

# **CAPITAL POWER**

## **Q3/14 Analyst Conference Call October 27, 2014**

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# Forward-looking information

## Cautionary statement

Certain information in this presentation and in responses to questions contains forward-looking information. Actual results could differ materially from conclusions, forecasts or projections in the forward-looking information, and certain material factors or assumptions were applied in drawing conclusions or making forecasts or projections as reflected in the forward-looking information.

Additional information about the material factors and risks that could cause actual results to differ materially from the conclusions, forecasts or projections in the forward-looking information and the material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking information are disclosed on page [16] of this presentation and in the Company's third quarter 2014 Management's Discussion and Analysis (MD&A) dated October 24, 2014 which has been filed on SEDAR ([www.sedar.com](http://www.sedar.com)).



# Non-GAAP financial measures

The Company uses (i) earnings before finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange gains or losses, and gains on disposals (adjusted EBITDA), (ii) funds from operations (FFO), (iii) normalized earnings attributable to common shareholders, and (iv) normalized earnings per share as financial performance measures.

These terms are not defined financial measures according to GAAP and do not have standardized meanings prescribed by GAAP and are, therefore, unlikely to be comparable to similar measures used by other enterprises. These measures should not be considered alternatives to net income, net income attributable to shareholders of the Company, net cash flows from operating activities or other measures of financial performance calculated in accordance with GAAP. Rather, these measures are provided to complement GAAP measures in the analysis of the Company's results of operations from management's perspective.

Reconciliations of these Non-GAAP financial measures are contained in the Company's Management's Discussion and Analysis dated October 24, 2014 for the quarter ended September 30, 2014, which is available under the Company's profile on SEDAR at [SEDAR.com](http://SEDAR.com) and on the Company's website at [capitalpower.com](http://capitalpower.com).

# Corporate updates

## *Shepard construction update*

- Construction of the 800 MW natural gas combined cycle facility is 99% completed
- Commissioning is ongoing with steam blowing of main steam lines; steam blows expected to be completed before the end of Oct/14
- Construction project expected to be completed on-budget with COD targeted in early 2015





# Q3/14 Operating performance

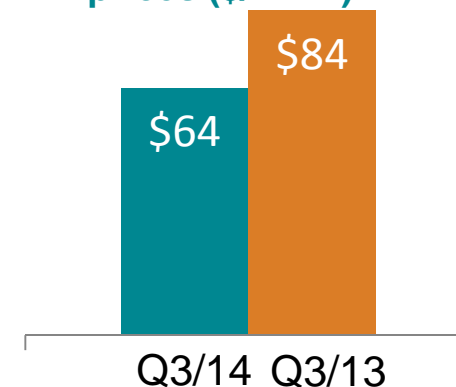
Plant availability		Q3/14	Q3/13
Alberta commercial plants	Genesee 3	97%	99%
	Keephills 3	100%	100%
	Clover Bar	97%	93%
	Joffre	95%	100%
	Halkirk	91%	89%
Alberta contracted plants	Genesee 1	100%	98%
	Genesee 2	99%	100%
Ontario and BC contracted plants	Island Generation	99%	100%
	Kingsbridge 1	93%	95%
	Port Dover & Nanticoke	98%	N/A
	Quality Wind	93%	100%
North East US commercial plants	Bridgeport	N/A	93%
	Rumford	N/A	100%
	Tiverton	N/A	96%
North Carolina US contracted plants	Roxboro	100%	97%
	Southport	85%	99%
<b>Average</b>		<b>97%</b>	<b>97%</b>

- Strong operating performance in our operated fleet with average plant availability of 97% in Q3/14; unchanged from Q3/13
- Although Keephills 3 had 100% availability, production was reduced due to derates
- Acquired Sundance PPA
  - 85% plant availability at Sundance 5 & 6 units

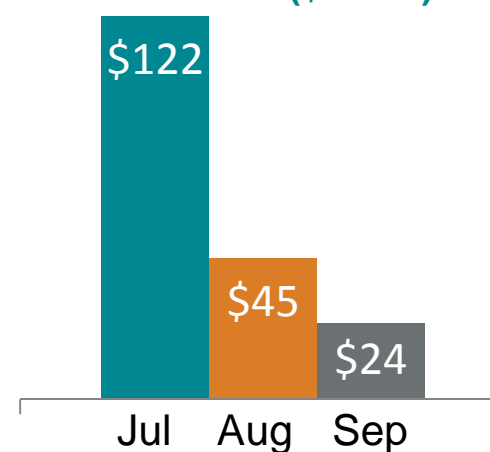
# Alberta Commercial

- Q3/14 generation below expectations due to lower availability at the Sundance 5 & 6 units from planned and unplanned outages, Keephills 3 derate, and lower wind generation at Halkirk
- Alberta power prices averaged \$64/MWh in Q3/14, compared to \$84/MWh in Q3/13
- Non-Capital Power operated plant outages occurred primarily in July coinciding with a period of pricing volatility with AB spot power prices averaging \$122/MWh for the month
- With commercial production 100% sold forward in July, company was required to cover a short market position at prevailing spot prices
- Capacity payments under Sundance C PPA based on trailing 30-day rolling average power price (RAPP); \$71/MWh RAPP for Jul/14
- Alberta Commercial EBITDA was \$16M below expectations in Q3/14 with \$15M attributed to trading activities in July; Aug & Sep generally met expectations

Average Alberta power prices (\$/MWh)

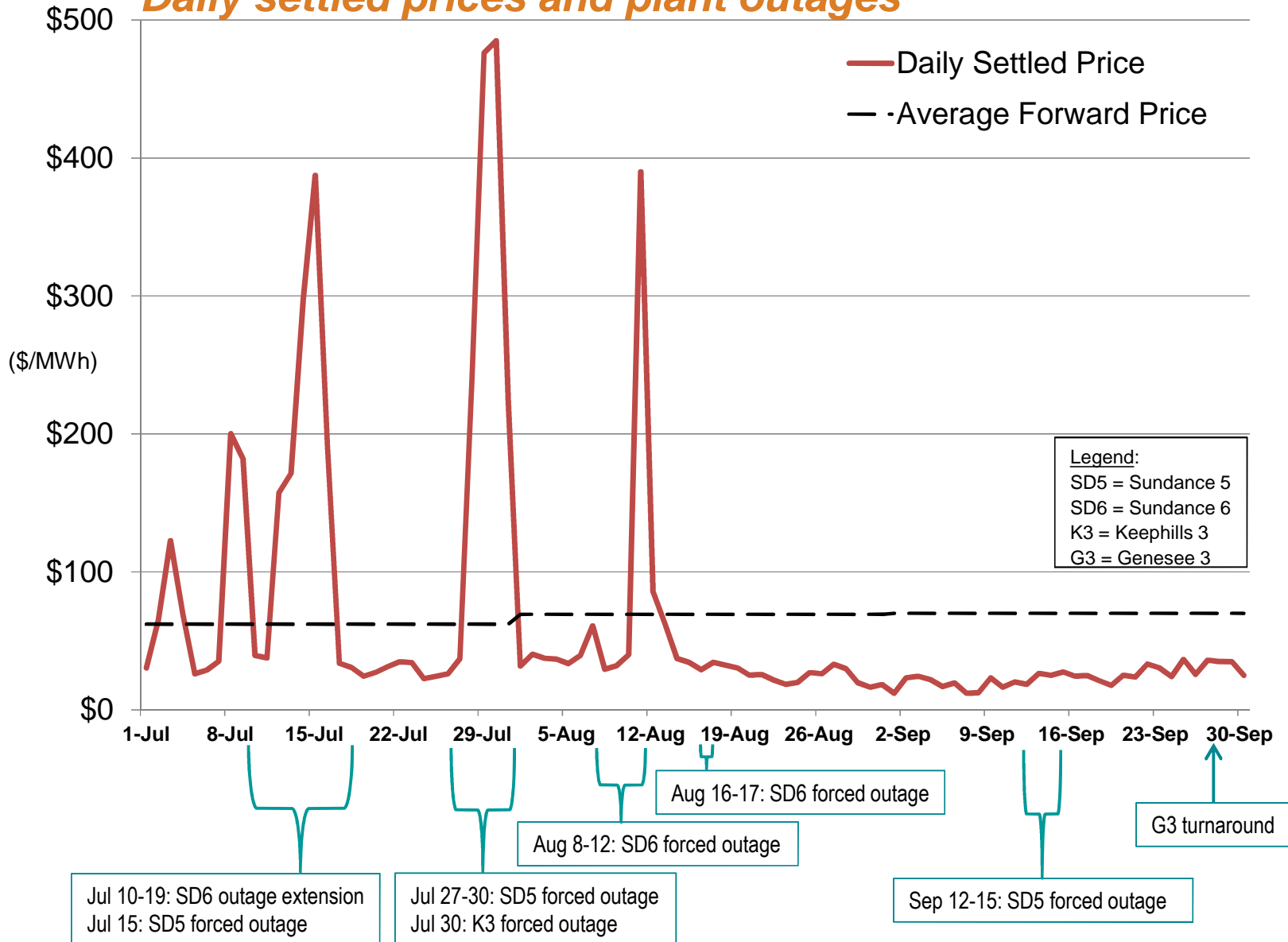


Average monthly AB power prices in Q3/14 (\$/MWh)



# AB power market in Q3/14

## Daily settled prices and plant outages





# Financial review

***Deferred tax asset write-down is a non-cash item and has no impact on operations or other key performance measures***

- \$73M write-down of deferred tax assets in Q3/14 relating to U.S. income tax loss carry forwards that can no longer be recognized for accounting purposes, based on current long term forecast for U.S. taxable income
- Forecast showed a decline in taxable income over the latter years of the forecast
- For income tax purposes, these U.S. net operating losses do not expire until the 2027 – 2033 period
- Accordingly, they retain economic value and could result in the recording of deferred tax assets in the future
- Continue to pursue U.S. contracted power opportunities and U.S. business development pipeline is active





# Financial review

Portfolio optimization	Q3/14	Q3/13	Change
Spot power price average (MW/h)	<b>\$64</b>	\$84	(24%)
Realized power price <sup>(1)</sup> (MW/h)	<b>\$56</b>	\$94	(40%)

***Weak Q3/14 results from lower than expected performance in AB Commercial Plants and Acquired Sundance PPA segment, and lower average Alberta power prices and realized power prices***

(1) Realized power price is the average price realized on the Company's commercial contracted sales and portfolio optimization activities.



# Financial performance – Q3/14

\$M, except per share amounts	Q3/14	Q3/13	Change
Revenues	<b>\$248</b>	\$380	(35%)
Adjusted EBITDA (before mark-to-market) <sup>(1)</sup>	<b>\$86</b>	\$150	(43%)
Basic earnings (loss) per share	<b>\$(0.62)</b>	\$0.55	(213%)
Normalized earnings per share	<b>\$0.12</b>	\$0.72	(83%)
Funds from operations	<b>\$83</b>	\$125	(34%)

***Q3/14 results reflected the impact from the timing of unplanned outages, extension of a planned outage and lower average Alberta power prices***

(1) Before unrealized changes in fair value of commodity derivatives and emission credits of \$5M and \$1M for Q3/14 and Q3/13, respectively.

# Financial performance – Q3/14 YTD

\$M, except per share amounts	Q3/14 YTD	Q3/13 YTD	Change
Revenues	<b>\$796</b>	\$1,066	(25%)
Adjusted EBITDA (before mark-to-market) <sup>(1)</sup>	<b>\$283</b>	\$381	(26%)
Basic earnings (loss) per share	<b>\$(0.12)</b>	\$1.19	(110%)
Normalized earnings per share	<b>\$0.51</b>	\$1.35	(62%)
Funds from operations	<b>\$260</b>	\$316	(18%)

***Lower 2014 YTD results reflect lower results from AB commercial plants from weaker average spot prices and lower production, and the divestiture of New England assets in Nov/13***

(1) Before unrealized changes in fair value of commodity derivatives and emission credits of (\$1M) and \$9M for Q3/14 YTD and Q3/13 YTD, respectively.

# 2014 Financial outlook

## *Revision to 2014 annual guidance*

- AB power prices for Q4/14 expected in the high-\$50/MWh range
- Alberta portfolio hedged positions (% sold forward)

	Oct-Dec, 2014	2015	2016
Percentage sold forward <sup>(1)</sup>	100%	92%	49%
Average contracted prices <sup>(2)</sup> (\$/MWh)	High-\$50	Mid-\$50	Mid-\$50
Forward prices (\$/MWh) (as of Sep 30/14)	\$61	\$51	\$50

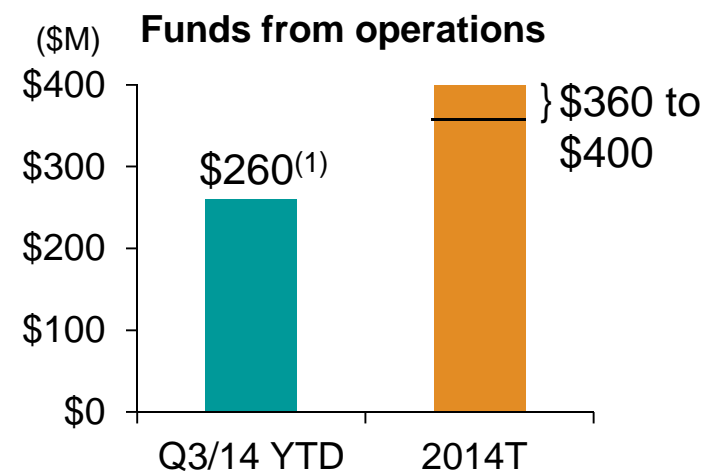
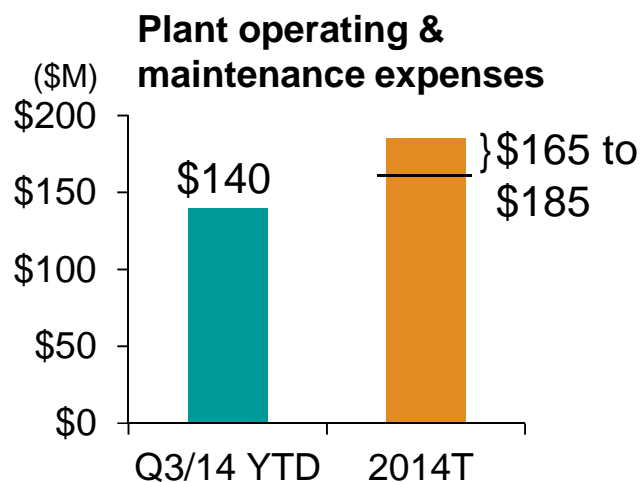
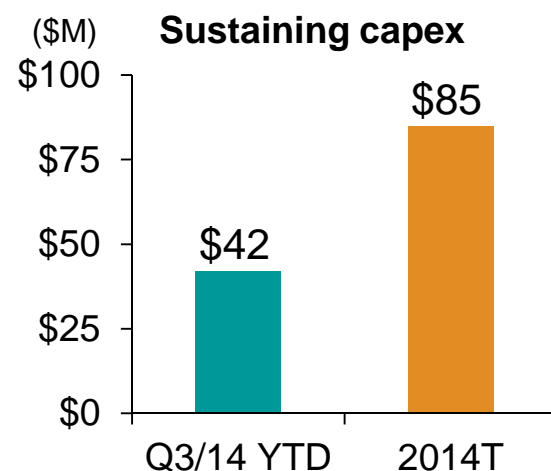
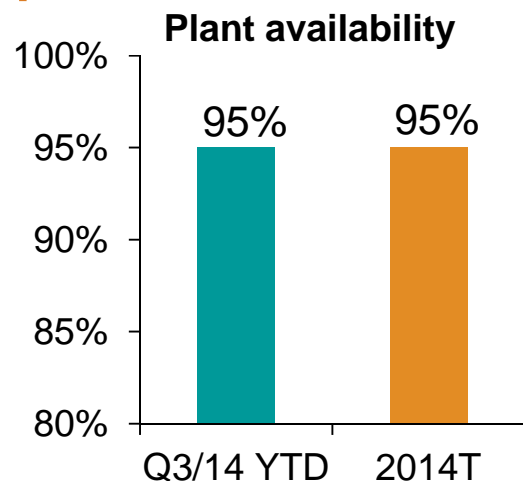
***Including the \$20M received from the amendments to the Genesee Coal Mine Agreements, expect 2014 FFO to be near the low end of the \$360 to \$400M guidance range***

(1) Based on the Alberta baseload plants and the acquired Sundance PPA plus a portion of Joffre and the uncontracted portion of Shepard Energy Centre baseload.

(2) The forecast average contracted prices may differ significantly from the future average realized prices as the hedged and unhedged positions have a varying mix of differently priced blocks of power. This impact is accentuated in 2014 which includes one contract-for-differences for 300 MW for the full year that is sold forward for peak periods only.

# 2014 Corporate priorities

## Operational and financial targets



(1) 2014 YTD FFO of \$260M includes \$20M received in Q2/14 arising from the amendments to the Genesee Coal Mine Agreements.





# 2014 Corporate priorities

## Development and construction targets

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	2014 Targets	Status
<b>K2 Wind</b>	Commence construction & complete project financing	Construction commenced following completion of \$850M project financing in Q1/14
<b>Shepard Energy Centre</b>	Complete construction with COD in early 2015	Construction nearly completed and on-budget with COD in early 2015
<b>Genesee 4 &amp; 5</b>	Continue on track for Q1/15 permitting approval	On track with target

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*Continue building on strong track record of successful development projects*

{ QUESTIONS?



# Forward-looking information

Forward-looking information or statements included in this presentation and in responses to questions on the analyst conference call are provided to inform the Company's shareholders and potential investors about management's assessment of Capital Power's future plans and operations. This information may not be appropriate for other purposes. The forward-looking information in this presentation is generally identified by words such as will, anticipate, believe, plan, intend, target, and expect or similar words that suggest future outcomes.

Material forward-looking information in this presentation includes information with respect to: (i) expectations related to future revenues, expenses, earnings and funds from operations, (ii) expectations regarding the future pricing of electricity and market fundamentals in existing and target markets, (iii) expectations related to the Company's future cash requirements including interest and principal repayments, capital expenditures, dividends and distributions, (iv) expectations regarding the Company's sources of funding, adequacy and availability of committed bank credit facilities and future borrowings, (v) expectations regarding future growth and emerging opportunities in the Company's target markets including the focus on certain technologies, (vi) expectations regarding the timing of, funding of, and costs for existing, planned and potential development projects and acquisitions, (vii) expectations regarding plant availability, and (viii) expectations regarding capital expenditures for plant maintenance and other.

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 relate to: (i) electricity and other energy prices, (ii) performance, (iii) business prospects and opportunities including expected growth and capital projects, (iv) status of and impact of policy, legislation and regulations, (v) effective tax rates, and (vi) other matters discussed under the Performance Overview and Outlook sections in the MD&A for the third quarter, 2014.

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 material risks and uncertainties are: (i) changes in electricity prices in markets in which the Company operates, (ii) changes in energy commodity market prices and use of derivatives, (iii) regulatory and political environments including changes to environmental, financial reporting and tax legislation, (iv) power plant availability and performance including maintenance expenditures, (v) ability to fund current and future capital and working capital needs, (vi) acquisitions and developments including timing and costs of regulatory approvals and construction, (vii) changes in market prices and availability of fuel, and (viii) changes in general economic and competitive conditions. See Risks and Risk Management in the Company's December 31, 2013 annual MD&A for further discussion of these and other risks.

Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. 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.

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