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Capital Power reports third quarter 2016 results

EDMONTON, Alberta – Capital Power Corporation (Capital Power, or the Company) (TSX: CPX) today released financial results for the third quarter ended September 30, 2016.

Net income attributable to shareholders in the third quarter of 2016 was $66 million and basic earnings per share attributable to common shareholders was $0.63 per share, compared with $49 million, or $0.44 per share, in the comparable period of 2015. Normalized earnings attributable to common shareholders in the third quarter of 2016, after adjusting for one-time items and fair value adjustments, were $30 million or $0.31 per share compared with $33 million or $0.33 per share in the third quarter of 2015.

Net cash flows from operating activities were $105 million in the third quarter of 2016 compared with $184 million in the third quarter of 2015. Funds from operations were $94 million in the third quarter of 2016, compared to $97 million in the third quarter of 2015.

For the nine months ended September 30, 2016, net income attributable to shareholders was $83 million and basic earnings per share attributable to common shareholders was $0.71 per share compared with $55 million and $0.40 for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, normalized earnings attributable to common shareholders were $91 million, or $0.95 per share, compared with $70 million, or $0.73 per share, in the first nine months of 2015. Funds from operations totaled $309 million compared with $275 million in the comparable nine month period last year.

Net cash flows from operating activities were $306 million for the nine months ended September 30, 2016 compared with $305 million for the nine months ended September 30, 2015.

"Capital Power's financial results for the third quarter of 2016 were modestly ahead of management's expectations," said Brian Vaasjo, President and CEO of Capital Power. "Third quarter results benefitted from strong operating performance with average plant availability of 96 per cent and a solid contribution from our portfolio optimization activities."

"Our trading desk captured an average realized Alberta power price of $70 per megawatt hour (MWh) in the third quarter, well above the average spot price of $18 per MWh that reflected excess supply in the market, low natural gas prices, and conservative offer strategies from market participants," continued Mr. Vaasjo. "Despite weak Alberta spot power prices that averaged $17 per MWh in the first nine months of the year, our portfolio optimization strategies continue to deliver value with an average realized Alberta power price of $60 per MWh this year."

"We generated funds from operations of $94 million in the third quarter and $309 million in the first nine months of 2016. Based on our outlook for the fourth quarter of the year, we are on track to exceed the mid-point of the $380 to $430 million annual financial target range," said Mr. Vaasjo.

"A significant achievement for the Company was the completion of two recent financings," continued Mr. Vaasjo. "This included a private placement of a $160 million, 10-year note and a $200 million preferred share offering. With these financings and the recent extension of our $1 billion in credit facilities, we have improved our liquidity and have strengthened our balance sheet and financing capabilities in the medium term."

“Discussions with the government-appointed coal facilitator regarding compensation for the coal units whose operating lives will be shortened by the 2030 coal phase-out component of the Alberta Climate Leadership Plan concluded in September,” added Mr. Vaasjo. “We continue to remain optimistic that a fair and appropriate outcome will be reached for our shareholders with an expected announcement by the Alberta government before the end of 2016.”

Capital Power, and its partner ENMAX Corporation, are moving the Genesee 4 and 5 project decision to proceed to the first quarter of 2017. The decision to proceed at that point in time will continue to be contingent on fair compensation being announced for the proposed accelerated closure of the Company’s coal facilities and favourable conditions existing within the Alberta electricity market. There is no anticipated impact to the substantial completion date of the first unit at this time.

Operational and Financial Highlights [1] (unaudited)	**Three months ended September 30**		**Nine months ended September 30**	
(millions of dollars except per share and operational amounts)	**2016**	**2015**	**2016**	**2015**
Electricity generation (excluding Sundance power purchase arrangement (PPA)) (GWh)	3,930	3,687	11,535	10,638
Generation plant availability (excluding Sundance PPA) (%)	96%	95%	94%	94%
Revenues	$ 378	469	948	910
Adjusted EBITDA [2]	$ 148	154	376	348
Net income	$ 64	50	76	52
Net income attributable to shareholders of the Company	$ 66	49	83	55
Basic earnings per share	$ 0.63	0.44	0.71	0.40
Normalized earnings attributable to common shareholders [2]	$ 30	33	91	70
Normalized earnings per share [2]	$ 0.31	0.33	0.95	0.73
Net cash flows from operating activities	$ 105	184	306	305
Funds from operations [2]	$ 94	97	309	275
Purchase of property, plant and equipment and other assets	$ 27	36	139	123
Dividends per common share, declared	$ 0.3900	0.3650	1.1200	1.0450

1 The operational and financial highlights in this press release should be read in conjunction with Management’s Discussion and Analysis and the unaudited Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2016.

2 Earnings before finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange gains or losses, finance expense from joint venture, and gains or losses 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

Impairment loss on Southport

During the three months ended September 30, 2016 the Company recognized a pre-tax impairment charge of $6 million with respect to its Southport plant which reduced the carrying amount of the related goodwill. This impairment was based on reduced expected future cash flows as a result of lower than expected generation and realized prices. The impairment charge has no cash flow impact.

$160 million private placement debt financing

On September 13, 2016, the Company issued a $160 million, 10-year unsecured senior note to Prudential Capital Group. The note bears an annual interest rate of 3.85%, payable semi-annually, and matures in September 2026. The net proceeds of the offering were used for repayment of amounts owing under credit facilities and for general corporate purposes.

K2 Wind Partnership

On August 9, 2016, a consortium composed of Axium Infrastructure, Alberta Teachers' Retirement Fund Board, and Manulife Financial Corporation acquired Samsung Renewable Energy's one-third interest in K2 Wind. There is no change to the remaining interest in K2 Wind, which is still held equally by Pattern Energy Group Inc. and the Company.

Dividend Increase

On July 25, 2016, the Company announced that its Board of Directors approved a 6.8% increase in the annual dividend for holders of its common shares, from $1.46 per common share to $1.56 per common share. This increased common dividend will commence with the third quarter 2016 quarterly dividend payment payable on October 31, 2016 to shareholders of record at the close of business on September 30, 2016.

Completion of contract for output for Bloom Wind

The Bloom Wind project (Bloom Wind) is a 178 MW facility in southwestern Kansas consisting of 54 3.3 MW turbines and is anticipated to cost $358 million (US$272 million). Construction of Bloom Wind, which was previously announced on April 25, 2016, commenced during the third quarter of 2016. Commercial operation of the facility is expected in the third quarter of 2017. Capital Power will operate Bloom Wind under a 10-year fixed price contract with Allianz Risk Transfer (rated AA- stable by Standard & Poor's), a subsidiary of Allianz SE, the worldwide insurance and asset management group, covering 100% of the project's output. Under the contract, which was executed on April 21, 2016, Capital Power will swap the market revenue of the project's generation for a fixed annual payment for a 10-year term. The agreement will secure long-term predictable revenues and mitigate generation volume uncertainty related to wind resources, allowing Bloom Wind to secure renewable energy tax equity financing and provide Capital Power the opportunity to complete its first wind development project in the growing U.S. renewables market.

Approval of normal course issuer bid

On April 25, 2016, Capital Power announced that the Toronto Stock Exchange (TSX) approved the Company's normal course issuer bid (NCIB) to purchase and cancel up to 8.6 million of its outstanding common shares during the one year period from April 28, 2016 to April 27, 2017. Capital Power purchased and cancelled 7.1 million common shares under its prior NCIB approved by the TSX on March 25, 2015 for the period from April 7, 2015 to April 6, 2016, but has not yet purchased and cancelled any common shares under the NCIB approved on April 25, 2016.

Termination of the Sundance PPA

On March 24, 2016, Capital Power notified the Balancing Pool of the Company's decision to terminate its role as Buyer of the Sundance PPA. Capital Power exercised its right to terminate the Sundance PPA under the Change in Law provisions of the arrangement, following changes to the Specified Gas Emitters Regulation (SGER) that took effect at the start of 2016. As a result of this termination, no further economic benefits are expected from the Sundance PPA and the related intangible asset was derecognized. The Company has recorded a non-cash pre-tax loss of $53 million ($46 million post-tax) with respect to the derecognition of the Sundance PPA asset.

Climate Leadership Plan (CLP) Update

In late September 2016, the Alberta government initiated formal consultations relating to the Carbon Competitiveness Regulation (CCR) which are scheduled to conclude by the end of 2016. The CCR will establish the performance standard and carbon pricing framework that will apply to facilities that are currently subject to the Specified Gas Emitters Regulation (SGER), and will replace SGER effective January 1, 2018. The Company expects that the performance standard for the electricity sector will be consistent with the emissions performance of a combined-cycle natural gas-fired facility in Alberta, with specific details to be developed through consultation.

On March 16, 2016, the Alberta government appointed a Facilitator to oversee the transition away from coal-fired generation in Alberta by 2030. The Facilitator's background is with large public power providers and centrally dispatched power systems and advising energy leaders in numerous countries around the world. The Facilitator's mandate was to provide options and preferred approaches to the Alberta government to phase out emissions from coal-fired generation by 2030 that will maintain both the reliability of Alberta's electricity grid and price stability for consumers, while avoiding unnecessarily stranding capital. Throughout this process, the Alberta government has indicated that it intends to ensure that affected workers, communities and companies are treated fairly. Capital Power will continue to actively participate in the process with the Alberta government to ensure that fair compensation is received for the proposed accelerated closure of the Company's coal facilities. The Facilitator has provided recommendations to the Alberta government and the Company expects the Alberta government will make a decision on the Facilitator's recommendations by the end of 2016.

On January 26, 2016, the Alberta government tasked the Alberta Electric System Operator (AESO) to develop and implement a plan to bring on new renewable electricity generation capacity to the grid by 2030 in connection with the CLP. The Company expects that the process will be carefully managed and operate in concert with the retirement of the current coal generating units. The Alberta government also confirmed that it has not chosen to fundamentally alter the current wholesale electricity market structure. The AESO undertook a process to receive industry perspectives regarding various elements of the Renewable Electricity Program (REP), and provided its recommendations regarding the REP to the Alberta government on May 31, 2016. The recommendations have not been made public. On September 14, 2016, the Alberta government confirmed a firm target of achieving 30% of Alberta's electricity use by 2030 from renewable energy sources, and announced that the Alberta government would support 5000 MW of additional renewable capacity to help achieve that target. It is currently expected that the Alberta government will provide direction on the REP during the fourth quarter of 2016, and the AESO currently expects to initiate the process for the first procurement by year-end.

Preferred Shares (Series 1) dividend rate reset

On February 18, 2016 the Board of Directors of Capital Power declared a quarterly dividend of $0.19125 per share on the Company's Cumulative 5-Year Rate Reset Preference Shares, Series 1 (Series 1 Shares). This quarterly dividend was paid on March 31, 2016. The Annual Fixed Dividend Rate for the Series 1 Shares for the next five year period was reset from 4.60% to 3.06% on December 31, 2015 at a rate equal to the sum of the then Government of Canada bond yield and 2.17%. The Annual Fixed Dividend Rate will be next reset on December 31, 2020 and every five years thereafter.

Subsequent Event

Preferred share offering

On October 4, 2016, the Company issued 8 million Cumulative Minimum Rate Reset Preference Shares, Series 7 (Series 7 Shares) priced at $25.00 per share for gross proceeds of $200 million less issue costs of $5 million on a bought deal basis with a syndicate of underwriters. The preferred shares will pay fixed cumulative dividends of $1.50 per share per annum, yielding 6.00% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board of Directors of Capital Power, for the initial period ending December 31, 2021. The dividend rate will be reset on December 31, 2021 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 5.26%, provided that, in any event, such rate shall not be less than 6.00%. The Series 7 Shares are redeemable by Capital Power, at its option on December 31, 2021 and every five years thereafter at a value of $25.00 per share.

Holders of the Series 7 Shares will have the right to convert all or any part of their shares into Cumulative

Floating Rate Preference Shares, Series 8 (Series 8 Shares), subject to certain conditions, on December 31, 2021 and every five years thereafter. Holders of the Series 8 Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 5.26%, as and when declared by the Board of Directors of Capital Power. The Series 8 Shares would be redeemable by Capital Power, at its option, on December 31, 2026 and December 31 of every fifth year thereafter at a value of $25.00 per share. The Series 8 shares would also be redeemable by Capital Power, at its option, on any date after December 31, 2021, excluding December 31 of every fifth year, at a value of $25.50 per share.

Analyst Conference Call and Webcast

Capital Power will be hosting a conference call and live webcast with analysts on October 24, 2016 at 9:00 am (MDT) to discuss the third quarter financial results. The conference call dial-in numbers are:

(604) 638-5340 (Vancouver)
(403) 351-0324 (Calgary)
(416) 915-3239 (Toronto)
(514) 375-0364 (Montreal)
(800) 319-4610 (toll-free from Canada and USA)

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) 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. Reconciliations of adjusted EBITDA to net income (loss), funds from operations to net cash flows from operating activities and normalized earnings attributable to common shareholders to net income (loss) attributable to shareholders of the Company are contained in the Company's Management's Discussion and Analysis, prepared as of October 21, 2016, for the nine months ended September 30, 2016 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) compensation to be received by the Company from the Government of Alberta in respect of the proposed early retirement of coal facilities (ii) the structure and stability of Alberta's merchant power market and (iii) growth opportunities that may come to the Company as a result of new renewable electricity generation capacity.

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 October 21, 2016, for further discussion of these and other risks.

For more information, please contact:

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CAPITAL POWER CORPORATION

Management's Discussion and Analysis

This management's discussion and analysis (MD&A), prepared as of October 21, 2016, should be read in conjunction with the unaudited condensed interim consolidated financial statements of Capital Power Corporation and its subsidiaries for the nine months ended September 30, 2016, the audited consolidated financial statements and MD&A of Capital Power Corporation for the year ended December 31, 2015, the annual information form of Capital Power Corporation dated March 2, 2016, and the cautionary statements regarding forward-looking information that begin on page 8. In this MD&A, any reference to the Company or Capital Power, except where otherwise noted or the context otherwise indicates, means Capital Power Corporation together with its subsidiaries.

In this MD&A, financial information for the nine months ended September 30, 2016 and the nine months ended September 30, 2015 is based on the unaudited condensed interim consolidated financial statements of the Company for such periods that 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 October 21, 2016.

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FORWARD-LOOKING INFORMATION

Forward-looking information or statements included in this MD&A 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 MD&A 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 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,
- future dividend growth,
- 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,
- capital expenditures for plant maintenance and other (sustaining capital, future growth projects),
- the impact of environmental regulations on the Company, its businesses, accounting policies, and emissions compliance costs,
- the timing of resolution and the impact of pending legal actions on the Company's financial results,
- the impact of the Alberta Climate Leadership Plan (CLP) on the Company's future growth projects including the Genesee 4 and 5 project, and
- whether compensation will be received by the Company from the Government of Alberta in respect of the proposed early retirement of coal facilities.

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 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 in the Company's December 31, 2015 annual MD&A for further discussion of these and other risks.

Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the specified approval date. 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 3,200 megawatts (MW) of power generation capacity across North America and owned 371 MW of capacity through its interest in the acquired Sundance C power purchase arrangement (Sundance PPA) until the Company notified the Balancing Pool of the Company's decision to terminate its role as Buyer of the Sundance PPA, effective March 24, 2016 (See Significant Events). More than 700 MW of owned generation capacity is in advanced development in Alberta and under construction in Kansas.

The Company's power generation operations and assets are owned by Capital Power L.P. (CPLP) and Capital Power (US Holdings) Inc., both wholly owned subsidiaries of the Company.

CORPORATE STRATEGY

The Company's corporate strategy remains unchanged from that disclosed in its 2015 annual MD&A.

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, safety and compensation for the proposed accelerated closure of the Company's coal facilities. 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.

Alberta Climate Leadership Plan

	2016 target	**Actual results for the nine months ended September 30, 2016**
Compensation	Ensure fair compensation will be received for the proposed accelerated closure of the Company's coal facilities.	The Alberta government appointed the coal phase-out facilitator (Facilitator) and outlined his scope of work. A report from the Facilitator has been submitted to the Alberta government (see Significant Events).

The Facilitator-led process to engage with coal-fired electricity generators operating units beyond 2030 to develop options for the Alberta government to phase out coal-fired electricity emissions by 2030, commenced in April 2016. These options are intended to maintain the reliability of Alberta's electricity grid and price stability for consumers, while preventing unnecessarily stranding capital assets. The Facilitator has provided recommendations to the Alberta government and the Company expects the Alberta government will make a decision on the Facilitator's recommendations by the end of 2016.The Company continues to be engaged with the Alberta government on this topic and will work with the Alberta government throughout the remainder of the process to ensure fair compensation will be received.

Operational excellence

Performance measure	**2016 target**	**Actual results for the nine months ended September 30, 2016**
Plant availability average [1]	94% or greater	94%
Capital expenditures for plant maintenance, Genesee mine and other (sustaining capital expenditures) [2]	$65 million	$38 million
Plant operating and maintenance expenses	$200 million to $220 million	$155 million

1 All plants excluding Sundance PPA.

2 Includes sustaining capital expenditures net of joint venture contributions.

The Company's plant availability averaged 94% which reflected planned outages at Genesee 2, Clover Bar Energy Centre, Shepard, Southport, Roxboro and Joffre. Unplanned outages also occurred at Keephills 3, Southport, Genesee, Clover Bar Energy Centre and Joffre which were offset by the planned Genesee 2 shutdown being completed earlier than budgeted.

Sustaining capital expenditures for the nine months ended September 30, 2016 were lower than target for the year to date and the full year expenditures are expected to be slightly below target primarily due to the deferral of certain projects into future periods.

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 nine months ended September 30, 2016 were consistent with the target range.

Disciplined growth

Performance measure	2016 target	Status as at September 30, 2016
Genesee 4 and 5	Proceed with construction based on clarification regarding the CLP and price signals from the energy only market.	Awaiting clarification regarding the CLP and the assessment of potential impacts on current Alberta assets.
New development	Execute a contract for the output of a new development.	Construction of the Bloom Wind project (Bloom Wind) commenced in the third quarter of 2016, and Capital Power will operate the facility under a 10-year fixed price contract (see Significant Events).

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

Financial stability and strength

Performance measure	2016 target	Actual results for the nine months ended September 30, 2016
Funds from operations [1]	$380 million to $430 million	$309 million

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

Actual funds from operations for the nine months ended September 30, 2016 were in line with expected funds from operations for the full year.

OUTLOOK

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

At its Investor Day held in December 2015, the Company provided financial guidance for 2016 funds from operations in the range of $380 million to $430 million. This was based on baseload generation from the Company's Alberta commercial portfolio, hedged at 100%, with average contracted prices of high-$40 per MWh. Since then, the termination of the Sundance PPA (see Significant Events) increased the hedged portion of Capital Power's Alberta commercial portfolio and reduced the Company's contractual obligations in 2016. Based on actual results for the third quarter of 2016 and the Company's forecast for the remaining quarter, it is expected that funds from operations for the full year will be above the mid-point of the target range.

For the balance of 2016, the Company will continue to work with the Alberta government to ensure that fair compensation is received for the proposed accelerated closure of its coal facilities in connection with the CLP. The Company will also continue to work diligently with regulators and other generators in the province to implement the Carbon Competiveness Regulation (CCR) and the Renewable Electricity Program (REP) to develop a planned transition away from coal-fired generation in a manner that does not compromise the electricity market design in Alberta. Further investment in the Alberta market, including continuation of construction of the Genesee 4 and 5 project, will be considered once sufficient detail about the CLP is released and the Company has assessed the impact on its existing Alberta assets.

In conjunction with Capital Power's partner, ENMAX Corporation, on the Genesee 4 and 5 project, the construction execution of the project was restructured by the Company at modestly higher costs and risk, to move the decision point to the fourth quarter of 2016. Subsequent to the third quarter of 2016, Capital Power, and its partner ENMAX Corporation, have moved the Genesee 4 and 5 project decision to proceed to the first quarter of 2017. Accordingly, assuming that fair compensation is announced for the proposed accelerated closure of the Company's coal facilities and that favourable conditions exist within the Alberta electricity market by the first quarter of 2017, the Company expects to proceed with the project targeting substantial completion of the first unit in 2020.

In 2016, Capital Power's availability target of 94% reflects major scheduled maintenance outages for Genesee 2, Genesee 3, Joffre, and Shepard compared with the 2015 major scheduled maintenance outages for Genesee 1 and Keephills 3. With all of its baseload power position hedged in 2016, the Company continues to focus on operational excellence at its operated facilities and working with its partners on other facilities to ensure that the past excellent availability continues throughout 2016.

Portfolio position, contracted prices and forward Alberta pool prices for 2017, 2018 and 2019, as at September 30, 2016, were:

Alberta commercial portfolio positions and power prices	**Full year 2017**	**Full year 2018**	**Full year 2019**
Percentage of baseload generation sold forward [1]	100%	52%	39%
Contracted price [2]	Mid-$40 per MWh	Low-$50 per MWh	Low-$50 per MWh
Forward Alberta pool prices	$31.38	$38.75	$42.75

[1] Based on the Alberta baseload plants plus a portion of Joffre and the uncontracted portion of Shepard. The Sundance PPA is no longer a part of Capital Power's baseload generation effective March 24, 2016 (see Significant Events).

[2] Forecasted average contracted prices may differ significantly from the future average realized prices as the hedged and unhedged positions have a mix of varyingly priced blocks of power.

The 2016 targets and forecasts are based on numerous assumptions including power and natural gas price forecasts. They do not, however, include the effects of potential future acquisitions, 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.

At its Investor Day held in December 2015, the Company provided 7% annual dividend growth guidance from 2016 through 2018. Each annual increase is subject to approval by the Board of Directors of Capital Power at the time of the increase. See Significant Events for the annual dividend increase effective for the third quarter of 2016.

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

NON-GAAP FINANCIAL MEASURES

The Company uses (i) earnings before finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange gains or losses, finance expense from joint venture, and gains or losses 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 are therefore unlikely to be comparable to similar measures used by other enterprises. These measures should not be considered alternatives to net income, net income attributable to shareholders of the Company, net cash flows from operating activities, or other measures of financial performance calculated in accordance with GAAP. Rather, these measures are provided to complement GAAP measures in the analysis of the Company's results of operations from management's perspective.

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 or losses on disposals are excluded from the adjusted EBITDA measure.

Commencing with the Company's March 31, 2016 quarter-end, the reported adjusted EBITDA measure was changed to include Capital Power's share of adjusted EBITDA from joint venture. All comparative adjusted EBITDA amounts for quarters prior to those ended on March 31, 2016 were revised to conform with this change.

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

(unaudited, $ millions)	Three months ended							
	Sep 30 2016	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**	**Dec 31 2014**
Revenues	378	229	341	341	469	83	358	432
Energy purchases and fuel, other raw materials and operating charges, staff costs and employee benefits expense, and other administrative expenses	(236)	(130)	(232)	(220)	(321)	(38)	(211)	(291)
Adjusted EBITDA from joint venture [1]	6	9	11	13	6	2	-	-
Adjusted EBITDA	**148**	**108**	**120**	**134**	**154**	**47**	**147**	**141**
Depreciation and amortization	(53)	(54)	(56)	(56)	(53)	(55)	(51)	(49)
Impairment	(6)	-	-	-	-	-	-	-
Foreign exchange gain (loss)	3	(1)	8	-	(8)	1	(8)	(4)
Loss on termination of power purchase arrangement	-	-	(53)	-	-	-	-	-
Finance expense	(21)	(19)	(22)	(27)	(25)	(24)	(18)	(16)
Finance expense from joint venture [1]	(3)	(4)	(3)	(3)	(2)	(1)	-	-
Income tax expense	(4)	(10)	(2)	(14)	(16)	(16)	(20)	(24)
Net income (loss)	**64**	**20**	**(8)**	**34**	**50**	**(48)**	**50**	**48**
Net (loss) income attributable to:								
Non-controlling interests	(2)	(3)	(2)	(1)	1	(14)	10	9
Shareholders of the Company	66	23	(6)	35	49	(34)	40	39
Net income (loss)	**64**	**20**	**(8)**	**34**	**50**	**(48)**	**50**	**48**

[1] Total income from joint venture as per the Company's Condensed Interim Consolidated Statements of Income.

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. They also exclude 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. The Company includes interest and current income tax expenses excluding Part VI.1 tax 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 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. 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 September 30**		**Nine months ended September 30**	
	2016	**2015**	**2016**	**2015**
Net cash flows from operating activities per Consolidated Statements of Cash Flows	**105**	**184**	**306**	**305**
Add (deduct) items included in calculation of net cash flows from operating activities per Consolidated Statements of Cash Flows:				
Interest paid	13	18	54	52
Change in fair value of derivatives reflected as cash settlement	7	(27)	20	(5)
Realized gains on the settlement of interest rate derivatives	(1)	-	(1)	(1)
Miscellaneous financing charges paid [1]	2	1	3	3
Income taxes (recovered) paid	(1)	-	-	1
Change in non-cash operating working capital	(9)	(53)	(12)	(19)
	11	(61)	64	31
Finance expense [2]	(19)	(25)	(58)	(60)
Current income tax expense	(5)	(4)	(12)	(9)
Decrease in current income tax expense due to Part VI.1 tax	2	3	9	8
Funds from operations	**94**	**97**	**309**	**275**

1 Included in other items of non-cash adjustments to reconcile net income to net cash flows from operating activities.

2 Excludes unrealized changes on interest rate derivative contracts and amortization, accretion charges and non-cash finance charges incurred on early debt extinguishment.

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 (loss) used in the calculation of basic earnings (loss) per share according to GAAP and 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, shown net of tax, 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							
	Sep 30 2016	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**	**Dec 31 2014**
Basic earnings (loss) per share ($)	**0.63**	**0.19**	**(0.11)**	**0.29**	**0.44**	**(0.39)**	**0.41**	**0.40**
Net income (loss) attributable to shareholders of the Company per Condensed Interim Consolidated Statements of Income (Loss)	**66**	**23**	**(6)**	**35**	**49**	**(34)**	**40**	**39**
Preferred share dividends including Part VI.1 tax	(5)	(5)	(5)	(6)	(5)	(6)	(6)	(6)
Earnings (loss) attributable to common shareholders	61	18	(11)	29	44	(40)	34	33
Change in unrecognized tax benefits	(27)	-	-	-	-	-	-	-
Unrealized changes in fair value of derivatives	(22)	10	5	11	(19)	33	(17)	(21)
Deferred income tax expense related to temporary difference on investment in subsidiary	13	-	-	-	-	-	-	-
Impairment loss on Southport goodwill	4	-	-	-	-	-	-	-
Unrealized foreign exchange loss (gain) on revaluation of U.S. dollar denominated debt	1	1	(8)	1	6	(2)	10	4
Loss on termination of the Sundance PPA	-	-	46	-	-	-	-	-
Income tax expense related to increase in deferred tax liabilities caused by change in Alberta statutory corporate income tax rate	-	-	-	-	-	19	-	-
Impact of change in non-controlling interest percentage on adjustments of previous quarters	-	-	-	-	-	(1)	-	1
Restructuring charges	-	-	-	-	2	-	-	-
Recognition of tax liability on foreign domiciled investment	-	-	-	-	-	1	-	-
Normalized earnings attributable to common shareholders	**30**	**29**	**32**	**41**	**33**	**10**	**27**	**17**
Weighted average number of common shares outstanding (millions)	96.1	96.1	96.4	98.7	100.9	102.1	83.7	83.3
Normalized earnings per share ($)	**0.31**	**0.30**	**0.33**	**0.42**	**0.33**	**0.10**	**0.32**	**0.20**

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 September 30		Nine months ended September 30	
	2016	2015	2016	2015
Revenues	378	469	948	910
Adjusted EBITDA [1]	148	154	376	348
Net income	64	50	76	52
Net income attributable to shareholders of the Company	66	49	83	55
Normalized earnings attributable to common shareholders [1]	30	33	91	70
Basic and diluted earnings per share ($) [2]	0.63	0.44	0.71	0.40
Normalized earnings per share ($) [1]	0.31	0.33	0.95	0.73
Funds from operations [1]	94	97	309	275
Purchase of property, plant and equipment and other assets	27	36	139	123
Dividends per common share, declared ($)	0.3900	0.3650	1.1200	1.0450
Dividends per Series 1 preferred share, declared ($)	0.1913	0.2875	0.5739	0.8625
Dividends per Series 3 preferred share, declared ($)	0.2875	0.2875	0.8625	0.8625
Dividends per Series 5 preferred share, declared ($)	0.2813	0.2813	0.8439	0.8439

	As at	
	September 30, 2016	December 31, 2015
Loans and borrowings including current portion	1,517	1,615
Total assets	5,219	5,393

[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.

Normalized earnings attributable to common shareholders and normalized earnings per share

Normalized earnings attributable to common shareholders and normalized earnings per share for the third quarter of 2016 were higher compared with the third quarter of 2015. See Consolidated Net Income and Results of Operations for key drivers of the increases for the quarter. The number of common shares outstanding decreased primarily due to share purchases under the Company's normal course issuer bid (see Significant Events).

Funds from operations

Funds from operations for the three months ended September 30, 2016 were lower compared with funds from operations for the three months ended September 30, 2015 primarily due to lower adjusted EBITDA before unrealized changes in fair value of commodity derivatives and emission credits and before Capital Power's share of the adjusted EBITDA from K2 Wind, as well as the payment of fees related to the completion of the Bloom Wind contract, partially offset by lower finance expense. Funds from operations for the nine months ended September 30, 2016 were higher compared with funds from operations for the nine months ended September 30, 2015, primarily due to higher adjusted EBITDA before unrealized changes in fair value of commodity derivatives and emission credits and before Capital Power's share of the adjusted EBITDA from K2 Wind, lower finance expense, and higher cash distributions received from K2 Wind. Partially offsetting these increases was the payment of fees related to the completion of the Bloom Wind contract.

SIGNIFICANT EVENTS

Impairment loss on Southport

During the three months ended September 30, 2016, the Company recognized a pre-tax impairment charge of $6 million with respect to its Southport plant which reduced the carrying amount of the related goodwill. This impairment was based on reduced expected future cash flows as a result of lower than expected generation and realized prices. The impairment charge has no cash flow impact.

$160 million private placement debt financing

On September 13, 2016, the Company issued a $160 million, 10-year unsecured senior note to Prudential Capital Group. The note bears an annual interest rate of 3.85%, payable semi-annually, and matures in September 2026. The net proceeds of the offering were used for repayment of amounts owing under credit facilities and for general corporate purposes.

K2 Wind Partnership

On August 9, 2016, a consortium composed of Axium Infrastructure, Alberta Teachers' Retirement Fund Board, and Manulife Financial Corporation acquired Samsung Renewable Energy's one-third interest in K2 Wind. There is no change to the remaining interest in K2 Wind, which is still held equally by Pattern Energy Group Inc. and the Company.

Dividend Increase

On July 25, 2016, the Company announced that its Board of Directors approved a 6.8% increase in the annual dividend for holders of its common shares, from $1.46 per common share to $1.56 per common share. This increased common dividend will commence with the third quarter 2016 quarterly dividend payment payable on October 31, 2016 to shareholders of record at the close of business on September 30, 2016.

Completion of contract for output for Bloom Wind

The Bloom Wind project (Bloom Wind) is a 178 MW facility in southwestern Kansas consisting of 54 3.3 MW turbines and is anticipated to cost $358 million (US$272 million). Construction of Bloom Wind, which was previously announced on April 25, 2016, commenced during the third quarter of 2016. Commercial operation of the facility is expected in the third quarter of 2017. Capital Power will operate Bloom Wind under a 10-year fixed price contract with Allianz Risk Transfer (rated AA- stable by Standard & Poor's), a subsidiary of Allianz SE, the worldwide insurance and asset management group, covering 100% of the project's output. Under the contract, which was executed on April 21, 2016, Capital Power will swap the market revenue of the project's generation for a fixed annual payment for a 10-year term. The agreement will secure long-term predictable revenues and mitigate generation volume uncertainty related to wind resources, allowing Bloom Wind to secure renewable energy tax equity financing and provide Capital Power the opportunity to complete its first wind development project in the growing U.S. renewables market.

Approval of normal course issuer bid

On April 25, 2016, Capital Power announced that the Toronto Stock Exchange (TSX) approved the Company's normal course issuer bid (NCIB) to purchase and cancel up to 8.6 million of its outstanding common shares during the one year period from April 28, 2016 to April 27, 2017. Capital Power purchased and cancelled 7.1 million common shares under its prior NCIB approved by the TSX on March 25, 2015 for the period from April 7, 2015 to April 6, 2016, but has not yet purchased and cancelled any common shares under the NCIB approved on April 25, 2016.

Termination of the Sundance PPA

On March 24, 2016, Capital Power notified the Balancing Pool of the Company's decision to terminate its role as Buyer of the Sundance PPA. Capital Power exercised its right to terminate the Sundance PPA under the Change in Law provisions of the arrangement, following changes to the Specified Gas Emitters Regulation (SGER) that took effect at the start of 2016. As a result of this termination, no further economic benefits are expected from the Sundance PPA and the related intangible asset was derecognized. The Company has recorded a non-cash pre-tax loss of $53 million ($46 million post-tax) with respect to the derecognition of the Sundance PPA asset. See Contractual Obligations and Contingent Liabilities for further discussion.

CLP Update

In late September 2016, the Alberta government initiated formal consultations relating to the CCR which are scheduled to conclude by the end of 2016. The CCR will establish the performance standard and carbon pricing framework that will apply to facilities that are currently subject to the SGER, and will replace SGER effective January 1, 2018. The Company expects that the performance standard for the electricity sector will be consistent with the emissions performance of a combined-cycle natural gas-fired facility in Alberta, with specific details to be developed through consultation.

On March 16, 2016, the Alberta government appointed a Facilitator to oversee the transition away from coal-fired generation in Alberta by 2030. The Facilitator's background is with large public power providers and centrally dispatched power systems and advising energy leaders in numerous countries around the world. The Facilitator's mandate was to provide options and preferred approaches to the Alberta government to phase out emissions from coal-fired generation by 2030 that will maintain both the reliability of Alberta's electricity grid and price stability for consumers, while avoiding unnecessarily stranding capital. Throughout this process, the Alberta government has indicated that it intends to ensure that affected workers, communities and companies are treated fairly. Capital Power will continue to actively participate in the process with the Alberta government to ensure that fair compensation is received for the proposed accelerated closure of the Company's coal facilities. The Facilitator has provided recommendations to the Alberta government and the Company expects the Alberta government will make a decision on the Facilitator's recommendations by the end of 2016.

On January 26, 2016, the Alberta government tasked the Alberta Electric System Operator (AESO) to develop and implement a plan to bring on new renewable electricity generation capacity to the grid by 2030 in connection with the CLP. The Company expects that the process will be carefully managed and operate in concert with the retirement of the current coal generating units. The Alberta government also confirmed that it has not chosen to fundamentally alter the current wholesale electricity market structure. The AESO undertook a process to receive industry perspectives regarding various elements of the REP, and provided its recommendations regarding the REP to the Alberta government on May 31, 2016. The recommendations have not been made public. On September 14, 2016, the Alberta government confirmed a firm target of achieving 30% of Alberta's electricity use by 2030 from renewable energy sources, and announced that the Alberta government would support 5000 MW of additional renewable capacity to help achieve that target. It is currently expected that the Alberta government will provide direction on the REP during the fourth quarter of 2016, and the AESO currently expects to initiate the process for the first procurement by year-end.

Capital Power looks forward to further clarifications of the renewable electricity program and the growth opportunities that this may bring to the Company.

Preferred Shares (Series 1) dividend rate reset

On February 18, 2016 the Board of Directors of Capital Power declared a quarterly dividend of $0.19125 per share on the Company's Cumulative 5-Year Rate Reset Preference Shares, Series 1 (Series 1 Shares). This quarterly dividend was paid on March 31, 2016. The Annual Fixed Dividend Rate for the Series 1 Shares for the next five year period was reset from 4.60% to 3.06% on December 31, 2015 at a rate equal to the sum of the then Government of Canada bond yield and 2.17%. The Annual Fixed Dividend Rate will be next reset on December 31, 2020 and every five years thereafter.

SUBSEQUENT EVENT

Preferred share offering

On October 4, 2016, the Company issued 8 million Cumulative Minimum Rate Reset Preference Shares, Series 7 (Series 7 Shares) priced at $25.00 per share for gross proceeds of $200 million less issue costs of $5 million on a bought deal basis with a syndicate of underwriters. The preferred shares will pay fixed cumulative dividends of $1.50 per share per annum, yielding 6.00% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board of Directors of Capital Power, for the initial period ending December 31, 2021. The dividend rate will be reset on December 31, 2021 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 5.26%, provided that, in any event, such rate shall not be less than 6.00%. The Series 7 Shares are redeemable by Capital Power, at its option on December 31, 2021 and every five years thereafter at a value of $25.00 per share.

Holders of the Series 7 Shares will have the right to convert all or any part of their shares into Cumulative Floating Rate Preference Shares, Series 8 (Series 8 Shares), subject to certain conditions, on December 31, 2021 and every five years thereafter. Holders of the Series 8 Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 5.26%, as and when declared by the Board of Directors of Capital Power. The Series 8 Shares would be redeemable by Capital Power, at its option, on December 31, 2026 and December 31 of every fifth year thereafter at a value of $25.00 per share. The Series 8 shares would also be redeemable by Capital Power, at its option, on any date after December 31, 2021, excluding December 31 of every fifth year, at a value of $25.50 per share.

CONSOLIDATED NET INCOME AND RESULTS OF OPERATIONS

The primary factors contributing to the change in consolidated net income for the three and nine months ended September 30, 2016 compared with the three and nine months ended September 30, 2015 are presented below followed by further discussion of these items.

(unaudited, $ millions)	Three months		Nine months	
Consolidated net income for the periods ended September 30, 2015		**50**		**52**
Increase (decrease) in adjusted EBITDA:				
Alberta commercial plants and portfolio optimization	2		25	
Alberta contracted plants	(14)		(16)	
Ontario and British Columbia contracted plants	(1)		14	
U.S. contracted plants	5		10	
Corporate	1		1	
Change in unrealized net gains or losses related to the fair value of commodity derivatives and emission credits	1	(6)	(6)	28
Impairment		(6)		(6)
Increase in depreciation and amortization expense		-		(4)
Change in foreign exchange gain or loss		11		25
Loss on termination of power purchase arrangement		-		(53)
Decrease in finance expense		4		5
Increase in finance expense from joint venture		(1)		(7)
Increase (decrease) in income before tax		2		(12)
Decrease in income tax expense		12		36
Increase in net income		**14**		**24**
Consolidated net income for the periods ended September 30, 2016		**64**		**76**

Results by Plant Category and Other

	Three months ended September 30							
	2016	2015	2016	2015	2016	2015	2016	2015
	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 Sundance PPA	3,930	3,687	96	95	174	179		
Alberta commercial plants and Sundance PPA								
Genesee 3	498	498	100	100	8	12		
Keephills 3	464	258	96	63	8	6		
Clover Bar Energy Centre 1, 2 and 3	79	39	91	88	3	3		
Joffre	27	62	81	100	3	7		
Shepard Energy Centre [4]	611	572	99	100	21	21		
Halkirk	86	88	96	97	6	6		
Clover Bar Landfill Gas	1	2	27	81	-	-		
Alberta commercial plants – owned	1,766	1,519	95	92	49	55		
Sundance PPA [5]	-	688	-	91	-	19		
Portfolio optimization	N/A	N/A	N/A	N/A	114	163		
	1,766	2,207	95	92	163	237	74	72
Alberta contracted plants								
Genesee 1	857	865	100	100				
Genesee 2	862	843	100	98				
	1,719	1,708	100	99	68	72	38	52
Ontario and British Columbia contracted plants								
Island Generation	2	37	92	100	9	9		
K2 Wind [6]	40	46	98	98	N/A	N/A		
Kingsbridge 1	15	13	95	94	1	-		
Port Dover and Nanticoke	53	44	94	95	6	5		
Quality Wind	78	97	91	94	7	9		
	188	237	93	97	23	23	21	22
U.S. contracted plants								
Roxboro, North Carolina	84	76	100	94	10	9		
Southport, North Carolina	140	128	96	94	19	18		
Beaufort Solar, North Carolina [7]	8	N/A	98	N/A	1	N/A		
Macho Springs, New Mexico	25	19	97	96	4	2		
	257	223	97	95	34	29	11	6
Corporate [8]					2	2	(24)	(25)
Unrealized changes in fair value of commodity derivatives and emission credits					88	106	28	27
Consolidated revenues and adjusted EBITDA					**378**	**469**	**148**	**154**

	Nine months ended September 30							
	2016	2015	2016	2015	2016	2015	2016	2015
	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 Sundance PPA	11,535	10,638	94	94	535	586		
Alberta commercial plants and Sundance PPA								
Genesee 3	1,446	1,482	100	100	22	53		
Keephills 3	1,353	1,151	95	89	22	41		
Clover Bar Energy Centre 1, 2 and 3	233	207	93	93	6	24		
Joffre	131	224	75	96	15	25		
Shepard Energy Centre [4]	1,835	1,075	94	86	65	45		
Halkirk	334	331	98	98	22	25		
Clover Bar Landfill Gas	4	7	75	91	-	-		
Alberta commercial plants – owned	5,336	4,477	94	93	152	213		
Sundance PPA [5]	655	1,944	95	87	13	66		
Portfolio optimization	N/A	N/A	N/A	N/A	352	304		
	5,991	6,421	93	91	517	583	209	184
Alberta contracted plants								
Genesee 1	2,470	2,288	98	90				
Genesee 2	2,277	2,517	90	99				
	4,747	4,805	94	95	201	205	123	139
Ontario and British Columbia contracted plants								
Island Generation	2	74	97	100	28	28		
K2 Wind [6]	145	65	99	98	N/A	N/A		
Kingsbridge 1	65	65	95	95	4	4		
Port Dover and Nanticoke	213	204	98	97	26	24		
Quality Wind	259	287	96	97	24	28		
	684	695	97	98	82	84	87	73
U.S. contracted plants								
Roxboro, North Carolina	232	205	97	93	27	23		
Southport, North Carolina	411	375	90	90	57	52		
Beaufort Solar, North Carolina [7]	23	N/A	96	N/A	3	N/A		
Macho Springs, New Mexico	102	81	97	98	13	9		
	768	661	94	93	100	84	27	17
Corporate [8]					5	7	(75)	(76)
Unrealized changes in fair value of commodity derivatives and emission credits					43	(53)	5	11
Consolidated revenues and adjusted EBITDA					**948**	**910**	**376**	**348**

1 Gigawatt hours (GWh) of 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 Shepard was commissioned on March 11, 2015.

5 The Company notified the Balancing Pool of the Company's decision to terminate its role as Buyer of the Sundance PPA effective March 24, 2016 (see Significant Events). Revenues, adjusted EBITDA, electricity generation, and plant availability in 2016 include the results of the Sundance PPA up to the effective termination date.

6 K2 Wind is accounted for under the equity method. Capital Power's share of the plant's net income is included in income from joint venture on the Company's Condensed Interim Consolidated Statements of Income. The plant was commissioned on May 29, 2015 and the equivalent of Capital Power's share of the plant's revenues was $7 million and $30 million for the three and nine months ended September 30, 2016, respectively, compared with $7 million and $10 million for the three and nine months ended September 30, 2015, respectively which are not included in the above results.

7 Beaufort Solar was commissioned on December 22, 2015.

8 Corporate revenues were offset by interplant category eliminations.

Energy prices and hedged positions

		Three months ended September 30		Nine months ended September 30		Year ended December
Alberta	**Unit**	**2016**	**2015**	**2016**	**2015**	**31, 2015**
Hedged position [1]	Percentage sold forward at beginning of period (%)	100	100	100	100	97
Spot power price average	$/MWh	18	26	17	37	33
Realized power price [2]	$/MWh	70	61	60	55	55
Natural gas price (AECO) [3]	$/gigajoule (Gj)	2.14	2.77	1.75	2.64	2.60

1 Hedged position is for the Alberta baseload plants and a portion of Joffre and the uncontracted portion of Shepard. The Sundance PPA is no longer a part of Capital Power's baseload generation effective March 24, 2016 (see Significant Events).

2 Realized power price is the average price realized as a result of 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, Sundance PPA and portfolio optimization

Generation, availability, revenues and adjusted EBITDA for the Alberta commercial plants include results of the Sundance PPA up to the effective termination date of March 24, 2016 (see Significant Events).

For the three and nine months ended September 30, 2016 generation decreased compared with the same periods in 2015 primarily due to the termination of the Sundance PPA in the first quarter of 2016. This was partially offset by higher generation at Keephills 3 as the facility experienced a planned outage during the third quarter of 2015. On a year to date basis, generation from Shepard was higher in 2016 due to an extended unplanned outage at the facility in 2015, and the commissioning of the facility in March 2015. The increase in availability for the three and nine months ended September 30, 2016, compared with the same periods in 2015 was primarily due to the aforementioned factors, partially offset by unplanned outages at Joffre in 2016.

Revenues for the Alberta commercial plants were lower for the three and nine months ended September 30, 2016 compared with the same periods in 2015 mainly as a result of lower average Alberta spot prices. Although the Company's portfolio realized higher power prices in the third quarter of 2016, portfolio optimization revenues were lower compared with the same period in 2015 as the Company secured a portion of commercial production for the third quarter of 2015 in June 2015, when forward rates increased temporarily during that month. On a year to date basis, portfolio optimization revenues increased as the Company was required to cover a short market position at higher prices in the second quarter of 2015. The aforementioned factors also contributed to the increase in adjusted EBITDA for the nine months ended September 30, 2016, compared with the same period in 2015.

Alberta contracted plants

For the three and nine months ended September 30, 2016 generation and availability were comparable with the same periods in 2015. Revenues were lower in the third quarter and year to date 2016 primarily due to lower excess energy and incentive revenues as a result of lower Alberta pool prices partially offset by the recovery of environmental compliance costs received from the Balancing Pool. As a result of changes to the SGER effective January 1, 2016, the Company incurred higher compliance costs. However, under the terms of the Genesee 1 and 2 power purchase arrangement (PPA) with the Balancing Pool, increases in environmental compliance costs for the Alberta plants are passed onto the Balancing Pool until the Genesee 1 and 2 PPA expires at the end of 2020. Adjusted EBITDA decreased for the three and nine months ended September 30, 2016, compared with the same periods in 2015, due to higher coal costs and the aforementioned lower excess energy and incentive revenues.

Ontario and British Columbia contracted plants

Decreased generation and availability for the three and nine months ended September 30, 2016, compared with the same periods in 2015 were mainly due to lower dispatch and a planned outage at Island Generation in 2016, with no comparable outage in 2015, and decreased wind generation at Quality Wind. On a year to date basis, the lower generation was partially offset by the addition of K2 Wind, which began commercial operations on May 29, 2015. The addition of K2 Wind also positively impacted adjusted EBITDA for the nine months ended September 30, 2016. Revenue does not include K2 Wind which is accounted for under the equity method.

U.S. contracted plants

For the three and nine months ended September 30, 2016 compared with the same periods in 2015, generation, revenues and adjusted EBITDA increased due to higher off-peak generation at Southport and Roxboro, the addition of Beaufort Solar in the fourth quarter of 2015 and increased wind generation at Macho Springs. Availability was also higher compared with the same periods in 2015 due to fewer plant outages.

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 periods ended September 30, 2016 were consistent compared with the periods ended September 30, 2015.

Unrealized changes in fair value of commodity derivatives and emission credits

(unaudited, $ millions)	Three months ended September 30			
Unrealized changes in fair value of commodity derivatives and emission credits	**2016**	**2015**	**2016**	**2015**
	Revenues		**Adjusted EBITDA**	
Unrealized gains on Alberta energy derivatives	86	114	32	26
Unrealized gains (losses) on natural gas derivatives	1	(7)	(5)	-
Unrealized gains (losses) on emission derivatives	1	(1)	2	(1)
Unrealized (losses) gains on emission credits held for trading	-	-	(1)	2
	88	**106**	**28**	**27**

(unaudited, $ millions)	Nine months ended September 30			
Unrealized changes in fair value of commodity derivatives and emission credits	**2016**	**2015**	**2016**	**2015**
	Revenues		**Adjusted EBITDA**	
Unrealized gains (losses) on Alberta energy derivatives	47	(6)	4	2
Unrealized (losses) gains on natural gas derivatives	-	(47)	8	8
Unrealized losses on emission derivatives	(4)	-	(3)	-
Unrealized (losses) gains on emission credits held for trading	-	-	(4)	1
	43	**(53)**	**5**	**11**

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 category.

During the three months ended September 30, 2016 the Alberta energy portfolio recognized unrealized net gains of $32 million mainly due to the impact of decreasing forward Alberta power prices on net forward sales contracts partially offset by reversal of prior periods' unrealized gains which settled during the period. During the three months ended September 30, 2015 the Company recognized unrealized net gains of $26 million. These gains were attributable to the impact of decreasing forward Alberta power prices on net forward sales contracts combined with the reversal of prior periods' unrealized losses which settled during the period. On a year to date basis for 2016 and 2015, net gains of $4 million and $2 million respectively, were due to the impact of decreasing forward Alberta power prices on net forward sales contracts offset by the reversal of prior periods' unrealized net gains on forward sales contracts that settled in the respective periods.

Unrealized net losses on natural gas derivatives reported by the Company for the quarter ended September 30, 2016 were due to net forward purchase contracts valued against decreasing forward prices combined with the reversal of prior period net gains on net forward purchase contracts that settled during the quarter. For the nine months ended September 30, 2016 and 2015, unrealized net gains of $8 million were primarily attributable to reversals of previously unrealized net losses on contracts which settled in the respective periods.

Unrealized losses on emission derivatives of $3 million for the nine months ended September 30, 2016 resulted from net forward purchase contracts on allowances and renewable energy credits which were valued at decreasing prices and the reversal of prior period gains on positions settled during the first nine months of 2016, partially offset by gains on net forward purchase contracts valued at increasing prices. Emission portfolio activities for the comparable period in 2015 were immaterial.

During nine months ended September 30, 2016, the Company recognized unrealized net losses in fair value of emission credits held for trading of $4 million primarily due to the reversal of previously unrealized net gains.

Consolidated Other Expenses and Non-controlling Interests

(unaudited, $ millions)	Three months ended September 30		Nine months ended September 30	
	2016	**2015**	**2016**	**2015**
Interest on borrowings less capitalized interest	(18)	(23)	(56)	(58)
Realized gains on settlement of interest rate derivatives	1	-	1	1
Other finance expense – sundry interest and guarantee and other fees	(2)	(1)	(3)	(3)
	(19)	(24)	(58)	(60)
Unrealized loss representing changes in the fair value of interest rate derivatives	-	-	-	(2)
Other finance expense – amortization and accretion charges	(2)	(1)	(4)	(4)
Other finance expense – finance charges incurred on early debt extinguishment	-	-	-	(1)
Total finance expense	(21)	(25)	(62)	(67)
Impairments	(6)	-	(6)	-
Depreciation and amortization	(53)	(53)	(163)	(159)
Foreign exchange gain (loss)	3	(8)	10	(15)
Loss on termination of power purchase arrangement	-	-	(53)	-
Finance expense from joint venture	(3)	(2)	(10)	(3)
Income tax expense	(4)	(16)	(16)	(52)
Net loss (income) attributable to non-controlling interests	2	(1)	7	3

Finance expense

Decreased finance expense for the three months ended September 30, 2016 was primarily due to higher capitalized interest resulting from the commencement of Bloom Wind construction, reduced interest expense incurred on long-term debt as a result of the EPCOR debt repayment in the first quarter of 2016 and the retirement of medium-term notes in November 2015 offset partially by increased interest on credit facility usage. On a year to date basis, the aforementioned factors were partially offset by decreased capitalized interest as Shepard was completed in March 2015.

Impairments

During the quarter ended September 30, 2016, the Company recognized a pre-tax impairment loss of $6 million related to the Southport cash generating unit (see Significant Events).

Depreciation and amortization

Depreciation and amortization for the nine months ended September 30, 2016 increased by $4 million compared with the same period in the prior year primarily due to additional expense recognized for Shepard which commenced commercial operations in March 2015.

Foreign exchange gain (loss)

Foreign exchange consisted of the gain (loss) incurred primarily on the revaluation of U.S. dollar denominated debt not hedged (US$100 million) for accounting purposes. For the nine months ended September 30, 2016, the exchange rate of the Canadian dollar relative to the U.S. dollar increased resulting in an unrealized gain of $7 million. The Company also recognized hedge ineffectiveness gains of $3 million related to the U.S. foreign exchange hedges which occurred primarily in the third quarter.

Loss on termination of power purchase arrangement

The Company recorded a pre-tax loss of $53 million with respect to the derecognition of the Sundance PPA intangible asset during the three months ended March 31, 2016. On March 24, 2016, the Company notified the Balancing Pool of the Company's decision to terminate its role as Buyer of the Sundance PPA effective March 24, 2016 (see Significant Events).

Finance expense from joint venture

Finance expense from joint venture includes Capital Power's share of finance expenses of K2 Wind accounted for under the equity method. This plant was commissioned on May 29, 2015.

Income tax expense

For the three and nine months ended September 30, 2016 compared with the same periods in the prior year, income tax expense decreased $12 million and $36 million, respectively mainly due to the recognition of previously unrecognized deductible temporary differences partially offset by the recognition of a taxable temporary difference relating to an investment in a subsidiary in the third quarter of 2016.

During the quarter ended September 30, 2016, a deferred tax liability was recognized on the Company's investment in a subsidiary. The deferred tax liability had not previously been recognized as the Company did not expect the taxable temporary difference to reverse in the foreseeable future. This increase in the deferred tax liability was offset by a benefit relating to previously unrecognized deferred tax assets as realizing these deferred tax assets was determined to be probable.

For the nine months ended September 30, 2016, tax expense decreased due to the above impacts and the change in the Alberta statutory income tax rate in the second quarter of 2015 which increased non-cash income tax expense during that period. No comparable non-cash income tax expense relating to statutory income tax rate changes was recorded in 2016.

Non-controlling interests

For the three and nine months ended September 30, 2016, none (January 1, 2015 to April 2, 2015, 18%) of CPLP's net income was attributable to EPCOR which was reported as net income attributable to non-controlling interests by the Company in 2015. Effective April 2, 2015, EPCOR disposed of all its interest in CPLP. Subsequent to April 2, 2015, non-controlling interests consist only of the Genesee Coal Mine Assets (Coal Mine) partner's share of the consolidated net income of the Coal Mine.

COMPREHENSIVE INCOME

(unaudited, $ millions)	**Three months ended September 30**		**Nine months ended September 30**	
	2016	**2015**	**2016**	**2015**
Net income	64	50	76	52
Other comprehensive income (loss):				
Net unrealized gains on commodity derivatives designated as cash flow hedges	42	78	53	37
Net realized gains on commodity derivatives designated as cash flow hedges reclassified to revenues and/or energy purchases and fuel	(24)	(20)	(73)	(34)
Unrealized foreign exchange gain (loss) on the translation of foreign operations	4	12	(9)	26
	22	70	(29)	29
Comprehensive income	**86**	**120**	**47**	**81**

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 gain or loss are subsequently recognized in net income when the hedged transactions are completed and the foreign operations are disposed of or otherwise terminated. As a result of the termination of the Sundance PPA (see Significant Events), certain derivatives that were previously designated as accounting hedges were de-designated as the hedged transactions are no longer expected to occur. The de-designation resulted in the reclassification of unrealized gains of $5 million ($4 million post tax) from other comprehensive loss to net income.

FINANCIAL POSITION

The significant changes in the Consolidated Statements of Financial Position from December 31, 2015 to September 30, 2016 were as follows:

(unaudited, $ millions)	**September 30, 2016**	**December 31, 2015**	**Increase (decrease)**	**Primary reason for increase (decrease)**
Trade and other receivables	166	190	(24)	Primarily lower generation including reduced generation due to the termination of the Sundance PPA (see Significant Events) and lower wind volumes, and lower Alberta pool prices.
Inventories	85	99	(14)	Increased sales of emission credit inventory.
Equity-accounted investment	-	10	(10)	Due to distributions received and unrealized loss recognized partially offset by net income.
Intangible assets	298	341	(43)	Derecognition of assets related to the Sundance PPA (see Significant Events).
Goodwill	22	30	(8)	Due to impairment loss recognized on Southport goodwill (see Significant Events) and foreign currency translation adjustments.
Trade and other payables	150	181	(31)	Due to final construction costs related to Shepard being paid in the first quarter of 2016 and the termination of the Sundance PPA (see Significant Events).
Loans and borrowings (including current portion)	1,517	1,615	(98)	Repayment of bankers' acceptances and debt payable to EPCOR, partly offset by the issuance of the $160 million private placement note (see Significant Events).
Provisions (including current portion)	259	232	27	Increased decommissioning provisions resulting from discount rate reductions.
Share capital	2,722	2,744	(22)	Common shares purchased by Capital Power.
Deficit	(110)	(70)	(40)	Net income offset by common and preferred share dividends.

LIQUIDITY AND CAPITAL RESOURCES

(unaudited, $ millions)	Nine months ended September 30		
Cash inflows (outflows)	**2016**	**2015**	**Change**
Operating activities	306	305	1
Investing activities	(135)	(117)	(18)
Financing activities	(227)	(230)	3

Operating activities

Cash flows from operating activities for the nine months ended September 30, 2016 were consistent year over year.

Investing activities

Cash flows used in investing activities for the nine months ended September 30, 2016 increased on a year-over-year basis primarily due to increased purchases of emission credits.

Capital expenditures and investments

(unaudited, $ millions)	**Pre-2016 Actual**	**Nine months ended September 30, 2016 Actual**	**Balance of 2016 Estimated** [2]	**Actual or Projected Total** [3]	**Timing**
Genesee 4 and 5 [4, 5]	9	6	2	700	Targeted substantial completion as early as 2020 and 2021, respectively.
Bloom Wind	-	67	155	358	Targeted completion in mid-2017.
Subtotal growth projects		**73**			
Sustaining – plant maintenance excluding Genesee mine		41			
Sustaining – Genesee mine maintenance and lands [6]		2			
Total capital expenditures[1]		**116**			
Emission credits held for compliance		25			
Capitalized interest		(2)			
Purchase of property, plant and equipment and other assets		**139**			

1 Capital expenditures include capitalized interest.

2 The Company's 2016 estimated capital expenditures include only expenditures for previously announced growth projects and exclude other potential new development projects.

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

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

5 Continuation of the Genesee 4 and 5 project will be considered once sufficient detail about the CLP is released and the Company has assessed the impact on its existing Alberta assets. The construction execution of the project was previously restructured at modestly higher costs and risk, to move the decision point to the fourth quarter of 2016. Subsequent to the third quarter of 2016, the decision point has been moved to the first quarter of 2017.

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

Financing activities

The cash flows used in financing activities for the nine months ended September 30, 2016 primarily reflected the net issuance of loans and borrowings partially offset by the sum of common share dividends, preferred share dividends, and common shares purchased under the Company's NCIB (see Significant Events).

The Company's credit facilities consisted of:

(unaudited, $ millions)		As at September 30, 2016			As at December 31, 2015		
	Maturity timing	Total facilities	Credit facility utilization	Available	Total facilities	Credit facility utilization	Available
CPLP committed credit facility	2020/2021	1,055			1,000		
Letters of credit outstanding			56			15	
Bankers' acceptances outstanding			107			212	
U.S. dollar bank loans outstanding			44			27	
		1,055	207	848	1,000	254	746
CPLP bilateral demand credit facilities	N/A	200			200		
Letters of credit outstanding			115	85		110	90
CPLP demand credit facility	N/A	20	-	20	20	-	20
Capital Power Corporation demand credit facility	N/A	5	-	5	5	-	5
		1,280	**322**	**958**	**1,225**	**364**	**861**

As at September 30, 2016, the committed credit facility utilization decreased $47 million compared with the utilization as at December 31, 2015 primarily due to decreased bankers' acceptances outstanding. The proceeds from the $160 million private placement note (see Significant Events), which was secured in September 2016, reduced the credit facility usage during the third quarter which was partially offset by the debt repayment to EPCOR in the first quarter of 2016 which increased the credit facility utilization. In July 2016, the Company extended the maturity date of the committed credit facilities to July 9, 2021. In addition, the Company utilized the accordion feature of the committed credit facility to increase the facility size by $55 million. Following the extension, $1 billion of the committed credit facilities mature on July 9, 2021 and $55 million mature on July 9, 2020. The accordion feature permits an additional $245 million increase to the facility in the future, subject to certain conditions including lender approval. The available credit facilities provide the Company with adequate funding for ongoing development projects.

The Company has a corporate credit rating of BBB- with a stable outlook from Standard & Poor's (S&P). The BBB rating category assigned by S&P is the fourth highest rating of S&P's ten rating categories for long-term debt obligations. 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.

The Company has a long-term debt credit rating of BBB from DBRS Limited (DBRS) and on March 10, 2016, DBRS changed the trend of the rating from stable to negative. The negative trend indicates the possibility of a downgrade to BBB (low). 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 Capital Power'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 2016 include:

(unaudited, $ millions)	Nine months ended September 30, 2016 Actual	Balance of 2016 estimated	Total 2016 Expected Cash Requirements
Repayment of debt payable to EPCOR	139	-	139
Capital expenditures excluding capitalized interest and emission credits held for compliance	114	180	294
Common share dividends [1]	106	37	143
Preferred share dividends [2]	15	8	23

1 Includes the 6.8% dividend increase approved by the Board of Directors of Capital Power on July 25, 2016.

2 Includes Series 7 preferred share quarterly dividend payable on December 30, 2016 at $0.375 per share ($1.50 per share per annum (see Subsequent Events)).

The current portion of loans and borrowings on the September 30, 2016 Condensed Interim Consolidated Statements of Financial Position included $186 million of senior debt payable to EPCOR that has been classified as current since the debt is callable and, therefore, all potentially repayable within one year.
The Company expects to fund the construction of the Genesee 4 and 5 and Bloom Wind projects using existing bank credit facilities, cash flows from operating activities and proceeds from the preferred share issuance which closed in the fourth quarter (see Subsequent Event). The Company's other cash requirements identified above are expected to be funded with cash on hand, cash flows from operating activities, and use of existing bank credit facilities.

The Company uses a short-form base shelf prospectus 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 prospectus, 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. This prospectus expires in June 2018. On October 4, 2016, under a prospectus supplement to the short-form base shelf prospectus, the Company issued 8 million Series 7 Preferred Shares (see Subsequent Events) utilizing $200 million of capacity under the short-form base shelf prospectus.

If the Canadian and U.S. financial markets become unstable, as they did particularly in the period from 2008 to 2010, 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 September 30, 2016, $171 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	
	September 30, 2016	December 31, 2015
Loans and borrowings	1,517	1,615
Finance lease obligation [1]	20	22
Less cash and cash equivalents	22	80
Net debt	1,515	1,557
Share capital	2,722	2,744
Deficit and other reserves	(64)	4
Non-controlling interests	62	68
Total equity	2,720	2,816
Total capital	**4,235**	**4,373**

1 Includes the current portion disclosed within trade and other payables.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

Sundance PPA Termination

As at October 21, 2016, Capital Power has not yet received acceptance of the Sundance PPA termination from the Balancing Pool. During the third quarter of 2016, the Alberta government commenced legal action that seeks to retroactively amend and restate certain power purchase arrangements, including the Sundance PPA, and prevent the Balancing Pool from accepting Capital Power's termination of its role as Buyer of the Sundance PPA. Capital Power anticipates that this claim will be heard in court later in 2017 at the earliest. In addition to the above legal action, the Balancing Pool and Capital Power differ in opinion as to when the termination takes effect.

In the event that the termination is not accepted, or the termination date is determined to be later than March 24, 2016, an estimated additional loss of up to $46 million, as at September 30, 2016, may be realized pertaining to the total Sundance PPA. Capital Power's 52% share of the estimated loss of up to $24 million as at September 30, 2016 would be recognized in the Company's consolidated statements of income in the event that the termination was not accepted, or the termination date is determined to be later than March 24, 2016. The calculation of the estimated loss is based on several key inputs, including output generated by the Sundance PPA units during the period, Alberta power prices that settled during the period, emission intensity factors, and other fixed payment terms as specified in the Sundance PPA.

There can be no assurance that the termination and termination date will be accepted as filed by the Company, or when the Alberta government's legal action will be resolved. Although the Company has estimated a maximum exposure as disclosed above, the Company does not believe that the actual outcome will be materially adverse to its financial position.

Line Loss Rule Proceeding

Capital Power is participating in the Line Loss Rule (LLR) Proceeding currently underway before the Alberta Utilities Commission (AUC) regarding loss factors that form the basis for certain transmission charges paid by Alberta generators, including Capital Power. The LLR Proceeding intends to address the replacement for the currently non-compliant LLR as well as the possible correction of line loss charges and credits for the years 2006 forward through three modules. In January 2015, the AUC issued its "Module A" decision and concluded that it has the jurisdiction and authority to retroactively adjust line loss rates. The Module A decision was subsequently appealed by multiple parties, including the Company and consideration of those appeals has been deferred until after the completion of "Module C".

The AUC approved principles for the new LLR in "Module B" in November 2015 and has directed the AESO to provide a plan for implementing the new LLR. In June 2016, the AUC rejected applications for review and variance of the Module B decision that had been submitted by two parties, ruling that it would be premature to review the decision prior to completing Module C, but noting that the parties could resubmit the Module B review applications upon completion of Module C. In August 2016 the AESO submitted its Module B Compliance Filing detailing the replacement LLR and methodology to be applied prospectively. The AESO also provided an update that it did not believe it would be able to have the new LLR implemented by January 1, 2017, but that loss factors may be available in early 2017.

In January 2016, the AUC initiated Module C, which will address issues relating to what retrospective adjustments, if any, are to be paid to or received by the various parties. In September 2016, the AUC provided its decisions regarding various preliminary issues relating to the scope for Module C. These decisions were largely procedural in nature. The Commission has yet to establish a schedule for the Module C proceeding. During the AUC process to consider the scope of issues for Module C, the AESO advised that it had identified data quality issues regarding the 2006 to 2010 period that could affect the determination of retroactive loss charges. The AUC directed the AESO to assess options for assessing historic loss factors and provide a filing by October 20, 2016.

As at October 21, 2016, no prospective (Module B) loss factors or retroactive (Module C) loss factors for the full historic period have been produced by the AESO using the new LLR, nor has any alternative or supplemental mechanism for determining retrospective adjustments been established by the AUC. It is unclear when such loss factors will be made available, and the timing of a Module C decision remains unknown. Capital Power may incur material additional transmission charges on a retroactive and go-forward basis but a provision has not been recorded in the Company's unaudited condensed interim consolidated financial statements since the outcome of the LLR 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

EPCOR was a related party of Capital Power until April 2, 2015, following the secondary offering and exchange of exchangeable common limited partnership units which decreased EPCOR's interest in the Company to 9.1%. The City of Edmonton, as the sole shareholder of EPCOR, was also a related party of Capital Power until April 2, 2015.

Power sales and purchases of energy, fuel, raw materials and 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. CPLP paid distributions to EPCOR for the three months ended March 31, 2015 based on EPCOR's unitholdings during that period.

(unaudited, $ millions)	**Period from January 1, 2015 to April 2, 2015**
Revenues – energy sales:	
EPCOR and City of Edmonton	5
Purchase of raw materials and other services:	
EPCOR	2
Finance expense:	
EPCOR	5
CPLP distributions paid [1]	
EPCOR	7
Repayment of unsecured senior debt payable	
EPCOR	9

[1] Distributions of $6 million were paid on April 30, 2015 based on EPCOR's unitholdings outstanding as of March 31, 2015.

RISKS AND RISK MANAGEMENT

There have been no material changes in the nine months ended September 30, 2016 to the Company's business and operational risks as described in the Company's December 31, 2015 MD&A except for the third quarter development in relation to the Sundance PPA termination. See Contractual Obligations and Contingent Liabilities for further discussion.

ENVIRONMENTAL MATTERS

The Company recorded decommissioning provisions of $206 million as at September 30, 2016 ($184 million as at December 31, 2015) for its generation plants and the Genesee coal mine as it is obligated 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 timing of reclamation activities could be accelerated and the amount of decommissioning provisions could change on enactment of the CLP.

The Company is obligated under contract to purchase environmental credits totalling approximately $290 million in the current and future years and expects to mostly use these credits to comply with applicable environmental regulations, including the proposed CCR.

USE OF JUDGMENTS AND ESTIMATES

In preparing the condensed interim consolidated financial statements, management made necessary estimates in determining transaction amounts and financial statement balances. There have been no significant changes to the Company's use of judgments and estimates as described in the Company's December 31, 2015 MD&A.

ACCOUNTING CHANGES

Effective January 1, 2016

The Company adopted new accounting standards as issued by the International Accounting Standards Board (IASB). The changes and impact to Capital Power are:

Standard	Description	Impact to Capital Power
Presentation of financial statements (amendments to IAS 1)	Amendments providing guidance on materiality and aggregation on the statements of financial position, clarification of presentation issues on the statements of income or loss and other comprehensive income or loss, and providing additional examples of ways of ordering notes.	There was no impact to the Company's interim financial statement disclosures and the Company expects an insignificant impact to annual financial statement disclosures.
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 IFRS 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.

Future

The IASB issued the following new standards and amendments to existing standards that were not yet effective as of September 30, 2016 and which may significantly impact Capital Power:

Standard	Description	Impact to Capital Power	Effective Date
Statement of Cash Flows (amendments to IAS 7)	Amendments issued to improve disclosures of changes in financing liabilities to allow users of financial statements to evaluate changes in liabilities arising from financing activities.	Capital Power is currently analyzing the requirements to determine how best to apply them. The amendments may require further disclosures with respect to cash and non-cash debt transactions.	Effective for annual periods beginning on or after January 1, 2017.
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, 2018; 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.
Leases (IFRS 16)	New standard which replaces IAS 17 which addresses the recognition, measurement, presentation and disclosure of leases and provides a new approach to lessee accounting, requiring lessees to recognize assets and liabilities for all leases.	Will require the Company to recognize leased assets and leased obligations with respect to its lease arrangements for office space.	Effective for annual periods beginning on or after January 1, 2019. Early application is permitted if IFRS 15 has also been applied.

FINANCIAL INSTRUMENTS

The classification, carrying amounts and fair values of financial instruments held at September 30, 2016 and December 31, 2015 were as follows:

(unaudited, $ millions)	Classification	Fair value hierarchy level [1]	September 30, 2016		December 31, 2015	
			Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Cash and cash equivalents	Loans and receivables	N/A	22	22	80	80
Trade and other receivables (excluding current portion of finance lease receivables)	Loans and receivables	N/A	145	145	169	169
Derivative financial instruments assets – current and non-current	Financial assets designated at fair value through income or loss	See below	258	258	220	220
Finance lease receivables (including current portion disclosed within trade and other receivables)	Loans and receivables	Level 2	694	805	710	807
Other financial assets	Loans and receivables	Level 2	6	6	12	12
Financial liabilities:						
Trade and other payables (excluding current portion of finance lease obligation)	Other financial liabilities	N/A	149	149	180	180
Derivative financial instruments liabilities – current and non-current	Financial liabilities designated at fair value through income or loss	See below	84	84	53	53
Finance lease obligation (including current portion disclosed within trade & other payables)	Other financial liabilities	Level 2	20	21	22	22
Loans and borrowings (including current portion)	Other financial liabilities	Level 2	1,517	1,549	1,615	1,623

[1] 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 using valuation techniques and models reviewed by the Company's commodity risk group and the calculations are reviewed by management.

Risk management and hedging activities

There have been no material changes in the nine months ended September 30, 2016 to the Company's risk management and hedging activities as described in the Company's December 31, 2015 MD&A.

The derivative financial instruments assets and liabilities held at September 30, 2016 compared with December 31, 2015 and used for risk management purposes were measured at fair value and consisted of the following:

(unaudited, $ millions)		As at September 30, 2016				
	Fair value hierarchy level	**Commodity cash flow hedges**	**Commodity non-hedges**	**Foreign exchange hedges**	**Interest rate non-hedges**	**Total**
Derivative financial instruments assets	Level 2	63	119	57	9	248
	Level 3	-	10	-	-	10
		63	129	57	9	258
Derivative financial instruments liabilities	Level 2	(28)	(16)	-	(15)	(59)
	Level 3	-	(25)	-	-	(25)
		(28)	(41)	-	(15)	(84)
Net derivative financial instruments assets (liabilities)		**35**	**88**	**57**	**(6)**	**174**

(unaudited, $ millions)		As at December 31, 2015				
	Fair value hierarchy level	**Commodity cash flow hedges**	**Commodity non-hedges**	**Foreign exchange hedges**	**Interest rate non-hedges**	**Total**
Derivative financial instruments assets	Level 2	64	72	68	5	209
	Level 3	-	11	-	-	11
		64	83	68	5	220
Derivative financial instruments liabilities	Level 2	(4)	(38)	-	(11)	(53)
Net derivative financial instruments assets (liabilities)		**60**	**45**	**68**	**(6)**	**167**

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 (loss) and, when realized, are reclassified to net income as revenues, energy purchases and fuel, or foreign exchange gains and losses. As a result of the termination of the Sundance PPA (see Significant Events), certain derivatives that were previously designated as accounting hedges were de-designated as the hedged transactions are no longer expected to occur. The Company performed a hedge effectiveness test before and after the de-designation and concluded no ineffectiveness was present. Unrealized gains and losses associated with these de-designated hedges began to flow through net income as revenues starting in the first quarter of 2016.

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.

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 nine months ended September 30, 2016 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	**Sep 30 2016**	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**	**Dec 31 2014**
Total generation excluding Sundance PPA	3,930	3,707	3,898	3,929	3,687	3,553	3,398	3,204
Alberta commercial plants and Sundance PPA								
Genesee 3	498	474	474	500	498	491	493	369
Keephills 3	464	501	388	489	258	436	457	433
Clover Bar Energy Centre 1, 2 and 3	79	106	48	41	39	98	70	45
Joffre	27	21	83	84	62	76	86	58
Shepard	611	647	577	387	572	443	60	N/A
Halkirk	86	124	124	129	88	107	136	146
Clover Bar Landfill Gas	1	2	1	1	2	3	2	3
Alberta commercial plants – owned	1,766	1,875	1,695	1,631	1,519	1,654	1,304	1,054
Sundance PPA [1]	-	-	655	717	688	565	691	819
	1,766	1,875	2,350	2,348	2,207	2,219	1,995	1,873
Alberta contracted plants								
Genesee 1	857	770	843	842	865	608	815	857
Genesee 2	862	582	833	861	843	838	836	856
	1,719	1,352	1,676	1,703	1,708	1,446	1,651	1,713
Ontario and British Columbia contracted plants								
Island Generation	2	-	-	5	37	37	-	9
K2 Wind	40	34	71	102	46	19	N/A	N/A
Kingsbridge 1	15	16	34	36	13	21	31	35
Port Dover and Nanticoke	53	65	95	95	44	69	91	91
Quality Wind	78	90	91	121	97	82	108	101
	188	205	291	359	237	228	230	236
U.S. contracted plants								
Roxboro, North Carolina	84	82	66	77	76	70	59	74
Southport, North Carolina	140	144	127	131	128	118	129	122
Beaufort Solar, North Carolina	8	8	7	-	N/A	N/A	N/A	N/A
Macho Springs, New Mexico	25	41	36	28	19	37	25	5
	257	275	236	236	223	225	213	201

[1] The Company gave notice to terminate its role as Buyer of the Sundance PPA effective March 24, 2016 (see Significant Events). Results of the Sundance PPA were recognized up to March 24, 2016.

(%)	Three months ended							
Plant availability	**Sep 30 2016**	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**	**Dec 31 2014**
Total average plant availability excluding Sundance PPA	96	90	97	99	95	90	98	94
Alberta commercial plants and Sundance PPA								
Genesee 3	100	100	99	100	100	100	100	74
Keephills 3	96	100	90	100	63	97	100	92
Clover Bar Energy Centre 1, 2 and 3	91	91	99	97	88	95	97	90
Joffre	81	55	89	100	100	87	99	82
Shepard	99	82	100	98	100	73	80	N/A
Halkirk	96	98	99	96	97	98	99	98
Clover Bar Landfill Gas	27	99	99	84	81	93	100	87
Alberta commercial plants – owned	95	87	96	98	92	89	97	87
Sundance PPA [1]	-	-	95	92	91	79	92	96
	95	87	96	96	92	86	95	91
Alberta contracted plants								
Genesee 1	100	95	100	99	100	72	98	100
Genesee 2	100	72	99	100	98	100	100	100
	100	84	99	100	99	86	99	100
Ontario and British Columbia contracted plants								
Island Generation	92	100	100	100	100	100	100	100
K2 Wind	98	99	99	99	98	98	N/A	N/A
Kingsbridge 1	95	97	94	98	94	95	97	96
Port Dover and Nanticoke	94	100	97	98	95	97	99	97
Quality Wind	91	98	99	98	94	97	98	98
	93	99	99	99	97	98	99	98
U.S. contracted plants								
Roxboro, North Carolina	100	100	89	99	94	87	97	100
Southport, North Carolina	96	92	83	93	94	88	89	88
Beaufort Solar, North Carolina	98	91	98	100	N/A	N/A	N/A	N/A
Macho Springs, New Mexico	97	98	97	96	96	99	99	99
	97	95	89	96	95	91	94	92

1 The Company gave notice to terminate its role as Buyer of the Sundance PPA effective March 24, 2016 (see Significant Events). Results of the Sundance PPA were recognized up to March 24, 2016.

Financial results

(unaudited, $ millions)	Three months ended							
	Sep 30 2016	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**	**Dec 31 2014**
Revenues								
Alberta commercial plants, Sundance PPA and portfolio optimization [1]	163	166	188	199	237	130	216	178
Alberta contracted plants	68	62	71	70	72	67	66	69
Ontario and British Columbia contracted plants	23	25	34	40	23	25	36	36
U.S. contracted plants	34	34	32	30	29	28	27	22
Corporate [2]	2	1	2	1	2	4	1	2
Unrealized changes in fair value of commodity derivatives and emission credits	88	(59)	14	1	106	(171)	12	125
	378	**229**	**341**	**341**	**469**	**83**	**358**	**432**
Adjusted EBITDA								
Alberta commercial plants, Sundance PPA and portfolio optimization [1]	74	71	64	70	72	49	63	60
Alberta contracted plants	38	43	42	45	52	45	42	41
Ontario and British Columbia contracted plants [3]	21	28	38	45	22	21	30	29
U.S. contracted plants	11	8	8	10	6	6	5	1
Corporate	(24)	(27)	(24)	(24)	(25)	(27)	(24)	(27)
Unrealized changes in fair value of commodity derivatives and emission credits	28	(15)	(8)	(12)	27	(47)	31	37
	148	**108**	**120**	**134**	**154**	**47**	**147**	**141**

1 The Company gave notice to terminate its role as Buyer of the Sundance PPA effective March 24, 2016 (see Significant Events). Results of the Sundance PPA were recognized up to March 24, 2016.

2 Revenues are offset by interplant category revenue eliminations.

3 Commencing with the first quarter of 2016, the reported Ontario and British Columbia contracted plants' adjusted EBTIDA was changed to include the adjusted EBITDA from joint venture and the applicable comparative periods have been adjusted to conform to the current period's presentation.

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, 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							
	Sep 30 2016	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**	**Dec 31 2014**
Revenues	378	229	341	341	469	83	358	432
Adjusted EBITDA [1,2]	148	108	120	134	154	47	147	141
Net income (loss)	64	20	(8)	34	50	(48)	50	48
Net income (loss) attributable to shareholders of the Company	66	23	(6)	35	49	(34)	40	39
Basic earnings (loss) per share ($)	0.63	0.19	(0.11)	0.29	0.44	(0.39)	0.41	0.40
Normalized earnings per share ($) [1]	0.31	0.30	0.33	0.42	0.33	0.10	0.32	0.20
Funds from operations [1,3]	94	106	109	125	97	70	108	102
Purchase of property, plant and equipment and other assets	27	81	31	17	36	35	52	57

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

2 Commencing with the first quarter of 2016, the reported Ontario and British Columbia contracted plants' adjusted EBTIDA was changed to include the adjusted EBITDA from joint venture and the applicable comparative periods have been adjusted to conform to the current period's presentation.

3 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.

	Three months ended							
Spot price averages	**Sep 30 2016**	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**	**Dec 31 2014**
Alberta power ($ per MWh)	18	15	18	21	26	57	29	30
Alberta natural gas (AECO) ($ per Gj)	2.14	1.34	1.72	2.35	2.77	2.52	2.63	3.43
Capital Power's Alberta portfolio average realized power price ($ per MWh)	70	61	52	55	61	46	59	58

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 second quarter 2016 reflected strong portfolio results as the portfolio was fully hedged at an average realized price of $61 per MWh compared with $46 per MWh in the second quarter of 2015. The spot price average in the second quarter of 2016 was $15 per MWh compared with $57 per MWh in the second quarter of 2015. Because of the lower spot price in 2016 compared with 2015, the portfolio results in the second quarter of 2016 were partially offset by lower revenues from the Alberta commercial and Alberta contracted plants. In the second quarter of 2016, the Alberta energy portfolio recognized unrealized losses of $29 million compared with unrealized losses of $46 million in the second quarter of 2015. Partially offsetting those unrealized losses in 2016 were unrealized gains on natural gas derivatives of $15 million due to reversals of previously unrealized net losses. There were no such gains reported in 2015.

Financial results for the first quarter 2016 reflected the impact of lower Alberta power pricing averaging $18 per MWh. Revenues were lower compared with the corresponding period in 2015 mainly due to lower Alberta average spot prices and lower average realized price on the Alberta portfolio. Adjusted EBITDA decreased quarter over quarter mainly due to unrealized losses recognized on commodity derivatives and emission credits held for trading. Adjusted EBITDA was also negatively impacted by increased environmental compliance costs resulting from higher contributions to the Climate Change and Emissions Fund and decreased generation at Quality Wind. The Company exercised its right to terminate the Sundance PPA effective March 24, 2016. As a result, Capital Power's first quarter net income was negatively impacted by a non-cash $53 million pre-tax loss with respect to the derecognition of the Sundance PPA intangible asset.

For the quarter ended December 31, 2015, the Company recorded net income attributable to shareholders of $35 million and normalized earnings per share of $0.42, compared to $39 million and $0.20 respectively for the quarter ended December 31, 2014. Net income attributable to common shareholders was lower for the quarter compared to the same quarter in 2015 primarily due to lower adjusted EBITDA, increased depreciation on new assets and finance expense on additional plant financing, partially offset by the contribution of K2 equity earnings and lower taxes.

Generating plants contributed higher adjusted EBITDA for the fourth quarter with higher generation across the fleet, including fully hedged Alberta baseload units, the addition of Shepard and a full quarter of Macho Springs compared to the same quarter last year. These additions were more than offset by the quarter over quarter decrease in unrealized changes in the fair value of derivative contracts. In the fourth quarter of 2014, the Company reported unrealized gains of $37 million due to declining forward prices on its forward sales contracts. In the fourth quarter of 2015, the Company reported unrealized losses on its forward electricity sales contracts upon reversal of prior quarter gains and declining prices on its long natural gas position. Normalized earnings per share of $0.42 in the fourth quarter of 2015 was higher than the comparable amount of $0.20 in the fourth quarter of 2014 primarily due to the increase in adjusted EBITDA after removing the effects of unrealized changes in fair value of derivative contracts.

The results for the third quarter of 2015 reflected strong portfolio optimization results due to the forward sale of 100% of its commercial production, realizing a price of $61 per MWh compared with the $26 per MWh Alberta spot power price average for the three months ended September 30, 2015. Alberta commercial plant results reflected the Keephills 3 planned outage and an unplanned outage at Clover Bar Energy Centre Unit 2. The Alberta electricity portfolio accounted for unrealized net gains of $27 million due to decreasing Alberta forward prices combined with the portfolio's net forward sales contracts.

The results for the second quarter of 2015 reflected volatility in Alberta power prices where spot prices averaged $97 per MWh in June due to warmer weather compared with $21 per MWh in April 2015 and $54 per MWh in May 2015. The positive EBITDA realized by the Alberta plants was partly offset by portfolio optimization results. With commercial production 100% sold forward in the quarter, the Company was required to cover a short market position at higher prices. Capital Power's second quarter 2015 results were also negatively impacted by the announcement of an increase to the Alberta statutory income tax rate, which resulted in $19 million of additional income tax expense for the quarter. The Alberta government also announced changes to Alberta's regulations governing carbon emissions with increases to the required reduction in emissions intensity and cost of compliance. Capital Power announced a 7.4% increase in the annual dividend for holders of its common shares commencing with the third quarter dividend paid on October 30, 2015.

The results for the quarter ended March 31, 2015 reflected the impact of low Alberta power pricing averaging $29 per MWh. Alberta commercial plant results reflected the commencement of operations at Shepard. Portfolio optimization results were strong since the Company was fully hedged at an average realized price of $59 per MWh. The Alberta electricity portfolio accounted for unrealized net gains of $21 million due to decreasing Alberta forward prices combined with the portfolio's net forward sales contracts.

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.

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							
	Sep 30 2016	**Jun 30 2016**	**Mar 31 2016**	**Dec 31 2015**	**Sep 30 2015**	**Jun 30 2015**	**Mar 31 2015**	**Dec 31 2014**
Share price ($/common share)								
High	22.16	20.23	18.93	20.21	22.42	25.58	27.12	28.14
Low	18.95	17.31	16.37	15.41	18.28	21.53	23.77	24.50
Close	20.62	19.28	18.00	17.77	18.88	21.54	24.51	26.00
Volume of shares traded (millions)	16.0	14.8	19.2	20.5	19.4	21.1	18.8	13.9

Outstanding share and partnership unit data

As at October 18, 2016, the Company had 96.134 million common shares, 5 million Cumulative Rate Reset Preference Shares, Series 1, 6 million Cumulative Rate Reset Preference Shares, Series 3, 8 million Cumulative Rate Reset Preference Shares, Series 5, 8 million Cumulative Minimum Rate Reset Preference Shares, Series 7, 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 October 18, 2016 were 100.280 million. The outstanding special limited voting share is held by EPCOR.

As at October 18, 2016, 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)
Nine months ended September 30, 2016 and 2015

CAPITAL POWER CORPORATION

Condensed Interim Consolidated Financial Statements
Nine months ended September 30, 2016 and 2015

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 September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Revenues	$ 378	$ 469	$ 948	$ 910
Energy purchases and fuel	(162)	(243)	(362)	(343)
Gross margin	216	226	586	567
Other raw materials and operating charges	(22)	(26)	(79)	(73)
Staff costs and employee benefits expense	(31)	(33)	(94)	(95)
Depreciation and amortization	(53)	(53)	(163)	(159)
Loss on termination of power purchase arrangement (note 4)	-	-	(53)	-
Impairment (note 5)	(6)	-	(6)	-
Other administrative expense	(21)	(19)	(63)	(59)
Foreign exchange gain (loss)	3	(8)	10	(15)
Operating income	86	87	138	166
Finance expense	(21)	(25)	(62)	(67)
Income from joint venture	3	4	16	5
Income before tax	68	66	92	104
Income tax expense (note 6)	(4)	(16)	(16)	(52)
Net income	$ 64	$ 50	$ 76	$ 52
Attributable to:				
Non-controlling interests	$ (2)	$ 1	$ (7)	$ (3)
Shareholders of the Company	$ 66	$ 49	$ 83	$ 55
Earnings per share (attributable to common shareholders of the Company):				
Basic (note 7)	$ 0.63	$ 0.44	$ 0.71	$ 0.40
Diluted (note 7)	$ 0.63	$ 0.44	$ 0.71	$ 0.40

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 September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Net income	$ 64	$ 50	$ 76	$ 52
Other comprehensive income (loss):				
Items that are or may be reclassified subsequently to net income:				
Cash flow hedges:				
Unrealized gains on derivative instruments[1]	43	83	62	45
Unrealized losses on derivative instruments – joint venture[2]	(1)	(5)	(9)	(8)
Reclassification of gains on derivative instruments to income for the period[3]	(24)	(20)	(73)	(34)
Net investment in foreign subsidiaries:				
Unrealized gain (loss)[4]	4	12	(9)	26
Total items that are or may be reclassified subsequently to net income, net of tax	22	70	(29)	29
Total other comprehensive income (loss), net of tax	22	70	(29)	29
Total comprehensive income	$ 86	$ 120	$ 47	$ 81
Attributable to:				
Non-controlling interests	$ (2)	$ 4	$ (7)	$ (2)
Shareholders of the Company	$ 88	$ 116	$ 54	$ 83

[1] For the three and nine months ended September 30, 2016, net of income tax expense of $15 million and $22 million respectively. For the three and nine months ended September 30, 2015, net of income tax expense of $30 million and $18 million respectively.

[2] For the three and nine months ended September 30, 2016, net of income tax recovery of nil and $3 million respectively. For the three and nine months ended September 30, 2015, net of income tax recovery of $2 million and $3 million respectively.

[3] For the three and nine months ended September 30, 2016, net of reclassification of income tax expense of $9 million and $27 million respectively. For the three and nine months ended September 30, 2015, net of reclassification of income tax expense of $7 million and $13 million respectively.

[4] For the three and nine months ended September 30, 2016 and 2015, net of income tax expense 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)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 22	$ 80
Trade and other receivables	166	190
Inventories	85	99
Derivative financial instruments assets (note 8)	103	93
	376	462
Non-current assets:		
Other assets	20	24
Derivative financial instruments assets (note 8)	155	127
Finance lease receivables	673	689
Other financial assets	7	13
Deferred tax assets	13	18
Equity-accounted investment	-	10
Intangible assets (note 4)	298	341
Property, plant and equipment	3,655	3,679
Goodwill (note 5)	22	30
Total assets	$ 5,219	$ 5,393
Liabilities and equity		
Current liabilities:		
Trade and other payables	$ 150	$ 181
Derivative financial instruments liabilities (note 8)	31	27
Loans and borrowings	201	339
Deferred revenue and other liabilities	7	2
Provisions	24	22
	413	571
Non-current liabilities:		
Derivative financial instruments liabilities (note 8)	53	26
Loans and borrowings (note 9)	1,316	1,276
Finance lease obligation	19	21
Deferred revenue and other liabilities	95	97
Deferred tax liabilities	368	376
Provisions	235	210
	2,086	2,006
Equity:		
Equity attributable to shareholders of the Company		
Share capital (note 10)	2,722	2,744
Deficit	(110)	(70)
Other reserves	46	74
Deficit and other reserves	(64)	4
	2,658	2,748
Non-controlling interests	62	68
Total equity	2,720	2,816
Total liabilities and equity	$ 5,219	$ 5,393

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	Deficit	Equity attributable to shareholders of the Company	Non-controlling interests	Total
Equity as at January 1, 2016	$ 2,744	$ 42	$ 31	$ (9)	$ 10	$ (70)	$ 2,748	$ 68	$ 2,816
Net income (loss)	-	-	-	-	-	83	83	(7)	76
Other comprehensive loss:									
Cash flow derivative hedge gains	-	84	-	-	-	-	84	-	84
Cash flow derivative hedge losses – joint venture	-	(12)	-	-	-	-	(12)	-	(12)
Reclassification of gains to net income	-	(100)	-	-	-	-	(100)	-	(100)
Unrealized loss on foreign currency translation	-	-	(9)	-	-	-	(9)	-	(9)
Tax on items recognized directly in equity	-	8	-	-	-	-	8	-	8
Other comprehensive loss	$ -	$ (20)	$ (9)	$ -	$ -	$ -	$ (29)	$ -	$ (29)
Total comprehensive (loss) income	-	(20)	(9)	-	-	83	54	(7)	47
Net additional investment by non-controlling interests	-	-	-	-	-	-	-	1	1
Common share dividends (note 10)	-	-	-	-	-	(108)	(108)	-	(108)
Preferred share dividends (note 10)	-	-	-	-	-	(15)	(15)	-	(15)
Common shares purchased	(22)	-	-	-	-	-	(22)	-	(22)
Share-based payment	-	-	-	-	1	-	1	-	1
Equity as at September 30, 2016	$ 2,722	$ 22	$ 22	$ (9)	$ 11	$ (110)	$ 2,658	$ 62	$ 2,720

[1] Accumulated other comprehensive income. Other reserves on the statements of financial position are the aggregate of accumulated other comprehensive income 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 (deficit)	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 (loss)	-	-	-	-	-	55	55	(3)	52
Other comprehensive income :									
Cash flow derivative hedge gains	-	63	-	-	-	-	63	-	63
Cash flow derivative hedge losses – joint venture	-	(11)	-	-	-	-	(11)	-	(11)
Reclassification of gains to net income	-	(47)	-	-	-	-	(47)	-	(47)
Unrealized gain on foreign currency translation	-	-	26	-	-	-	26	-	26
Tax on items recognized directly in equity	-	(2)	-	-	-	-	(2)	-	(2)
Attributed to non-controlling interests	-	-	(1)	-	-	-	(1)	1	-
Other comprehensive income	$ -	$ 3	$ 25	$ -	$ -	$ -	$ 28	$ 1	$ 29
Total comprehensive income (loss)	-	3	25	-	-	55	83	(2)	81
Issue of share capital	449	-	-	-	-	-	449	-	449
Deferred taxes on share issue costs	1	-	-	-	-	-	1	-	1
Distributions to non-controlling interests	-	-	-	-	-	-	-	(6)	(6)
Net additional investment by non-controlling interests	-	-	-	-	-	-	-	4	4
Change in non-controlling interests ownership	-	(1)	-	-	-	30	29	(480)	(451)
Tax on change in non-controlling interests ownership	-	(3)	-	-	-	(56)	(59)	-	(59)
Common share dividends (note 10)	-	-	-	-	-	(99)	(99)	-	(99)
Preferred share dividends (note 10)	-	-	-	-	-	(16)	(16)	-	(16)
Tax on preferred share dividends	-	-	-	-	-	(1)	(1)	-	(1)
Dividends reinvested (note 10)	22	-	-	-	-	-	22	-	22
Common shares purchased	(79)	-	-	-	-	-	(79)	-	(79)
Share-based payment	-	-	-	-	1	-	1	-	1
Share options exercised	2	-	-	-	-	-	2	-	2
Equity as at September 30, 2015	$ 2,786	$ 39	$ 24	$ (13)	$ 10	$ (62)	$ 2,784	$ 68	$ 2,852

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

See accompanying notes to the condensed interim consolidated financial statements

CAPITAL POWER CORPORATION

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

	Nine months ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	$ 76	$ 52
Non-cash adjustments to reconcile net income to net cash flows from operating activities:		
Loss on termination of power purchase arrangement (note 4)	53	-
Impairment (note 5)	6	-
Depreciation and amortization	163	159
Finance expense	62	67
Fair value changes on commodity derivative instruments and emission credits held for trading	(5)	(11)
Unrealized foreign exchange (gain) loss	(9)	16
Income tax expense	16	52
Income from joint venture	(16)	(5)
Other items	(13)	(11)
Change in fair value of derivative instruments reflected as cash settlement	(20)	5
Distribution received from joint venture	20	-
Finance lease receivable collected	15	15
Interest paid[1]	(54)	(52)
Income taxes paid[2]	-	(1)
Change in non-cash operating working capital	12	19
Net cash flows from operating activities	306	305
Cash flows used in investing activities:		
Purchase of property, plant and equipment and other assets	(139)	(123)
Other cash flows from investing activities	13	12
Change in non-cash investing working capital	(9)	(6)
Net cash flows used in investing activities	(135)	(117)
Cash flows used in financing activities:		
Proceeds from issue of loans and borrowings (note 9)	164	3
Repayment of loans and borrowings	(240)	(41)
Issue costs on loans and borrowings	-	(1)
Proceeds from exercise of share options	-	1
Common shares purchased	(22)	(79)
Distributions paid to non-controlling interests	-	(12)
Common share dividends paid (note 10)	(106)	(70)
Preferred share dividends paid (note 10)	(15)	(16)
Capitalized interest paid[1]	(2)	(8)
Income taxes paid[2]	(6)	(7)
Net cash flows used in financing activities	(227)	(230)
Foreign exchange (loss) gain on cash held in a foreign currency	(2)	5
Net decrease in cash and cash equivalents	(58)	(37)
Cash and cash equivalents at beginning of period	80	71
Cash and cash equivalents at end of period	$ 22	$ 34

[1] Total interest paid.

[2] Total income taxes paid.

See accompanying notes to the condensed interim consolidated financial statements

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 2015 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 annual consolidated financial statements, except as outlined in note 3, 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 October 21, 2016.

3. Changes in accounting policies:

Effective January 1, 2016, the Company has adopted the following amendments:

IAS 1 – Presentation of Financial Statements (Amendment) – The objective of the amendments is to improve the presentation and disclosure in financial reports by providing guidance on materiality, clarifying presentation issues related to the statement of financial position, statement of income and other comprehensive income or loss and providing additional examples of possible ways of ordering notes. The amendments did not change the presentation and disclosure within the condensed interim consolidated financial statements as previous treatment applied by the Company was aligned with the amendments.

IFRS 11 – Acquisition of an Interest in Joint Operations (Amendment) – The objective of the amendments issued is to improve comparability of reported financial information by providing guidance on how a joint operator accounts for the acquisition of an interest in a joint operation, in which the activity of the operation constitutes a business. It would require a joint operator to account for such an acquisition by applying IFRS 3 – Business Combinations and other standards, and disclosing the relevant information specified in those IFRSs for business combinations. The amendments to IFRS 11 will affect applicable future transactions.

4. Loss on termination of power purchase arrangement:

On March 24, 2016, Capital Power notified the Balancing Pool of the Company’s decision to terminate its role as Buyer of the Sundance C Power Purchase Arrangement (Sundance PPA). As a result, no further economic benefits are expected from the Sundance PPA and the related intangible asset was derecognized. The Company has recorded a pre-tax non-cash loss of $53 million ($46 million post-tax) with respect to the derecognition of the Sundance PPA intangible asset. Effective March 24, 2016, the Company also de-designated certain energy cash flow hedges related to forecasted transactions no longer expected to occur as a result of the Sundance PPA termination, which resulted in the reclassification of unrealized gains of $5 million ($4 million post-tax) from other comprehensive income (loss) to net income. No hedge ineffectiveness resulted from the de-designation of the cash flow hedges.

4. Loss on termination of power purchase arrangement, continued:

As at October 21, 2016, Capital Power has not received acceptance of the Sundance PPA termination from the Balancing Pool. During the third quarter of 2016, the Government of Alberta (the Government) commenced legal action that seeks to retroactively amend and restate certain power purchase arrangements, including the Sundance PPA, and prevent the Balancing Pool from accepting Capital Power's termination of its role as Buyer of the Sundance PPA. Capital Power anticipates that this claim will be heard in court later in 2017 at the earliest. In addition to the above legal action, the Balancing Pool and Capital Power differ in opinion as to when the termination takes effect.

In the event that the termination is not accepted, or the termination date is determined to be later than March 24, 2016, an estimated additional loss of up to $46 million, as at September 30, 2016 may be realized pertaining to the total Sundance PPA. Capital Power's 52% share of the estimated loss of up to $24 million as at September 30, 2016 would be recognized in the Company's consolidated statements of income in the event that the termination was not accepted, or the termination date is determined to be later than March 24, 2016. The calculation of the estimated loss is based on several key inputs, including output generated by the Sundance PPA units during the period, Alberta power prices that settled during the period, emission intensity factors, and other fixed payment terms as specified in the Sundance PPA.

There can be no assurance that the termination and termination date will be accepted as filed by the Company, or when the Government's legal action will be resolved. Although the Company has estimated a maximum exposure as disclosed above, the Company does not believe that the actual outcome will be materially adverse to its financial position.

5. Impairment testing:

Property, plant and equipment and definite life intangible assets

The uncertainty created by the Climate Leadership Plan (CLP) announced on November 22, 2015 by the Government, combined with the impact of low Alberta power prices and general negative market reaction to Alberta's economic conditions led to a substantial decline in the Company's market capitalization, particularly in the last quarter of 2015. As a result, the Company's Alberta Commercial and Alberta Contracted cash-generating units (together referred to as the Alberta CGUs) were tested for impairment during the fourth quarter of 2015 using valuation techniques, inputs, and assumptions as described in the Company's 2015 annual consolidated financial statements. No impairment was recorded to the Alberta CGUs as at December 31, 2015.

During the nine months ended September 30, 2016, the Company's market capitalization continued to be below the book value of its net assets, which management concluded was a continuation of the factors described above. Accordingly, there have been no material changes to the previous management assessment performed in the fourth quarter of 2015.

On March 16, 2016, the Government announced the appointment of a facilitator to support the phase out of coal (Facilitator) as proposed under the CLP. The Facilitator's scope of work includes advising the Government on options for phasing out coal-fired electricity emissions by 2030 that will maintain both the reliability of Alberta's electricity grid and stability of prices for consumers, while avoiding unnecessarily stranding capital. The Facilitator's work continued through the third quarter of 2016 and the Company anticipates that the resulting recommendations will be reviewed by the Government in the fourth quarter of 2016. Capital Power will continue to monitor its market capitalization and re-assess potential impairments arising from the early plant closures once there is reasonable certainty in respect of compensation.

Goodwill

The Company reviews its cash generating units (CGUs) that contain goodwill on an annual basis, generally in the third quarter, to determine whether any impairment should be recognized. As a result, the Company's Southport CGU was tested for impairment during the third quarter of 2016. The carrying amount of the Southport CGU was at the high-end of the range of its estimated recoverable amounts and as such, a pre-tax impairment of $6 million was recorded against goodwill (2015 – nil) to reduce the carrying amount of the Southport CGU to the estimated recoverable amount.

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

5. Impairment testing, continued:

Goodwill, continued:

Key assumptions – goodwill recoverable amounts

The recoverable amount of the Southport CGU was determined based on its fair value less costs to sell, estimated using discounted cash flows. The fair value measurement of the Southport CGU is categorized in Level 3 of the fair value hierarchy based on the inputs used in the valuation model. The calculation of the recoverable amount for the Southport CGU is sensitive to several key assumptions as described below.

Discount rates and growth rates

The after-tax discount rates used for the Southport CGU ranged between the period for which the facility is currently contracted and the period following the expiry of the current contract, and reflect the market weighted average cost of capital (WACC) using a capital asset pricing model approach, giving consideration to the risks specific to the Southport CGU. The method and assumptions used to calculate the WACC rate are consistent with the Company's past experience and previous valuations performed by the Company.

The Company has projected cash flows for a period of ten years and used a growth rate to extrapolate the cash flow projections beyond the ten year period through to the end of the useful life of the CGU. The growth rate reflects past experience and is consistent with industry practice. The discount and growth rates used by the Company in the calculation of the recoverable amount for the Southport CGU were as follows:

	2016	2015
Discount rate – currently contracted period	6.6%	6.8%
Discount rate – post current contract period	8.6%	8.8%
Growth rate	2.0%	2.0%

Other key cash flow assumptions

The Company's cash flow projections incorporate estimates of annual plant revenues, expenses and capital expenditures. These estimates incorporate past experience and the Company's current view of future generating capacity, fuel mix, fuel pricing and expected contract renewal, including contracted rates, for the Southport facility.

The Company has assumed the Southport power purchase agreement will be extended for 10 years following the expiry of the current agreement in 2021 at rates consistent with current pricing, adjusted for 1% inflation. The Company has also assumed that the Southport facility will optimize its fuel mix at 55% wood waste, 35% tire-derived fuel (TDF), and 10% coal, and that long-term contracts will be executed with wood waste and TDF suppliers at prices consistent with current rates, adjusted for inflation.

Consideration is given to externally available information related to future electricity contract rates and fuel inputs when developing assumptions and such external information is used to validate the Company's current view of future rates and costs. These external sources of information include information from third party advisory and research firms serving the industry.

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

6. Income tax:

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

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Income before tax	$ 68	$ 66	$ 92	$ 104
Income tax at the statutory rates of 27% (2015 – 26.0%)	19	17	25	27
Increase (decrease) resulting from:				
Change in unrecognized tax benefits[1]	(27)	(4)	(28)	-
Non-(taxable) deductible amounts	(2)	-	3	-
Statutory and other rate differences	-	2	(2)	20
Deferred income tax expense related to temporary difference on investment in subsidiary	13	-	13	-
Amounts attributable to non-controlling interests	-	-	2	2
Other	1	1	3	3
Income tax expense	$ 4	$ 16	$ 16	$ 52

[1] Relates to the recognition of previously unrealized deferred tax assets during the third quarter of 2016.

7. 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Income for the period attributable to shareholders of the Company	$ 66	$ 49	$ 83	$ 55
Preferred share dividends of the Company[1]	(5)	(5)	(15)	(17)
Earnings used in the calculation of basic earnings per share	$ 61	$ 44	$ 68	$ 38

[1] Includes preferred share dividends and related taxes in respect of the three and nine months ended September 30, 2016 and 2015 respectively.

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Weighted average number of common shares used in the calculation of basic earnings per share	96,134,243	100,909,850	96,240,191	95,629,854

Diluted earnings per share

The earnings used in the calculation of diluted earnings per share does not differ from the earnings used in the calculation of basic earnings per share for the three and nine months ended September 30, 2016 and 2015.

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

7. Earnings per share, continued:

Diluted earnings per share, continued:

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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Weighted average number of common shares used in the calculation of basic earnings per share	96,134,243	100,909,850	96,240,191	95,629,854
Effect of dilutive share purchase options[2]	127,319	-	29,728	13,867
Weighted average number of common shares used in the calculation of diluted earnings per share	96,261,562	100,909,850	96,269,919	95,643,721

[2] For the three and nine months ended September 30, 2016 and the nine months ended 2015, the average market price of the Company's common shares was above the exercise price of certain granted share purchase options, but had a neutral impact on earnings per share. For the three months ended September 30, 2015, the average market price of the Company's common shares was below the exercise price of all granted share purchase options and as a result none of the share purchase options had a dilutive effect on earnings per share.

8. 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:

	September 30, 2016				
	Energy and emission allowances		Foreign exchange	Interest rate	
	cash flow hedges	non-hedges	cash flow hedges	non-hedges	Total
Derivative instruments assets:					
Current	$ 32	$ 66	$ 2	$ 3	$ 103
Non-current	31	63	55	6	155
Derivative instruments liabilities:					
Current	(3)	(27)	-	(1)	(31)
Non-current	(25)	(14)	-	(14)	(53)
Net fair value	$ 35	$ 88	$ 57	$ (6)	$ 174
Net notional (sells) buys (millions):					
Megawatt hours of electricity	(15)	(7)			
Gigajoules of natural gas		14			
Metric tons of emission allowances		1			
Number of renewable energy certificates		(1)			
Cross currency swaps and interest rate swaps (U.S. dollars)			$ 195	$ 100	
Interest rate swaps (Canadian dollars)				$ 200	
Range of remaining contract terms in years[1]	0.1 to 10.8	0.1 to 7.3	4.7 to 9.7	3.7 to 6.7	

[1] Terms of certain foreign exchange cash flow hedge contracts and interest rate non-hedge contracts require settlement in 1.7 years and 3.7 years respectively. The remaining years of the underlying derivatives of these contracts are reflected in the table above.

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

8. Derivative financial instruments and hedge accounting, continued:

	December 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	$ 42	$ 51	$ -	$ -	$ 93
Non-current	22	32	68	5	127
Derivative instruments liabilities:					
Current	(2)	(25)	-	-	(27)
Non-current	(2)	(13)	-	(11)	(26)
Net fair value	$ 60	$ 45	$ 68	$ (6)	$ 167
Net notional (sells) buys (millions):					
Megawatt hours of electricity	(8)	(3)			
Gigajoules of natural gas		19			
Metric tons of emission allowances		2			
Number of renewable energy certificates		(2)			
Cross currency swaps and interest rate swaps (U.S. dollars)			$ 195	$ 100	
Interest rate swaps (Canadian dollars)				$ 200	
Range of remaining contract terms in years[2]	0.1 to 4.0	0.1 to 5.3	5.5 to 10.5	4.4 to 7.4	

[2] Terms of certain foreign exchange cash flow hedge contracts and interest rate non-hedge contracts require settlement in 2.5 years and 4.4 years respectively. The remaining years of the underlying derivatives of these contracts are reflected in the table above.

Except as disclosed in note 11, the fair values of derivative instruments are determined using valuation techniques, inputs, and assumptions as described in the Company's 2015 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 were:

	Three months ended September 30, 2016		Three months ended September 30, 2015	
	Unrealized gains (losses)	Realized gains	Unrealized gains	Realized gains
Energy cash flow hedges	$ 34	$ 30	$ 78	$ 27
Energy and emission allowances non-hedges	29	39	25	49
Foreign exchange cash flow hedges[3]	(1)	-	8	-
Interest rate non-hedges	-	1	-	-

[3] For the three months ended September 30, 2016, unrealized gains of $4 million (three months ended September 30, 2015 – unrealized gains of $17 million) related to foreign exchange cash flow hedges were reclassified from other comprehensive income to net income to offset the impact to unrealized foreign exchange losses from the revaluation of U.S. dollar denominated loans and borrowings.

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

8. Derivative financial instruments and hedge accounting, continued:

	Nine months ended September 30, 2016		Nine months ended September 30, 2015	
	Unrealized (losses) gains	Realized gains	Unrealized gains (losses)	Realized gains
Energy cash flow hedges	$ (16)	$ 92	$ 9	$ 47
Energy and emission allowances non-hedges	9	107	10	64
Foreign exchange cash flow hedges[4]	3	1	7	-
Interest rate non-hedges	-	1	(2)	1

[4] For the nine months ended September 30, 2016, unrealized losses of $14 million (nine months ended September 30, 2015 – unrealized gains of $34 million) related to foreign exchange cash flow hedges were reclassified from other comprehensive income (loss) to net income to offset the impact to unrealized foreign exchange gains and losses from the revaluation of U.S. dollar denominated loans and borrowings.

Realized and unrealized gains and losses relate only to financial derivative instruments. The following gains and losses are included in the Company's statements of income for the three and nine months ended September 30, 2016 and 2015:

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Revenues	$ 189	$ 207	$ 342	$ 173
Energy purchases and fuel	(91)	(106)	(134)	(52)
Foreign exchange gain (loss)	7	17	(10)	34
Finance expense	1	-	1	(1)

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 and nine months ended September 30, 2016, the changes in the fair value of the ineffective portion of hedging derivatives required to be recognized in the statement of income was a gain of $3 million recorded to foreign exchange gain (loss) (three and nine months ended September 30, 2015 – 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:

	September 30, 2016
Within one year	$ 43
Between 1 – 5 years	27
After more than 5 years	-
	$ 70

9. Loans and borrowings:

On September 13, 2016, Capital Power issued a $160 million, 10-year unsecured senior note, with an annual interest rate of 3.85%, payable semi-annually, and principal due upon maturity in September 2026.

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

10. Share capital:

	Dividends declared							
	For the three months ended September 30,				For the nine months ended September 30,			
	2016		2015		2016		2015	
	Per share	Total	Per share	Total	Per share	Total	Per share	Total
Common[1]	$ 0.3900	$ 38	$ 0.3650	$ 36	$ 1.1200	$ 108	$ 1.0450	$ 99
Preference, Series 1[2]	0.1913	1	0.2875	1	0.5739	3	0.8625	4
Preference, Series 3	0.2875	2	0.2875	2	0.8625	6	0.8625	6
Preference, Series 5	0.2813	2	0.2813	2	0.8439	6	0.8439	6

	Dividends paid							
	For the three months ended September 30,				For the nine months ended September 30,			
	2016		2015		2016		2015	
	Per share	Total	Per share	Total	Per share	Total	Per share	Total
Common[3]	$ 0.3650	$ 35	$ 0.3400	$ 35	$ 1.0950	$ 106	$ 1.0200	$ 92
Preference, Series 1[2]	0.1913	1	0.2875	1	0.5739	3	0.8625	4
Preference, Series 3	0.2875	2	0.2875	2	0.8625	6	0.8625	6
Preference, Series 5	0.2813	2	0.2813	2	0.8439	6	0.8439	6

[1] On July 25, 2016, the Company announced that its Board of Directors approved an increase of 6.8% in the annual dividend to $1.56 per common share effective for the September 30, 2016 dividend payment.

[2] The annual fixed dividend rate for the Series 1 shares was reset from 4.60% to 3.06% for a quarterly dividend of $0.1913 per share effective for the March 31, 2016 dividend payment.

[3] The Company suspended its dividend reinvestment plan for its common shares effective September 30, 2015 until further notice. As a result, all dividends on common shares for the three and nine months ended September 30, 2016 were paid in cash. For the three and nine months ended September 30, 2015, dividends paid on common shares consisted of $35 million and $70 million paid in cash and nil and $22 million paid through the Company's dividend reinvestment plan as common shares issued, respectively.

During the three and nine months ended September 30, 2016, the Company purchased and canceled nil and 1,245,600 respectively, of its outstanding common shares (three and nine months ended September 30, 2015 – 1,983,805 and 3,581,941 respectively) under its normal course issuer bid (NCIB) approved by the Toronto Stock Exchange (TSX) on March 25, 2015. The Company has an additional NCIB approved by the TSX on April 28, 2016 to purchase and cancel up to 8,600,000 of its outstanding common shares during the one year period from April 28, 2016 to April 27, 2017. The Company has not purchased or canceled shares under the additional NCIB for the three and nine months ended September 30, 2016.

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

11. Financial instruments:

Fair values

Details of the fair values of the Company's derivative instruments are described in note 8.

The classification and measurement of the Company's other short-term financial instruments are consistent with the methodologies described in the Company's 2015 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 2015 annual consolidated financial statements. The classification, carrying amount and fair value of the Company's other financial instruments are summarized as follows:

		September 30, 2016		December 31, 2015	
	Fair value hierarchy level	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables					
Other financial assets	Level 2	$ 6	$ 6	$ 12	$ 12
Finance lease receivables[1]	Level 2	694	805	710	807
Other financial liabilities[1]					
Loans and borrowings	Level 2	1,517	1,549	1,615	1,623
Finance lease obligation	Level 2	20	21	22	22

[1] Includes current portion.

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, 2015.

The fair value measurement of a financial instrument is included in only one of the three levels described in the Company's 2015 annual consolidated financial statements, 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.

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 and nine months ended September 30, 2016 and the year ended December 31, 2015.

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

11. Financial instruments, continued:

Fair value hierarchy, continued

The table below presents 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 in the Company's 2015 annual consolidated financial statements.

	September 30, 2016			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments assets	$ -	$ 248	$ 10	$ 258
Derivative financial instruments liabilities	-	(59)	(25)	(84)

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments assets	$ -	$ 209	$ 11	$ 220
Derivative financial instruments liabilities	-	(53)	-	(53)

Valuation techniques used in determination of fair values within Level 3

On April 21, 2016, the Company entered into a 10-year, fixed price contract to swap the market revenue of its Bloom Wind project's generation for a fixed annual payment for a 10-year term, which extends beyond a liquid trading period. As forward market prices are not available for the full period of this contract, its fair value is derived using a forecast based on internal modelling. Accordingly, this financial instrument is classified as Level 3. In addition, as at September 30, 2016 and December 31, 2015, the Company holds a contract for the sale of renewable energy certificates (RECs) for which pricing beyond two years is not readily observable and therefore classified in Level 3 of the hierarchy.

The fair values of the Company's commodity derivatives included within Level 3 are determined by applying a mark-to-forecast model. The table below presents ranges for the Company's Level 3 inputs:

	September 30, 2016	December 31, 2015
REC pricing (per certificate)	$0.49 to $0.56	$0.39 to $0.45
Power pricing (per MWh)	$26.92 to $46.32	n/a

Valuation process applied to Level 3

The valuation model used to calculate the fair value of the derivative financial instruments assets and liabilities within Level 3 is reviewed by the Company's commodity risk group and the calculation is reviewed by management. The valuation technique and the associated inputs are assessed on a regular basis for ongoing reasonability. The table below presents the impact to fair value of Level 3 derivative instruments based on reasonably possible alternative assumptions:

	September 30, 2016	December 31, 2015
REC pricing[1]	$ 2	$ 2
Power pricing[1]	8	n/a

[1] Increase or decrease to fair value calculated using a $1 per unit change.

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

11. Financial instruments, continued:

Fair value hierarchy, continued

Continuity of Level 3 balances

The Company classifies financial instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model used to determine fair value. In addition to these unobservable inputs, the valuation model for Level 3 instruments also relies on a number of inputs that are observable either directly or indirectly. Accordingly, the unrealized gains and losses shown below include changes in the fair value related to both observable and unobservable inputs. The following table summarizes the changes in the fair value of financial instruments classified in Level 3:

	Nine months ended September 30, 2016	Year ended December 31, 2015
As at January 1[1]	$ 11	$ 11
Unrealized and realized gains included in net income[2]	2	2
Unrealized and realized losses included in other comprehensive income (loss)	(26)	-
Settlements[3]	(2)	(2)
As at end of period	$ (15)	$ 11
Total unrealized losses for the period included in other comprehensive income (loss)	$ (26)	$ -
Total unrealized losses for the period included in net income [2]	$ -	$ -

[1] The fair value of derivative instruments assets and liabilities are presented on a net basis.

[2] Gains are recorded in revenues.

[3] Relates to settlement of financial derivative instruments.

All instruments classified as Level 3 are derivative type instruments. Gains and losses associated with Level 3 balances may not necessarily reflect the underlying exposures of the Company. As a result, unrealized gains and losses from Level 3 financial instruments are often offset by unrealized gains and losses on financial instruments that are classified in Levels 1 or 2.

12. Commitment:

During the third quarter of 2016, the Company commenced construction of its Bloom Wind project (Bloom Wind). Bloom Wind is a 178 megawatt (MW) project in southwestern Kansas consisting of 54 3.3 MW turbines and is anticipated to cost $358 million (US$272 million). Commercial operation is expected in the third quarter of 2017.

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

13. 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 September 30, 2016				Three months ended September 30, 2015			
	Canada	U.S.	Inter-area eliminations	Total	Canada	U.S.	Inter-area eliminations	Total
Revenues - external	$ 342	$ 36	$ -	$ 378	$ 435	$ 34	$ -	$ 469
Revenues - inter-area	2	4	(6)	-	5	3	(8)	-
Total revenues	$ 344	$ 40	$ (6)	$ 378	$ 440	$ 37	$ (8)	$ 469

	Nine months ended September 30, 2016				Nine months ended September 30, 2015			
	Canada	U.S.	Inter-area eliminations	Total	Canada	U.S.	Inter-area eliminations	Total
Revenues - external	$ 844	$ 104	$ -	$ 948	$ 815	$ 95	$ -	$ 910
Revenues - inter-area	7	3	(10)	-	8	5	(13)	-
Total revenues	$ 851	$ 107	$ (10)	$ 948	$ 823	$ 100	$ (13)	$ 910

	As at September 30, 2016			As at December 31, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Property, plant and equipment	$ 3,386	$ 269	$ 3,655	$ 3,452	$ 227	$ 3,679
Intangible assets	260	38	298	300	41	341
Goodwill	-	22	22	-	30	30
Other assets	18	2	20	22	2	24
	$ 3,664	$ 331	$ 3,995	$ 3,774	$ 300	$ 4,074

14. Subsequent event:

On October 4, 2016, the Company issued 8 million Cumulative Minimum Rate Reset Preference Shares, Series 7 (Series 7 Shares) priced at $25.00 per share for gross proceeds of $200 million less issue costs of $5 million. The preferred shares will pay fixed cumulative dividends of $1.50 per share per annum, yielding 6.00% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board of Directors of Capital Power, for the initial period ending December 31, 2021. The dividend rate will be reset on December 31, 2021 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 5.26%, provided that, in any event, such rate shall not be less than 6.00%. The Series 7 Shares are redeemable by Capital Power, at its option on December 31, 2021 and every five years thereafter at a value of $25.00 per share.

14. Subsequent event, continued:

Holders of the Series 7 Shares will have the right to convert all or any part of their shares into Cumulative Floating Rate Preference Shares, Series 8 (Series 8 Shares), subject to certain conditions, on December 31, 2021 and every five years thereafter. Holders of the Series 8 Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 5.26%, as and when declared by the Board of Directors of Capital Power. The Series 8 Shares would be redeemable by Capital Power, at its option, on December 31, 2026 and December 31 of every fifth year thereafter at a value of $25.00 per share. The Series 8 shares would also be redeemable by Capital Power, at its option, on any date after December 31, 2021, excluding December 31 of every fifth year, at a value of $25.50 per share.

15. Comparative figures:

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