LLC entered into a definitive purchase and sale agreement, pursuant to which TPF, a wholly-owned subsidiary of Teton Power Holdings, LLC (“TPH”), agreed to acquire all of the membership interests of

(In thousands)

15. SUBSEQUENT EVENTS (Continued)

SaleCo from Aquila. The transaction closed on March 12, 2004 with TPH and its affiliates assuming roles associated with the aforementioned companies with the exception of operation and maintenance for Pasco which was transitioned in April 2004. As part of the sale, TPF was also required to replace a letter of credit in favor of GECC which occurred on March 11, 2004.

16. CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (CANADIAN GAAP)

Canadian generally accepted accounting principles (Canadian GAAP)

These combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), which in most respects conform to Canadian GAAP. Significant differences between Canadian and US GAAP are as follows:

Net income and comprehensive income

		January 1 to March 12, 2004	Six months ended June 30, 2003	2003	2002
		Unaudited	Unaudited		
Comprehensive income (loss) — US GAAP		$(11,274)	$41,684	$40,166	$66,583
Proportionate share of unrealized net gain from cash flow hedges included in equity method investees' other comprehensive income	(a)	(2,009)	(2,500)	(5,040)	(4,609)
Cumulative effect of change in accounting principle	(b)	—	—	13	7,763
Net income (loss) — Canadian GAAP		(13,283)	39,183	35,139	69,737

Balance sheet items

	December 31,			
	2003		2002	
	US GAAP	Canadian GAAP	US GAAP	Canadian GAAP
Investments in partnerships	$232,262	$234,409	$231,442	$238,625
Accumulated other comprehensive income (loss)	(2,143)	—	(7,183)	—

(a) Under US GAAP, other comprehensive income, investments in partnerships and accumulated other comprehensive income, included in equity method investment investees' financial statements arise as a result of changes in fair value of certain derivative financial instruments that qualify as cash flow hedges, for the portion of change in the fair value of the hedge that is effective.

Under Canadian GAAP, the Company applies settlement accounting to derivative financial instruments. Under this method, the gains and losses on derivative financial instruments that qualify for hedge accounting are not recorded until they are realized. The notional amounts are not recorded in the financial statements as they do not represent amounts exchanged by the counterparties.

(b) Under US GAAP, the cumulative effect of change in accounting principles described in notes 2j and 9c has been charged to income with no restatement of prior periods. Under Canadian GAAP the cumulative effect of change in accounting principles is applied retroactively with restatement of prior periods. The impact of the cumulative effect of change in accounting principle in 2003 is not material.

TETON POWER FUNDING, LLC

UNAUDITED CONSOLIDATED BALANCE SHEET

June 30, 2004
(In thousands)

	2004
Assets	
Current assets:	
Cash and cash equivalents	$ 9,133
Restricted cash	10,557
Accounts receivable, net	6,534
Accounts receivable — related party	61
Inventories and supplies	1,136
Indexed swap agreement — current	29,899
Prepayments and other	1,688
Total current assets	59,008
Property, plant, and equipment, net	7,677
Investments in partnerships	165,004
Investment in leveraged lease	1,327
Deferred financing costs, net	7,216
Indexed swap agreement	56,371
Total assets	$296,603
Liabilities and Shareholders' Equity	
Current liabilities:	
Accounts payable and accrued liabilities	$ 8,931
Account payable — related party	829
Deferred lease payable	554
Current portion of accrued loss on gas transportation contracts	5,616
Current portion of long-term debt	1,950
Total current liabilities	17,880
Long-term liabilities:	
Accrued loss on gas transportation contracts	16,850
Long-term debt	175,050
Other liabilities	19
Total liabilities	209,799
Minority interest	10,711
Total shareholders' equity:	
Shareholders' equity	75,059
Accumulated other comprehensive income	1,034
Total shareholders' equity	76,093
Total liabilities and shareholders' equity	$296,603

See accompanying notes to unaudited consolidated financial statements.

TETON POWER FUNDING, LLC

UNAUDITED CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

For the period March 13, 2004 through June 30, 2004
(In thousands)

	2004
Revenues:	
Electricity sales	$11,997
Index swap fair value adjustment	627
Management fee and other revenue	149
Total revenues	12,773
Operating expenses:	
Fuel	5,370
Lease expense	4,500
Amortization of accrued loss on gas transportation contracts	(1,446)
Operations and maintenance expenses	2,647
Management fees	293
Depreciation and amortization	553
Total operating expenses	11,917
Other income (expense):	
Equity in earnings from partnerships, net	12,804
Interest and other income	59
Earnings from leveraged lease	128
Interest and other expense	(2,782)
Total other income	10,209
Net income	11,065
Other comprehensive income:	
Proportionate share of equity method investees' other comprehensive income	1,034
Comprehensive income	$12,099

See accompanying notes to unaudited consolidated financial statements.

TETON POWER FUNDING, LLC

UNAUDITED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the period March 13, 2004 through June 30, 2004
(In thousands)

	2004
Shareholders' equity:	
Balance at March 13, 2004	$ —
Net income	11,065
Settlements with owners	63,994
Balance at June 30, 2004	75,059
Other comprehensive income:	
Balance at March 13, 2004	—
Current period comprehensive income	1,034
Balance at June 30, 2004	1,034
Total shareholders' equity	$76,093

See accompanying notes to unaudited consolidated financial statements.

TETON POWER FUNDING, LLC

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

For the period March 13, 2004 through June 30, 2004
(In thousands)

	2004
Cash flows from operating activities:	
Net income	$ 11,065
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	669
Equity earnings from partnerships	(12,804)
Earnings on leveraged lease	(128)
Distributions from investments	17,745
Amortization of accrued loss on gas transportation contracts	(1,446)
Changes in assets and liabilities:	
Restricted cash	196
Receivables	1,878
Indexed swap agreement	7,043
Amounts due from affiliates	(61)
Amounts due to affiliates	829
Prepayments and other assets	(1,216)
Accounts payable and accrued liabilities	(1,157)
Deferred lease and bonus payable	554
Net cash provided by operating activities	23,167
Cash flows used in investing activities:	
Acquisitions, net	(247,066)
Purchase of property, plant and equipment	(419)
Net cash used in investing activities	(247,485)
Cash flows used in financing activities:	
Increase in deferred financing	(7,543)
Proceeds from long-term debt	195,000
Repayment of long-term debt	(18,000)
Settlements with owners	63,994
Net cash used in financing activities	233,451
Net increase in cash	9,133
Cash and cash equivalents, beginning of period	—
Cash and cash equivalents, end of period	$ 9,133
Supplemental disclosure of cash flow information:	
Cash paid for interest during the period March 13, 2004 through June 30, 2004	$ 2,481

See accompanying notes to unaudited consolidated financial statements.

TETON POWER FUNDING, LLC
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
For the period March 13, 2004 through June 30, 2004
(In thousands)

1. ORGANIZATION AND BUSINESS

On March 12, 2004 Teton Power Funding, LLC ("Teton Funding" or the "Company"), a wholly-owned subsidiary of Teton Power Holdings, LLC ("TPH") purchased UtilCo SaleCo, LLC ("SaleCo"), a group of investments previously owned by Aquila, Inc. ("Aquila") (see note 2).

The Company owns interests in a number of "qualifying facilities" ("QFs") and "exempt wholesale generators" ("EWGs"), which have long-term contracts to sell power. QFs are small power producers or cogenerators (power producers that produce steam as a byproduct of the electricity generating process for use in a second industrial process) that meet certain operating, efficiency, and fuel-use standards set forth by the Federal Energy Regulatory Commission ("FERC"). Electric utilities are required to purchase generating capacity and electric energy from QFs at a price approved by state regulatory bodies. EWGs are independent power projects that are exempt from the *Public Utility Holding Company Act* ("PUHCA"), but must obtain FERC approval for wholesale rates. The Company's EWGs have been granted market-based rate authority.

The Company is comprised of the following entities, which are accounted for as wholly-owned entities:

- Baker Lake Hydro, LLC and Olympia Hydro, LLC, which together are 99% limited partners and 0.5% general partners in Concrete Hydro Partners, L.P. ("Concrete"). Concrete is a 1% general partner and a 49% limited partner in Koma Kulshan Associates ("Koma"), which Concrete accounts for under the equity method. The investment in Concrete is accounted for under the equity method.
- Topsham Hydroelectric Generating Facility Trust No. 2 (the "Trust"), which owns an undivided interest in Topsham Hydro Assets. The assets owned by the Trust are accounted for as a leveraged lease (see note 12).
- Badger Power Generation I, LLC and Badger Power Generation II, LLC, which together are 97% limited partners and 0.5% general partners in Badger Power Associates, L.P. Badger Power Associates, L.P. is a 50% general partner in Badger Creek Limited, L.P. ("Badger Power") The investment in Badger Power Associates L.P. is accounted for under the equity method.
- Stockton CoGen (II), LLC, which is a 50% general partner in Stockton CoGen Company ("Stockton"). The investment in Stockton is accounted for under the equity method.
- Orlando Power Generation I, LLC and Orlando Power Generation II, LLC, which together are a 50% general partner in Orlando CoGen Limited, L.P. ("Orlando"). The investment in Orlando is accounted for under the equity method.
- Rockfort Power-Cayman Island LLC, which has an indirect 24.1% interest in Jamaica Private Power Company Limited ("Jamaica") through their wholly-owned subsidiary, Rockfort Power (Belize) LLC. The investment in Jamaica is accounted for under the equity method.
- MEP Rumford, LLC, which is a 24.3% limited partner in Rumford Cogeneration Company Limited Partnership ("Rumford"). The investment in Rumford is accounted for under the equity method.
- Teton East Coast Generation, LLC, which is the holding company for a number of the companies included in Teton Funding. The following are wholly-owned subsidiaries of Teton East Coast Generation, LLC:
  - Teton Fuels Mid-Georgia, LLC, which provides fuel services to Mid-Georgia Cogen, L.P. ("MGC").
  - NCP Lake Power, LLC ("NCP Lake"), which is the sole 1% general partner in Lake Cogen, Ltd. ("Lake") and a 1% general partner in Lake Investment, L.P. ("LILP"). LILP is a 48.9% limited partner in Lake. In June 2004, Teton Funding acquired the 50% limited partnership interest in Lake from New Lake Corporation, accreting their ownership interest to 99.9% in Lake. Lake owns and operates a 110-megawatt ("MW") cogeneration energy project in Lake County, Florida, which was placed into service in July 1993. The Company effectively controls Lake; therefore, the financial results of Lake are consolidated within the Teton Funding financial statements.
  - NCP Gem, LLC is a 99% limited partner in LILP. The financial results of LILP are consolidated within the Teton Funding financial statements.
  - NCP Houston Power, LLC ("NCP Houston") and NCP Perry, LLC together are a 1% general partner and a 49% limited partner in MGC. The investment in MGC. is accounted for under the equity method.
  - NCP Dade Power, LLC ("NCP Dade") is a 1% general partner in Pasco Cogen Ltd. ("Pasco") and a 1% general partner in Dade Investment, L.P. Dade Investment, L.P. is a 48.9% limited partner in Pasco. The investment in Pasco is accounted for under the equity method.

1. ORGANIZATION AND BUSINESS (Continued)

– NCP Pasco, LLC is a 99% limited partner in Dade Investment, L.P. The financial results of Dade Investment, L.P. are consolidated within the Teton Funding financial statements.

– Geddes II LLC (“Geddes II”) and Geddes Cogeneration LLC (“Geddes”) together are a 1% general partner and a 99% limited partner in Onondaga Cogeneration Limited Partnership (“Onondaga”). Onondaga owns and operates a 91-megawatt cogeneration project in Geddes, New York, which was placed in service in December 1993. Geddes is the general partner of Onondaga and, as such, is responsible for the general management, supervision, and administration of Onondaga’s business and affairs. In July 1998, Enron Capital & Trade Resources (“Enron”) waived its right to a 50% limited partnership interest in exchange for an amended and restated gas sales agreement, and is entitled to a certain percentage of Onondaga’s cash distributions to its partners. As a result of the waiver, Geddes II became a 50% limited partner. In 2003, Split Rock Holdings LLC (“Split Rock”) was assigned Enron’s cash flow interest (note 13). The financial results of Onondaga are consolidated within the Teton Funding financial statements.

– Teton Selkirk, LLC is a 13.6% limited partner in Selkirk Cogen Partners, L.P. The investment in Selkirk Cogen Partners, L.P. is accounted for under the equity method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). These accounting principles are different in some respects from Canadian generally accepted accounting principles (“Canadian GAAP”) and the significant differences that impact the Company’s financial statements are described in note 16.

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company follows the accrual method of accounting.

(a) Principles of Consolidation

Teton Funding’s consolidated financial statements includes all of the majority-owned businesses described in note 1 for which Teton Funding maintains controlling interests. The Company uses equity accounting for investments in limited partnerships of 5% or greater or in which it has significant influence but does not control. Teton Funding eliminates intercompany accounts and transactions. The Company used the last available financial statements dated March 31, 2004 for its valuations.

(b) Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash is defined as unrestricted cash and investments with original maturities of three months or less.

Restricted cash and investments represent deposits made for compensating balances and overhaul costs related to the Onondaga and Lake projects.

(c) Inventories and Supplies

Inventories and supplies are stated at the lower of average cost or market.

(d) Property, Plant, and Equipment

The Company’s property, plant, and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided on a straight-line basis over the estimated useful life of the related asset.

Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the consolidated balance sheet and any gain or loss is reflected in the consolidated statement of income and comprehensive income. The Company capitalizes and depreciates overhaul and maintenance expenses when the useful life of the asset has been extended. Otherwise, these costs are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Revenue Recognition

The Company recognizes revenue when electricity and steam are delivered under the terms of the related contracts and as the fair value of the indexed swap changes.

The Company recognizes management fees as they are earned. Management fees earned from entities that are accounted for under the equity method are eliminated to the extent of the Company's investment percentage.

(f) Income Taxes

As each entity is subject to flowthrough taxation, each limited liability corporation's income, gains, losses, and tax credits are allocated to the owners who individually report their share of those items in their income tax returns. Accordingly, in order to reflect the ongoing expenses of the Company, no provision has been made for income taxes within the consolidated financial statements.

(g) Financial Instruments

In 1998, Onondaga entered into an indexed swap agreement with Niagara Mohawk Power Corporation (''NIMO'') in connection with the restructuring of the Onondaga project. The indexed swap agreement is accounted for as a trading instrument and is recorded at fair value based on certain assumptions, which includes forecasting future energy prices, inflation rates, discount rates, and counterparty credit risk (see note 9).

(h) Gas Transportation Contracts

Onondaga has certain long-term gas transportation agreements to provide natural gas transportation service to the Onondaga project through the year 2008 and other obligations related to operating the Onondaga project. Onondaga's obligations related to operating the Onondaga project and the long-term gas transportation agreements were recognized as liabilities in purchase accounting upon the acquisition of Onondaga by Teton Funding. These obligations are being relieved over the remaining lives of the contracts (see note 9).

All of Teton Funding's other gas transportation costs are expensed as incurred.

(i) Accounting for Derivatives

The Financial Accounting Standards Board (''FASB'') issued Statement of Financial Accounting Standards No. 133 (''SFAS 133''), Accounting for Derivative Investments and Hedging Activities, which establishes accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement also requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. SFAS 133, as amended, has been adopted by Teton Funding effective January 1, 2001.

In October 2002, Emerging Issues Task Force (''EITF'') Issue No. 02-3, Recognition and Reporting of Gains and Losses on Energy Trading Contracts Under Issues 98-10 and 00-17, required all energy trading contracts that do not fall within the scope of SFAS 133 no longer be marked to market through earnings, but to be accounted for on the accrual basis of accounting. The consensus was effective for all new contracts executed after October 25, 2002, and required a cumulative effect of an accounting change be recognized for all contracts executed prior to October 25, 2002. Onondaga elected early adoption of this requirement effective January 1, 2002, and ceased marking to market certain portions of Onondaga's transportation agreements that can be traded on the open market. The cumulative effect of this change has been reported as of the beginning of 2002 (see note 9).

(j) Long-Lived Assets

Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows that is expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the consolidated balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

(k) Acquisition Accounting

On March 12, 2004, Teton Funding purchased SaleCo from Aquila for approximately, $256,688 in cash. The acquisition was accounted for under the purchased method, and negative goodwill of $17,030 was recorded. The purchase price was allocated to the investments and the portion of the assets and liabilities purchased based upon their fair value, with the amount of fair value of net assets not in excess of the purchase price being allocated to long-lived assets on a *pro rata* basis. These adjustments resulted in a net decrease of $10,731 in the recorded amounts to investments, a decrease of $1,957 in the recorded amounts allocated to property, plant and equipment and a decrease of $86 in the recorded amounts to the leveraged lease.

(l) Minority Interest

At June 30, 2004, minority interest represents a 12.5% interest in Onondaga held by Split Rock, an affiliate of ArcLight Capital Partners, LLC. Included in interest and other expense for the period March 13, 2004 through June 30, 2004 is $353 in interest expense related to Split Rock.

(m) Deferred Financing Costs

Deferred financing costs as of June 30, 2004 consist of loan fees and other costs of financing that are amortized over the term of the related financing using the straight-line method. Amortization expense for the period March 13, 2004 through June 30, 2004 was $327.

3. NEW ACCOUNTING STANDARDS

In November 2002, the FASB issued FASB Interpretation No. 45 (“Fin 45”), Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This is an interpretation of FASB Statements No. 5, Accounting for Contingencies, No. 57, Related Party Disclosures, and No. 107, Disclosures about Fair Value of Financial Instruments, and a rescission of FASB Interpretation No. 34, Disclosures of Indirect Guarantees of Indebtedness of Others. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. The Interpretation is being applied prospectively to guarantees issued or modified after December 31, 2002. At June 30, 2004, the Company’s only guarantee relates to the lease payable (see note 11). This guarantee is not within the scope of FIN 45.

In May 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement clarified under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS No. 133. It also clarified when a derivative contains a financing component that warrants special reporting in the consolidated statement of cash flows. SFAS No. 149 also amended certain other existing pronouncements regarding derivatives. It is effective for contracts entered into or modified after June 30, 2003. The adoption of this standard had no material impact on the Company’s financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (revised December 2003), (“FIN 46”), Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. This Interpretation addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation is to be applied in the first fiscal year or interim period beginning after December 15, 2003, to enterprises that hold a variable interest in all entities that are not special purpose entities. Adoption of FIN 46 did not have a material impact on the Company’s financial position or results of operations.

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS

Investments in domestic and international independent power projects that are not controlled by the Company, but over which it has significant influence, are accounted for using the equity method. The Company owns investments in nine independent power projects located in six states and Jamaica. The Company received distributions of approximately $17,745 for the period March 13, 2004 through June 30, 2004 from those investments. The Company’s share of net income from these unconsolidated affiliates is reflected in the

(In thousands)

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

consolidated statement of income and comprehensive income as equity in earnings from partnerships. The table below summarizes the Company's investments and related equity earnings:

Entity	Equity Earnings For the period March 13, 2004 through June 30, 2004	Investment in partnerships as of June 30, 2004
Concrete Hydro Partners, L.P. (g)	$ 523	$ 2,369
Badger Power Associates, L.P. (a)	744	11,268
Stockton CoGen Company (g)	213	17,047
Orlando CoGen Limited, L.P. (b)	8,050	49,117
Jamaica Private Power Company Limited (g)	417	3,317
Rumford Cogeneration Company Limited Partnership (c)	604	6,615
Mid-Georgia Cogen, L.P. (d)	(1,279)	12,442
Pasco Cogen Ltd (e)	1,796	20,931
Selkirk Cogen Partners, L.P. (f)	1,736	41,898
	$12,804	$165,004

The following are the summarized financial results of the entities accounted for under the equity method by the Company.

(a) Investment in Badger Power Associates, L.P.

Badger Power Associates L.P. is a 50% general partner in Badger Creek Limited, L.P. (QF), which owns a gas-fueled generation facility in Bakersfield, California placed in service April 1991 with a gross capacity of 50 MW. The following is summarized balance sheet of Badger Creek Limited, L.P. as of June 30, 2004 and operating results for the period March 13, 2004 through June 30, 2004, of which Teton Funding has a 48.75% effective interest.

	Badger Creek Limited 2004
Assets:	
Current assets	$11,296
Noncurrent assets	37,073
Total assets	$48,369
Liabilities:	
Current liabilities	$ 7,875
Noncurrent liabilities	6,310
Total liabilities	$14,185
Operating results:	
Sales	$ 7,005
Gross profit	3,240
Net income	1,562

(In thousands)

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

(b) Investment in Orlando CoGen Limited, L.P.

Orlando (QF) is a 50%-owned, gas-fueled generation facility in Orlando, Florida placed in service September 1993 with a gross capacity of 126 MW. The following is a summarized balance sheet as of June 30, 2004 and operating results for the period March 13, 2004 through June 30, 2004.

	Orlando 2004
Assets:	
Current assets	$ 40,965
Noncurrent assets	88,009
Total assets	$128,974
Liabilities:	
Current liabilities	$ 9,011
Noncurrent liabilities	25,350
Total liabilities	$ 34,361
Operating results:	
Sales	$ 12,547
Gross profit	4,925
Net income	16,100

Included in the net income for the period March 13, 2004 through June 30, 2004 is $14,040 relating to Orlando's gas supply agreements which qualify as derivative instruments under SFAS No. 133 as amended.

(c) Investment in Rumford Cogeneration Company Limited Partnership

Rumford (QF) is a 24.3%-owned, coal-fueled generation facility in Rumford, Maine placed in service May 1990 with a gross capacity of 85 MW. The following is a summarized balance sheet as of June 30, 2004 and operating results for the period March 13, 2004 through June 30, 2004.

	Rumford 2004
Assets:	
Current assets	$21,028
Noncurrent assets	76,837
Total assets	$97,865
Liabilities:	
Current liabilities	$10,274
Total liabilities	$10,274
Operating results:	
Sales	$25,043
Gross profit	7,661
Net income	2,504

(In thousands)

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

(d) Investment in Mid-Georgia Cogen, L.P.

MGC (QF) is a 50%-owned, gas-fueled generation facility in Kathleen, Georgia placed in service June 1998 with a gross capacity of 300 MW. The following is a summarized balance sheet as of June 30, 2004 and operating results for the period March 13, 2004 through June 30, 2004.

	MGC 2004
Assets:	
Current assets	$ 21,219
Noncurrent assets	112,828
Total assets	$134,047
Liabilities:	
Current liabilities	$ 6,609
Noncurrent liabilities	103,208
Total liabilities	$109,817
Operating results:	
Sales	$ 3,247
Gross profit	1,896
Net loss	(2,686)

(e) Investment in Pasco Cogen Ltd.

Pasco (QF) is a 49.9%-owned, gas-fueled generation facility in Dade City, Florida placed in service July 1993 with a gross capacity of 109 MW. The following is a summarized balance sheet as of June 30, 2004 and operating results for the period March 13, 2004 through June 30, 2004.

	Pasco 2004
Assets:	
Current assets	$13,122
Noncurrent assets	74,086
Total assets	$87,208
Liabilities:	
Current liabilities	$11,510
Noncurrent liabilities	41,678
Total liabilities	$53,188
Operating results:	
Sales	$12,586
Gross profit	7,510
Net income	3,651

(f) Investment in Selkirk Cogen Partners, L.P.

Selkirk Cogen Partners, L.P. (QF) is a 13.6%-owned, gas-fueled generation facility in Selkirk, New York placed in service, March 1992/September 1994 with a gross capacity of 345 MW. Teton Selkirk, LLC, a wholly-owned subsidiary of Teton Funding, is entitled to receive: (i) 13.6% of distributions of available cash, up to a fixed semiannual amount (Priority Distributions); (ii) 20% of 99% of the amount distributed in excess of the Priority Distribution dates; and (iii) 17.7% of all distributions made after the later of the date on which the last Priority Distribution is made or 18 years after the completion of Unit II. On a projected basis, the Company expects to receive an average of 19.9% of all cash distributions from Selkirk Cogen Partners, L.P. and, as such, records

(In thousands)

4. EQUITY METHOD INVESTMENTS IN PARTNERSHIPS (Continued)

equity earnings accordingly. The following is a summarized balance sheet as of June 30, 2004 and operating results for the period March 13, 2004 through June 30, 2004.

	Selkirk Cogen Partners, L.P.
	2004
Assets:	
Current assets	$ 72,078
Noncurrent assets	251,334
Total assets	$323,412
Liabilities:	
Current liabilities	$ 44,331
Noncurrent liabilities	308,576
Total liabilities	$352,907
Operating results:	
Sales	$ 65,981
Gross profit	27,164
Net income	8,723

(g) Investments in Other Partnerships

Following is a description of other unconsolidated equity investments of the Company. These investments consist of Stockton; Koma; and Jamaica ("Other Investments").

Stockton (QF) is a 50%-owned, coal-fueled generation facility in Stockton, California placed in service March 1988 with a gross capacity of 60 MW.

Koma is a 49.75% owned hydroelectric generation facility in Mount Baker, Washington that was placed in service in October 1990 with a gross capacity of 14 MW.

Jamaica is a 24.1%-owned, diesel-fueled generation facility in Rockfort, Jamaica placed in service January 1998 with a gross capacity of 58 MW.

The financial information in the table below includes the results of the Other Investments as of June 30, 2004 and operating results for the period March 13, 2004 through June 30, 2004.

	Other Investments
	2004
Assets:	
Current assets	$ 37,073
Noncurrent assets	122,960
Total assets	$160,033
Liabilities:	
Current liabilities	$ 5,932
Noncurrent liabilities	63,670
Total liabilities	$ 69,602
Operating results:	
Sales	$ 21,216
Gross profit	13,782
Net income	3,207

(In thousands)

5. RELATED-PARTY TRANSACTIONS

(a) *Management Fees*

NCP Houston, accounted for as a wholly-owned subsidiary of Teton Funding, manages MGC, an unconsolidated affiliate, for which it receives an annual general partner fee of $50. The general partner fee is payable quarterly and is escalated each year by the change in the U.S. Gross Domestic Product Implicit Price Deflator ("GDPIPD"). For the period March 13, 2004 through June 30, 2004, NCP Houston earned approximately $27 in general partner fees. NCP Houston's general partner fees from MGC, net of eliminations, and are recorded as management fee revenue on the consolidated statement of income and comprehensive income.

For the period March 13, 2004 through June 30, 2004, NCP Dade, accounted for as a wholly-owned subsidiary of Teton Funding, received a fee from Pasco, an unconsolidated affiliate, for administrative and operating management functions totalling approximately $53. NCP Dade's fees from Pasco, net of eliminations, were $27 and are recorded as management fee revenue on the consolidated statement of income and comprehensive income.

(b) *Operation and Maintenance Fees*

MGC has an operation and maintenance ("O&M") agreement with Teton Funding which MGC pays an annual O&M fee of $500 and an operator incentive fee for exceeding specified operational levels. Each of these fees is payable quarterly and is escalated annually by the change in the U.S. GDPIPD. For the period from March 13, 2004 through June 30, 2004, MGC expensed approximately $135 for the O&M fee.

Pasco has hired Teton Funding to be the contractual operator of the Pasco facility. As such, Teton Funding is entitled to receive reimbursement for expenses incurred on Pasco's behalf, as well as an O&M fee. For the period from March 13, 2004 through June 30, 2004, Pasco expensed approximately $96 for these O&M fees.

Onondaga receives O&M services from Teton Funding. Under the O&M agreement, Teton Funding is entitled to a management fee based upon 3.5% of gross revenues. For the period from March 13, 2004 through June 30, 2004, Onondaga incurred expenses related to this contract of approximately $388, which are eliminated through the consolidation.

6. RESTRICTED CASH

Restricted cash at Teton Funding comprised primarily cash and cash equivalents held in trust in accordance with the escrow agreement relating to the lease of the Lake facility. Under the terms of the escrow agreement, all transactions require the approval of the lessor, General Electric Capital Corporation ("GECC").

7. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of June 30 comprised the following:

	2004
Land and land improvements	$ 60
Leasehold improvements	7,840
Asset retirement	3
Property, plant, and equipment, gross	7,903
Less accumulated depreciation	(226)
Property, plant, and equipment, net	$7,677

For the period March 13, 2004 through June 30, 2004, the Company's depreciation expense amounted to approximately $226.

(In thousands)

8. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument.

(a) Restricted Cash, Accounts Receivable, and Accounts Payable

The carrying amount of each of these items approximates fair value because of the short-term maturity of the instruments.

(b) Indexed Swap Agreement

As of June 30, 2004, Onondaga's indexed swap agreement is recorded at fair value based on estimated future cash flows taking into account certain assumptions, including forecasts of future energy prices, inflation rates, discount rates, and credit risk. Energy prices can be volatile and other assumptions can change from period to period. These factors can create significant fluctuations in the estimated fair value of this agreement.

Changes related to the index swap agreement are summarized below:

Fair value as of March 13, 2004	$93,313
Increase in fair value during the period	626
Settlements	(7,669)
Fair value as of June 30, 2004	$86,270

9. ONONDAGA CONTRACTUAL AGREEMENTS

(a) Onondaga Power Sales Agreements

In June 1998, NIMO consummated a master restructuring agreement whereby substantially all of its independent power project ("IPP") agreements were renegotiated resulting in lump-sum payments to the IPPs and/or new contracts with NIMO. As a result of this transaction, NIMO and Onondaga amended the existing Power Purchase Agreement ("PPA") with the Power Put Agreement and an indexed swap agreement, each of which expire in 2008. In September 2000, Onondaga's ability to sell power under the Power Put Agreement with NIMO was terminated, which caused Onondaga to become a merchant plant subject to prevailing market prices for its energy and capacity. Onondaga currently sells its electrical output to the New York Independent System Operator ("NYISO") at prevailing market prices.

The indexed swap agreement is a financial instrument under which Onondaga pays NIMO a market price and NIMO pays Onondaga a contract price for electricity, which is adjusted monthly according to an indexing formula for the remaining term of the contract. The notional amount of the swap is based on a fixed quantity of energy and capacity. The market price that Onondaga pays NIMO under the indexed swap agreement is equivalent to the market price that Onondaga would receive from either NIMO under the PPA or a third party for sales to the NYISO. The difference between the market price payment and the contract amount received is reflected within index swap fair value adjustment in the consolidated statement of income and comprehensive income.

The indexed swap agreement is a derivative under SFAS 133 and is recorded at fair value in the consolidated balance sheet. Gains or losses from changes in fair value are reported as index swap fair value adjustments in the consolidated statement of income and comprehensive income. The fair value of the indexed swap agreement is based on certain assumptions, including forecasts of future energy prices, inflation rates, discount rates, and counterparty credit risk. For the period March 13, 2004 through June 30, 2004, Onondaga recorded income of $626 related to the fair value of the index swap.

(b) Onondaga Transportation Agreements

Onondaga has entered into three long-term gas transportation agreements to provide natural gas transportation service to the plant site. The contracts all provide for fixed monthly demand charges, in addition to variable commodity charges based on the quantity of gas transported.

One of the transportation agreements represents a transportation leg that was an energy trading contract under EITF No. 98-10, Accounting for Contracts Involved in Energy Trading and Risk Management Activities. As a result in 2001, this contract was marked to fair value. Effective January 1, 2002, Onondaga adopted EITF No. 02-03, which required the partnership to account for the transportation agreement using the accrual basis of accounting.

9. ONONDAGA CONTRACTUAL AGREEMENTS (Continued)

The accrued loss on the two remaining gas transportation contracts are in geographical areas that do not have a market demand. The liability under these contracts will be relieved over the remaining lives of the contracts. For the period March 13, 2004 through June 30, 2004, $1,446 of amortization of accrued loss on commitments was recognized as a reduction to operating expenses.

10. LAKE CONTRACTUAL AGREEMENTS

(a) Lake Power and Steam Sales Agreements

Lake sells all of the net electrical output of the facility to Florida Power Corporation (“FPC”) pursuant to a 20-year PPA that commenced in July 1993. Lake is required to have in place a letter of credit for benefit of FPC as security against damages to FPC should the facility not perform its obligations under the PPA.

For 2002, Lake provided steam to Citrus World on an as-available, as-required basis under a verbal agreement effective March 2002. Citrus World leases the former Golden Gem (“Gem”) facility from Boeing Capital. Either party may terminate the agreement upon 30 days’ written notice. Citrus World’s payments are based on the net steam energy used, and Citrus World receives a discount based on the volume of net steam energy used.

(b) Lake Gas Supply and Transportation Agreements

All of the natural gas requirements for Lake are provided by Duke Energy Trading and Marketing, LLC (“Duke Energy”) and Teco Gas Services (“Teco”), (formerly Gator Gas Marketing, Inc.).

Duke Energy provides Lake with up to 20,472 MMBtu’s of natural gas per day pursuant to a 16-year gas purchase agreement commencing in July 1993. Under certain circumstances, the agreement may be extended for an additional four years. The base purchase price under the agreement is $2.38 per MMBtu. This price is adjusted monthly based on FPC’s coal and variable O&M costs and capacity rates under the PPA between Lake and FPC.

Teco provides Lake with up to 4,000 MMBtu’s of natural gas per day pursuant to a 16-year natural gas sales agreement. Natural gas from Teco is purchased at the spot market price. In addition, Lake has agreed to pay Teco a commission of $0.10 per MMBtu for gas delivered to the facility by Duke Energy under the Duke Energy agreement.

Natural gas is delivered by Duke Energy to certain designated receipt points on the pipeline transmission system owned by Florida Gas Transmission Company (“FGT”) and transported to FGT’s pipeline system utilizing firm transportation held by Peoples Gas System, Inc. (“PGS”). The gas transportation agreement between FGT and PGS has been renewed such that the expiration date is consistent with the July 2013 expiration date of the PPA.

(c) Lake Operations and Maintenance Agreement

Effective March 13, 2004, TPH assumed the operations and maintenance of the facility. Under the agreement, TPH is reimbursed for its costs and expenses and is paid an annual operator fee of $400, with an escalation provision based on changes in the Consumer Price Index, and a handling fee of $40.

11. LEASES

In August 1993 (the “Commencement Date”), Lake sold its facility to GECC, which leased the facility back to Lake with an initial term of 11 years (the “facility lease”). Substantially all of the facility contracts (that is, PPAs, site lease, operation and maintenance agreements, and the gas sales agreement) were assigned, transferred, or sold to GECC upon the sale of the facility. Proceeds from the sale were used to retire the construction financing for the facility and to set up a working capital account. At the end of the initial 11-year lease term, Lake has the option to extend the facility lease an additional five years under the same terms and conditions as in the initial facility lease term. Lake has the option at the end of the first 16 years to renew the facility lease for a term no less than one year and no more than five years at quarterly rents equal to 65% of the average quarterly rent payments paid during the first 16 years of the facility lease. Subsequent renewals are allowable for periods not less than one year and no more than five years at the mutually agreed-upon fair market rental value. Lake has a purchase option exercisable at any time after the 16-year term for a purchase price equal to the fair market sales value of the facility as of the date of purchase.

The facility lease has been classified as an operating lease and has scheduled rent increases. Lake originally recorded rent expense on a straight-line basis over the term of the lease. Prior to 2003, the facility lease term was defined as 11 years, as it was management’s intent to exit the lease after the 11-year term and pay the $7,000 early termination penalty. As such, the $7,000 early termination fee was being

(In thousands)

11. LEASES (Continued)

accrued for over the life of the lease. In 2003, changes to Lake and its parent's operating environments prompted Lake's management to change its original exit strategy and renewed the facility lease for an additional 5-year term. As a result, rent expense has been recorded on a straight-line basis over the remaining term of the 16-year lease period and amounted to $4,500 for the period from March 13, 2004 through June 30, 2004. The termination penalty accrual is being reversed as a reduction to rent expense on a straight-line basis over the remaining term of the 16-year lease period.

In addition to the facility lease, Lake entered into a 20-year site lease (the "Site Lease") on which the facility is located, which commenced in July 1993 and contains scheduled rent increases. The Site Lease with Golden Gem ("Gem") has two five-year-renewal options under the same terms and conditions as the original 20-year term. Lake records rent expense on a straight-line basis over the initial 11-year term of the facility lease. Upon exiting the facility lease at the end of the lease, the facility lessor GECC will assume all obligations under the site lease. The difference between the amount expensed and the amount currently payable under the provisions of the lease has been included in the consolidated balance sheet as deferred lease payable. For the period from March 13, 2004 through June 30, 2004, Lake recorded rent expense, including property taxes, of $96 relating to the Site Lease.

Pursuant to an asset purchase agreement dated January 21, 2004, Teton Lake Land agreed to acquire the Site, the Site Lease, and certain easements and rights from Gem with financing provided by Boeing Capital Corporation ("BCC"). BCC has been named a secured lender to Gem in the course of Gem's bankruptcy proceedings. Upon closing of the asset purchase agreement, Teton Lake Land will take ownership of the site and lease it to Lake under substantially the same terms and conditions as stated above. Any rental and other obligations that have accrued from Gem's bankruptcy filing to the date of the asset purchase closing and are owed by Lake under the Site Lease will be released. Lake has guaranteed Teton Lake Land's obligations to BCC under the BCC financing. In addition, in the event of default, the Owner Trustee (the Bank of New York) and the Owner Participant (TIFD III-C Inc.) have the option to purchase Teton Lake Land's right, title, and interest in the site and certain easements for a nominal amount plus the assumption of the mortgage note.

Future minimum rentals on Lake's facility and site leases, including the renewal of the facility lease in 2003, as noted above, for the year ending June 30, 2004 are as follows:

2005	$ 16,337
2006	17,950
2007	19,118
2008	19,799
2009	21,197
Thereafter	7,647
Total	$102,048

12. INVESTMENT IN LEVERAGED LEASE

In 1987, the Company entered into a sale and leaseback transaction under which a hydroelectric generating facility was sold to the Company and leased back to Topsham Hydro Partners Limited Partnership for an initial lease term of 16 years. The Company holds 50% of the lessor interest. The Company's equity investment represented approximately 32% of the purchase price; the remaining 68% was furnished by a third party in the form of long-term, nonrecourse debt. This debt is secured by a first lien on the property and by a pledging of all major contracts of the lessee partnership. At the end of the initial lease term the lessee had the option to purchase the facility for the lessor of fair market value or 59% of the original cost. The residual value used in recording the lease was 50% of fair market value at inception of the lease.

In 1996, the lessee executed an amendment to the power purchase agreement, which extended the term by eight years and adjusted the rates thereunder. The parties to the leveraged lease also restructured the financing as a result of this amendment.

For Federal income tax purposes, the Company received the investment tax credit for this lease, and received the benefit of tax deductions for accelerated depreciation on the portion of the leased assets attributable to its lessor interests. In addition, the Company received the deductions for interest on the long-term debt. During the earlier years of the lease those deductions exceed the lease rental income and, as a result, excess deductions are available to offset other taxable income of the Company's owners. In later years, the rental income will exceed the deductions. The Company's owners will pay these taxes and receive the tax benefits; therefore, taxes have not been reflected in these consolidated financial statements.

(In thousands)

13. COMMITMENTS AND CONTINGENCIES

(a) *Cash Flow Interest Agreement*

In July 1998, Enron waived its right to a 50% limited partnership interest in Onondaga in exchange for an amended and restated gas sales agreement and was entitled to a certain percentage of Onondaga's cash distributions to its partners. In 2003, Split Rock was assigned Enron's cash flow interest as part of Enron's bankruptcy filing. For the period from March 13, 2004 through June 30, 2004, Onondaga recorded approximately $353 of expense related to this cash flow interest, which is included in interest and other expense on the consolidated statement of income and comprehensive income. Onondaga made approximately $1,438 of distributions to Split Rock for the period March 13, 2004 through June 30, 2004.

(b) *Lake Payment Dispute*

Through September 2001, FPC had been paying Lake amounts for energy that were generally less than the formula price under the PPA. As a result of the lower FPC payments, Lake had been recognizing lower gas costs under its gas purchase agreement with Duke Energy. Lake had entered into an agreement with Duke Energy whereby Duke Energy had agreed not to pursue legal action against Lake for the lower payments pending the issuance of a final order in the Lake/FPC litigation proceeding.

Pursuant to a letter dated February 20, 2003, Duke Energy and Lake settled all matters related to the payment dispute. As part of the settlement, Lake was required to remit approximately $2,100 to Duke Energy on or before March 5, 2003. The remaining settlement amount of approximately $1,200 will be paid in 35 monthly installments beginning April 5, 2003. Should Lake fail to remit any portion of the settlement amount, Duke Energy is entitled to accelerate the remaining balance due and demand the remaining balance be paid immediately.

(c) *FERC Waiver*

On August 6, 2002, Lake filed for a temporary waiver with the FERC of its Operating and Efficiency Standards for calendar year 2002 due to the bankruptcy of its steam host. FERC granted the limited waiver of Operating and Efficiency Standards for calendar year 2002 on November 1, 2002. For the period ended June 30, 2004, Lake has maintained adequate FERC Operating and Efficiency Standards.

(d) *Lake's Property Tax Settlement*

On March 16, 2004, Lake received $2,573, included in interest and other income from the Lake County Tax Collector for a refund for property taxes for the years 1999 through 2002.

(e) *Letter of Credit*

At Onondaga, a $550 letter of credit has been issued in favor of NIMO to collateralize certain obligations of the Onondaga Project under its gas transportation agreement with NIMO (which terminates on June 30, 2008). The letter of credit has been collateralized with a $550 compensating restricted cash account.

14. DEFERRED BONUS PAYABLE

Lake agreed to pay the facility's construction contractor certain performance bonuses. Deferred bonus payable, including accrued interest, amounted to $2,400 and $5,858, respectively, as of December 31, 2003 and 2002. All unpaid bonuses earn interest at the prime rate, which was 4.00% and 4.25%, respectively, as of December 31, 2003 and 2002. The interest expense incurred during 2003 and 2002 was approximately $138 and $167, respectively. On May 6, 2004, Lake entered into a $2,400 settlement agreement with the facility's construction contractor, which resulted in a gain of $3,597, included in interest and other income.

15. LONG-TERM DEBT

	June 2004
Teton Funding long-term debt with an interest rate of London InterBank Offered Rate (LIBOR) plus 3.25% with scheduled repayments through March 12, 2011	$177,000

(In thousands)

15. LONG-TERM DEBT (Continued)

On March 12, 2004, the Company raised $195,000 to finance the purchase of SaleCo. The loan bears interest at LIBOR plus 3.25%, payable quarterly and matures on March 12, 2011.

The annual repayments of the loan for the years beginning July 1, 2004 and thereafter are as follows:

	Amount
Year Ending June 30:	
2005	$ 1,950
2006	1,950
2007	1,950
2008	1,950
2009	1,950
Thereafter	167,250
	$177,000

The long-term debt is collateralized by the investment in Teton Funding operating entities.

16. Canadian GAAP

These consolidated financial statements have been prepared in accordance with US GAAP, which in most respects conform to Canadian GAAP. Significant differences between Canadian and US GAAP are as follows:

Net income and comprehensive income

		Period from March 13 to June 30, 2004
Comprehensive income — US GAAP	(i)	$12,099
Proportionate share of unrealized net gain from cash flow hedges included in equity method investees' other comprehensive income	(ii)	(1,034)
Net income — Canadian GAAP		11,065

Balance sheet items

	June 30, 2004	
	US GAAP	Canadian GAAP
Investments in partnerships	$165,004	$168,192
Accumulated other comprehensive income	1,034	—

(i) Under US GAAP, other comprehensive income, investments in partnerships and accumulated other comprehensive income, included in equity method investment investees' financial statements arise as a result of changes in fair value of certain derivative financial instruments that qualify as cash flow hedges, for the portion of change in the fair value of the hedge that is effective.

(ii) Under Canadian GAAP, the Company applies settlement accounting to derivative financial instruments. Under this method, the gains and losses on derivative financial instruments that qualify for hedge accounting are not recorded until they are realized. The notional amounts are not recorded in the financial statements as they do not represent amounts exchanged by the counterparties.

CERTIFICATE OF THE ISSUER AND THE PROMOTERS

Date: October 21, 2004

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 63 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of *The Securities Act* (Newfoundland and Labrador), by the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut) and the respective regulations under those acts. This prospectus, as required by the *Securities Act* (Québec) and the regulations under that act, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

ATLANTIC POWER CORPORATION

BY ITS DIRECTORS

By: (Signed) KEN HARTWICK
Director

By: (Signed) IRVING GERSTEIN
Director

By: (Signed) JOHN MCNEIL
Director

THE PROMOTERS

TETON POWER HOLDINGS, LLC

By: (Signed) DANIEL REVERS
President

EPSILON POWER HOLDINGS, LLC

By: (Signed) DANIEL REVERS
President

UMATILLA POWER HOLDINGS, LLC

By: (Signed) DANIEL REVERS
President

CERTIFICATE OF THE UNDERWRITERS

Date: October 21, 2004

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the *Securities Act* (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of the *Securities Act, 1988* (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 64 of the *Securities Act* (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland and Labrador), by the *Securities Act* (Yukon Territory), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut) and the respective regulations under those acts. To the best of our knowledge, this prospectus, as required by the *Securities Act* (Québec) and the regulations under that act, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

BMO NESBITT BURNS INC.

By: (Signed) JAMES A. TOWER

CIBC WORLD MARKETS INC.

By: (Signed) RONALD D. MUNKLEY

RBC DOMINION SECURITIES INC.

By: (Signed) DAVID DAL BELLO

SCOTIA CAPITAL INC.

By: (Signed) THOMAS I. KURFURST

NATIONAL BANK FINANCIAL INC.

By: (Signed) BILL WASSON

TD SECURITIES INC.

By: (Signed) HAROLD R. HOLLOWAY

CANACCORD CAPITAL CORPORATION

By: (Signed) RONALD A. RIMER

DESJARDINS SECURITIES INC.	**DUNDEE SECURITIES CORPORATION**	**FIRST ASSOCIATES INVESTMENTS INC.**	**HSBC SECURITIES (CANADA) INC.**	**LEHMAN BROTHERS INC.**	**RAYMOND JAMES LTD.**
By: (Signed) JAKE A. HERMAN	By: (Signed) DAVID G. ANDERSON	By: (Signed) A.G. RHIND	By: (Signed) ROD A. MCISAAC	By: (Signed) FRANK A. NAPOLITANO	By: (Signed) GRAHAM FELL

AtlanticPower
Corporation

QUEBECOR MERRILL
CANADA INC
Printed In Canada