CAPITAL POWER CORPORATION
Interim Report
June 30, 2009

Management's Discussion and Analysis

This management's discussion and analysis (MD&A), dated August 4, 2009, should be read in conjunction with the unaudited interim financial statements of Capital Power Corporation for the period from May 1, 2009, the date of incorporation, to June 30, 2009, the Supplemented PREP Prospectus of Capital Power Corporation dated June 25, 2009 for its initial public offering (the Prospectus) and the cautionary statement regarding forward-looking information on page 8. In this MD&A, any reference to the Company or Capital Power, except where otherwise noted or the context otherwise indicates, means Capital Power Corporation, together with its subsidiaries. Financial information in this MD&A is based on the unaudited interim financial statements, which were prepared in accordance with Canadian generally accepted accounting principles (GAAP), and is presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors has approved this MD&A.

Capital Power was incorporated on May 1, 2009 under the *Canada Business Corporations Act* as 7166575 Canada Inc. and changed its name to Capital Power Corporation pursuant to articles of amendment dated May 6, 2009. The Company became a reporting issuer under Canadian securities regulation on June 25, 2009. On July 9, 2009, the Company's initial public offering and acquisition of power generation assets and operations from EPCOR Utilities Inc. (EPCOR) closed, as described under Significant Events. Accordingly, the Company's outstanding share capital on June 30, 2009 consisted of one common share and one special limited voting share.

The Company commenced operations in July 2009 and its first fiscal year will end on December 31, 2009. Accordingly, the Company's financial statements for the interim period ended June 30, 2009 consists of a balance sheet and statement of cash flows and do not include any prior year comparative information.

Significant Events

Creation of Capital Power

On May 8, 2009, EPCOR announced its plans to create Capital Power, a power generation company permanently headquartered in Edmonton, Alberta. On July 9, 2009, Capital Power issued 21,750,000 common shares at $23.00 per share pursuant to its initial public offering (IPO). The proceeds from the IPO net of issue costs were approximately $475 million, of which $468 million was used to purchase an approximate 27.8% equity interest in Capital Power L.P. (CPLP). CPLP purchased substantially all of the power generation assets of EPCOR in early July 2009 through the following series of transactions (the Reorganization):

- Formation of CPLP: Capital Power Corporation and a wholly-owned subsidiary of Capital Power (Capital Power Subco) formed CPLP. Capital Power Corporation acquired one general partner unit (GP Unit) and is the initial general partner of CPLP. Capital Power Subco acquired one common limited partnership unit and as a result, became the initial limited partner in CPLP.
- Sale of EMCC Limited to Capital Power Corporation: EPCOR transferred all of the outstanding common shares of EMCC Limited to Capital Power Corporation in return for payment of approximately $468 million in cash.
- Contribution of Assets by EMCC Limited to CPLP: EMCC Limited contributed substantially all of its assets (consisting primarily of certain securities of subsidiary entities, its class B shares in the capital of EPLP Investments Inc. and a promissory note of EPLP Investments Inc.) to CPLP in return for 21.75 million GP Units. Capital Power Corporation transferred its GP Units in CPLP to EMCC Limited and as a result EMCC Limited became the general partner of CPLP.

- Sale of Assets by EPCOR Power Development Corporation (EPDC) to CPLP: EPDC transferred substantially all of its assets (consisting primarily of assets related to Genesee Units 1 and 2, the Genesee Coal Mine joint venture and certain interests in partnerships) to CPLP in return for 56.625 million exchangeable limited partnership units of CPLP and approximately $896 million in cash. CPLP financed the cash payment with the proceeds from a long-term debt obligation to EPCOR.

  Concurrently, EPDC subscribed for 56.625 million special voting shares of Capital Power for a nominal amount.

Immediately following completion of the Reorganization, Capital Power held approximately 27.8% of CPLP while EPCOR held 56.625 million exchangeable limited partnership units of CPLP (exchangeable for common shares of Capital Power on a one-for-one basis) representing approximately 72.2% of CPLP. Each exchangeable limited partnership unit is accompanied by a special voting share in the capital of Capital Power which entitles the holder to a vote at Capital Power shareholder meetings, subject to the restriction that such special voting shares must at all times represent not more than 49% of the votes attached to all Capital Power common shares and special voting shares, taken together. Capital Power and EPCOR have agreed that for so long as EPCOR holds not less than a 20% interest in the common shares of Capital Power, the number of directors will be not less than nine. The special voting shares also entitle EPCOR, voting separately as a class, to nominate and elect a maximum of four directors of Capital Power. There are currently twelve directors on Capital Power's board of directors. The general partner of CPLP is wholly-owned by Capital Power. Accordingly, Capital Power controls CPLP and therefore will consolidate the operations of CPLP for financial statement purposes effective in July 2009.

Immediately following completion of the Reorganization, CPLP held 49% and EPCOR held 51% of the voting rights in EPLP Investments Inc. EPLP Investments Inc. owns the approximate 30.6% interest in EPCOR Power L.P. previously owned by EPCOR. However, CPLP is entitled to all of the economic interest in EPLP Investments Inc. Accordingly, effective in July 2009 Capital Power will consolidate the financial results of EPCOR Power L.P.

In July 2009, Capital Power entered into various agreements with EPCOR to provide for certain aspects of the separation of the business of Capital Power from EPCOR, to provide for the continuity of operations and services and to govern the ongoing relationships between the two entities and their subsidiaries.

Liquidity and Capital Resources

Upon closing of the initial public offering, CPLP had credit facilities of approximately $1,220 million, of which $500 million may be utilized for issuing letters of credit. On June 30, 2009, EPCOR Power L.P. had revolving credit facilities of approximately $343 million and in July 2009, EPCOR Power L.P. negotiated a $25 million increase to one of its facilities.

In addition, upon closing of the initial public offering, CPLP had obligations to pay $943 million pursuant to long-term debt contracts and on June 30, 2009 EPCOR Power L.P. had obligations to pay $811 million pursuant to long-term debt contracts as follows:

	Nominal value ($ millions)	Maturity date	Nominal interest rate
Long-term debt payable to EPCOR	$ 896	Ranging from 2009 to 2018	Ranging from 5.80% to 9.00%
Joffre Cogeneration and Brown Lake project non-recourse financing	47	2020 and 2016	Fixed 8.59% and 8.70%and floating[1]
EPCOR Power L.P. long-term debt	811	Ranging from 2009 to 2036	Fixed ranging from 5.87% to 11.25% and floating[1]
	$1,754		

[1]Floating interest rates are a function of the prevailing bankers' acceptance rates

CPLP will be required to make principal repayments of $40 million in the second half of 2009 and $303 million in 2010 under terms of the long-term debt agreements. The long-term debt payable to EPCOR was issued in connection with the Reorganization pursuant to a credit agreement entered into by CPLP and EPCOR on July 9, 2009.

Some of the indebtedness of CPLP to EPCOR mirrors certain debt obligations of EPCOR to the public and has repayment and interest rate terms that correspond with EPCOR's mirrored debt. The remainder of the indebtedness of CPLP to EPCOR includes an amount sufficient to meet certain debt obligations of EPCOR to The City of Edmonton, and will be repaid in accordance with an amortization schedule. On or after December 2, 2012, if EPCOR no longer owns, directly or indirectly, at least 20% of the outstanding limited partnership units of CPLP, then EPCOR may, by written notice to CPLP, require repayment of all or any portion of the outstanding principal amount under the credit agreement and accrued interest thereon, within 180 to 365 days depending on the amount outstanding. The long-term debt payable to EPCOR requires CPLP to meet certain financial covenants under the credit agreement.

CPLP's credit facilities include an extendible revolving syndicated bank credit facility (Syndicated Facility) of up to $700 million with an initial term of three years and an extendible revolving club credit facility (Club Facility) of up to $500 million with an initial 364 day period following which any drawn portion of the facility will convert into a non-revolving facility for a one year term-out period. Borrowings and repayments under the Club Facility will be made by CPLP with each lender on an individual basis up to that lender's commitment, and not on a pro-rata basis. The terms of these credit facilities include financial covenants and provisions for default and change of control, as more fully described in the Prospectus. Capital Power also has revolving demand credit facilities totaling $25 million.

EPCOR Power L.P.'s credit facilities include two revolving facilities of $100 million each with terms expiring in September 2010 and October 2011, and a revolving facility of $125 million which expires in June 2011. EPCOR Power L.P. also has two demand facilities, one for $20 million and the other for US$20 million.

The committed bank credit facilities are expected to be used primarily for the purposes of providing funds for capital expenditures, letters of credit and general corporate purposes. Letters of credit are issued to meet conditions of certain debt and service agreements, to meet the credit requirements of energy market participants and to satisfy legislated reclamation requirements. On June 30, 2009, EPCOR Power L.P. had $119 million of long-term debt borrowings and less than a million dollars of letters of credit outstanding under its credit facilities. In July 2009, Capital Power assumed $71 million of outstanding letters of credit from EPCOR in respect of the power generation business.

CPLP's corporate credit rating provided by both S&P and DBRS is BBB. The BBB debt rating is S&P's and DBRS' 4th highest rating out of ten rating categories. According to the S&P rating system, debt rated BBB exhibits adequate protection parameters. According to the DBRS rating system, an obligation rated BBB is of an adequate credit quality with the protection of interest and principal considered to be acceptable. Further information respecting the credit ratings assigned by these agencies is included in the Prospectus. Having an investment grade credit rating impacts CPLP's ability to re-finance existing debt as it matures and to access cost competitive capital for future growth.

Capital Power's estimated cash requirements for the second half of 2009 are expected to include $272 million for capital expenditures (including $65 million for EPCOR Power L.P. projects), $40 million for scheduled debt repayments (including $1 million for EPCOR Power L.P. debt), and $7 million for quarterly dividends payable on October 30, 2009. The dividends of $0.315 per share were declared by the Board of Directors on July 17, 2009. The general partner of CPLP has not yet approved any cash distributions for 2009. The major project expenditures in 2009 are expected to be for the Keephills 3 and Clover Bar Energy Centre construction projects and EPCOR Power L.P.'s Roxboro, Southport and North Island facility enhancements.

If total cash requirements for the second half of 2009 remain as planned, the sources of capital will be cash on hand, cash provided by operating activities and the use of existing credit facilities. If required, other sources of capital for 2009 could include additional public or private debt borrowings or additional public equity market offerings.

Capital Power's cash flow will be partly dependent on distributions from EPCOR Power L.P. In June 2009, EPCOR Power L.P. reduced its distribution from $0.63 to $0.44 per quarter commencing with the distribution paid on July 30, 2009. EPCOR Power L.P. believes that the new distribution level is sustainable for at least the next five years based on existing cash flows. However, if future distributions from EPCOR Power L.P. decline, it could negatively impact the Company's cash flow.

If ongoing instability in the Canadian and U.S. financial markets continues, it may adversely affect Capital Power's ability to raise new capital, to meet its financial requirements and to refinance indebtedness under existing credit facilities and debt agreements at their maturity dates. In addition, Capital Power has credit exposure with a number of counterparties to various agreements, most notably its PPA, trading and supplier counterparties. While the Company continues to monitor its exposure to its significant counterparties, there can be no assurance, particularly in light of recent economic events, that all counterparties will be able to meet their commitments.

Contractual Obligations

On June 25, 2009, the Company filed the Prospectus for its $500 million initial public offering. The underwriters' commissions of approximately $25 million were deducted from the gross proceeds and the net amount of approximately $475 million was received by Capital Power on July 9, 2009.

In its acquisition of the power generation business from EPCOR, CPLP assumed substantially all of the contractual obligations excluding certain debt related to that business, and arranged for additional debt financing. Accordingly, Capital Power's contractual obligations resulting from the Reorganization in July 2009 were as follows:

	Payments Due by Period					
$ millions	2nd half of 2009	2010	2011	2012	2013 and thereafter	Total
Acquired PPA obligations[1]	$ 54	$ 93	$ 96	$99	$1,089	$1,431
Capital projects[2]	272	194	9	-	-	475
Energy purchase and transportation contracts[3] [4]	60	116	96	82	261	615
Operating and maintenance contracts[5]	13	28	29	30	172	272
Forward foreign exchange contracts and commodity contracts-for-differences	71	55	21	9	9	165
Long-term debt	40	303	298	26	1,087	1,754
Interest on long-term debt	53	97	79	70	519	818
Asset retirement obligations[6]	4	8	9	13	353	387
Total	$567	$894	$637	$329	$3,490	$5,917

(1) Capital Power's obligation to make payments on a monthly basis for fixed and variable costs under the terms of its acquired Power Purchase Arrangements (Sundance and Battle River) will vary depending on generation volume and scheduled plant outages.

(2) Capital Power's obligations for capital projects including Keephills 3 and Clover Bar Energy Centre construction and EPCOR Power L.P.'s Roxboro, Southport and North Island facility enhancements.

(3) The natural gas purchase contracts have fixed and variable components. The variable components are based on estimates subject to variability in plant production. These contracts have expiry terms ranging from 2010 to 2016 with built-in escalators in the contracts' terms for pricing.

(4) The natural gas transportation contracts are based on estimates subject to changes in regulated rates for transportation and have expiry terms ranging from 2011 to 2017.

(5) Operating and maintenance contracts are based on fixed fees subject to annual escalators and have expiry terms ranging from 2017 to 2018.

(6) Capital Power's asset retirement obligations reflect the undiscounted cash flow required to settle obligations for the retirement of its generation plants and Genesee coal mine.

The Company's Board of Directors approved a quarterly shareholders' dividend of $0.315 per share on the common shares of Capital Power, payable on October 30, 2009 to shareholders of record at the close of business on September 30, 2009. As at July 28, 2009 Capital Power had 21.75 million common shares, 56.625 special voting shares and one special limited voting share outstanding. EPCOR indirectly owns 56.625 million exchangeable limited partnership units of CPLP, exchangeable on a one-for-one basis for common shares of Capital Power, subject to certain limitations.

Off-balance Sheet Arrangements

As at June 30, 2009, the Company had no off-balance sheet arrangements required to be disclosed in accordance with applicable securities regulations.

Critical Accounting Estimates

The Company did not use any critical accounting estimates for the preparation of its financial statements for the period ended June 30, 2009.

Significant Accounting Policies

Commencing in July 2009, the Company adopted the significant accounting policies used by EPCOR to account for the power generation business included in the Reorganization. These policies are described in Note 2 of the EPCOR Power Group Combined and Consolidated Financial Statements for the years ended December 31, 2008, 2007 and 2006, which are included in the Prospectus. As discussed under Significant Events, effective in early July, the Company will consolidate its interest in CPLP and disclose EPCOR's approximate 72.2% interest as a non-controlling interest. Capital Power controls the general partner of EPCOR Power L.P. through EPLP Investments Inc. Capital Power owns all of the economic interests of EPLP Investments Inc. and has appointed a majority of its board of directors by agreement with EPCOR, which is the other shareholder of EPLP Investments Inc. Accordingly, Capital Power will consolidate EPCOR Power L.P. and disclose EPCOR's approximate 72.2% interest in the 30.6% interest in EPCOR Power L.P. as a non-controlling interest.

Future Accounting Changes

International Financial Reporting Standards

In February 2008, the CICA confirmed that Canadian reporting issuers will be required to report under International Financial Reporting Standards (IFRS) effective January 1, 2011, including comparative figures for the prior year.

In January 2008, EPCOR established a core team to develop a plan which would result in the first interim report for 2011 being in compliance with IFRS. In July 2009, Capital Power organized its own IFRS team which is working in conjunction with the EPCOR core team to carry on with the progress made to date and implement IFRS in Capital Power in time to meet the 2011 reporting requirements. The terms of the services to be provided by EPCOR to Capital Power for IFRS support are outlined in the Services Agreement by and between Capital Power and EPCOR Utilities Inc.

The diagnostic phase of the project was completed in April 2008. For each international standard, EPCOR identified the primary differences from Canadian GAAP and made an initial assessment of the impact of the required changes for the purpose of prioritizing and assigning resources. In making the assessment, the number of businesses impacted, the potential magnitude of the financial statement adjustment, the availability of policy choices, the impacts on systems and the impacts on internal controls were all considered.

Based on the results of the diagnostic phase, the standards most likely to have a significant impact were identified. Of those standards, the following relate to the power generation business acquired from EPCOR. Certain IFRS which may have a significant impact and are expected to change before January 1, 2011, such as joint ventures, will be addressed by the Company in the future depending on the expected timing of the revised standards.

International Financial Reporting Standard
IFRS 7, IAS 32, IAS 39 Financial Instruments
IAS 23 Borrowing Costs
IAS 18 Revenue
IAS 16 Property, Plant and Equipment
IAS 31 Interests in Joint Ventures
IAS 21 The Effects of Changes in Foreign Exchange Rates
IFRS 3 Business Combinations
IAS 12 Income Taxes
IAS 17 Leases
IAS 37 Provisions, Contingent Liabilities and Contingent Assets
IAS 36 Impairment of Assets

The information obtained from the diagnostic phase was used to develop a detailed plan for convergence and implementation. The convergence and implementation work has the following five key sections.

Financial Statement Adjustments

For each international standard, the Company will determine the quantitative impacts to the financial statements, system requirements, accounting policy decisions, and changes to internal controls and business policies. The initial accounting policy decisions will be brought forward to the Audit Committee for their information as each standard is addressed. However, final accounting policy decisions for all standards in effect at the end of 2009 will be made in the fourth quarter of 2009 and brought forward to the Audit Committee in the first quarter of 2010, as they should not be determined in isolation of other policy decisions. Policy decisions for any new standards or standards that are amended in 2010 will be made in conjunction with our analysis of those standards in 2010.

As the project progresses, the timing of completion of certain items may change as changes to standards and other external factors such as discussions with certain stakeholders may result in a change in priorities. However, the Company believes the project has sufficient resources to meet the overall project timeline.

Financial Statements

There are also a number of international standards which relate to financial statement presentation. Draft financial statements highlighting the disclosure and presentation requirements were prepared for EPCOR before the Reorganization and will be used as a foundation for preparing draft financial statements in accordance with IFRS for Capital Power. Recommendations on certain presentation issues such as whether to present the income statement by function or nature of expense have been developed and will be brought forward to the Audit Committee in the third quarter of 2009. The development of the financial statement presentation will evolve throughout the project as the impacts of implementing the various standards are quantified.

Systems Updates

The diagnostic phase of the project identified two key accounting system requirements. The system must be able to capture 2010 financial information under both the prevailing Canadian GAAP and IFRS to allow comparative reporting in 2011, the first year of reporting under IFRS. It must also be able to accommodate possible changes to foreign currency translation methods, depending on how certain foreign entities are classified under IFRS. EPCOR developed a systems strategy in 2008 and commenced implementation of this strategy in the first quarter of 2009. This strategy involves the implementation of a parallel fixed asset subledger and general ledger, which is planned for completion in the third quarter of 2009.

Policies and Internal Controls

In the determination of the financial statement adjustments, requirements for changes to Company policies and internal controls will be identified and documented. As there may be factors other than IFRS impacting policies and internal controls, the formal documentation and approval of revised policies and internal controls will not occur until the third quarter of 2010.

The impact of IFRS on certain agreements, such as debt, shareholder and compensation agreements, has also been included in the plan. Initial assessments of most agreements were performed in the second quarter of 2009 and the balance will be assessed in the third quarter of 2009.

Training

The Company recognizes that training at all levels is essential to a successful conversion and integration. Accounting staff have attended two training sessions with more planned to occur throughout the conversion process. The Audit Committee will receive regular updates on the conversion project and training for the Board of Directors and Audit Committee will occur throughout the project.

Disclosures about financial instruments

In June 2009, the CICA amended Handbook Section 3862 Financial Instruments – Disclosures, to adopt the amendments recently made by the International Accounting Standards Board to IFRS 7 Financial Instruments: Disclosures. The amendments require enhanced disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. The Company will assess the impacts of these amendments on its financial statements and implement the necessary additional disclosures commencing with the annual financial statements for 2009.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Handbook Section 1601 – Consolidated Financial Statements and Section 1602 – Non-controlling Interests, which replace Section 1600 – Consolidated Financial Statements. Section 1601 establishes the standards for the preparation of consolidated financial statements while Section 1602 establishes the standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of International Accounting Standard 27 – Consolidated and Separate Financial Statements.

Sections 1601 and 1602 will apply to Capital Power's interim and annual consolidated financial statements relating to periods commencing on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Section 1582 – Business Combinations is also adopted at the same time. The impact of the new standards and the option to adopt them early will be assessed as part of the Company's IFRS project.

Business combinations

In January 2009, the CICA issued Handbook Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations and provides the Canadian equivalent to International Financial Reporting Standard 3 – Business Combinations. The section will apply on a prospective basis to a business combination by Capital Power for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Sections 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests are also adopted at the same time. The impact of the new standard and the option to adopt it early will be assessed as part of the Company's IFRS project.

Related Party Transactions

In the reporting period, one special limited voting share of Capital Power Corporation was issued to EPCOR for one dollar. The special limited voting share entitles EPCOR to the right to vote as a class on any matter that would: (i) change the location of Capital Power's head office to a place other than The City of Edmonton in the Province of Alberta; (ii) amend the articles of Capital Power to, or result in a transaction that would, in each case, impact the location of the head office or its meaning as defined in Capital Power's articles; or (iii) amend the rights attaching to the special limited voting share.

Internal Control Over Financial Reporting

As part of the Reorganization and acquisition of the power generation assets and operations from EPCOR in July 2009, the Company assumed the underlying processes and internal controls. The agreements between the Company and EPCOR for transitional and ongoing services between the two entities and their subsidiaries also provide for continuity of internal controls after the Reorganization and acquisition. Management will conduct an evaluation of the Company's disclosure controls and procedures and internal controls over financial reporting in conjunction with its reporting for the period ending September 30, 2009.

Business Risks

On June 11, 2009, William Pidruchney filed a Statement of Claim against The City of Edmonton, the Mayor and Councillors of The City of Edmonton, EPCOR, EPCOR Power L.P.'s General Partner, EPCOR Power L.P. and Capital Power. Mr. Pidruchney alleged, among other things, that The City of Edmonton acted beyond its power and contrary to the Municipal Government Act (Alberta) and did not observe an appropriate public process in connection with the initial public offering involving Capital Power. Based on its review of the available information, Capital Power believes that the claim is without merit and intends to vigorously defend itself. On June 26, 2009, Capital Power filed a Statement of Defence denying all of the allegations contained in the Statement of Claim. On July 3, 2009, Mr. Justice Hawco of the Alberta Court of Queen's Bench denied an application by William Pidruchney for an interim injunction to delay the closing of the Capital Power initial public offering and its acquisition of EPCOR's power generation business. The court was not satisfied that there was any real merit to Mr. Pidruchney's application.

On June 30, 2009, an Originating Notice was filed in the Court of the Queen's Bench of Alberta, Judicial District of Edmonton, by the Alberta Federation of Labour, the Canadian Union of Public Employees, Local 30, and the Civic Service Union 52. The Notice named The City of Edmonton, EPCOR Utilities Inc. and Capital Power Corporation as Respondents and alleged, among other things, that certain purported actions taken by The City of Edmonton in connection with the initial public offering were outside the jurisdiction of the municipality under the Municipal Government Act. Based on its review of the available information, Capital Power believes that this claim is without merit and intends to vigorously defend itself.

Commencing with the acquisition of the power generation business from EPCOR, the Company faces a number of risks associated with the acquired business including electricity price and volume risk, natural gas price and volume risk, operational risk, environment, health and safety risk, political, legislative risk, project risk, credit risk, financial liquidity risk, supply risk of acquired PPAs, availability of people risk, weather risk, foreign exchange risk, conflicts of interest risk, and general economic conditions and business environment risks. These risks are more fully described in the Company's Prospectus. The Company employs the active programs that EPCOR used to manage these risks.

Outlook

The Company's longer term outlook, including expectations regarding the impact of the economic downturn on the Company, remains substantially unchanged from its outlook in June 2009 as described in the Prospectus. As discussed in the Prospectus, the Company expects to sell its remaining 15% interest in the Battle River PPA in January 2010 for proceeds of $64 million. This reduction in the Company's interest in the Battle River PPA is expected to decrease cash flow from operations in 2010 compared with 2009.

Forward-looking Information

Certain information in this MD&A is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as will, anticipate, believe, plan, intend, target, and expect or similar words suggest future outcomes.

Forward-looking information in this MD&A includes: (i) Capital Power's cash requirements for the second half of 2009 and related financing; (ii) the sustainability of EPLP's new unit distribution level; and (iii) the effect of the further reduction in the Company's interest in the Battle River PPA on cash flow from operations.

These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate. The material factors and assumptions used to develop these forward-looking statements include, but are not limited to: (i) the operation of the Company's facilities; (ii) power plant availability, including those subject to acquired PPAs (iii) the Company's financial position and credit facilities (iv) the Company's assessment of commodity and power markets; (v) the Company's assessment of the markets and regulatory environments in which it operates; (vi) weather; (vii) availability and cost of labour and management resources; (viii) performance of contractors and suppliers; (ix) availability and cost of financing; (x) foreign exchange rates; (xi) management's analysis of applicable tax legislation; (xii) the currently applicable and proposed tax laws will not change and will be implemented; (xiii) currently applicable and proposed environmental regulations will be implemented; (xiv) counterparties will perform their obligations; (xv) renewal and terms of PPAs (xvi) ability to successfully integrate and realize benefits of its acquisitions (xvii) ability to implement strategic initiatives which will yield the expected benefits; and (xviii) the Company's assessment of capital markets and ability to complete future share offerings.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results and experience to differ materially from the Company's expectations. Such risks and uncertainties include, but are not limited to risks relating to: (i) operation of the Company's facilities (ii) power plant availability and performance; (iii) unanticipated maintenance and other expenditures; (iv) availability and price of energy commodities; (v) electricity load settlement; (vi) regulatory and government decisions including changes to environmental, financial reporting and tax legislation; (vii) weather and economic conditions; (viii) competitive pressures; (ix) construction; (x) availability and cost of financing; (xi) foreign exchange; (xii) availability and cost of labour, equipment and management resources; (xiii) performance of counterparties, partners, contractors and suppliers in fulfilling their obligations to the Company; (xiv) developments in the North American capital markets; (xv) compliance with financial covenants; (xvi) ability to successfully realize the benefits of acquisitions and investments; (xvii) the tax attributes of and implications of any acquisitions; and (xviii) other factors and assumptions discussed in the section entitled Risk Factors in the Prospectus and in other documents filed with provincial securities commissions in Canada. If any such risks actually occur, they could materially adversely affect the Company's business, financial condition or results of operations. In that case the trading price of the Company's common shares could decline, perhaps materially. Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Forward-looking statements are provided for the purpose of providing information about management's current expectations, and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. The Company does not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

CAPITAL POWER CORPORATION

Balance Sheet
(Unaudited, in dollars)

	June 30, 2009
Assets	
Cash	$ 11
	$ 11
Liabilities and Shareholders' Equity	
Share capital (note 3)	$ 11
Subsequent event (note 5)	
	$ 11

See accompanying notes to the financial statements.

CAPITAL POWER CORPORATION

Statement of Cash Flows
(Unaudited, in dollars)

	Period from date of incorporation on May 1, 2009 to June 30, 2009
Financing activities:	
Issuance of common share	$ 10
Issuance of special limited voting share	1
Cash provided by financing activities	11
Increase in cash	11
Cash, beginning of period	-
Cash, end of period	$ 11
Supplementary cash flow information:	
Interest paid net of interest received	$ -
Income taxes paid net of income taxes recovered	-

See accompanying notes to the financial statements.

1. Basis of presentation:

Capital Power Corporation (the Company or Capital Power) was incorporated on May 1, 2009, under the Canada Business Corporation Act as 7166575 Canada Inc. The Company's name was changed to Capital Power Corporation pursuant to articles of amendment dated May 6, 2009.

These unaudited interim financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

The Company has determined that December 31 will be its fiscal year end. As the Company was incorporated on May 1, 2009, there is no comparative balance sheet period end as at December 31, 2008 or comparative statement of income and statement of cash flows for the period May 1, 2008 to June 30, 2008.

2. Significant accounting policies:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash or highly liquid, investment-grade short-term investments and are recorded at fair market value.

(b) Financial instruments:

Upon initial recognition, the Company may designate financial instruments as held for trading when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis. The Company has designated its cash and cash equivalents as held for trading.

(c) Future accounting changes:

The CICA has announced that Canadian reporting issuers will need to begin reporting under International Financial Reporting Standards (IFRS), including comparative figures, by the first quarter of 2011. The Company is currently working on its IFRS conversion project which includes assessing the impact of the differences in accounting standards on the Company's future financial reporting requirements.

In June 2009, the CICA amended Handbook Section 3862 Financial Instruments – Disclosures, to adopt the amendments recently made by the International Accounting Standards Board to IFRS 7 Financial Instruments: Disclosures. The amendments require enhanced disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements, and about the liquidity risk of financial instruments. The Company will assess the impacts of these amendments on its financial statements and implement the necessary additional disclosures commencing with the annual financial statements for 2009.

In January 2009, the CICA issued Handbook Section 1601 – Consolidated Financial Statements and Section 1602 - Non-controlling Interests, which replace Section 1600 – Consolidated Financial Statements. Section 1601 establishes the standards for the preparation of consolidated financial statements while Section 1602 establishes the standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Section 1602 is equivalent to the corresponding provisions of IFRS IAS 27 – Consolidated and Separate Financial Statements.

Sections 1601 and 1602 will apply to interim and annual consolidated financial statements relating to periods commencing on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, provided Section 1582 – Business Combinations is also adopted at the same time. The impact of the new standards and the option to adopt them early will be assessed as part of the Company's IFRS conversion project.

2. Significant accounting policies, continued:

(c) Future accounting changes, continued:

In January 2009, the CICA issued Handbook Section 1582 – Business Combinations, which replaces Section 1581 – Business Combinations and provides the Canadian equivalent to IFRS 3 – Business Combinations. The section will apply, on a prospective basis, to future business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year provided Sections 1601 – Consolidated Financial Statements and 1602 – Non-controlling Interests are also adopted at the same time. The impact of the new standard and the option to adopt it early will be assessed as part of the Company's IFRS conversion project.

3. Share capital:

Authorized	Number of shares authorized
Common shares, without nominal or par value	unlimited
Preference shares, issuable in series [1]	unlimited
Special voting shares (note 5)	unlimited
Special limited voting shares[2]	one

[1] Terms to be determined by the Board of Directors upon creation of each series.

[2] The special limited voting share entitles holders the right to vote as a class on any matter that would: (i) change the location of Capital Power's head office to a place other than The City of Edmonton in the Province of Alberta; (ii) amend the articles of Capital Power to, or result in a transaction that would, in each case, impact the location of the head office or its meaning as defined in Capital Power's articles; or (iii) amend the rights attaching to the special limited voting share.

Issued and outstanding	June 30, 2009
1 common share	$ 10
1 special limited voting share	1
	$ 11

At June 30, 2009 the one common share was issued and outstanding to J. Rob Collins, Partner, Blake, Cassels & Graydon LLP and was issued on May 1, 2009 in connection with the organization of Capital Power. Upon completion of the initial public offering (note 5) the common share was cancelled.

The one special limited voting share was issued to a related party, EPCOR Utilities Inc. (EPCOR), for a price of $1 on June 18, 2009.

4. Related party balances and transactions:

During the period, the Company issued one special limited voting share to EPCOR, a related party for $1. The transaction was recorded at the carrying amount.

5. Subsequent events:

Creation of Capital Power

The Company issued 21,750,000 common shares at $23 per share pursuant to its initial public offering (IPO) on July 9, 2009. Proceeds from the IPO net of issue costs were approximately $475 million, of which $468 million were used to purchase a 27.8% equity interest in Capital Power L.P. (CPLP). CPLP purchased substantially all the power generation assets from EPCOR in early July 2009 through the following series of transactions (the Reorganization):

- Formation of CPLP: Capital Power and a wholly-owned subsidiary of Capital Power (Capital Power Subco) formed CPLP. Capital Power acquired one general partner unit (GP Unit) and is the initial general partner of CPLP. Capital Power Subco acquired one common limited partnership unit and as a result, became the initial limited partner in CPLP.
- Sale of EMCC Limited to Capital Power: EPCOR transferred all of the outstanding common shares of EMCC Limited to Capital Power in return for payment of approximately $468 million in cash.
- Contribution of Assets by EMCC Limited to CPLP: EMCC Limited contributed substantially all of its assets (consisting primarily of certain securities of subsidiary entities, its class B shares in the capital of EPLP Investments Inc. and promissory note of EPLP Investments Inc.) to CPLP in return for GP Units. Capital Power transferred its GP Units in CPLP to EMCC Limited and as a result EMCC Limited became the general partner of CPLP.
- Sale of Assets by EPCOR Power Development Corporation (EPDC) to CPLP: EPDC transferred substantially all of its assets (consisting primarily of assets related to Genesee Units 1 and 2, the Genesee Coal Mine joint venture and certain interests in partnerships) to CPLP in return for 56.625 million exchangeable limited partnership units of CPLP and approximately $896 million in cash. CPLP financed the cash payment with the proceeds from a long-term debt obligation to EPCOR.

  Concurrently, EPDC subscribed for 56.625 million special voting shares of Capital Power for a nominal amount.

Immediately following completion of the Reorganization, Capital Power held approximately 27.8% of CPLP while EPCOR held 56.625 million exchangeable limited partnership units of CPLP (exchangeable for common shares of Capital Power on a one-for-one basis) representing approximately 72.2% of CPLP. Each exchangeable limited partnership unit is accompanied by a special voting share in the capital of Capital Power which entitles the holder to a vote at Capital Power shareholder meetings, subject to the restriction that such special voting shares must at all times represent not more than 49% of the votes attached to all Capital Power common shares and special voting shares, taken together. Capital Power and EPCOR have agreed that for so long as EPCOR holds not less than a 20% interest in the common shares of Capital Power, the number of directors will not be less than nine. The special voting shares also entitle EPCOR, voting separately as a class, to nominate and elect a maximum of four directors of Capital Power. There are currently twelve directors on Capital Power's board of directors. Accordingly, Capital Power will have control over CPLP and, on that basis, the operations of CPLP will be consolidated by Capital Power for financial statement purposes.

Immediately following completion of the Reorganization, CPLP held 49% and EPCOR held 51% of the voting rights in EPLP Investments Inc. EPLP Investments Inc. owns the approximate 30.6% interest in EPCOR Power L.P. previously owned by EPCOR. However, CPLP is entitled to all of the economic interest in EPLP Investments Inc. Accordingly, effective early July 2009, Capital Power will consolidate the financial results of EPCOR Power L.P.

Capital Power has entered into various agreements with EPCOR to provide for certain aspects of the separation of the business of Capital Power from EPCOR, to provide for the continuity of operations and services and to govern the ongoing relationships between the two groups of entities.