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For release: April 24, 2015

# Capital Power reports first quarter 2015 results

**EDMONTON, Alberta** – Capital Power Corporation (Capital Power, or the Company) (TSX: CPX) today released financial results for the quarter ended March 31, 2015.

Net income attributable to shareholders in the first quarter of 2015 was $40 million and basic earnings per share attributable to common shareholders was  $0.41 per share, compared with $32 million, or $0.33 per share, in the comparable period of 2014. Normalized earnings attributable to common shareholders in the first quarter of 2015, after adjusting for one-time items and fair value adjustments, were $27 million or $0.32 per share compared with $26 million or $0.32 per share in the first quarter of 2014. Net cash flows from operating activities were $107 million in the first quarter of 2015 compared with $84 million in the first quarter of 2014. Funds from operations were $108 million in the first quarter of 2015, up 17%, on a comparable basis, from $92 million in the first quarter of 2014.

“Despite cyclical price lows in Alberta’s power market, Capital Power’s financial results for the first quarter were in line with expectations,” said Brian Vaasjo, President and CEO of Capital Power. “This performance reflects both excellent operating availability across the fleet, and the hedging of a significant portion of Capital Power’s Alberta electricity production in anticipation of lower power prices during the bottom of the Alberta power market cycle.”

“Alberta spot power prices averaged $29 per megawatt-hour due to increased generation from the Shepard Energy Centre and other wind facilities, warmer weather, and lower market demand,” said Mr. Vaasjo. ”A significant percentage of generation from Capital Power’s Alberta baseload plants in 2015 was hedged in the range of mid-$50 per megawatt-hour, well above the average spot price in the first quarter.”

Normalized earnings per share of $0.32 are unchanged from the first quarter a year ago when Alberta power prices averaged $61 per megawatt-hour.

“Our operating performance in the first quarter was excellent, highlighted by an average plant availability of 98 per cent,” added Mr. Vaasjo. “We generated $108 million in funds from operations in the first quarter and remain on track to meet the lower end of our $365 to $415 million target range.”

| **Operational and Financial Highlights** [1] (unaudited) | **Three months ended March 31** | | | |
|---|---|---|---|---|
| *(millions of dollars except per share and operational amounts)* | | **2015** | | **2014** |
| Electricity generation (excluding acquired Sundance PPA) (GWh) | | 3,398 | | 3,241 |
| Generation plant availability (excluding acquired Sundance PPA) (%) | | 98 | | 94 |
| Revenues | $ | 358 | $ | 308 |
| Adjusted EBITDA [2] | $ | 147 | $ | 113 |
| Net income | $ | 50 | $ | 38 |
| Net income attributable to shareholders of the Company | $ | 40 | $ | 32 |
| Normalized earnings attributable to common shareholders [2] | $ | 27 | $ | 26 |
| Basic and diluted earnings per share | $ | 0.41 | $ | 0.33 |
| Normalized earnings per share [2] | $ | 0.32 | $ | 0.32 |
| Funds from operations [2] | $ | 108 | $ | 92 |
| Purchase of property, plant and equipment and other assets | $ | 52 | $ | 75 |
| Dividends per common share, declared | $ | 0.340 | $ | 0.315 |

1 The operational and financial highlights in this press release should be read in conjunction with Management's Discussion and Analysis and the audited Consolidated Financial Statements for the three months ended March 31, 2015.

2 Earnings before finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange losses, and gains on disposals (adjusted EBITDA), normalized earnings attributable to common shareholders, normalized earnings per share and funds from operations are non-GAAP financial measures and do not have standardized meanings under GAAP and are, therefore, unlikely to be comparable to similar measures used by other enterprises. See Non-GAAP Financial Measures.

## Significant Events

### *Approval of normal course issuer bid and suspension of Dividend Re-investment Plan*

On March 25, 2015, Capital Power's normal course issuer bid to purchase and cancel up to 5 million of its outstanding common shares during the one-year period from April 7, 2015 to April 6, 2016 was approved by the Toronto Stock Exchange. Effective with the expected June 30, 2015 dividend, Capital Power also announced that its Dividend Re-investment Plan (DRIP) for its common shares will be suspended until further notice. Shareholders participating in the DRIP will begin receiving cash dividends on the expected July 31, 2015 payment date.

### *Shepard Energy Centre begins commercial operations*

On March 11, 2015, Capital Power and ENMAX Corporation announced that Shepard Energy Centre is now fully operational and capable of generating over 800 MW of electricity to the Alberta grid. Capital Power became a 50% owner of this natural gas facility in 2012 and its final construction costs are expected to be $854 million which includes an accrued performance bonus due to the turbine manufacturer.

### *Executive appointments*

Capital Power and the Board of Directors announced the appointments of Bryan DeNeve to the executive position of Senior Vice President, Finance and Chief Financial Officer and Stuart Lee to the executive position of Senior Vice President Corporate Development and Commercial Services effective May 1, 2015. Mr. DeNeve and Mr. Lee formerly held the positions of Senior Vice President Corporate Development and Commercial Services and Senior Vice President, Finance and Chief Financial Officer, respectively.

## Subsequent Event

### *Secondary offering of Capital Power shares by EPCOR*

On April 2, 2015, EPCOR exchanged 9.450 million of its exchangeable common limited partnership units in Capital Power L.P. (CPLP) for common shares of Capital Power on a one-for-one basis and sold 9.450 million common shares of Capital Power to the public pursuant to a secondary offering at $23.85 per common share. Capital Power did not receive any of the proceeds from EPCOR's sale of common shares. These transactions reduced EPCOR's ownership interest in CPLP to 9.1% from its interest of 18% at March 31, 2015. EPCOR then exchanged all of its remaining outstanding exchangeable common limited partnership units in CPLP for common shares of Capital Power (the exchange). After giving effect to the secondary offering and exchange, EPCOR owns approximately 9.1% of the common shares of Capital Power. EPCOR has advised that it plans to eventually sell all or a substantial portion of its remaining interest in Capital Power, subject to market conditions, based on its requirements for capital and other circumstances that may arise in the future. In connection with the offering and exchange, the Registration Rights Agreement between Capital Power and EPCOR was terminated. Thus, the Company will no longer be obligated to assist EPCOR in making a secondary offering and any future sales of common shares by EPCOR will be completed by other means.

In connection with the changes, EPCOR no longer may appoint any directors to Capital Power's Board of Directors after the Company's annual general meeting of shareholders on April 24, 2015.

The debt payable to EPCOR, as at March 31, 2015, of $334 million is recorded as current since EPCOR may, by advance written notice, require repayment of all or any portion of the outstanding principal amount of this debt and accrued interest thereon.

The Company intends to review the structure of CPLP with the goal of simplifying the organization structure and reporting, and reducing costs associated with CPLP, including audit, legal, board, management and filing expenses.

## Analyst Conference Call and Webcast

Capital Power will be hosting a conference call and live webcast with analysts on April 27, 2015 at 11:00 AM (ET) to discuss its first quarter results. The conference call dial-in numbers are:

(604) 681-8564 (Vancouver)
(403) 532-5601 (Calgary)
(416) 623-0333 (Toronto)
(514) 687-4017 (Montreal)
(855) 353-9183 (toll-free from Canada and USA)

Participant access code for the call: 21543#

A replay of the conference call will be available following the call at: (855) 201-2300 (toll-free) and entering conference reference number 1176897# followed by participant code 21543#. The replay will be available until July 26, 2015.

Interested parties may also access the live webcast on the Company's website at www.capitalpower.com with an archive of the webcast available following the conclusion of the analyst conference call.

## Non-GAAP Financial Measures

The Company uses (i) adjusted EBITDA, (ii) funds from operations, (iii) cash flow per share, (iv) discretionary cash flow, (v) normalized earnings attributable to common shareholders, and (vi) 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 gross income, net income, net income attributable of 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 adjusted EBITDA to gross income, operating income and net income, funds from operations to net cash flows from operating activities and normalized earnings attributable to common shareholders to net income attributable to shareholders of the Company are contained in the Company's Management's Discussion and Analysis, prepared as of April 23, 2015, for the three months ended March 31, 2015 which is available under the Company's profile on SEDAR at www.SEDAR.com.

## Forward-looking Information

Forward-looking information or statements included in this press release 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 press release 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 press release includes expectations regarding: (i) funds from operations, and (ii) Shepard Energy Centre capital costs.

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, 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 and impact of policy, legislation and regulation, and (v) effective tax rates.

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 of equipment, (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 Management's Discussion and Analysis, prepared as of February 20, 2015, for further discussion of these and other risks.

## For more information, please contact:


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# Management's Discussion and Analysis

This management's discussion and analysis (MD&A), prepared as of April 23, 2015, should be read in conjunction with the unaudited condensed interim consolidated financial statements of Capital Power Corporation and its subsidiaries for the three months ended March 31, 2015, the audited consolidated financial statements and MD&A of Capital Power Corporation for the year ended December 31, 2014, the annual information form of Capital Power Corporation dated March 4, 2015 and the cautionary statements regarding forward-looking information which begin on page 6. 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.

In this MD&A, financial information for the three months ended March 31, 2015 and the three months ended March 31, 2014 is based on the unaudited condensed interim consolidated financial statements of the Company for such periods which were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are 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 approved this MD&A as of April 23, 2015.

## Contents

## FORWARD-LOOKING INFORMATION

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Material forward-looking information in this MD&A includes expectations regarding:

- future revenues, expenses, earnings and funds from operations,
- the future pricing of electricity and market fundamentals in existing and target markets,
- the Company's future cash requirements including interest and principal repayments, capital expenditures, dividends and distributions,
- the Company's sources of funding, adequacy and availability of committed bank credit facilities and future borrowings,
- future growth and emerging opportunities in the Company's target markets including the focus on certain technologies,
- the timing of, funding of, and costs for existing, planned and potential development projects and acquisitions
- plant availability and planned outages, and
- 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, expected future developments, and other factors it believes are appropriate. The material factors and assumptions used to develop these forward-looking statements relate to:

- electricity and other energy prices,
- performance,
- business prospects and opportunities including expected growth and capital projects,
- status of and impact of policy, legislation and regulations,
- effective tax rates, and
- other matters discussed under the Performance Overview and Outlook and Targets for 2015 sections.

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:

- changes in electricity prices in markets in which the Company operates,
- changes in energy commodity market prices and use of derivatives,
- regulatory and political environments including changes to environmental, financial reporting and tax legislation,
- power plant availability and performance including maintenance of equipment,
- ability to fund current and future capital and working capital needs,
- acquisitions and developments including timing and costs of regulatory approvals and construction,
- changes in market prices and availability of fuel, and
- changes in general economic and competitive conditions.

See Risks and Risk Management 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.

## OVERVIEW OF BUSINESS AND CORPORATE STRUCTURE

Capital Power is a growth-oriented North American power producer headquartered in Edmonton, Alberta. The Company develops, acquires, operates and optimizes power generation from a variety of energy sources. Capital Power owns more than 3,100 megawatts (MW) of power generation capacity at 16 facilities across North America and owns 371 MW of capacity through its interest in the acquired Sundance power purchase arrangement (acquired Sundance PPA). An additional 620 MW of owned generation capacity is under construction or in advanced development in Alberta and Ontario.

The Company's power generation operations and assets are owned by Capital Power L.P. (CPLP), a subsidiary of the Company. As at March 31, 2015, the Company held 21.750 million general partnership units and 62.112 million common limited partnership units of CPLP which represented 82% of CPLP's total partnership units. EPCOR (in this MD&A, EPCOR refers to EPCOR Utilities Inc. collectively with its subsidiaries) held 18.841 million exchangeable common limited partnership units of CPLP which represented 18% of CPLP. CPLP's exchangeable common limited partnership units are exchangeable for common shares of Capital Power Corporation on a one-for-one basis. Subsequent to March 31, 2015, EPCOR exchanged all its exchangeable common limited partnership units of CPLP for common shares of Capital Power Corporation (see Subsequent Event).

## CORPORATE STRATEGY

The Company's corporate strategy remains unchanged from that disclosed in its 2014 annual MD&A. During the three months ended March 31, 2015, commercial operations of Shepard Energy Centre commenced and the Company continued its development plans for Genesee 4 and 5.

## PERFORMANCE OVERVIEW

The Company measures its performance in relation to its corporate strategy through financial and non-financial targets that are approved by the Board of Directors. The measurement categories include corporate measures and measures specific to certain groups within the Company. The corporate measures are company-wide and include funds from operations and safety. The group-specific measures include plant operating margin and other operations measures, committed capital, construction and maintenance capital on budget and on schedule, and plant site safety.

### Operational excellence

| Performance measure | 2015 target | Actual results for the three months ended March 31, 2015 |
|---|---|---|
| Plant availability average [1] | 94% or greater | 98% |
| Capital expenditures for plant maintenance, Genesee mine extension and other (sustaining capital expenditures) | $65 million | $6 million |
| Plant operating and maintenance expenses | $180 million to $200 million | $41 million |

[1] All plants excluding acquired Sundance PPA.

The Company's plant availability averaged 98% which reflected minimal unplanned outages during the quarter and the deferral of short-term planned outages to the second quarter.

Capital expenditures for maintenance of the plants, Genesee mine extension and other for the three months ended March 31, 2015 were lower than target for the quarter primarily due to the delayed timing of certain plant maintenance and information services projects.

The plant operating and maintenance expenses target includes other raw materials and operating charges, staff costs and employee benefits expense and other administrative expenses for the Company's plants. The actual results for the three months ended March 31, 2015 were slightly lower than target for the first quarter but the full year plant operating and maintenance expenses are expected to be consistent with the target range.

### Disciplined growth

| Performance measure | 2015 target | Status as at March 31, 2015 |
|---|---|---|
| K2 Wind | Complete construction with commercial operation date in mid-2015 | On track with target |
| Genesee 4 and 5 | Transition from development to construction | On track with target |

See Outlook for discussion of updated timing of completion of the Genesee 4 and 5 project.

### Financial stability and strength

| Performance measure | 2015 target | Actual results for the three months ended March 31, 2015 |
|---|---|---|
| Funds from operations [1] | $365 million to $415 million | $108 million |

[1] Funds from operations is a non-GAAP measure. See Non-GAAP Financial Measures.

Actual funds from operations for the three months ended March 31, 2015 were in line with expected funds from operations for the full year to be in the low end of the target range.

## OUTLOOK

The following discussion should be read in conjunction with the Forward-looking Information section of this MD&A which identifies the material factors and assumptions used to develop forward-looking information and their material associated risk factors.

At its 2014 Investor Day held in December 2014, the Company provided financial guidance for 2015 funds from operations in the range of $365 million to $415 million. This was based on a forecasted 2015 Alberta spot power price average of $44 per MWh which was lower than market forward pricing at the time. Since then, Alberta power forward pricing for 2015 has declined to low-$30 per MWh. This is due to a combination of events including lower forward natural gas prices for 2015, expected lower economic growth in Alberta and its expected impact on Alberta power demand growth, and market reaction to the low first quarter 2015 average price of $29 per MWh. Lower expected growth in the Alberta economy is largely the result of the significant decline in global oil prices.

While the Company anticipated lower power prices in 2015 and accordingly hedged almost all of its baseload power position, the further price reduction is expected to have multiple impacts. It is expected to reduce availability incentive revenue from the Alberta contracted facilities, reduce dispatch and earnings from the Alberta commercial gas peaking facilities, and reduce earnings from the Halkirk wind facility. In addition, lower power prices are consistent with lower volatility in the Alberta market which reduces the opportunity to capture earnings from power trading activities.

Shepard Energy Centre commenced commercial operations in March 2015 and K2 Wind is expected to commence commercial operations in mid-2015. Power generation from these facilities is expected to have a positive impact on earnings and funds from operations. However, this impact will be partly offset by the lower forecast average Alberta power prices which are expected to result in lower realized prices on the economically unhedged portion of the portfolio. As a result, the Company expects 2015 funds from operations to be in the lower end of its 2015 target range and moderately higher than 2014 funds from operations.

If 2015 Alberta power prices continue trending downward, this impact may be greater than expected and may be amplified by the supply and demand dynamics in the Alberta electricity market should demand decrease as a result of general economic conditions.

In 2015, Capital Power's availability target of 94% reflects major scheduled maintenance outages for Genesee 1 and Keephills 3 compared with the 2014 major scheduled maintenance outages for Genesee 2, Genesee 3 and Joffre.

Portfolio position and contracted prices for 2016 and 2017, as at March 31, 2015, were:

| Alberta commercial portfolio positions and power prices | Full year 2016 | Full year 2017 |
|---|---|---|
| Percentage of baseload generation sold forward [1] | 49% | 12% |
| Contracted price [2] | Mid-$50 per MWh | High-$60 per MWh |

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.

The Company's estimated full year growth capital expenditures are expected to increase by $25 million due primarily to additional costs incurred for Shepard Energy Centre. These additional costs include a contractual bonus paid to the turbine manufacturer that was earned based on final facility performance measurements related to electrical output and heat rate. This bonus was payable in U.S. dollars and thus included significant foreign exchange due to the movement of exchange rates during the construction period. These final facility performance measurements are expected to improve the overall economics of the project and more than offset the additional capital costs incurred because of the bonus. The additional capital costs were partly offset by a contribution from ENMAX of $8 million recognized as deferred revenues which will be recognized in revenues over the term of the Energy Supply Agreement between Capital Power and ENMAX. Shepard Energy Centre's final expected capital expenditures also increased as a result of higher capitalized interest due to the delay in the commercial operations date from February 2015 to March 2015. The capital costs accrued for Shepard Energy Centre to March 31, 2015 are subject to normal course discussion and negotiation which could result in lower final capital costs. See Liquidity and Capital Resources.

Based on the actual expenditures for the three months ended March 31, 2015 and the current forecast for the last three quarters of 2015, estimated sustaining capital expenditures are expected to be consistent with the target of $65 million.

The 2015 targets and forecasts are based on numerous assumptions including power and natural gas price forecasts. However, they do not include the effects of potential future acquisitions or development activities, or potential market and operational impacts relating to unplanned plant outages including outages at facilities of other market participants, and the related impacts on market power prices.

See Liquidity and Capital Resources for discussion of future cash requirements and expected sources of funding.

The expected timing of the Genesee 4 and 5 project has been updated with targeted completion of the first unit of the project now expected in 2019. The targeted completion date reflects the changing market conditions, including the downturn in oil prices and slower expected economic growth in Alberta. Completion of the first unit in 2019 will coincide with the need for additional generation to meet growing demand and to replace generation from the retirement of some existing coal generating units in Alberta.

## 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, (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, therefore, are 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.

### Adjusted EBITDA

Capital Power uses adjusted EBITDA to measure the operating performance of plants and categories of plants from period to period. Management believes that a measure of plant operating performance is more meaningful if results not related to plant operations such as impairments, foreign exchange gains or losses and gains on disposals are excluded from the adjusted EBITDA measure.

A reconciliation of adjusted EBITDA to net income is as follows:

| (unaudited, $ millions) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2015** | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** |
| Revenues | 358 | 432 | 248 | 240 | 308 | 327 | 380 | 321 |
| Energy purchases and fuel, other raw materials and operating charges, staff costs and employee benefits expense, and other administrative expense | (211) | (291) | (157) | (162) | (195) | (208) | (229) | (217) |
| **Adjusted EBITDA** | **147** | **141** | **91** | **78** | **113** | **119** | **151** | **104** |
| Depreciation and amortization | (51) | (49) | (47) | (47) | (46) | (52) | (54) | (58) |
| Impairments | - | - | - | - | - | - | (6) | - |
| Foreign exchange (loss) gain | (8) | (4) | (5) | 3 | (4) | (5) | (1) | - |
| Gains on disposals of subsidiaries | - | - | - | - | - | 76 | - | - |
| Finance expense | (18) | (16) | (15) | (11) | (13) | (18) | (18) | (20) |
| Income tax expense | (20) | (24) | (81) | (2) | (12) | (22) | (13) | (3) |
| **Net income (loss)** | **50** | **48** | **(57)** | **21** | **38** | **98** | **59** | **23** |
| | | | | | | | | |
| **Net income (loss) attributable to:** | | | | | | | | |
| Non-controlling interests | 10 | 9 | (12) | 1 | 6 | 21 | 15 | 3 |
| Shareholders of the Company | 40 | 39 | (45) | 20 | 32 | 77 | 44 | 20 |
| **Net income (loss)** | **50** | **48** | **(57)** | **21** | **38** | **98** | **59** | **23** |

## Funds from operations

Capital Power uses funds from operations as a measure of the Company's ability to generate cash from its current operating activities to fund capital expenditures, debt repayments, dividends to the Company's shareholders and distributions to non-controlling interests. Funds from operations are net cash flows from operating activities, adjusted to include finance and current income tax expenses and exclude changes in operating working capital. The Company includes interest and current income tax expenses recorded during the period rather than interest and income taxes paid. The timing of cash receipts and payments of interest and income taxes and the resulting cash basis amounts are not comparable from period to period. The timing of cash receipts and payments also affects the period-to-period comparability of changes in operating working capital which are also excluded from funds from operations.

Commencing with the Company's June 30, 2014 quarter-end, the reported funds from operations measure was changed consistent with the reclassification of Part VI.1 tax from operating activities to financing activities in the Company's statement of cash flows. All comparative funds from operations amounts for quarters prior to those ended on June 30, 2014 were revised.

Commencing with the Company's December 31, 2014 quarter-end, the reported funds from operations measure was changed to remove the impact of fair value changes in certain unsettled derivative financial instruments that are charged or credited to the Company's bank margin account held with a specific exchange counterparty. As part of its collateral requirements, the exchange counterparty updates its bank margin accounts daily, by recording fair value changes on unsettled derivative financial instruments outstanding with its customers, including the Company. Consistent with the exchange counterparty, such changes are recorded as cash transactions on the Company's consolidated statements of financial position and net cash flows from operating activities. However, the underlying derivative transactions have not settled. Accordingly, the Company removes the effect of such fair value changes in its determination of funds from operations. The impact of the fair value changes in derivatives reflected as cash settlement was immaterial for quarters prior to the fourth quarter of 2014.

A reconciliation of net cash flows from operating activities to funds from operations is as follows:

| (unaudited, $ millions) | Three months ended March 31 | |
|---|---|---|
| | **2015** | **2014** |
| **Net cash flows from operating activities per Consolidated Statements of Cash Flows** | **107** | **84** |
| Add (deduct) items included in calculation of net cash flows from operating activities per Consolidated Statements of Cash Flows: | | |
| Interest paid | 8 | 7 |
| Miscellaneous financing charges paid and included in other items of non-cash adjustments to reconcile net income to net cash flows from operating activities | 1 | 2 |
| Change in non-cash operating working capital | 6 | 13 |
| | 15 | 22 |
| Finance expense included in cash flows from operating activities excluding unrealized changes on interest rate derivative contracts and amortization and accretion charges | (14) | (14) |
| Current income tax expense | (2) | (2) |
| Increase in current income tax payable due to Part VI.1 tax | 2 | 2 |
| **Funds from operations** | **108** | **92** |

## Normalized earnings attributable to common shareholders and normalized earnings per share

The Company uses normalized earnings attributable to common shareholders and normalized earnings per share to measure performance by period on a comparable basis. Normalized earnings per share is based on earnings used in the calculation of earnings per share according to GAAP adjusted for items that are not reflective of performance in the period such as unrealized fair value changes, impairment charges, unusual tax adjustments, gains and losses on disposal of assets or unusual contracts, and foreign exchange gain or loss on the revaluation of U.S. dollar denominated debt. The adjustments consist of unrealized fair value changes on financial instruments that are not necessarily indicative of future actual realized gains or losses, non-recurring gains or losses, or gains or losses reflecting corporate structure decisions.

| (unaudited, $ millions except per share amounts and number of common shares) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31, 2015** | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** |
| **Basic earnings (loss) per share ($)** | **0.41** | **0.40** | **(0.62)** | **0.17** | **0.33** | **0.89** | **0.55** | **0.20** |
| **Net income (loss) attributable to shareholders of the Company per Consolidated Statements of Income** | **40** | **39** | **(45)** | **20** | **32** | **77** | **44** | **20** |
| Preferred share dividends including Part VI.1 tax | (6) | (6) | (6) | (6) | (5) | (6) | (5) | (6) |
| Earnings (loss) attributable to common shareholders | 34 | 33 | (51) | 14 | 27 | 71 | 39 | 14 |
| Unrealized changes in fair value of derivatives | (17) | (21) | (3) | 8 | (5) | (9) | (1) | 3 |
| Unrealized foreign exchange loss (gain) on revaluation of U.S. dollar denominated debt | 10 | 4 | 5 | (3) | 3 | 4 | - | - |
| Impact of change in non-controlling interest percentage on adjustments of previous quarters | - | 1 | - | - | - | - | - | - |
| Write-down of U.S. deferred tax assets | - | - | 59 | - | - | - | - | - |
| Amount received upon amendment of the Genesee Coal Mine Agreements | - | - | - | (14) | - | - | - | - |
| Genesee flood damage repair costs | - | - | - | 1 | 1 | - | - | - |
| Gain on sale of North East U.S. assets | - | - | - | - | - | (34) | - | - |
| Reduction of amount receivable related to Sundance force majeure claim | - | - | - | - | - | 6 | - | - |
| Income tax expense (recovery) related to change in income tax rate applicable to North East U.S. | - | - | - | - | - | (6) | 6 | - |
| Restructuring charges | - | - | - | - | - | 1 | 4 | 2 |
| Obligation to EPCOR for Rossdale plant | - | - | - | - | - | (1) | - | - |
| Impairment loss on North East U.S. assets | - | - | - | - | - | - | 3 | - |
| **Normalized earnings attributable to common shareholders** | **27** | **17** | **10** | **6** | **26** | **32** | **51** | **19** |
| Weighted average number of common shares outstanding (millions) | 83.74 | 83.31 | 82.79 | 81.94 | 81.18 | 79.73 | 70.83 | 70.48 |
| **Normalized earnings per share ($)** | **0.32** | **0.20** | **0.12** | **0.07** | **0.32** | **0.40** | **0.72** | **0.27** |

Normalized earnings per share reflects the period-over-period change in normalized earnings attributable to common shareholders and the changes from period to period as the weighted average number of common shares outstanding increases or decreases and the net income attributable to non-controlling interests decreases.

## FINANCIAL HIGHLIGHTS

| (unaudited, $ millions, except per share amounts) | Three months ended March 31 | |
|---|---|---|
| | 2015 | 2014 |
| Revenues | 358 | 308 |
| Adjusted EBITDA [1] | 147 | 113 |
| Net income | 50 | 38 |
| Net income attributable to shareholders of the Company | 40 | 32 |
| Normalized earnings attributable to common shareholders [1] | 27 | 26 |
| Basic and diluted earnings per share ($) [2] | 0.41 | 0.33 |
| Normalized earnings per share ($) [1] | 0.32 | 0.32 |
| Funds from operations [1,3] | 108 | 92 |
| Purchase of property, plant and equipment and other assets | 52 | 75 |
| Dividends per common share, declared ($) | 0.3400 | 0.3150 |
| Dividends per Series 1 preferred share, declared ($) | 0.2875 | 0.2875 |
| Dividends per Series 3 preferred share, declared ($) | 0.2875 | 0.2875 |
| Dividends per Series 5 preferred share, declared ($) | 0.2813 | 0.2813 |

| | As at | |
|---|---|---|
| | March 31, 2015 | December 31, 2014 |
| Loans and borrowings including current portion | 1,583 | 1,586 |
| Total assets | 5,545 | 5,420 |

1 The consolidated financial highlights, except for adjusted EBITDA, normalized earnings attributable to common shareholders, normalized earnings per share and funds from operations were prepared in accordance with GAAP. See Non-GAAP Financial Measures.

2 Diluted earnings per share was calculated after giving effect to outstanding share purchase options and the subsequent exchange of common limited partnership units of CPLP held by EPCOR which are exchangeable for common shares of Capital Power on a one-for-one basis. See Subsequent Event.

3 The reported funds from operations measure was changed consistent with the reclassification of Part VI.1 tax from operating activities to financing activities in the Company's statement of cash flows. All comparative funds from operations amounts for 2014 were revised.

### Normalized earnings attributable to common shareholders and normalized earnings per share

Normalized earnings attributable to common shareholders and normalized earnings per share for the first quarter of 2015 were consistent with the first quarter of 2014.

### Funds from operations

Funds from operations for the three months ended March 31, 2015 increased in comparison with funds from operations for the three months ended March 31, 2014 consistent with the higher adjusted EBITDA in first quarter 2015 compared with the same period in 2014.

## SIGNIFICANT EVENTS

### Approval of normal course issuer bid and suspension of Dividend Re-investment Plan

On March 25, 2015, Capital Power's normal course issuer bid to purchase and cancel up to 5 million of its outstanding common shares during the one-year period from April 7, 2015 to April 6, 2016 was approved by the Toronto Stock Exchange. Effective with the expected June 30, 2015 dividend, Capital Power also announced that its Dividend Re-investment Plan (DRIP) for its common shares will be suspended until further notice. Shareholders participating in the DRIP will begin receiving cash dividends on the expected July 31, 2015 payment date.

### Shepard Energy Centre begins commercial operations

On March 11, 2015, Capital Power and ENMAX Corporation (ENMAX) announced that Shepard Energy Centre is now fully operational and capable of generating over 800 MW of electricity to the Alberta grid. Capital Power became a 50% owner of this natural gas facility in 2012 and its final construction costs are expected to be $854 million which includes an accrued performance bonus due to the turbine manufacturer.

### Executive appointments

Capital Power and the Board of Directors announced the appointments of Bryan DeNeve to the executive position of Senior Vice President, Finance and Chief Financial Officer and Stuart Lee to the executive position of Senior Vice President Corporate Development and Commercial Services effective May 1, 2015. Mr. DeNeve and Mr. Lee formerly held the positions of Senior Vice President Corporate Development and Commercial Services and Senior Vice President, Finance and Chief Financial Officer, respectively.

## SUBSEQUENT EVENT

### Secondary offering of Capital Power shares by EPCOR

On April 2, 2015, EPCOR exchanged 9.450 million of its exchangeable common limited partnership units in CPLP for common shares of Capital Power on a one-for-one basis and sold 9.450 million common shares of Capital Power to the public pursuant to a secondary offering at $23.85 per common share. Capital Power did not receive any of the proceeds from EPCOR's sale of common shares. These transactions reduced EPCOR's ownership interest in CPLP to 9.1% from its interest of 18% at March 31, 2015. EPCOR then exchanged all of its remaining outstanding exchangeable common limited partnership units in CPLP for common shares of Capital Power (the exchange). After giving effect to the secondary offering and exchange, EPCOR owns approximately 9.1% of the common shares of Capital Power. EPCOR has advised that it plans to eventually sell all or a substantial portion of its remaining interest in Capital Power, subject to market conditions, based on its requirements for capital and other circumstances that may arise in the future. In connection with the offering and exchange, the Registration Rights Agreement between Capital Power and EPCOR was terminated. Thus, the Company will no longer be obligated to assist EPCOR in making a secondary offering and any future sales of common shares by EPCOR will be completed by other means.

In connection with the changes, EPCOR no longer may appoint any directors to Capital Power's Board of Directors after the Company's annual general meeting of shareholders on April 24, 2015.

The debt payable to EPCOR, as at March 31, 2015, of $334 million is recorded as current since EPCOR may, by advance written notice, require repayment of all or any portion of the outstanding principal amount of this debt and accrued interest thereon.

The Company intends to review the structure of CPLP with the goal of simplifying the organization structure and reporting, and reducing costs associated with CPLP, including audit, legal, board, management and filing expenses.

## CONSOLIDATED NET INCOME AND RESULTS OF OPERATIONS

The primary factors contributing to the change in consolidated net income for the three months ended March 31, 2015 compared with the three months ended March 31, 2014 are presented below followed by further discussion of these items.

| (unaudited, $ millions) | | |
|---|---|---|
| **Consolidated net income for the three months ended March 31, 2014** | | **38** |
| Increase (decrease) in adjusted EBITDA: | | |
| Alberta commercial plants and portfolio optimization | 4 | |
| U.S. contracted plants | 5 | |
| Corporate | 1 | |
| Change in unrealized net gains or losses related to the fair value of commodity derivatives and emission credits | 24 | 34 |
| Increase in depreciation and amortization expense | | (5) |
| Increase in foreign exchange loss | | (4) |
| Increase in finance expense including change in unrealized net gains or losses related to the fair value of interest rate derivatives | | (5) |
| Increase in income before tax | | 20 |
| Increase in income tax expense | | (8) |
| **Increase in net income** | | **12** |
| **Consolidated net income for the three months ended March 31, 2015** | | **50** |

## Results by Plant Category and Other

| | Three months ended March 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| | **Electricity generation** (GWh) [1] | | **Plant availability** (%) [2] | | **Revenues** (unaudited, $ millions) | | **Adjusted EBITDA** (unaudited, $ millions) [3] | |
| Total electricity generation, average plant availability and plant revenues excluding acquired Sundance PPA | 3,398 | 3,241 | 98 | 94 | 178 | 210 | | |
| **Alberta commercial plants and acquired Sundance PPA** | | | | | | | | |
| Genesee 3 | 493 | 466 | 100 | 96 | 13 | 28 | | |
| Keephills 3 | 457 | 399 | 100 | 100 | 13 | 24 | | |
| Clover Bar Energy Centre 1, 2 and 3 | 70 | 108 | 97 | 97 | 5 | 15 | | |
| Joffre | 86 | 118 | 99 | 100 | 7 | 13 | | |
| Shepard Energy Centre | 60 | N/A | 80 | N/A | 2 | N/A | | |
| Halkirk | 136 | 138 | 99 | 96 | 9 | 13 | | |
| Clover Bar Landfill Gas | 2 | 3 | 100 | 75 | - | - | | |
| Alberta commercial plants – owned | 1,304 | 1,232 | 97 | 98 | 49 | 93 | | |
| Acquired Sundance PPA | 691 | 750 | 92 | 89 | 21 | 40 | | |
| Portfolio optimization [4] | N/A | N/A | N/A | N/A | 160 | 55 | | |
| | 1,995 | 1,982 | 95 | 94 | 230 | 188 | 63 | 59 |
| **Alberta contracted plants** | | | | | | | | |
| Genesee 1 | 815 | 678 | 98 | 83 | | | | |
| Genesee 2 | 836 | 832 | 100 | 93 | | | | |
| | 1,651 | 1,510 | 99 | 88 | 66 | 63 | 42 | 42 |
| **Ontario and British Columbia contracted plants** | | | | | | | | |
| Island Generation | - | 115 | 100 | 100 | 10 | 10 | | |
| Kingsbridge 1 | 31 | 34 | 97 | 95 | 2 | 2 | | |
| Port Dover and Nanticoke | 91 | 93 | 99 | 98 | 11 | 12 | | |
| Quality Wind | 108 | 97 | 98 | 95 | 13 | 13 | | |
| | 230 | 339 | 99 | 98 | 36 | 37 | 30 | 30 |
| **U.S. contracted plants** | | | | | | | | |
| Roxboro, North Carolina | 59 | 39 | 97 | 90 | 7 | 4 | | |
| Southport, North Carolina | 129 | 121 | 89 | 99 | 17 | 13 | | |
| Macho Springs, New Mexico [5] | 25 | N/A | 99 | N/A | 3 | N/A | | |
| | 213 | 160 | 94 | 96 | 27 | 17 | 5 | - |
| **Corporate** [6] | | | | | (13) | 2 | (24) | (25) |
| Unrealized changes in fair value of commodity derivatives and emission credits | | | | | 12 | 1 | 31 | 7 |
| **Consolidated revenues and adjusted EBITDA** | | | | | **358** | **308** | **147** | **113** |

1 Electricity generation reflects the Company's share of plant output.

2 Plant availability represents the percentage of time in the period that the plant was available to generate power regardless of whether it was running, and therefore is reduced by planned and unplanned outages.

3 The financial results by plant category, except for adjusted EBITDA, were prepared in accordance with GAAP. See Non-GAAP Financial Measures.

4 The results of the previously reported other portfolio activities category were included in the Alberta commercial plants and acquired Sundance PPA category effective January 1, 2014.

5 Macho Springs was acquired in December 2014.

6 Corporate revenues were offset by interplant category eliminations.

***Energy prices and hedged positions***

| | | Three months ended March 31 | | Year ended December 31, 2014 |
|---|---|---|---|---|
| **Alberta** | **Unit** | **2015** | **2014** | |
| Hedged position [1] | Percentage sold forward at beginning of period (%) | 97 | 100 | 100 |
| Spot power price average | $ per MWh | 29 | 61 | 49 |
| Realized power price [2] | $ per MWh | 59 | 58 | 58 |
| Natural gas price (AECO) [3] | $ per gigajoule (Gj) | 2.63 | 5.45 | 4.49 |

1 Hedged position is for the Alberta baseload plants and acquired Sundance PPA plus a portion of Joffre and the uncontracted portion of Shepard Energy Centre baseload.

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

3 AECO refers to the historical virtual trading hub located in Alberta and known as the Nova Inventory Transfer system operated by TransCanada Pipelines Limited.

***Alberta commercial plants, acquired Sundance PPA and portfolio optimization***

The Alberta spot power price average of $29 per MWh for the three months ended March 31, 2015 was significantly lower than the corresponding period of 2014 which had a spot power price average $61 per MWh. The lower 2015 average price reflected minimal market volatility due to greater generation from Shepard Energy Centre, warmer weather, increased wind capacity, and lower market demand.

For the three months ended March 31, 2015, generation and availability was consistent with the same period in 2014. Generation from Shepard Energy Centre, improved availability at Genesee 3, and lower derates (reductions in power generation capacity) at Keephills 3 were offset by lower dispatch of Clover Bar Energy Centre and Joffre due to market conditions. The acquired Sundance PPA units experienced fewer outages but had increased derates compared with the same period in 2014.

As a result of the lower spot prices, Alberta commercial plant results were lower in the first quarter of 2015 compared with the same period in 2014. However, the portfolio optimization results were greater because the Company was fully hedged at an average realized price of $59 per MWh compared with the spot power price average of $29 per MWh. In addition, the Specified Gas Emitters Regulation compliance requirements were lower in the first quarter of 2015 compared with the same period in 2014 as the Company elected to meet its obligations by using its inventory of lower cost $CO_2$ credits.

***Alberta contracted plants***

For the three months ended March 31, 2015 compared with the same period in 2014, increased generation and availability were due to fewer outages at Genesee 1. Revenues and adjusted EBITDA for first quarter 2015 and first quarter 2014 were consistent due to increased availability payments offset by the impact of lower rolling average prices and increased coal costs.

***Ontario and British Columbia contracted plants***

For the three months ended March 31, 2015 compared with the same period in 2014, decreased generation reflected Island Generation not being dispatched for the first quarter of 2015.

Revenues and adjusted EBITDA for the first three months of 2015 were consistent with the same period in 2014. Island Generation's decreased generation had little impact on revenues and adjusted EBITDA because, under the terms of the Island Generation agreement, revenues are based on deemed generation which is determined based on the plant's availability. Deemed generation for the three months ended March 31, 2015 was consistent with the corresponding period in 2014.

***U.S. contracted plants***

For the three months ended March 31, 2015 compared with the same period in 2014, increased generation reflected greater availability at Roxboro, increased off-peak generation at Southport, and the addition of Macho Springs. Availability was lower for the first three months ended March 31, 2015 compared with the same period in 2014 due to increased outages at Southport.

Revenues and adjusted EBITDA increased compared with the same period in 2014 due to increased generation from Roxboro and Southport and increased contracted prices for the sales of renewable energy certificates. In addition, the December 2014 acquisition of Macho Springs positively impacted quarter-over-quarter comparable revenues and adjusted EBITDA.

### *Corporate*

Corporate includes (i) revenues for cost recoveries, (ii) the cost of support services such as treasury, finance, internal audit, legal, human resources, corporate risk management, asset management, and environment, health and safety, and (iii) business development expenses. The cost recovery revenues are primarily intercompany revenues which are offset by interplant category transactions.

The Corporate category's net expenditures for the quarter ended March 31, 2015 were consistent compared with the quarter ended March 31, 2014.

### *Unrealized changes in fair value of commodity derivatives and emission credits*

| (unaudited, $ millions) | Three months ended March 31 | | | |
|---|---|---|---|---|
| **Unrealized changes in fair value of commodity derivatives and emission credits** | **2015** | **2014** | **2015** | **2014** |
| | **Revenues** | | **Adjusted EBITDA** | |
| Unrealized gains (losses) on Alberta energy derivatives | 38 | (1) | 21 | 2 |
| Unrealized (losses) gains on natural gas derivatives | (28) | - | 8 | (1) |
| Unrealized gains on emission portfolio activities | 2 | - | 2 | - |
| Unrealized gains on emission credits held for trading | - | - | - | 4 |
| Other | - | 2 | - | 2 |
| | **12** | **1** | **31** | **7** |

[1] The financial results, except for adjusted EBITDA, were prepared in accordance with GAAP. See Non-GAAP Financial Measures.

The Company's financial results relating to its Alberta commercial plants and portfolio optimization include unrealized changes in the fair value of commodity and other derivatives.

When a derivative instrument settles, the unrealized fair value changes recorded in prior periods for that instrument are reversed and included in this category. The gain or loss realized upon settlement is reflected in adjusted EBITDA for the applicable plant or Corporate category.

Alberta desk electricity portfolio activity in the three months ended March 31, 2015 accounted for unrealized net gains of $21 million. The gains were primarily attributed to the impact of decreasing Alberta forward power prices combined with the portfolio's net forward sales contracts. During the three months ended March 31, 2014, the Company recognized unrealized net gains of $2 million which reflected the reversal of previously recognized unrealized net losses partly offset by the impact of increasing Alberta forward prices on the portfolio's net forward sales contracts.

During the three months ended March 31, 2015, the Company recognized unrealized net gains of $8 million on natural gas derivatives which primarily reflected the reversal of previously recognized unrealized net losses compared with the same period in 2014 when the Company recognized unrealized net losses of $1 million which reflected the reversal of previously recognized unrealized net gains.

Emission portfolio activities for the first quarter of 2015 accounted for unrealized net gains of $2 million. The unrealized gains were primarily driven by the impact of decreasing North Carolina renewable energy certificate prices combined with the portfolio's net forward sales contracts.

During the first three months ended March 31, 2014, the Company recognized unrealized net gains of $4 million on its emission credits held for trading. The unrealized net gains reflected the impact of valuing inventory at market prices higher than the initial cost.

## Consolidated Other Expenses and Non-controlling Interests

| (unaudited, $ millions) | Three months ended March 31 | |
|---|---|---|
| | 2015 | 2014 |
| Interest on borrowings less capitalized interest | (13) | (12) |
| Other finance expense – sundry interest and guarantee and other fees | (1) | (2) |
| | (14) | (14) |
| Unrealized (loss) gain representing changes in the fair value of interest rate derivatives | (2) | 2 |
| Other finance expense - amortization and accretion charges | (1) | (1) |
| Other finance expense – finance charges incurred on repurchase of debt | (1) | - |
| Total finance expense | (18) | (13) |
| Depreciation and amortization | (51) | (46) |
| Foreign exchange loss | (8) | (4) |
| Income tax expense | (20) | (12) |
| Net (income) attributable to non-controlling interests | (10) | (6) |

### *Finance expense*

Finance expense increased primarily due to the swing caused by the recognition of an unrealized loss on interest rate swaps of $2 million during the three months ended March 31, 2015 and the recognition of an unrealized gain on interest rate swaps of $2 million during the three months ended March 31, 2014.

### *Depreciation and amortization*

Depreciation and amortization for the three months ended March 31, 2015 increased $5 million compared with the same period in the prior year primarily due to additional expense recognized for Macho Springs which was acquired in December 2104 and for Shepard Energy Centre which commenced commercial operations in March 2015.

### *Foreign exchange loss*

As at March 31, 2015, the Company had outstanding U.S. dollar denominated debt payable totalling US$295 million. Approximately US$195 million is hedged for accounting purposes using foreign currency swaps. Foreign exchange loss consisted of the loss incurred on the revaluation of U.S. dollar denominated debt not hedged for accounting purposes. For the three months ended March 31, 2015, the exchange rate of the Canadian dollar relative to the U.S. dollar decreased resulting in an unrealized loss of $8 million.

### *Income tax expense*

Income tax expense increased $8 million due to higher taxable income and higher effective income tax rates for the three months ended March 31, 2015 compared with the same period in the prior year.

### *Non-controlling interests*

For the three months ended March 31, 2015, 18% (three months ended March 31, 2014 – 19%) of CPLP's net income was attributable to EPCOR which is reported as net income attributable to non-controlling interests by the Company. Net income attributable to non-controlling interests also included the Genesee Coal Mine Assets (Coal Mine) partner's share of the consolidated net income of the Coal Mine. Subsequent to March 31, 2015, EPCOR disposed of all its interest in CPLP (see Subsequent Event) so non-controlling interests for future periods will consist only of the Coal Mine partner's share of consolidated net income of the Coal Mine.

## COMPREHENSIVE INCOME

| (unaudited, $ millions) | Three months ended March 31 | |
|---|---|---|
| | 2015 | 2014 |
| Net income | 50 | 38 |
| Other comprehensive income (loss): | | |
| Net unrealized gains (losses) on commodity derivatives designated as cash flow hedges | 48 | (13) |
| Net realized (gains) losses and ineffective portion of unrealized losses on commodity derivatives designated as cash flow hedges reclassified to revenues and/or energy purchases and fuel | (22) | 5 |
| Unrealized foreign exchange gains on the translation of foreign operations | 16 | 8 |
| | 42 | - |
| **Comprehensive income** | **92** | **38** |

Other comprehensive income includes fair value adjustments on financial instruments held by the Company to hedge market risks and which meet the requirements of hedges for accounting purposes. To the extent that such hedges are ineffective, any related gains or losses are recognized in net income. Other unrealized fair value changes on derivatives designated as cash flow hedges and foreign currency translation gains or losses are subsequently recognized in net income when the hedged transactions are completed and the foreign operations are disposed of or otherwise terminated.

## FINANCIAL POSITION

| (unaudited, $ millions) | March 31, 2015 | December 31, 2014 | Increase (decrease) | Primary reason for increase (decrease) |
|---|---|---|---|---|
| Trade and other receivables | 170 | 185 | (15) | Lower trade receivables related to Alberta operations resulting from lower power prices partly offset by contribution receivable from ENMAX. |
| Inventories | 112 | 104 | 8 | Increased coal fuel inventory and emission credits held for trading. |
| Net derivative financial instruments assets | 206 | 113 | 93 | Impact of decreased Alberta forward power prices on the fair value of forward sales contracts. |
| Equity-accounted investment | 11 | 22 | (11) | Reduction of Capital Power's share of net assets of K2 Wind due to mark-to-market valuation of interest rate hedges. |
| Property, plant and equipment | 3,740 | 3,701 | 39 | Capital additions (most significantly, Shepard Energy Centre) partly offset by depreciation and amortization. |
| Deferred revenue and other liabilities (including current portion) | 117 | 103 | 14 | Contribution from ENMAX related to Shepard Energy Centre. |
| Provisions (including current portion) | 229 | 220 | 9 | Increased decommissioning provisions resulting from discount rate changes partly offset by the payment of employee benefits. |
| Net deferred tax liabilities | 255 | 228 | 27 | Changes in net derivative financial instruments assets. |
| Share capital | 2,402 | 2,391 | 11 | Shares issued under the Dividend Re-investment Plan. |
| Retained earnings | 30 | 25 | 5 | Net income in excess of common and preferred share dividends. |
| Other reserves | 68 | 35 | 33 | Unrealized gains on cash flow hedges and investment in foreign operations. |
| Non-controlling interests | 566 | 552 | 14 | Comprehensive income attributed to non-controlling interests partly offset by distributions. |

## LIQUIDITY AND CAPITAL RESOURCES

| (unaudited, $ millions) | Three months ended March 31 | | |
|---|---|---|---|
| **Cash inflows (outflows)** | **2015** | **2014** | **Increase (decrease)** |
| Operating activities | 107 | 84 | 23 |
| Investing activities | (18) | (68) | 50 |
| Financing activities | (83) | (12) | (71) |

### Operating activities

Cash flows from operating activities for the three months ended March 31 increased on a quarter-over-quarter basis primarily due to increased plant adjusted EBITDA and lower cash outflows from operating working capital.

### Investing activities

Cash flows used in investing activities for the three months ended March 31, 2015 included $52 million for purchases of property, plant and equipment and other assets (three months ended March 31, 2014 - $75 million) partly offset by $24 million of cash inflows from changes in payable balances related to capital expenditures (three months ended March 31, 2014 – cash outflows of $6 million). Cash flows from investing activities also included $10 million for cash proceeds on sale of emission credits and other miscellaneous cash receipts (three months ended March 31, 2014 - $13 million).

***Capital expenditures and investments***

| (unaudited, $ millions) | Pre-2015 Actual | Three months ended March 31, 2015 Actual | Balance of 2015 Estimated [1] | Actual or Projected Total [2] | Timing |
|---|---|---|---|---|---|
| K2 Wind [3] | 44 | 1 | - | 310 | Projected completion 2015 |
| Shepard Energy Centre | 811 | 43 | - | 854 | Commercial operation commenced March 2015 |
| Genesee 4 and 5 [4] | 2 | 1 | 11 | 700 | Targeted completion of first unit 2019 |
| **Subtotal growth projects** | | **45** | | | |
| Sustaining – plant maintenance excluding Genesee mine | | 4 | | | |
| Sustaining – Genesee mine maintenance and lands [5] | | 1 | | | |
| Sustaining – other | | 1 | | | |
| **Total capital expenditures** [6] | | **51** | | | |
| Emission credits held for compliance | | 9 | | | |
| Capitalized interest | | (8) | | | |
| **Purchase of property, plant and equipment and other assets** | | **52** | | | |

1 The Company's 2015 estimated capital expenditures include only expenditures for previously announced growth projects and exclude other potential new development projects.

2 Projected capital expenditures to be incurred over the life of the project are based on management's estimates.

3 Capital Power entered into a limited partnership agreement to develop K2 Wind which is expected to be in operation later in 2015. The actual 2014 expenditures for K2 Wind primarily consist of the Company's estimated equity contribution to the K2 Wind partnership. The projected total of $310 million is Capital Power's share of the K2 Wind partnership's expected capital expenditures including both debt and equity financed components.

4 Excludes interest to fund construction and refundable transmission system contribution payments.

5 Capital expenditures for Genesee mine maintenance represent only those capital expenditures funded by the Company for its share of the Genesee mine operation.

6 Capital expenditures include capitalized interest. Capital expenditures excluding capitalized interest are presented on the Statement of Cash Flows as purchase of property, plant and equipment and other assets.

## Financing activities

The cash flows used in financing activities for the three months ended March 31, 2015 primarily reflected the sum of distributions to non-controlling interests, common share dividends, and preferred share dividends paid of $29 million, repayment of loans and borrowings of $44 million and interest paid that was capitalized of $8 million.

The Company's credit facilities consisted of:

| (unaudited, $ millions) | | As at March 31, 2015 | | | As at December 31, 2014 | | |
|---|---|---|---|---|---|---|---|
| | Maturity timing | Total facilities | Credit facility utilization | Available | Total facilities | Credit facility utilization | Available |
| CPLP committed credit facility | 2018 | 1,200 | | | 1,200 | | |
| Letters of credit outstanding | | | 113 | | | 122 | |
| U.S. dollar bank loans outstanding | | | - | | | 17 | |
| | | 1,200 | 113 | 1,087 | 1,200 | 139 | 1,061 |
| CPLP demand facility | N/A | 20 | - | 20 | 20 | - | 20 |
| Capital Power Corporation demand facility | N/A | 5 | - | 5 | 5 | - | 5 |
| | | **1,225** | **113** | **1,112** | **1,225** | **139** | **1,086** |

As at March 31, 2015, the committed credit facility utilization decreased $26 million compared with the utilization as at December 31, 2014 primarily due to repayment of U.S, dollar bank loans outstanding at December 31, 2014. The committed credit facility includes an accordion feature that permits an increase to the facility size by $300 million in the future, subject to certain conditions including lender approval. The maturity date of CPLP's credit agreements is July 9, 2018. The available credit facilities provide the Company with adequate funding for ongoing development projects.

CPLP has a corporate credit rating of BBB- with a stable outlook from Standard & Poor's (S&P). According to S&P, a BBB- corporate credit rating exhibits adequate capacity to meet financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

CPLP has a long-term debt credit rating of BBB from DBRS Limited (DBRS). The BBB rating assigned by DBRS is the fourth highest rating of DBRS' ten rating categories for long-term debt obligations. According to DBRS, long-term debt rated BBB is of adequate credit quality. The capacity of the payment of financial obligations is considered acceptable but the entity is vulnerable to future events.

The above credit ratings from S&P and DBRS are investment grade credit ratings which enhance CPLP's ability to re-finance existing debt as it matures and to access cost competitive capital for future growth.

## Future cash requirements

The following estimates of future cash requirements are subject to variable factors including those discussed in Forward-looking Information. Capital Power's expected cash requirements for 2015 include:

| (unaudited, $millions) | 2015 Expected Cash Requirements |
|---|---|
| Medium-term note settlement and/or repayment | 249 |
| Capital expenditures excluding capitalized interest and emission credits held for compliance | 121 |
| Share buyback | 75 |
| Common share dividends | 122 |
| Preferred share dividends | 22 |
| CPLP distributions to EPCOR | 13 |

The current portion of loans and borrowings on the March 31, 2015 statement of financial position included $334 million senior debt payable to EPCOR which was classified as current since the debt is callable and, therefore, potentially repayable in 2015 (see Transactions with Related Parties).

The Company expects to fund the construction of the Genesee 4 and 5, Shepard Energy Centre and K2 Wind projects using existing bank credit facilities and cash flows from operating activities. K2 Wind will be financed by non-recourse project debt issued by the K2 Wind limited partnership. The Company's other cash requirements identified above are expected to be funded with cash on hand, cash flows from operating activities, use of existing bank credit facilities, and, if necessary, the issuance of long-term debt.

The Company uses short-form base shelf prospectuses to provide it with the ability, market conditions permitting, to obtain new debt and equity capital from external markets when required. Under the short-form base shelf prospectuses, Capital Power may raise up to $3 billion by issuing common shares, preferred shares, subscription receipts exchangeable for common shares and/or other securities of the Company and/or debt securities, and up to $1 billion by issuing medium-term notes with maturities of not less than one year. These prospectuses expire in January 2017.

If instability reoccurs in the Canadian and U.S. financial markets, Capital Power's ability to raise new capital, to meet its financial requirements, and to refinance indebtedness under existing credit facilities and debt agreements may be adversely affected. Capital Power has credit exposure relating to various agreements, particularly with respect to its PPA, trading and supplier counterparties. While Capital Power continues to monitor its exposure to its significant counterparties, there can be no assurance that all counterparties will be able to meet their commitments.

### Off-statement of financial position arrangements

The Company has off-statement of financial position arrangements including operating leases and, as at March 31, 2015, $113 million of outstanding letters of credit for collateral support for trading operations, conditions of certain service agreements and to satisfy legislated reclamation requirements. If the Company were to terminate these off-statement of financial position arrangements, the penalties or obligations would not have a material impact on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

### Capital resources

| (unaudited, $ millions) | As at | |
|---|---|---|
| | **March 31, 2015** | **December 31, 2014** |
| Loans and borrowings | 1,583 | 1,586 |
| Less cash and cash equivalents | 80 | 71 |
| Net debt | 1,503 | 1,515 |
| Share capital | 2,402 | 2,391 |
| Retained earnings and other reserves | 98 | 60 |
| Non-controlling interests | 566 | 552 |
| Total equity | 3,066 | 3,003 |
| **Total capital** | **4,569** | **4,518** |

## CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

There were no changes to the Company's purchase obligations and commitments since December 31, 2014 that would be material to the Company's business or financial position. For further information on contractual obligations, refer to the Company's December 31, 2014 MD&A.

### Contingent liabilities

Capital Power is participating in a line loss factor proceeding underway before the Alberta Utilities Commission (AUC) regarding factors that form the basis for certain transmission charges paid by Alberta generators including Capital Power. This proceeding intends to address the factors to be applied for the years 2006 forward and is expected to be completed in three modules. In January 2015, the AUC issued its decision in Module A of the line loss factor proceeding that the AUC has the jurisdiction and authority to retrospectively change the line loss rule and related loss factors and that such changes as may be determined will be applied retroactively. Module B will address the replacement line loss factors and rules. Module C will address the compensation to be paid or received by the various parties. It is expected that a Module B decision will be issued no earlier than the third quarter of 2015 while the timing of a Module C decision is unknown. There are many variables and considerations that must be taken into account in establishing transmission line loss factors and new line loss factors have not been established nor has any mechanism for the sharing of any retrospective adjustments been established. Capital Power may incur material additional transmission charges on a retrospective and go-forward basis but a provision has not been recorded in the Company's financial statements since the outcome of the proceeding is not known.

The Company and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Company arising from these claims is immaterial and therefore no provision has been made.

## TRANSACTIONS WITH RELATED PARTIES

| (unaudited, $ millions) | | Three months ended March 31 | |
|---|---|---|---|
| | **Note** | **2015** | **2014** |
| **EPCOR (shareholder)** | | | |
| CPLP distributions paid | (a) | 6 | 6 |
| Purchase of distribution and transmission services | (b) | - | 2 |
| Purchase of other services | (b) | 2 | 2 |
| Power sales | (b) | 5 | 2 |
| Interest incurred on unsecured senior debt payable | (c) | 5 | 5 |
| | | | |
| **The City of Edmonton (sole shareholder of EPCOR)** | | | |
| Power sales | (b) | - | 1 |

| | | As at | |
|---|---|---|---|
| | **Note** | **March 31, 2015** | **December 31, 2014** |
| **EPCOR (shareholder)** | | | |
| Trade and other receivables | (b) | 3 | 3 |
| Trade and other payables | (b) | 9 | 13 |
| Provision for future maintenance costs associated with EPCOR's Rossdale plant | (d) | 2 | 2 |
| Loans and borrowings | (c) | 334 | 334 |

(a) As at March 31, 2015 and December 31, 2014, EPCOR owned 18.841 million exchangeable common limited partnership units of CPLP (representing 18% of CPLP), and 18.841 million accompanying special voting shares and one special limited voting share of Capital Power Corporation. In connection with EPCOR's unitholdings, CPLP paid distributions to EPCOR for the three months ended March 31, 2015 and 2014. See Subsequent Event for changes subsequent to March 31, 2015.

(b) The power sales and purchase of other services transactions with EPCOR and the City of Edmonton were in the normal course of operations and were recorded at exchange amounts based on normal commercial rates. The Company has a lease agreement with EPCOR for office space that requires payment to EPCOR of $5 million per year through 2031.

(c) The Company's unsecured senior debt payable to EPCOR, at interest rates ranging from 5.80% to 9.00% per annum, matures between 2015 and 2018. As at March 31, 2015, since EPCOR owns less than 20% of the outstanding limited partnership units of CPLP, EPCOR may, by written notice, require repayment of all or any portion of the outstanding principal amount of this debt and accrued interest thereon. If the principal amount specified in such repayment is less than $200 million, then it and the accrued interest thereon shall be payable on or before 180 days after delivery of notice, and if it is $200 million or more, then it and the accrued interest thereon shall be payable on or before 365 days after delivery of notice.

(d) The Rossdale plant, which is owned by EPCOR, was taken out of service in January 2009 and was decommissioned. Certain structures at the plant site were designated as Provincial Historical Resources by the Province of Alberta and are thereby legally protected from demolition. These structures, and additional structures at the plant site, are also on the City of Edmonton's Register of Historic Resources. CPLP has an obligation to EPCOR to share in some of the costs for ongoing operations and maintenance of the Rossdale plant and related assets until 2019.

## RISKS AND RISK MANAGEMENT

There have been no material changes in the three months ended March 31, 2015 to the Company's business and operational risks as described in the Company's December 31, 2014 MD&A.

## ENVIRONMENTAL MATTERS

The Company recorded decommissioning provisions of $180 million as at March 31, 2015 ($161 million as at December 31, 2014) for its generation plants and the Genesee coal mine as it is obliged to remove the facilities at the end of their useful lives and restore the plant and mine sites to their original condition. Decommissioning provisions for the coal mine are incurred over time as new areas are mined, and a portion of the liability is settled over time as areas are reclaimed prior to final pit reclamation.

The Company is obligated to purchase environmental credits totaling approximately $30 million in the current and future years and expects to mostly use these credits to comply with applicable environmental regulations.

## USE OF JUDGEMENTS AND ESTIMATES

In preparing the consolidated financial statements, management necessarily made estimates in determining transaction amounts and financial statement balances. There have been no significant changes to the Company's use of judgements and estimates as described in the Company's December 31, 2014 MD&A.

## ACCOUNTING CHANGES

### Effective January 1, 2015

There were no significant changes to accounting standards that were effective January 1, 2015 and that were adopted or applied by the Company.

### Future

The IASB issued the following new standards and amendments to existing standards that were not yet effective as of March 31, 2015 and which may significantly impact Capital Power:

| Standard | Description | Impact to Capital Power | Effective Date |
|---|---|---|---|
| General hedge accounting (amendments to IFRS 9, IFRS 7, and IAS 39) | Potentially provides that hedge accounting may be applied to more hedge strategies, that some own use contracts may be fair valued, and to remove the bright line assessment of hedge effectiveness. | May be able to apply hedge accounting to more hedge strategies. Capital Power is currently analyzing the requirements to determine how best to apply them, determine system requirements, and develop the required disclosures. | These amendments do not have a mandatory effective date but are available for application under IFRS 9 or IAS 39. |
| Acquisition of an interest in a joint operation (amendments to IFRS 11) | Provides guidance on how a joint operator accounts for the acquisition of an interest in a joint operation that is a business. It requires a joint operator to account for such an acquisition by applying IRFS 3 Business Combinations and other standards, and disclosing the relevant information specified in those IFRSs for business combinations. | No immediate impact but would affect applicable future transactions. | Effective for annual periods beginning on or after January 1, 2016; early application permitted. |
| Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28) | Provides that a full gain or loss will be recognized on the loss of control of a business (whether it is housed in a subsidiary or not) including cases in which the investor retains joint control of, or significant influence over, the investee. | No immediate impact but would affect applicable future transactions. | Effective for annual periods beginning on or after January 1, 2016; early application permitted. |
| Revenue from contracts with customers (IFRS 15) | New standard on revenue recognition consisting of a single and comprehensive framework for revenue recognition to ensure consistent treatment for all transactions in all industries and capital markets. | May change the timing of revenue recognized from any contracts with a number of discrete performance obligations (multiple-element arrangements), require separate line disclosure of credit losses, and require more extensive disclosures on annual and interim basis. | Effective for annual periods beginning on or after January 1, 2017; early application permitted and to be applied retrospectively. |
| Financial instruments (IFRS 9) | New standard, replacing IAS 39, which addresses requirements for classification and measurement, impairment, hedge accounting and derecognition of financial assets and liabilities. | May change the measurement of certain financial instruments and the recording of expected credit losses. Capital Power is currently analyzing the requirements to determine how best to apply them, determine system requirements, and develop the required disclosures. | Effective for annual periods beginning on or after January 1, 2018; early application permitted. |

## FINANCIAL INSTRUMENTS

The classification, carrying amounts and fair values of financial instruments held at March 31, 2015 and December 31, 2014 were as follows:

| (unaudited, $ millions) | Classification | Fair value hierarchy level | March 31, 2015 Carrying amount | March 31, 2015 Fair value | December 31, 2014 Carrying amount | December 31, 2014 Fair value |
|---|---|---|---|---|---|---|
| **Financial assets:** | | | | | | |
| Cash and cash equivalents | Loans and receivables | N/A | 80 | 80 | 71 | 71 |
| Trade and other receivables | Loans and receivables | N/A | 170 | 170 | 185 | 185 |
| Derivative financial instruments assets – current and non-current | Financial assets designated at fair value through income or loss | See below | 287 | 287 | 187 | 187 |
| Finance lease receivables | Loans and receivables | Level 2 | 704 | 709 | 708 | 726 |
| Other financial assets | Loans and receivables | Level 2 | 13 | 14 | 16 | 17 |
| **Financial liabilities:** | | | | | | |
| Trade and other payables | Other financial liabilities | N/A | 190 | 190 | 185 | 185 |
| Derivative financial instruments liabilities – current and non-current | Financial liabilities designated at fair value through income or loss | See below | 81 | 81 | 74 | 74 |
| Loans and borrowings (including current portion) | Other financial liabilities | Level 2 | 1,583 | 1,699 | 1,586 | 1,670 |

### Risk management and hedging activities

There have been no material changes in the three months ended March 31, 2015 to the Company's risk management and hedging activities as described in the Company's December 31, 2014 MD&A.

The derivative financial instruments assets and liabilities held at March 31, 2015 compared with December 31, 2014 and used for risk management purposes were measured at fair value and consisted of the following:

| (unaudited, $ millions) | Fair value hierarchy level | As at March 31, 2015 Commodity cash flow hedges | Commodity non-hedges | Foreign exchange hedges | Interest rate non-hedges | Total |
|---|---|---|---|---|---|---|
| Derivative financial instruments assets | Level 1 | - | - | - | - | - |
| | Level 2 | 82 | 155 | 44 | 6 | 287 |
| | Level 3 | - | - | - | - | - |
| | | 82 | 155 | 44 | 6 | 287 |
| Derivative financial instruments liabilities | Level 1 | - | - | - | - | - |
| | Level 2 | (4) | (67) | - | (10) | (81) |
| | Level 3 | - | - | - | - | - |
| | | (4) | (67) | - | (10) | (81) |
| **Net derivative financial instruments assets (liabilities)** | | **78** | **88** | **44** | **(4)** | **206** |

| (unaudited, $ millions) | Fair value hierarchy level | As at December 31, 2014 Commodity cash flow hedges | Commodity non-hedges | Foreign exchange hedges | Interest rate non-hedges | Total |
|---|---|---|---|---|---|---|
| Derivative financial instruments assets | Level 1 | - | - | - | - | - |
| | Level 2 | 53 | 109 | 21 | 4 | 187 |
| | Level 3 | - | - | - | - | - |
| | | 53 | 109 | 21 | 4 | 187 |
| Derivative financial instruments liabilities | Level 1 | - | - | - | - | - |
| | Level 2 | (3) | (66) | - | (5) | (74) |
| | Level 3 | - | - | - | - | - |
| | | (3) | (66) | - | (5) | (74) |
| **Net derivative financial instruments assets (liabilities)** | | **50** | **43** | **21** | **(1)** | **113** |

### Commodity and foreign exchange derivatives designated as accounting hedges

Unrealized gains and losses for fair value changes on commodity and foreign exchange derivatives that qualify for hedge accounting are recorded in other comprehensive income and, when realized, are reclassified to net income as revenues, energy purchases and fuel or foreign exchange gains and losses.

### Commodity and interest rate derivatives not designated as accounting hedges

The change in fair values of commodity derivatives not designated as hedges is primarily due to changes in forward Alberta power prices and their impact on the Alberta power portfolio. Unrealized and realized gains and losses for fair value changes on commodity derivatives that do not qualify for hedge accounting are recorded in net income as revenues or energy purchases and fuel.

Unrealized and realized losses on interest rate derivatives that are not designated as hedges for accounting purposes are recorded in net income as finance expense.

### Fair value measurement

Fair values for Level 1 financial assets and liabilities are based on unadjusted quoted prices in active markets for identical instruments while fair values for Level 2 financial assets and liabilities are generally based on indirectly observable prices. The determination of fair values for Level 3 financial assets and liabilities is performed by the Company’s commodity risk group and reviewed by management. These fair values are partly based on the key unobservable inputs of volatilities and correlations of the relative price changes in underlying prices. These volatilities and correlations are estimated using an exponentially-weighted moving average based on historical forward prices. When required, sensitivity analysis for significant Level 3 financial instruments is performed.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes in the Company’s disclosure controls and procedures and internal controls over financial reporting that occurred during the three months ended March 31, 2015 that have materially affected or are reasonably likely to materially affect the Company’s disclosures of required information and internal control over financial reporting.

## SUMMARY OF QUARTERLY RESULTS

| (GWh) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Electricity generation** | **Mar 31 2015** | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** |
| Total generation excluding acquired Sundance PPA | 3,398 | 3,204 | 3,220 | 2,711 | 3,241 | 3,925 | 4,317 | 3,746 |
| **Alberta commercial plants and acquired Sundance PPA** | | | | | | | | |
| Genesee 3 | 493 | 369 | 473 | 438 | 466 | 463 | 480 | 493 |
| Keephills 3 | 457 | 433 | 461 | 381 | 399 | 418 | 483 | 296 |
| Clover Bar Energy Centre 1, 2 and 3 | 70 | 45 | 77 | 66 | 108 | 60 | 45 | 157 |
| Joffre | 86 | 58 | 77 | 71 | 118 | 95 | 109 | 109 |
| Shepard Energy Centre | 60 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Halkirk | 136 | 146 | 86 | 92 | 138 | 137 | 76 | 118 |
| Clover Bar Landfill Gas | 2 | 3 | 3 | 5 | 3 | 5 | 4 | 4 |
| Alberta commercial plants – owned | 1,304 | 1,054 | 1,177 | 1,053 | 1,232 | 1,178 | 1,197 | 1,177 |
| Acquired Sundance PPA | 691 | 819 | 673 | 521 | 750 | 710 | 659 | 712 |
| | 1,995 | 1,873 | 1,850 | 1,574 | 1,982 | 1,888 | 1,856 | 1,889 |
| **Alberta contracted plants** | | | | | | | | |
| Genesee 1 | 815 | 857 | 854 | 771 | 678 | 842 | 819 | 482 |
| Genesee 2 | 836 | 856 | 841 | 546 | 832 | 802 | 840 | 704 |
| | 1,651 | 1,713 | 1,695 | 1,317 | 1,510 | 1,644 | 1,659 | 1,186 |
| **Ontario and British Columbia contracted plants** | | | | | | | | |
| Island Generation | - | 9 | 6 | - | 115 | 210 | 14 | - |
| Kingsbridge 1 | 31 | 35 | 14 | 22 | 34 | 37 | 12 | 22 |
| Port Dover and Nanticoke | 91 | 91 | 51 | 66 | 93 | 54 | N/A | N/A |
| Quality Wind | 108 | 101 | 71 | 80 | 97 | 113 | 68 | 88 |
| | 230 | 236 | 142 | 168 | 339 | 414 | 94 | 110 |
| **U.S. contracted plants** | | | | | | | | |
| Roxboro, North Carolina | 59 | 74 | 73 | 58 | 39 | 70 | 69 | 57 |
| Southport, North Carolina | 129 | 122 | 133 | 115 | 121 | 128 | 117 | 97 |
| Macho Springs, New Mexico | 25 | 5 | N/A | N/A | N/A | N/A | N/A | N/A |
| | 213 | 201 | 206 | 173 | 160 | 198 | 186 | 154 |
| **U.S. commercial plants** | | | | | | | | |
| Bridgeport, Connecticut | N/A | N/A | N/A | N/A | N/A | 326 | 690 | 678 |
| Rumford, Maine | N/A | N/A | N/A | N/A | N/A | 10 | 57 | 32 |
| Tiverton, Rhode Island | N/A | N/A | N/A | N/A | N/A | 155 | 434 | 409 |
| | N/A | N/A | N/A | N/A | N/A | 491 | 1,181 | 1,119 |

| (%) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Plant availability** | **Mar 31 2015** | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** |
| Total average plant availability excluding acquired Sundance PPA | 98 | 94 | 97 | 92 | 94 | 93 | 97 | 86 |
| **Alberta commercial plants and acquired Sundance PPA** | | | | | | | | |
| Genesee 3 | 100 | 74 | 97 | 96 | 96 | 98 | 100 | 100 |
| Keephills 3 | 100 | 92 | 100 | 100 | 100 | 99 | 100 | 65 |
| Clover Bar Energy Centre 1, 2 and 3 | 97 | 90 | 97 | 98 | 97 | 91 | 93 | 99 |
| Joffre | 99 | 82 | 95 | 95 | 100 | 85 | 95 | 94 |
| Shepard Energy Centre | 80 | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Halkirk | 99 | 98 | 91 | 98 | 96 | 99 | 89 | 99 |
| Clover Bar Landfill Gas | 100 | 87 | 58 | 83 | 75 | 98 | 66 | 91 |
| Alberta commercial plants – owned | 97 | 87 | 96 | 97 | 98 | 94 | 96 | 91 |
| Acquired Sundance PPA | 92 | 96 | 85 | 67 | 89 | 89 | 83 | 93 |
| | 95 | 91 | 91 | 84 | 94 | 92 | 90 | 92 |
| **Alberta contracted plants** | | | | | | | | |
| Genesee 1 | 98 | 100 | 100 | 96 | 83 | 100 | 98 | 61 |
| Genesee 2 | 100 | 100 | 99 | 66 | 93 | 95 | 100 | 86 |
| | 99 | 100 | 99 | 81 | 88 | 98 | 99 | 74 |
| **Ontario and British Columbia contracted plants** | | | | | | | | |
| Island Generation | 100 | 100 | 99 | 100 | 100 | 99 | 100 | 100 |
| Kingsbridge 1 | 97 | 96 | 93 | 97 | 95 | 94 | 95 | 96 |
| Port Dover and Nanticoke | 99 | 97 | 98 | 94 | 98 | 95 | N/A | N/A |
| Quality Wind | 98 | 98 | 93 | 99 | 95 | 98 | 100 | 98 |
| | 99 | 98 | 97 | 98 | 98 | 98 | 99 | 99 |
| **U.S. contracted plants** | | | | | | | | |
| Roxboro, North Carolina | 97 | 100 | 100 | 96 | 90 | 98 | 97 | 88 |
| Southport, North Carolina | 89 | 88 | 85 | 93 | 99 | 91 | 99 | 94 |
| Macho Springs, New Mexico | 99 | 99 | N/A | N/A | N/A | N/A | N/A | N/A |
| | 94 | 92 | 90 | 94 | 96 | 93 | 98 | 92 |
| **U.S. commercial plants** | | | | | | | | |
| Bridgeport, Connecticut | N/A | N/A | N/A | N/A | N/A | 72 | 93 | 83 |
| Rumford, Maine | N/A | N/A | N/A | N/A | N/A | 91 | 100 | 77 |
| Tiverton, Rhode Island | N/A | N/A | N/A | N/A | N/A | 83 | 96 | 93 |
| | N/A | N/A | N/A | N/A | N/A | 79 | 95 | 84 |

## Financial results

| (unaudited, $ millions) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2015** | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** |
| **Revenues** | | | | | | | | |
| Alberta commercial plants, acquired Sundance PPA and portfolio optimization | 230 | 189 | 119 | 130 | 188 | 173 | 202 | 198 |
| Alberta contracted plants | 66 | 69 | 76 | 58 | 63 | 70 | 80 | 27 |
| Ontario and British Columbia contracted plants | 36 | 36 | 21 | 25 | 37 | 33 | 16 | 18 |
| U.S. contracted plants | 27 | 22 | 22 | 22 | 17 | 19 | 20 | 17 |
| U.S. commercial plants and portfolio optimization | - | - | - | - | - | 23 | 63 | 63 |
| Corporate [1] | (13) | (9) | 2 | 18 | 2 | (9) | (4) | 2 |
| Unrealized changes in fair value of commodity derivatives and emission credits | 12 | 125 | 8 | (13) | 1 | 18 | 3 | (4) |
| | **358** | **432** | **248** | **240** | **308** | **327** | **380** | **321** |
| **Adjusted EBITDA** | | | | | | | | |
| Alberta commercial plants, acquired Sundance PPA and portfolio optimization | 63 | 60 | 49 | 43 | 59 | 57 | 104 | 112 |
| Alberta contracted plants | 42 | 41 | 44 | 34 | 42 | 53 | 55 | 7 |
| Ontario and British Columbia contracted plants | 30 | 29 | 15 | 18 | 30 | 26 | 9 | 12 |
| U.S. contracted plant | 5 | 1 | 3 | 3 | - | 1 | 2 | 1 |
| U.S. commercial plants and portfolio optimization | - | - | - | - | - | (1) | 11 | 7 |
| Corporate | (24) | (27) | (25) | (7) | (25) | (34) | (31) | (30) |
| Unrealized changes in fair value of commodity derivatives and emission credits | 31 | 37 | 5 | (13) | 7 | 17 | 1 | (5) |
| | **147** | **141** | **91** | **78** | **113** | **119** | **151** | **104** |

[1] Revenues are offset by interplant category revenue eliminations.

Quarterly revenues, net income and cash flows from operating activities are affected by seasonal weather conditions, fluctuations in U.S. dollar exchange rates relative to the Canadian dollar, power and natural gas prices, and planned and unplanned plant outages and items outside the normal course of operations. Net income is also affected by changes in the fair value of the Company's power, natural gas, foreign exchange and interest rate derivative contracts.

## Financial highlights

| (unaudited, $ millions except per share amounts) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2015** | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** |
| Revenues | 358 | 432 | 248 | 240 | 308 | 327 | 380 | 321 |
| Adjusted EBITDA [1] | 147 | 141 | 91 | 78 | 113 | 119 | 151 | 104 |
| Net income (loss) | 50 | 48 | (57) | 21 | 38 | 98 | 59 | 23 |
| Net income (loss) attributable to shareholders of the Company | 40 | 39 | (45) | 20 | 32 | 77 | 44 | 20 |
| Basic earnings (loss) per share ($) | 0.41 | 0.40 | (0.62) | 0.17 | 0.33 | 0.89 | 0.55 | 0.20 |
| Normalized earnings per share ($) [1] | 0.32 | 0.20 | 0.12 | 0.07 | 0.32 | 0.40 | 0.72 | 0.27 |

[1] The consolidated financial highlights, except for adjusted EBITDA and normalized earnings per share, were prepared in accordance with GAAP. See Non-GAAP Financial Measures.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Spot price averages** | **Mar 31 2015** | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** |
| Alberta power ($ per MWh) | 29 | 30 | 64 | 42 | 61 | 49 | 84 | 123 |
| Alberta natural gas (AECO) ($ per Gj) | 2.63 | 3.43 | 3.81 | 4.46 | 5.45 | 3.33 | 2.32 | 3.36 |
| **Capital Power's Alberta portfolio average realized power price ($ per MWh)** | 59 | 58 | 56 | 57 | 58 | 64 | 85 | 93 |

## Factors impacting results for the previous quarters

Significant events and items which affected results for the previous quarters were as follows:

The results for the quarter ended December 31, 2014 reflected the Genesee 3 major planned outage and the impact of low Alberta power pricing averaging $30 per MWh. Portfolio optimization revenues were strong since the Company hedged a greater portion of its baseload generation by entering into more contracts. Captured prices realized through portfolio optimization were greater than spot prices during the fourth quarter of 2014. Alberta commercial plant results included an $8 million recovery on settlement of a claim with a turbine supplier relating to a component failure at Genesee 3 in 2008. Adjusted EBITDA for the Alberta contracted plants was negatively impacted by costs associated with the wind-up of the Genesee coal mine's defined benefit pension plan. Significant events during the quarter were the acquisition of renewable development sites and the receipt of all major regulatory approvals for Genesee 4 and 5.

Financial results for third quarter 2014 reflected the impact of an extended planned outage and other unplanned outages at the acquired Sundance PPA units and derates at the Keephills 3 plant. The outages occurred primarily in July 2014 coinciding with a period of pricing volatility with Alberta spot power prices in July averaging $122 per MWh compared with $45 per MWh in August 2014 and $24 per MWh in September 2014. With commercial production 100% sold forward in July 2014, the resulting short position was covered at the higher prices. Capital Power's third quarter 2014 net income was also negatively impacted by a non-cash write-down of deferred tax assets of $73 million. The write-down related to the accounting impact of U.S. income tax loss carryforwards that could no longer be recognized for accounting purposes based on the Company's long-term forecast for U.S. taxable income.

In the second quarter of 2014, the results for the Alberta commercial plants reflected seasonally low Alberta power prices, lower generation from the acquired Sundance PPA units, and lower generation at Genesee 3 caused by transmission constraints. However, the results for the Alberta contracted plants were positively impacted by lower rolling average pool prices which caused lower availability penalties on outages in the second quarter of 2014 compared with the same quarter in 2013. Capital Power recorded revenues of $20 million arising from the amendment of the Genesee Coal Mine Agreements. The Company announced a 7.9% increase in the annual dividend for holders of its common shares commencing with the third quarter 2014 quarterly dividend payment.

The 2014 first quarter included the first full quarter of operations and results for Capital Power's Port Dover and Nanticoke wind facility. The Alberta commercial plants' results were impacted by lower pricing experienced in this quarter compared with first quarter 2013. The impact of lower pricing on the significantly hedged portfolio also reduced portfolio optimization results. Additionally, the Company experienced higher costs of emissions compliance. The Genesee 1 unit within the Alberta contracted plants category experienced a 10-day unplanned outage which dampened results. Depreciation and amortization expense was reduced from prior quarters due to the disposal of the North East U.S. assets.

During the quarter ended December 31, 2013, commercial operations of the Port Dover and Nanticoke wind facility commenced while the sale of the North East U.S. assets was completed resulting in a net capacity decrease of 984 MW. The Company recognized a pre-tax gain of $76 million on the sale of the North East U.S. assets. The results for this quarter also included significant unrealized net gains related to the fair value of commodity derivatives and the impact of improved operating results for the Alberta commercial plants and the Ontario and British Columbia contracted plants.

Results of operations for the third quarter of 2013 were influenced by the Alberta spot power average price of $84 per MWh and unplanned plant maintenance outages in the Alberta market. In particular, the high Alberta power prices favourably impacted the Alberta contracted plants' results. The Company announced its agreement with Emera Inc. to sell its North East U.S. plants. This decision to exit North East U.S. market was accompanied by the Company's decision to refocus its merchant power business in Alberta. As a result, the Company recognized a pre-tax impairment loss of $6 million and incurred pre-tax restructuring costs of $9 million in the third quarter of 2013. The purchase of the second tranche of the Company's interest in Shepard Energy Centre was completed during the quarter.

In the second quarter of 2013, Alberta commercial plants had strong results as power prices were driven higher when the Alberta market experienced several planned and unplanned outages. These positive results were partly offset by the results for Alberta contracted plants since Genesee 1 experienced a planned outage and both Genesee 1 and 2 experienced unplanned outages. These outages decreased production and the significant availability penalties incurred reflected the quarter's higher Alberta power prices.

## SHARE AND PARTNERSHIP UNIT INFORMATION

### Quarterly common share trading information

The Company's common shares are listed on the Toronto Stock Exchange under the symbol CPX and began trading on June 26, 2009.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2015** | **Dec 31 2014** | **Sep 30 2014** | **Jun 30 2014** | **Mar 31 2014** | **Dec 31 2013** | **Sep 30 2013** | **Jun 30 2013** |
| **Share price ($/common share)** | | | | | | | | |
| High | 27.12 | 28.17 | 28.71 | 26.49 | 25.81 | 21.95 | 22.22 | 22.55 |
| Low | 23.77 | 24.50 | 25.75 | 24.07 | 20.51 | 20.30 | 19.80 | 19.76 |
| Close | 24.51 | 26.00 | 26.75 | 26.36 | 25.72 | 21.30 | 21.26 | 20.58 |
| **Volume of shares traded (millions)** | 29.7 | 22.8 | 19.6 | 21.7 | 27.0 | 23.5 | 13.2 | 12.2 |

### Outstanding share and partnership unit data

As at April 21, 2015, the Company had 102.747 million common shares outstanding, 5 million Cumulative Rate Reset Preference Shares, Series 1 outstanding, 6 million Cumulative Rate Reset Preference Shares, Series 3, 8 million Cumulative Rate Reset Preference Shares, Series 5, and one special limited voting share outstanding. Assuming full conversion of the outstanding and issuable share purchase options to common shares and ignoring exercise prices, the outstanding and issuable common shares as at April 20, 2015 were 107.076 million. The outstanding special limited voting share is held by EPCOR.

As at April 21, 2015, CPLP had 21.750 million general partnership units outstanding and 80.953 million common limited partnership units outstanding. All of the outstanding general partnership units and the outstanding common limited partnership units are held, indirectly, by the Company.

## ADDITIONAL INFORMATION

Additional information relating to Capital Power Corporation, including the Company's annual information form and other continuous disclosure documents, is available on SEDAR at www.sedar.com.

Condensed Interim Consolidated Financial Statements of

# CAPITAL POWER CORPORATION

(Unaudited, in millions of Canadian dollars)
Three months ended March 31, 2015 and 2014

**Condensed Interim Consolidated Financial Statements:**

# CAPITAL POWER CORPORATION

Condensed Interim Consolidated Statements of Income
(Unaudited, in millions of Canadian dollars, except per share amounts)

| | Three months ended March 31, | |
|---|---|---|
| | 2015 | 2014 |
| Revenues | $ 358 | $ 308 |
| Energy purchases and fuel | (142) | (126) |
| **Gross margin** | 216 | 182 |
| Other raw materials and operating charges | (18) | (19) |
| Staff costs and employee benefits expense | (32) | (32) |
| Depreciation and amortization | (51) | (46) |
| Other administrative expenses | (19) | (18) |
| Foreign exchange loss | (8) | (4) |
| **Operating income** | 88 | 63 |
| Finance expense | (18) | (13) |
| **Income before tax** | 70 | 50 |
| Income tax expense (note 4) | (20) | (12) |
| **Net income** | $ 50 | $ 38 |
| **Attributable to:** | | |
| Non-controlling interests | $ 10 | $ 6 |
| Shareholders of the Company | $ 40 | $ 32 |
| **Earnings per share** (attributable to common shareholders of the Company): | | |
| Basic (note 5) | $ 0.41 | $ 0.33 |
| Diluted (note 5) | $ 0.41 | $ 0.33 |

See accompanying notes to the condensed interim consolidated financial statements

# CAPITAL POWER CORPORATION

Condensed Interim Consolidated Statements of Comprehensive Income
(Unaudited, in millions of Canadian dollars)

| | Three months ended March 31, 2015 | Three months ended March 31, 2014 |
|---|---|---|
| **Net income** | $ 50 | $ 38 |
| | | |
| **Other comprehensive income:** | | |
| **Items that are or may be reclassified subsequently to net income:** | | |
| Cash flow hedges: | | |
| Unrealized gains (losses) on derivative instruments[1] | 56 | (10) |
| Unrealized losses on derivative instruments – joint venture[2] | (8) | (3) |
| Reclassification of (gains) losses on derivative instruments to income for the period[3] | (22) | 5 |
| Net investment in foreign subsidiaries: | | |
| Unrealized gain[4] | 16 | 8 |
| Total items that are or may be reclassified subsequently to net income, net of tax | 42 | - |
| Other comprehensive income, net of tax | 42 | - |
| | | |
| **Total comprehensive income** | $ 92 | $ 38 |
| | | |
| **Attributable to:** | | |
| Non-controlling interests | $ 19 | $ 6 |
| Shareholders of the Company | $ 73 | $ 32 |

[1] For the three months ended March 31, 2015, net of income tax expense of $15. For the three months ended March 31, 2014, net of income tax recovery of $2.

[2] For the three months ended March 31, 2015 and 2014, net of income tax recovery of $3 and $1, respectively.

[3] For the three months ended March 31, 2015, net of reclassification of income tax expense of $6. For the three months ended March 31, 2014, net of reclassification of income tax recovery of $1.

[4] For the three months ended March 31, 2015 and March 31, 2014, net of income tax recovery of nil.

See accompanying notes to the condensed interim consolidated financial statements

# CAPITAL POWER CORPORATION

Condensed Interim Consolidated Statements of Financial Position
(Unaudited, in millions of Canadian dollars)

| | March 31, 2015 | December 31, 2014 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 80 | $ 71 |
| Trade and other receivables | 170 | 185 |
| Inventories | 112 | 104 |
| Derivative financial instruments assets (note 6) | 180 | 132 |
| | 542 | 492 |
| Non-current assets: | | |
| Other assets | 27 | 28 |
| Derivative financial instruments assets (note 6) | 107 | 55 |
| Finance lease receivables | 704 | 708 |
| Other financial assets | 15 | 18 |
| Deferred tax assets | 24 | 21 |
| Equity-accounted investment | 11 | 22 |
| Intangible assets | 348 | 350 |
| Property, plant and equipment | 3,740 | 3,701 |
| Goodwill | 27 | 25 |
| Total assets | $ 5,545 | $ 5,420 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Trade and other payables | $ 190 | $ 185 |
| Derivative financial instruments liabilities (note 6) | 65 | 64 |
| Loans and borrowings | 577 | 599 |
| Deferred revenue and other liabilities | 11 | 5 |
| Provisions | 14 | 22 |
| | 857 | 875 |
| Non-current liabilities: | | |
| Derivative financial instruments liabilities (note 6) | 16 | 10 |
| Loans and borrowings | 1,006 | 987 |
| Deferred revenue and other liabilities | 106 | 98 |
| Deferred tax liabilities | 279 | 249 |
| Provisions | 215 | 198 |
| | 1,622 | 1,542 |
| Equity: | | |
| Equity attributable to shareholders of the Company | | |
| Share capital (note 7,10) | 2,402 | 2,391 |
| Retained earnings | 30 | 25 |
| Other reserves | 68 | 35 |
| Retained earnings and other reserves | 98 | 60 |
| | 2,500 | 2,451 |
| Non-controlling interests | 566 | 552 |
| Total equity | 3,066 | 3,003 |
| Total liabilities and equity | $ 5,545 | $ 5,420 |

See accompanying notes to the condensed interim consolidated financial statements

# CAPITAL POWER CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited, in millions of Canadian dollars)

| | Share capital | Cash flow hedges [1] | Cumulative translation account [1] | Defined benefit plan actuarial losses [1] | Employee benefits reserve | Retained earnings | Equity attributable to shareholders of the Company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| Equity as at January 1, 2015 | $ 2,391 | $ 40 | $ (1) | $ (13) | $ 9 | $ 25 | $ 2,451 | $ 552 | $ 3,003 |
| Net income | - | - | - | - | - | 40 | 40 | 10 | 50 |
| Other comprehensive income: | | | | | | | | | |
| Cash flow derivative hedge gains | - | 71 | - | - | - | - | 71 | - | 71 |
| Cash flow derivative hedge losses – joint venture | - | (11) | - | - | - | - | (11) | - | (11) |
| Reclassification of gains to income | - | (28) | - | - | - | - | (28) | - | (28) |
| Unrealized gain on foreign currency translation | - | - | 16 | - | - | - | 16 | - | 16 |
| Tax on items recognized directly in equity | - | (6) | - | - | - | - | (6) | - | (6) |
| Attributed to non-controlling interests | - | (6) | (3) | - | - | - | (9) | 9 | - |
| Other comprehensive income | $ - | $ 20 | $ 13 | $ - | $ - | $ - | $ 33 | $ 9 | $ 42 |
| Total comprehensive income | - | 20 | 13 | - | - | 40 | 73 | 19 | 92 |
| Distributions to non-controlling interests | - | - | - | - | - | - | - | (6) | (6) |
| Net additional investment by non-controlling interests | - | - | - | - | - | - | - | 1 | 1 |
| Common share dividends (note 7) | - | - | - | - | - | (29) | (29) | - | (29) |
| Preferred share dividends (note 7) | - | - | - | - | - | (5) | (5) | - | (5) |
| Tax on preferred share dividends | - | - | - | - | - | (1) | (1) | - | (1) |
| Dividends reinvested (note 7) | 10 | - | - | - | - | - | 10 | - | 10 |
| Share options exercised | 1 | - | - | - | - | - | 1 | - | 1 |
| Equity as at March 31, 2015 | $ 2,402 | $ 60 | $ 12 | $ (13) | $ 9 | $ 30 | $ 2,500 | $ 566 | $ 3,066 |

[1] Accumulated other comprehensive income (loss). Other reserves on the statements of financial position are the aggregate of accumulated other comprehensive income (loss) and the employee benefits reserve.

See accompanying notes to the condensed interim consolidated financial statements

# CAPITAL POWER CORPORATION

Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited, in millions of Canadian dollars)

| | Share capital | Cash flow hedges [1] | Cumulative translation account [1] | Defined benefit plan actuarial losses [1] | Employee benefits reserve | Retained earnings | Equity attributable to shareholders of the Company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| Equity as at January 1, 2014 | $ 2,328 | $ 21 | $ (14) | $ (11) | $ 10 | $ 83 | $ 2,417 | $ 587 | $ 3,004 |
| Net income | - | - | - | - | - | 32 | 32 | 6 | 38 |
| Other comprehensive income (loss): | | | | | | | | | |
| Cash flow derivative hedge losses | - | (12) | - | - | - | - | (12) | - | (12) |
| Cash flow derivative hedge losses – joint venture | - | (4) | - | - | - | - | (4) | - | (4) |
| Reclassification of losses to income | - | 6 | - | - | - | - | 6 | - | 6 |
| Unrealized gain on foreign currency translation | - | - | 8 | - | - | - | 8 | - | 8 |
| Tax on items recognized directly in equity | - | 2 | - | - | - | - | 2 | - | 2 |
| Attributed to non-controlling interests | - | 1 | (1) | - | - | - | - | - | - |
| Other comprehensive income (loss) | $ - | $ (7) | $ 7 | $ - | $ - | $ - | $ - | $ - | $ - |
| Total comprehensive income (loss) | - | (7) | 7 | - | - | 32 | 32 | 6 | 38 |
| Distributions to non-controlling interests | - | - | - | - | - | - | - | (6) | (6) |
| Net additional investment by non-controlling interests | - | - | - | - | - | - | - | 2 | 2 |
| Common share dividends (note 7) | - | - | - | - | - | (26) | (26) | - | (26) |
| Preferred share dividends (note 7) | - | - | - | - | - | (5) | (5) | - | (5) |
| Dividends reinvested (note 7) | 8 | - | - | - | - | - | 8 | - | 8 |
| Share options exercised | 4 | - | - | - | - | - | 4 | - | 4 |
| Equity as at March 31, 2014 | $ 2,340 | $ 14 | $ (7) | $ (11) | $ 10 | $ 84 | $ 2,430 | $ 589 | $ 3,019 |

[1] Accumulated other comprehensive income (loss). Other reserves on the statements of financial position are the aggregate of accumulated other comprehensive income (loss) and the employee benefits reserve.

# CAPITAL POWER CORPORATION

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited, in millions of Canadian dollars)

| | Three months ended March 31, 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 50 | $ 38 |
| Non-cash adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization | 51 | 46 |
| Finance expense | 18 | 13 |
| Fair value changes on commodity derivative instruments and emission credits held for trading | (32) | (7) |
| Unrealized foreign exchange loss | 9 | 4 |
| Income tax expense | 20 | 12 |
| Other items | - | (5) |
| Finance lease receivable collected | 5 | 3 |
| Interest paid[1] | (8) | (7) |
| Change in non-cash operating working capital | (6) | (13) |
| Net cash flows from operating activities | 107 | 84 |
| **Cash flows used in investing activities:** | | |
| Purchase of property, plant and equipment and other assets | (52) | (75) |
| Other cash flows from investing activities | 10 | 13 |
| Change in non-cash investing working capital | 24 | (6) |
| Net cash flows used in investing activities | (18) | (68) |
| **Cash flows used in financing activities:** | | |
| Proceeds from issue of loans and borrowings | - | 30 |
| Repayment of loans and borrowings | (44) | (2) |
| Proceeds from exercise of share options | 1 | 4 |
| Distributions paid to non-controlling interests | (6) | (6) |
| Common share dividends paid (note 7) | (18) | (17) |
| Preferred share dividends paid (note 7) | (5) | (5) |
| Interest paid[1] | (8) | (9) |
| Income taxes paid[2] | (3) | (7) |
| Net cash flows used in financing activities | (83) | (12) |
| Foreign exchange gain on cash held in a foreign currency | 3 | 1 |
| Net increase in cash and cash equivalents | 9 | 5 |
| Cash and cash equivalents at beginning of period | 71 | 100 |
| Cash and cash equivalents at end of period | $ 80 | $ 105 |

[1] Total interest paid.
[2] Total income taxes paid.

See accompanying notes to the condensed interim consolidated financial statements

(Unaudited, tabular amounts in millions of Canadian dollars, except share and per share amounts)

## 1. Reporting entity:

Capital Power Corporation (the Company or Capital Power) builds, owns and operates power plants and manages its related electricity and natural gas portfolios by undertaking trading and marketing activities.

The registered and head office of the Company is located at 10423 101 Street, Edmonton, Alberta, Canada, T5H 0E9. The common shares of the Company are traded on the Toronto Stock Exchange under the symbol “CPX”.

Interim results will fluctuate due to plant maintenance schedules, the seasonal demands for electricity and changes in energy prices. Consequently, interim results are not necessarily indicative of annual results.

## 2. Basis of presentation:

These condensed interim consolidated financial statements have been prepared by management in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company’s 2014 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

These condensed interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent consolidated financial statements for the year ended December 31, 2014, and have been prepared under the historical cost basis, except for the Company’s derivative instruments, emission credits held for trading, defined benefit pension assets and cash-settled share based payments, which are stated at fair value.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on April 23, 2015.

## 3. Purchase price allocation update

On December 19, 2014, the Company acquired 100% of the equity interest in Element Power U.S., LLC. Due to the timing of the transaction’s close date, information required to finalize the purchase price allocation was outstanding as at December 31, 2014. The preliminary allocation of the purchase price to the acquired assets and assumed liabilities was based on their estimated fair values at the time of acquisition. As at March 31, 2015, the Company has not yet finalized the purchase price allocation.

## 4. Income tax:

Income taxes differ from the amount that would be computed by applying the federal and provincial income tax rates as follows:

| | Three months ended March 31, 2015 | 2014 |
|---|---|---|
| Income before tax | $ 70 | $ 50 |
| Income tax at the statutory rate of 25.0% | 18 | 13 |
| Increase (decrease) resulting from: | | |
| Amounts attributable to non-controlling interests | (2) | (1) |
| Statutory and other rate differences | 1 | (1) |
| Change in unrecognized tax benefits | 3 | 1 |
| Income tax expense | $ 20 | $ 12 |

(Unaudited, tabular amounts in millions of Canadian dollars, except share and per share amounts)

## 5. Earnings per share:

### Basic earnings per share

The earnings and weighted average number of common shares used in the calculation of basic earnings per share are as follows:

| | Three months ended March 31, 2015 | 2014 |
|---|---|---|
| Income for the period attributable to shareholders of the Company | $ 40 | $ 32 |
| Preferred share dividends of the Company [1] | (6) | (5) |
| Earnings used in the calculation of basic earnings per share | $ 34 | $ 27 |

[1] Includes preferred share dividends declared in respect of the current periods and related taxes.

| | Three months ended March 31, 2015 | 2014 |
|---|---|---|
| Weighted average number of common shares used in the calculation of basic earnings per share | 83,741,170 | 81,175,056 |

### Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

| | Three months ended March 31, 2015 | 2014 |
|---|---|---|
| Earnings used in the calculation of basic earnings per share | $ 34 | $ 27 |
| Effect of exchangeable limited partnership units issued to EPCOR for common shares [2] | - | - |
| Earnings used in the calculation of diluted earnings per share | $ 34 | $ 27 |

[2] The exchangeable limited partnership units issued to EPCOR Utilities Inc. (EPCOR) were exchangeable for common shares of Capital Power on a one-for-one basis. For the three months ended March 31, 2015 and 2014, the potential exchange of such units for common shares of the Company was not included in the calculation of diluted earnings per share as it was anti-dilutive.

The weighted average number of common shares for the purposes of diluted earnings per share reconciles to the weighted average number of common shares used in the calculation of basic earnings per share as follows:

| | Three months ended March 31, 2015 | 2014 |
|---|---|---|
| Weighted average number of common shares used in the calculation of basic earnings per share | 83,741,170 | 81,175,056 |
| Effect of dilutive share purchase options [3] | 185,286 | 34,092 |
| Effect of exchangeable limited partnership units issued to EPCOR for common shares | - | - |
| Weighted average number of common shares used in the calculation of diluted earnings per share | 83,926,456 | 81,209,148 |

[3] For the three months ended March 31, 2015 and 2014, the average market price of the Company's common shares exceeded the exercise price of certain of the granted share purchase options, but had a neutral effect on earnings per share.

(Unaudited, tabular amounts in millions of Canadian dollars, except share and per share amounts)

## 6. Derivative financial instruments and hedge accounting

Derivative financial and non-financial instruments are held for the purpose of energy purchases, merchant trading or financial risk management.

The derivative instruments assets and liabilities used for risk management purposes consist of the following:

| | March 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Energy and emission allowances | | Foreign exchange | Interest rate | |
| | cash flow hedges | non-hedges | cash flow hedges | non-hedges | Total |
| Derivative instruments assets: | | | | | |
| Current | $ 37 | $ 93 | $ 44 | $ 6 | $ 180 |
| Non-current | 45 | 62 | - | - | 107 |
| Derivative instruments liabilities: | | | | | |
| Current | (1) | (54) | - | (10) | (65) |
| Non-current | (3) | (13) | - | - | (16) |
| Net fair value | $ 78 | $ 88 | $ 44 | $ (4) | $ 206 |
| Net notional buys (sells) (millions): | | | | | |
| Megawatt hours of electricity | (7) | (3) | | | |
| Gigajoules of natural gas | | (6) | | | |
| Metric tons of emission allowances | | (1) | | | |
| Megawatt hours of renewable energy credits | | (2) | | | |
| Cross currency swaps and interest rate swaps (U.S. dollars) | | | $ 195 | $ 100 | |
| Interest rate swaps (Canadian dollars) | | | | $ 100 | |
| Range of remaining contract terms in years | 0.1 to 3.8 | 0.1 to 6.0 | 6.2 to 11.2 | 6.2 to 10.7 | |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Energy and emission allowances | | Foreign exchange | Interest rate | |
| | cash flow hedges | non-hedges | cash flow hedges | non-hedges | Total |
| Derivative instruments assets: | | | | | |
| Current | $ 27 | $ 80 | $ 21 | $ 4 | $ 132 |
| Non-current | 26 | 29 | - | - | 55 |
| Derivative instruments liabilities: | | | | | |
| Current | (1) | (58) | - | (5) | (64) |
| Non-current | (2) | (8) | - | - | (10) |
| Net fair value | $ 50 | $ 43 | $ 21 | $ (1) | $ 113 |
| Net notional buys (sells) (millions): | | | | | |
| Megawatt hours of electricity | (8) | (6) | | | |
| Gigajoules of natural gas | | 5 | | | |
| Metric tons of emission allowances | | (2) | | | |
| Megawatt hours of renewable energy credits | | (2) | | | |
| Cross currency swaps and interest rate swaps (U.S. dollars) | | | $ 195 | $ 100 | |
| Interest rate swaps (Canadian dollars) | | | | $ 100 | |
| Range of remaining contract terms in years | 0.1 to 4.0 | 0.1 to 6.3 | 6.5 to 11.5 | 6.5 to 10.9 | |

(Unaudited, tabular amounts in millions of Canadian dollars, except share and per share amounts)

**6. Derivative financial instruments and hedge accounting, continued:**

Fair values of derivative instruments are determined, using valuation techniques, inputs, and assumptions as described in the Company's 2014 annual consolidated financial statements. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

Unrealized and realized pre-tax gains and losses on derivative instruments recognized in other comprehensive income and net income are:

| | Three months ended March 31, 2015 | | Three months ended March 31, 2014 | |
|---|---|---|---|---|
| | Unrealized gains (losses) | Realized gains | Unrealized (losses) gains | Realized (losses) gains |
| Energy cash flow hedges | $ 41 | $ 28 | $ (6) | $ (6) |
| Energy and emission allowances non-hedges | 31 | 23 | 3 | 9 |
| Foreign exchange cash flow hedges[1] | 2 | - | - | - |
| Interest rate non-hedges | (2) | - | 2 | - |

[1] For the three months ended March 31, 2015, unrealized gains of $21 million (three months ended March 31, 2014 - $8 million) related to foreign exchange cash flow hedges were reclassified from other comprehensive income to net income to offset the impact to unrealized foreign exchanges losses from the revaluation of U.S. dollar denominated loans and borrowings.

Realized gains and losses relate only to derivative financial instruments. The following realized and unrealized gains and losses are included in the Company's statements of income for the three months ended March 31, 2015 and 2014:

| | Three months ended March 31, 2015 | 2014 |
|---|---|---|
| Revenues | $ 147 | $ 53 |
| Energy purchases and fuel | (65) | (47) |
| Foreign exchange gain | 21 | 8 |
| Finance expense | (2) | 2 |

The Company has elected to apply hedge accounting on certain derivatives it uses to manage commodity price risk relating to electricity prices and currency risk relating to U.S. dollar denominated loans and borrowings. For the three months ended March 31, 2015 and March 31, 2014, the changes in the fair value of the ineffective portion of hedging derivatives required to be recognized in the statement of income was nil.

Net after tax gains related to derivative instruments designated as cash flow hedges are expected to settle and be reclassified to net income in the following periods:

| | March 31, 2015 |
|---|---|
| Within one year | $ 41 |
| Between 1 – 5 years | 40 |
| After more than 5 years | - |
| | $ 81 |

The Company's cash flow hedges extend to 2018 for energy cash flow hedges and to 2026 for foreign exchange cash flow hedges.

(Unaudited, tabular amounts in millions of Canadian dollars, except share and per share amounts)

## 7. Share capital:

The common and preferred share dividends declared and paid by the Company for the three months ended March 31, 2015 and 2014 are summarized as follows:

| | Dividends declared | | | | Dividends paid | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | Per share | Total | Per share | Total | Per share | Total[1] | Per share | Total[1] |
| Common | $ 0.3400 | $ 29 | $ 0.3150 | $ 26 | $ 0.3400 | $ 28 | $ 0.3150 | $ 25 |
| Preference, Series 1 | 0.2875 | 1 | 0.2875 | 1 | 0.2875 | 1 | 0.2875 | 1 |
| Preference, Series 3 | 0.2875 | 2 | 0.2875 | 2 | 0.2875 | 2 | 0.2875 | 2 |
| Preference, Series 5 | 0.2813 | 2 | 0.2813 | 2 | 0.2813 | 2 | 0.2813 | 2 |

[1] For the three months ended March 31, 2015, dividends paid on common shares consists of $18 million paid in cash and $10 million paid through the Company's dividend reinvestment plan as common shares issued. For the three months ended March 31, 2014, dividends paid on common shares consists of $17 million paid in cash and $8 million paid through the Company's dividend reinvestment plan as common shares issued.

Effective for the expected June 30, 2015 dividend, Capital Power will be suspending its dividend reinvestment plan for its common shares until further notice. Shareholders participating in the dividend reinvestment plan will begin receiving cash dividends on the expected July 31, 2015 payment date.

On March 25, 2015, the Toronto Stock Exchange approved Capital Power's normal course issuer bid to purchase and cancel up to 5,000,000 of its outstanding common shares during the one-year period from April 7, 2015 to April 6, 2016. The 5,000,000 common shares under the normal course issuer bid represents approximately 6% of Capital Power's common shares issued and outstanding as at March 31, 2015 after excluding common shares beneficially owned by directors and executive officers of the Company and before giving effect to the exchange of exchangeable common limited partnership units of CPLP.

## 8. Financial instruments:

### Fair values

Details of the fair values of the Company's derivative instruments are described in note 6.

The classification and measurement of the Company's other short-term financial instruments are consistent with the methodologies described in the Company's 2014 annual consolidated financial statements. Due to the short-term nature of the financial instruments, the fair values are not materially different from their carrying amounts.

The fair values of the Company's other long-term financial instruments are determined using the same valuation techniques, inputs, and assumptions as described in the Company's 2014 annual consolidated financial statements. The classification, carrying amount and fair value of the Company's other financial instruments are summarized as follows:

| | | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | Fair value hierarchy level | Carrying amount | Fair value | Carrying amount | Fair value |
| Other financial assets | | | | | |
| Loans and receivables | Level 2 | $ 13 | $ 14 | $ 16 | $ 17 |
| Finance lease receivables | | | | | |
| Loans and receivables | Level 2 | 704 | 709 | 708 | 726 |
| Loans and borrowings | | | | | |
| Other financial liabilities (includes current portion) | Level 2 | 1,583 | 1,699 | 1,586 | 1,670 |

(Unaudited, tabular amounts in millions of Canadian dollars, except share and per share amounts)

**8. Financial instruments (continued):**

**Fair value hierarchy**

Fair value represents the Company’s estimate of the price at which a financial instrument could be exchanged between knowledgeable and willing parties in an orderly arm’s length transaction under no compulsion to act. Fair value measurements recognized in the consolidated statements of financial position are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs and precedence is given to those fair value measurements calculated using observable inputs over those using unobservable inputs. The determination of fair value requires judgment and is based on market information where available and appropriate. The valuation techniques used by the Company in determining the fair value of its financial instruments are the same as those used as at December 31, 2014. The fair value measurement of a financial instrument is included in only one of the three levels, the determination of which is based upon the lowest level input that is significant to the derivation of the fair value. The Company’s assessment of the significance of a particular input to the fair value measurement requires judgment which will affect the placement within the fair value hierarchy levels. As at March 31, 2015 and December 31, 2014, the Company did not classify any financial instruments in Level 3 of the hierarchy.

The following tables present the Company’s financial instruments measured at fair value on a recurring basis in the consolidated statements of financial position, classified using the fair value hierarchy described above:

| | March 31, 2015 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Derivative financial instruments assets | | | | |
| Commodity derivatives | $ - | $ 237 | $ - | $ 237 |
| Foreign exchange derivatives | - | 44 | - | 44 |
| Interest rate derivatives | | 6 | | 6 |
| | $ - | $ 287 | $ - | $ 287 |
| Derivative financial instruments liabilities | | | | |
| Commodity derivatives | - | (71) | - | (71) |
| Interest rate derivatives | - | (10) | - | (10) |
| | $ - | $ (81) | $ - | $ (81) |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Derivative financial instruments assets | | | | |
| Commodity derivatives | $ - | $ 162 | $ - | $ 162 |
| Foreign exchange derivatives | - | 21 | $ - | 21 |
| Interest rate derivatives | - | 4 | - | 4 |
| | $ - | $ 187 | $ - | $ 187 |
| Derivative financial instruments liabilities | | | | |
| Commodity derivatives | - | (69) | - | (69) |
| Interest rate derivatives | - | (5) | - | (5) |
| | $ - | $ (74) | $ - | $ (74) |

The Company’s policy is to recognize transfers between levels as of the date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels in the fair value hierarchy for the three months ended March 31, 2015 and the year ended December 31, 2014.

(Unaudited, tabular amounts in millions of Canadian dollars, except share and per share amounts)

**9. Segment information:**

The Company operates in one reportable business segment involved in the operation of electrical generation facilities within Canada (Alberta, British Columbia and Ontario) and in the U.S. (North Carolina and New Mexico), as this is how management assesses performance and determines resource allocations. The Company also holds a portfolio of wind and solar development sites in the U.S.

The Company's results from operations within each geographic area are:

| | Three months ended March 31, 2015 | | | | Three months ended March 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | U.S. | Inter-area eliminations | Total | Canada | U.S. | Inter-area eliminations | Total |
| Revenues - external | $ 325 | $ 33 | $ - | $ 358 | $ 275 | $ 33 | $ - | $ 308 |
| Revenues - inter-area | 3 | - | (3) | - | 9 | - | (9) | - |
| Total revenues | $ 328 | $ 33 | $ (3) | $ 358 | $ 284 | $ 33 | $ (9) | $ 308 |

| | As at March 31, 2015 | | | As at December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Canada | U.S. | Total | Canada | U.S. | Total |
| Property, plant and equipment | $ 3,537 | $ 203 | $ 3,740 | $ 3,511 | $ 190 | $ 3,701 |
| Intangible assets | 308 | 40 | 348 | 313 | 37 | 350 |
| Goodwill | - | 27 | 27 | - | 25 | 25 |
| Other assets | 24 | 3 | 27 | 25 | 3 | 28 |
| | $ 3,869 | $ 273 | $ 4,142 | $ 3,849 | $ 255 | $ 4,104 |

**10. Subsequent events:**

On April 2, 2015, EPCOR exchanged 9,450,000 of its exchangeable limited partnership units of CPLP on a one-for-one basis for common shares of Capital Power and subsequently completed its sale of the 9,450,000 common shares at an offering price of $23.85 per common share for aggregate gross proceeds of $225 million. The aggregate offering was comprised of the secondary offering of 9,000,000 common shares of Capital Power at $23.85 per share for gross proceeds of approximately $214 million, together with the underwriters exercising the over-allotment option for sale of an additional 450,000 common shares at $23.85 per share for additional proceeds of approximately $11 million.

In connection with the offering, EPCOR exchanged all of its remaining outstanding exchangeable limited partnership units in CPLP for common shares of Capital Power in accordance with the terms of the exchangeable common limited partnership units.

After giving effect to the transactions described above, EPCOR owns approximately 9.1% of the common shares in Capital Power subsequent to the close of the first quarter of 2015. As well, EPCOR's ownership interest in CPLP was reduced to nil (December 31, 2014 – 18%) and Capital Power's ownership interest in CPLP increased to 100% (December 31, 2014 – 82%).

**11. Comparative figures:**

Certain comparative figures have been reclassified to conform to the current period's presentation.