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For release: May 1, 2017

# Capital Power reports solid first quarter 2017 results

## *Strategic growth initiatives strengthen 2017 adjusted funds from operations by 12% with recently announced acquisitions of 1,089 megawatts of contracted power facilities*

**EDMONTON, Alberta** – Capital Power Corporation (Capital Power, or the Company) (TSX: CPX) today released financial results for the quarter ended March 31, 2017.

Net income attributable to shareholders in the first quarter of 2017 was $50 million and basic earnings per share attributable to common shareholders was $0.44 per share, compared with a net loss of $6 million, or a basic loss per share of $0.11, in the comparable period of 2016. Normalized earnings attributable to common shareholders in the first quarter of 2017, after adjusting for one-time items and fair value adjustments, were $33 million or $0.34 per share compared with $32 million or $0.33 per share in the first quarter of 2016.

Net cash flows from operating activities were $99 million in the first quarter of 2017 compared with $131 million in the first quarter of 2016. Adjusted funds from operations were $91 million in the first quarter of 2017, compared to $93 million in the first quarter of 2016.

“Capital Power’s financial results for the first quarter of 2017 were in line with management’s expectations,” said Brian Vaasjo, President and CEO of Capital Power. “First quarter results benefitted from strong operating and financial performance from our contracted facilities in Alberta, Ontario and British Columbia and the recognition of coal compensation from the Province of Alberta.”

“Execution of the Company’s growth strategy in the first quarter was outstanding,” continued Mr. Vaasjo. “The recent acquisition of two thermal power facilities in Ontario and the expected acquisition of the Decatur Energy Center in the United States in June of this year provide significant geographical diversification while strengthening the contracted cash flow profile to support our 7% annual dividend growth guidance for 2017 and 2018. Based on our outlook for the balance of 2017 including the expected contributions from the Decatur Energy Center, we are raising our annual adjusted funds from operations target range to $340 to $385 million, and are on track to achieve the mid-point of this range.”

| **Operational and Financial Highlights** [1] (unaudited) | **Three months ended March 31** | |
|---|---|---|
| *(millions of dollars except per share and operational amounts)* | **2017** | **2016** |
| Electricity generation (excluding Sundance C power purchase arrangement (Sundance PPA)) (Gigawatt hours) | 3,962 | 3,898 |
| Generation facility availability (excluding Sundance PPA) | 97% | 97% |
| Revenues | $ 338 | $ 334 |
| Adjusted EBITDA [2] | $ 143 | $ 120 |
| Net income (loss) | $ 47 | $ (8) |
| Net income (loss) attributable to shareholders of the Company | $ 50 | $ (6) |
| Basic earnings (loss) per share | $ 0.44 | $ (0.11) |
| Diluted earnings (loss) per share | $ 0.43 | $ (0.11) |
| Normalized earnings attributable to common shareholders [2] | $ 33 | $ 32 |
| Normalized earnings per share [2] | $ 0.34 | $ 0.33 |
| Net cash flows from operating activities | $ 99 | $ 131 |
| Adjusted funds from operations [2,3] | $ 91 | $ 93 |
| Purchase of property, plant and equipment and other assets | $ 85 | $ 31 |
| Dividends per common share, declared | $ 0.3900 | $ 0.3650 |

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 three months ended March 31, 2017.

2 Earnings before net finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange gains or losses, finance expense from its joint venture interest, and gains or losses on disposals (adjusted EBITDA), normalized earnings attributable to common shareholders, normalized earnings per share and adjusted 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.

3 Commencing with the Company's March 31, 2017 quarter-end, the Company uses adjusted funds from operations as a measure of the Company's ability to generate cash from its current operating activities to fund growth capital expenditures, debt repayments and common share dividends to the Company's shareholders.

## Significant event

### *Amendment of Genesee Coal Mine Joint Venture Agreement*

On March 28, 2017, the Company announced that it entered into an agreement (the Amending Agreement) to amend its Genesee Mine Joint Venture Agreement with Prairie Mines & Royalty ULC (PMRU), a subsidiary of Westmoreland Coal Company, to accelerate the repayment of amounts it would otherwise have owed to PMRU during the term of the agreement and eliminate all future payments to PMRU relating to existing capital assets at the Genesee Coal Mine (Coal Mine). Capital Power will continue to pay PMRU contracted mining fees for PMRU's ongoing operation of the Coal Mine.

By accelerating the $70 million repayment of capital expenditures to PMRU, the transaction will reduce Capital Power's cost of coal for the Genesee facility, and enhance the Company's net income, adjusted EBITDA, net cash flows from operating activities and adjusted funds from operations. These cost reductions were anticipated to take place and have been included in the adjusted funds from operations guidance that was provided as part of the Company's year-end disclosure on February 17, 2017. As a result of the transaction, net cash flows from operating activities are expected to increase by $14 million for 2017. The operations and management of the Coal Mine are unchanged as a result of the Amending Agreement and the Company will continue to control the Coal Mine and treat it as a subsidiary.

Coal for the Genesee facility is supplied by the adjacent Coal Mine under a long-term, cost of service supply agreement. Prior to the Amending Agreement, Capital Power paid PMRU a fee to cover PMRU's depreciation expense and certain other costs, as well as provide a variable rate of return to PMRU. These fees paid to PMRU were included as part of Capital Power's cost of coal for operating the Genesee facility, and will be eliminated with the Amending Agreement.

The cost savings for Capital Power will be magnified through 2030 with the phase-out of coal units under the Alberta Climate Leadership Plan, which would accelerate the amounts in respect of depreciation that would have been paid to PMRU due to the shortened asset lives.

**Subsequent events**

***Appointments to the Board of Directors***

Effective April 3, 2017, Keith Trent and Katharine Stevenson were appointed to the Capital Power Board of Directors.

***Acquisition of Decatur Energy and $183 million subscription receipt offering***

On April 12, 2017, the Company announced that it entered into an agreement to acquire all of the ownership interests in Decatur Power Holdings, LLC, which owns the Decatur Energy Center (Decatur Energy) from an affiliate of LS Power Equity Partners III for US$441 million, subject to working capital and other closing adjustments (the Decatur Energy Acquisition). Decatur Energy is a 795 megawatt (MW) natural gas-fired combined cycle power generation plant located in Decatur, Alabama that operates under a tolling agreement.

Decatur Energy sells capacity and energy to a regional entity under a long-term contract which has an original term of 10 years and expires December 31, 2022. Decatur Energy is well-positioned, given anticipated market conditions, as well as significant remaining useful life, to be re-contracted or to pursue other commercial alternatives at the end of the current long-term contract, including the ability to sell power into the Pennsylvania, New Jersey, and Maryland interconnection market starting in 2023.

Financing of the Decatur Energy Acquisition will consist of a combination of debt and equity. The Company entered into an agreement with a syndicate of underwriters to issue 7,375,000 subscription receipts (the Subscription Receipts), on a bought deal basis, at an issue price of $24.75 per Subscription Receipt (the Offering Price), for total gross proceeds of approximately $183 million (the Public Offering). The net proceeds from the Public Offering will be used to partially finance the Decatur Energy Acquisition. Closing of the Public Offering occurred on April 24, 2017 and the over-allotment option associated with the Public Offering was not exercised and is no longer exercisable.

Each Subscription Receipt will entitle the holder thereof to receive, without payment of additional consideration or further action, upon closing of the Decatur Energy Acquisition, one common share of Capital Power. In addition, while the Subscription Receipts remain outstanding, holders will be entitled to receive cash payments (Dividend Equivalent Payments) per Subscription Receipt equal to dividends declared by Capital Power on each common share. Such Dividend Equivalent Payments will have the same record date as the related common share dividend and will be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend.

The balance of the purchase price is expected to be financed through debt utilizing a temporary expansion of Capital Power's credit facilities followed by permanent financing with an issuance of long-term debt expected later in 2017.

The Decatur Energy Acquisition supports the Company's growth strategy and increases the Company's geographical diversification. During the first full year of operations, the Decatur Energy Acquisition is expected to increase adjusted funds from operations by $43 million and increase adjusted EBITDA by $60 million. The transaction is expected to close in June 2017, subject to regulatory approvals and satisfaction of closing conditions.

***Acquisition of thermal facilities***

On February 21, 2017, the Company announced that it entered into an agreement to acquire the thermal power business of Veresen Inc. Under the terms of the agreement, Capital Power will acquire 284 MW of generation from two natural gas-fired power assets in Ontario consisting of the 84 MW East Windsor

Cogeneration Centre (East Windsor) and a 50% interest in the 400 MW York Energy Centre (York Energy), and will operate both facilities. The transaction also includes 10 MW of zero-emissions waste heat generation from two facilities (5 MW each) located at Westcoast Energy's BC Gas Pipeline compressor stations in Savona and 150 Mile House, British Columbia.

On April 13, 2017, the Company announced that it had completed the acquisition of the two natural gas-fired power facilities in Ontario. The purchase price for the natural gas-fired facilities consisted of (i) $235 million in total cash consideration, including working capital and other closing adjustments of $11 million, and (ii) the assumption of $253 million of project level debt (proportionate basis). Given the close proximity of the transaction close date to the release of the Company's first quarter results, information required to finalize the working capital adjustments is outstanding and as a result the purchase price is subject to change. As well, the initial purchase price allocation is not available to be disclosed at this time and will be prepared during the second quarter and disclosed in the Company's filings for the three and six months ending June 30, 2017.

The acquisition of these facilities, including the two natural-gas fired facilities in Ontario and the two waste heat facilities in British Columbia, supports the Company's growth strategy and is consistent with the Company's technology and operating focus. During the first full year of operations, this acquisition is expected to increase adjusted funds from operations by $24 million and increase adjusted EBITDA by $55 million.

The acquisition of the two waste heat facilities remains subject to the satisfaction of closing conditions, the work for which is ongoing as at April 28, 2017.

**Analyst conference call and webcast**

Capital Power will be hosting a conference call and live webcast with analysts on May 1, 2017 at 9:00 am (MDT) to discuss the first 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) adjusted 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), adjusted 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 disclosed below and are discussed further in the Company's Management's Discussion and Analysis, prepared as of April 28, 2017, for the three months ended March 31, 2017 which is available under the Company's profile on SEDAR at www.SEDAR.com.

### Adjusted EBITDA

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

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

| (unaudited, $ millions) | **Three months ended** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| Revenues and other income | 338 | 280 | 374 | 226 | 334 | 337 | 466 | 81 |
| Energy purchases and fuel, other raw materials and operating charges, staff costs and employee benefits expense, and other administrative expense | (208) | (148) | (232) | (127) | (225) | (216) | (318) | (36) |
| Adjusted EBITDA from joint venture [1] | 13 | 12 | 6 | 9 | 11 | 13 | 6 | 2 |
| **Adjusted EBITDA** | **143** | **144** | **148** | **108** | **120** | **134** | **154** | **47** |
| Depreciation and amortization | (60) | (53) | (53) | (54) | (56) | (56) | (53) | (55) |
| Impairment | - | - | (6) | - | - | - | - | - |
| Loss on termination of power purchase arrangement | - | (20) | - | - | (53) | - | - | - |
| Foreign exchange gain (loss) | 2 | (4) | 3 | (1) | 8 | - | (8) | 1 |
| Net finance expense | (20) | (24) | (21) | (19) | (22) | (27) | (25) | (24) |
| Finance expense from joint venture [1] | (3) | (3) | (3) | (4) | (3) | (3) | (2) | (1) |
| Income tax expense | (15) | (14) | (4) | (10) | (2) | (14) | (16) | (16) |
| **Net income (loss)** | **47** | **26** | **64** | **20** | **(8)** | **34** | **50** | **(48)** |
| | | | | | | | | |
| **Net income (loss) attributable to:** | | | | | | | | |
| Non-controlling interests | (3) | (2) | (2) | (3) | (2) | (1) | 1 | (14) |
| Shareholders of the Company | 50 | 28 | 66 | 23 | (6) | 35 | 49 | (34) |
| **Net income (loss)** | **47** | **26** | **64** | **20** | **(8)** | **34** | **50** | **(48)** |

1 Total income from joint venture as per the Company's consolidated statements of income (loss).

### Adjusted funds from operations

Adjusted funds from operations represents net cash flows from operating activities adjusted to include net finance expenses and current income tax expenses and exclude changes in operating working capital and distributions received from the Company's joint venture interest. Net finance expenses and current income tax expenses are included as 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. Changes in operating working capital are excluded from funds from operations as the timing of cash receipts and payments also affects the period-to-period comparability. Distributions received from the Company's joint venture interest are excluded as the distribution is calculated after the effect of joint venture debt payments, which are not considered an operating activity. Adjusted funds from operations 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. Adjusted funds from operations is reduced by sustaining capital expenditures and preferred share dividends and adjusted to include the Company's share of the adjusted funds from operations of its joint venture interest and cash from coal compensation that will be received annually.

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

| (unaudited, $ millions) | Three months ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| **Net cash flows from operating activities per condensed interim consolidated statements of cash flows** | **99** | **131** |
| Add (deduct) items included in calculation of net cash flows from operating activities per condensed interim consolidated statements of cash flows: | | |
| Interest paid | 14 | 18 |
| Change in fair value of derivatives reflected as cash settlement | 2 | - |
| Distribution received from joint venture | (8) | (14) |
| Miscellaneous financing charges paid [1] | 2 | 1 |
| Change in non-cash operating working capital | 2 | (19) |
| | 12 | (14) |
| Net finance expense [2] | (18) | (22) |
| Current income tax expense | (2) | (5) |
| Decrease in current income tax payable due to Part VI.1 tax | 2 | 5 |
| Sustaining capital expenditures [3] | (4) | (6) |
| Preferred share dividends paid | (8) | (5) |
| Adjusted funds from operations from joint venture | 10 | 9 |
| **Adjusted funds from operations** | **91** | **93** |

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 and accretion charges.

3 Includes sustaining capital expenditures net of joint venture contributions of $2 million for each of the three months ended March 31, 2017 and 2016, respectively.

### 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** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| **Basic earnings (loss) per share ($)** | **0.44** | **0.21** | **0.63** | **0.19** | **(0.11)** | **0.29** | **0.44** | **(0.39)** |
| **Net income (loss) attributable to shareholders of the Company per condensed interim consolidated statements of income (loss)** | **50** | **28** | **66** | **23** | **(6)** | **35** | **49** | **(34)** |
| Preferred share dividends including Part VI.1 tax | (8) | (8) | (5) | (5) | (5) | (6) | (5) | (6) |
| Earnings (loss) attributable to common shareholders | 42 | 20 | 61 | 18 | (11) | 29 | 44 | (40) |
| Unrealized changes in fair value of derivatives | (7) | (8) | (22) | 10 | 5 | 11 | (19) | 33 |
| Unrealized foreign exchange (gain) loss on revaluation of U.S. dollar denominated debt | (1) | 3 | 1 | 1 | (8) | 1 | 6 | (2) |
| (Release) recognition of tax liability on foreign domiciled investment | (1) | - | - | - | - | - | - | 1 |
| Loss on de-recognition of the Sundance C power purchase arrangement (Sundance PPA) | - | - | - | - | 46 | - | - | - |
| Change in unrecognized tax benefits | - | - | (27) | - | - | - | - | - |
| Income tax expense related to increase in deferred tax liabilities caused by change in Alberta statutory corporate income tax rate | - | - | - | - | - | - | - | 19 |
| Settlement of Sundance power purchase arrangement legal action | - | 15 | - | - | - | - | - | - |
| Deferred income tax (reduction) expense related to temporary difference on investment in subsidiary | - | (1) | 13 | - | - | - | - | - |
| Impairment loss on Southport goodwill | - | - | 4 | - | - | - | - | - |
| Success fee received related to development project | - | (3) | - | - | - | - | - | - |
| Restructuring charges | - | - | - | - | - | - | 2 | - |
| Impact of change in non-controlling interest percentage on adjustments of previous quarters | - | - | - | - | - | - | - | (1) |
| **Normalized earnings attributable to common shareholders** | **33** | **26** | **30** | **29** | **32** | **41** | **33** | **10** |
| Weighted average number of common shares outstanding (millions) | 96.3 | 96.1 | 96.1 | 96.1 | 96.4 | 98.7 | 100.9 | 102.1 |
| **Normalized earnings per share ($)** | **0.34** | **0.27** | **0.31** | **0.30** | **0.33** | **0.42** | **0.33** | **0.10** |

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

**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 disclosures regarding: (i) expectations pertaining to the amendment of the Genesee Coal Mine Joint Venture Agreement regarding reduction to Capital Power's cost of coal and expected enhancements to the Company's net income, adjusted EBITDA, net cash flows from operating activities and adjusted funds from operations, (ii) expectations pertaining to the acquisition of thermal facilities regarding financial impacts including expected accretion in adjusted funds from operations, enhancements to the Company's EBITDA, and the closing of the purchase of the waste-heat facilities, and (iii) expectations pertaining to the acquisition of Decatur Energy and the subscription receipt offering including: financing plans for the acquisition, closing of the acquisition and share issuance pertaining to the subscription receipt offering and the receipt of all regulatory approvals, financial impacts including expected accretion in adjusted funds from operations, enhancements to the Company's EBITDA, and re-contracting of the facility.

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) anticipated facility performance, (iii) business prospects and opportunities including expected growth and capital projects, (iv) status of and impact of policy, legislation and regulations, 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, market structure and tax legislation, (iv) facility 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 for the year ended December 31, 2016, prepared as of February 17, 2017, 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.

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# CAPITAL POWER CORPORATION

## Management's Discussion and Analysis

This management's discussion and analysis (MD&A), prepared as of April 28, 2017, should be read in conjunction with the unaudited condensed interim consolidated financial statements of Capital Power Corporation and its subsidiaries for the three months ended March 31, 2017, the audited consolidated financial statements and MD&A of Capital Power Corporation for the year ended December 31, 2016, the annual information form of Capital Power Corporation dated March 6, 2017, and the cautionary statements regarding forward-looking information which begin on page 10. In this MD&A, any reference to the Company or Capital Power, except where otherwise noted or the context otherwise indicates, means Capital Power Corporation together with its subsidiaries.

In this MD&A, financial information for the three months ended March 31, 2017 and the three months ended March 31, 2016 is based on the unaudited condensed interim consolidated financial statements of the Company for such periods which were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors approved this MD&A as of April 28, 2017.

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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 adjusted 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,
- facility availability and planned outages,
- capital expenditures for facility 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 impact of the transition to a capacity market on the Company's future growth projects including the Genesee 4 and 5 project,
- expectations pertaining to the acquisition of thermal facilities (see Subsequent Events) regarding: (i) financial impacts including expected impacts to adjusted funds from operations and adjusted EBITDA, and (ii) the closing of the purchase of the waste-heat facilities,
- expectations pertaining to the amendment of the Genesee Coal Mine Joint Venture Agreement (see Significant Event) regarding reduction to Capital Power's cost of coal and expected enhancements to the Company's net income, adjusted EBITDA, net cash flows from operating activities and adjusted funds from operations,
- expectations pertaining to the acquisition of Decatur Energy and the subscription receipt offering (see Subsequent Events) regarding: (i) financing plans for the acquisition, (ii) closing of the acquisition and share issuance pertaining to the subscription receipt offering and the receipt of all regulatory approvals, (iii) financial impacts including expected impacts to adjusted funds from operations and adjusted EBITDA, and (iv) re-contracting of the facility, and
- impacts of future IFRS standards and amendments.

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 including its review of purchased businesses and assets. 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,
- other matters discussed under the Performance Overview and Outlook, and
- anticipated performance of the acquired thermal facilities and Decatur Energy (see Subsequent Events).

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, market structure and tax legislation,
- generation facility 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,
- ability to realize the anticipated benefits of the acquisitions,
- limitations inherent in the Company's review of purchased business and assets, and
- changes in general economic and competitive conditions.

See Risks and Risk Management in the Company's December 31, 2016 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. Including the acquisition of the Ontario natural gas-fired generation assets (see Subsequent Events) which closed in April 2017, Capital Power owns more than 3,500 megawatts (MW) of power generation capacity across North America. More than 700 MW of owned generation capacity is in advanced development in Alberta and under construction in Kansas. An additional 795 MW of power generation capacity in Alabama is pending the close of the Decatur Energy Center acquisition described in Subsequent Events.

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 2016 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 of Capital Power. The measurement categories include corporate measures and measures specific to certain groups within the Company. The corporate measures are company-wide and include adjusted funds from operations and safety. The group-specific measures include facility operating margin and other operations measures, committed capital, construction and maintenance capital on budget and on schedule, and facility site safety.

### Operational excellence

| Performance measure | 2017 target [1] | Actual results for the three months ended March 31, 2017 |
|---|---|---|
| Facility availability average | 95% or greater | 97% |
| Sustaining capital expenditures | $80 million | $4 million [2] |
| Genesee performance standard [3] | $10 million | nil |
| Facility operating and maintenance expenses | $215 million to $240 million | $49 million |

1 The targets presented at the Company's Investor Day in December 2016 were revised to include the expected impacts of the acquisitions of the thermal power business of Veresen Inc. and the Decatur Energy Center for the periods subsequent to the close of those transactions (see Subsequent Events).

2 Includes sustaining capital expenditures net of joint venture contributions of $2 million.

3 This project is designed to reduce $CO_2$ emissions and improve the efficiency of the Company's coal-fired facilities in response to the Alberta Climate Leadership Plan (CLP).

The Company's facility availability averaged 97% which reflected planned outages at Roxboro and Joffre. Unplanned outages also occurred at Keephills 3, Southport, Genesee, Joffre and Quality Wind.

Sustaining capital expenditures for the three months ended March 31, 2017 were lower than target for the year to date but the full year expenditures are expected to be consistent with the target. Expenditures for the Genesee performance standard for the three months ended March 31, 2017 were lower than target for the year to date and are expected to be below target due to the deferral of certain activities into future periods.

The facility operating and maintenance expenses target includes other raw materials and operating charges, staff costs and employee benefits expense and other administrative expense for the Company's facilities. The actual results for the three months ended March 31, 2017 were lower than target for the year to date but the full year expenditures are expected to be consistent with the target.

### Disciplined growth

| Performance measure | 2017 target | Status as at March 31, 2017 |
|---|---|---|
| Bloom Wind | Complete Bloom Wind on time and on budget. | Construction expected to be complete and on budget in the third quarter of 2017. |
| New development | Execute contracts for the output of two new developments. | On track with target and are progressing with the Company's development sites. |

### Financial stability and strength

| Performance measure | 2017 target [1] | Actual results to March 31, 2017 |
|---|---|---|
| Adjusted funds from operations [2] | $340 million to $385 million | $91 million |

1 The target presented at the Company's Investor Day in December 2016 was revised to include the expected impacts of the acquisitions of the thermal power business of Veresen Inc. and the Decatur Energy Center for the periods subsequent to the close of those transactions (see Subsequent Events).

2 Adjusted funds from operations is a non-GAAP measure. See Non-GAAP Financial Measures. Commencing with the Company's March 31, 2017 quarter-end, adjusted funds from operations will be used as management views this as a better measure of its cash available to fund growth capital expenditures, common share dividends and debt repayments for future periods.

## OUTLOOK

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

At its Investor Day held in December 2016, the Company introduced a new financial metric and provided financial guidance for 2017 adjusted funds from operations (see Non-GAAP Financial Measures) in the range of $305 million to $345 million. This range was subsequently revised as a result of the acquisition of the thermal power business of Veresen Inc. (see Subsequent Events) to be $320 million to $365 million, which includes the expected results of the acquired assets subsequent to transaction close. With the addition of the Decatur facility (see Subsequent Events) the projected range for 2017 adjusted funds from operations has been increased to $340 million to $385 million, which reflects an anticipated closing date in June 2017. Based on the actual results for the first quarter of 2017 and the Company's forecast for the future three quarters, adjusted funds from operations for the full year is expected to be in the target range.

Priorities for the Company in 2017 will be to efficiently integrate the thermal power facilities acquired from Veresen Inc. (see Subsequent Events), complete the close of the acquisition and efficiently integrate Decatur Energy (see Subsequent Events), work with the Government of Alberta concerning the transition away from an energy-only market to a capacity market and to work diligently with regulators and other generators in the Province to implement the Carbon Competitiveness Regulation (CCR). The Company will also work to manage its carbon costs by utilizing its credit inventory and by pursuing generation facility modifications. The Company is well positioned to be competitive in the current Renewable Electricity Program procurement process.

In 2017, Capital Power's availability target of 95% reflects major scheduled maintenance outages for Genesee 1, Clover Bar Energy Centre, Southport, Roxboro and Keephills 3 compared to those scheduled for Genesee 2, Genesee 3, Clover Bar Energy Centre, Southport, Roxboro, Joffre and Shepard in 2016.

The Alberta portfolio position, contracted prices and forward Alberta pool prices for 2018, 2019 and 2020, as at March 31, 2017, were:

| **Alberta commercial portfolio positions and power prices** | **Full year 2018** | **Full year 2019** | **Full year 2020** |
|---|---|---|---|
| Percentage of baseload generation sold forward [1] | 61% | 40% | 33% |
| Contracted price [2] | High-$40 per megawatt hour (MWh) | Low-$50 per MWh | High-$40 per MWh |
| Forward Alberta pool prices | $39.25 | $39.25 | $39.75 |

1 Based on the Alberta baseload facilities plus a portion of Joffre and the uncontracted portion of Shepard.

2 Forecasted average contracted prices may differ significantly from future average realized prices as future realized prices are driven by a combination of previously contracted prices and settled prices.

The 2017 targets and forecasts are based on numerous assumptions including power and natural gas price forecasts. However, they do not include the effects of potential future acquisitions, beyond those described in Subsequent Events, or development activities, or potential market and operational impacts relating to unplanned facility outages including outages at facilities of other market participants, and the related impacts on market power prices.

At its Investor Day held in December 2016, the Company confirmed 7% annual dividend growth guidance for 2017 and 2018. Each annual increase is subject to changing circumstances and approval by the Board of Directors of Capital Power at the time of the increase.

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 net finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange gains or losses, finance expense from its joint venture interest, and gains or losses on disposals (adjusted EBITDA), (ii) adjusted funds from operations, (iii) normalized earnings attributable to common shareholders, and (iv) normalized earnings per share as financial performance measures.

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

### Adjusted EBITDA

Capital Power uses adjusted EBITDA to measure the operating performance of facilities and categories of facilities from period to period. Management believes that a measure of facility operating performance is more meaningful if results not related to facility 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 its joint venture interest. 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 is as follows:

| (unaudited, $ millions) | **Three months ended** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| Revenues and other income | 338 | 280 | 374 | 226 | 334 | 337 | 466 | 81 |
| Energy purchases and fuel, other raw materials and operating charges, staff costs and employee benefits expense, and other administrative expense | (208) | (148) | (232) | (127) | (225) | (216) | (318) | (36) |
| Adjusted EBITDA from joint venture [1] | 13 | 12 | 6 | 9 | 11 | 13 | 6 | 2 |
| **Adjusted EBITDA** | **143** | **144** | **148** | **108** | **120** | **134** | **154** | **47** |
| Depreciation and amortization | (60) | (53) | (53) | (54) | (56) | (56) | (53) | (55) |
| Impairment | - | - | (6) | - | - | - | - | - |
| Losses on termination of power purchase arrangement | - | (20) | - | - | (53) | - | - | - |
| Foreign exchange gain (loss) | 2 | (4) | 3 | (1) | 8 | - | (8) | 1 |
| Net finance expense | (20) | (24) | (21) | (19) | (22) | (27) | (25) | (24) |
| Finance expense from joint venture [1] | (3) | (3) | (3) | (4) | (3) | (3) | (2) | (1) |
| Income tax expense | (15) | (14) | (4) | (10) | (2) | (14) | (16) | (16) |
| **Net income (loss)** | **47** | **26** | **64** | **20** | **(8)** | **34** | **50** | **(48)** |
| | | | | | | | | |
| **Net income (loss) attributable to:** | | | | | | | | |
| Non-controlling interests | (3) | (2) | (2) | (3) | (2) | (1) | 1 | (14) |
| Shareholders of the Company | 50 | 28 | 66 | 23 | (6) | 35 | 49 | (34) |
| **Net income (loss)** | **47** | **26** | **64** | **20** | **(8)** | **34** | **50** | **(48)** |

1 Total income from joint venture as per the Company's consolidated statements of income (loss).

## Adjusted funds from operations

Commencing with the Company's March 31, 2017 quarter-end, the Company uses adjusted funds from operations as a measure of the Company's ability to generate cash from its current operating activities to fund growth capital expenditures, debt repayments and common share dividends to the Company's shareholders. Previously, the Company used 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.

Adjusted funds from operations represents net cash flows from operating activities adjusted to include net finance expenses and current income tax expenses and exclude changes in operating working capital and distributions received from the Company's joint venture interest. Net finance expenses and current income tax expenses are included as 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. Changes in operating working capital are excluded from funds from operations as the timing of cash receipts and payments also affects the period-to-period comparability. Distributions received from the Company's joint venture interest are excluded as the distribution is calculated after the effect of joint venture debt payments, which are not considered an operating activity. Adjusted funds from operations 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. Adjusted funds from operations is reduced by sustaining capital expenditures and preferred share dividends and adjusted to include the Company's share of the adjusted funds from operations of its joint venture interest and cash from coal compensation that will be received annually.

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

| (unaudited, $ millions) | **Three months ended March 31** | |
|---|---|---|
| | **2017** | **2016** |
| **Net cash flows from operating activities per condensed interim consolidated statements of cash flows** | **99** | **131** |
| Add (deduct) items included in calculation of net cash flows from operating activities per condensed interim consolidated statements of cash flows: | | |
| Interest paid | 14 | 18 |
| Change in fair value of derivatives reflected as cash settlement | 2 | - |
| Distribution received from joint venture | (8) | (14) |
| Miscellaneous financing charges paid [1] | 2 | 1 |
| Change in non-cash operating working capital | 2 | (19) |
| | 12 | (14) |
| Net finance expense [2] | (18) | (22) |
| Current income tax expense | (2) | (5) |
| Decrease in current income tax payable due to Part VI.1 tax | 2 | 5 |
| Sustaining capital expenditures [3] | (4) | (6) |
| Preferred share dividends paid | (8) | (5) |
| Adjusted funds from operations from joint venture | 10 | 9 |
| **Adjusted funds from operations** | **91** | **93** |

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 and accretion charges.

3 Includes sustaining capital expenditures net of joint venture contributions of $2 million for each of the three months ended March 31, 2017 and 2016, respectively.

### 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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| **Basic earnings (loss) per share ($)** | **0.44** | **0.21** | **0.63** | **0.19** | **(0.11)** | **0.29** | **0.44** | **(0.39)** |
| **Net income (loss) attributable to shareholders of the Company per condensed interim consolidated statements of income (loss)** | **50** | **28** | **66** | **23** | **(6)** | **35** | **49** | **(34)** |
| Preferred share dividends including Part VI.1 tax | (8) | (8) | (5) | (5) | (5) | (6) | (5) | (6) |
| Earnings (loss) attributable to common shareholders | 42 | 20 | 61 | 18 | (11) | 29 | 44 | (40) |
| Unrealized changes in fair value of derivatives | (7) | (8) | (22) | 10 | 5 | 11 | (19) | 33 |
| Unrealized foreign exchange (gain) loss on revaluation of U.S. dollar denominated debt | (1) | 3 | 1 | 1 | (8) | 1 | 6 | (2) |
| (Release) recognition of tax liability on foreign domiciled investment | (1) | - | - | - | - | - | - | 1 |
| Loss on de-recognition of the Sundance C power purchase arrangement (Sundance PPA) | - | - | - | - | 46 | - | - | - |
| Change in unrecognized tax benefits | - | - | (27) | - | - | - | - | - |
| Income tax expense related to increase in deferred tax liabilities caused by change in Alberta statutory corporate income tax rate | - | - | - | - | - | - | - | 19 |
| Settlement of Sundance power purchase arrangement legal action | - | 15 | - | - | - | - | - | - |
| Deferred income tax (reduction) expense related to temporary difference on investment in subsidiary | - | (1) | 13 | - | - | - | - | - |
| Impairment loss on Southport goodwill | - | - | 4 | - | - | - | - | - |
| Success fee received related to development project | - | (3) | - | - | - | - | - | - |
| Restructuring charges | - | - | - | - | - | - | 2 | - |
| Impact of change in non-controlling interest percentage on adjustments of previous quarters | - | - | - | - | - | - | - | (1) |
| **Normalized earnings attributable to common shareholders** | **33** | **26** | **30** | **29** | **32** | **41** | **33** | **10** |
| Weighted average number of common shares outstanding (millions) | 96.3 | 96.1 | 96.1 | 96.1 | 96.4 | 98.7 | 100.9 | 102.1 |
| **Normalized earnings per share ($)** | **0.34** | **0.27** | **0.31** | **0.30** | **0.33** | **0.42** | **0.33** | **0.10** |

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

## FINANCIAL HIGHLIGHTS

| (unaudited, $ millions, except per share amounts) | Three months ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Revenues | 338 | 334 |
| Adjusted EBITDA [1] | 143 | 120 |
| Net income (loss) | 47 | (8) |
| Net income (loss) attributable to shareholders of the Company | 50 | (6) |
| Normalized earnings attributable to common shareholders [1] | 33 | 32 |
| Basic earnings (loss) per share ($) | 0.44 | (0.11) |
| Diluted earnings (loss) per share ($) [2] | 0.43 | (0.11) |
| Normalized earnings per share ($) [1] | 0.34 | 0.33 |
| Net cash flows from operating activities | 99 | 131 |
| Adjusted funds from operations [1,3] | 91 | 93 |
| Purchase of property, plant and equipment and other assets | 85 | 31 |
| Dividends per common share, declared ($) | 0.3900 | 0.3650 |
| Dividends per Series 1 preferred share, declared ($) | 0.1913 | 0.1913 |
| Dividends per Series 3 preferred share, declared ($) | 0.2875 | 0.2875 |
| Dividends per Series 5 preferred share, declared ($) | 0.2813 | 0.2813 |
| Dividends per Series 7 preferred share, declared ($) | 0.3750 | - |

| | As at | |
|---|---|---|
| | March 31, 2017 | December 31, 2016 |
| Loans and borrowings including current portion | 1,604 | 1,508 |
| Total assets | 6,115 | 6,062 |

1 The consolidated financial highlights, except for adjusted EBITDA, normalized earnings attributable to common shareholders, normalized earnings per share and adjusted 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.

3 Commencing with the Company's March 31, 2017 quarter-end, the Company uses adjusted funds from operations as a measure of the Company's ability to generate cash from its current operating activities to fund growth capital expenditures, debt repayments and common share dividends to the Company's shareholders.

See Consolidated Net Income and Results of Operations for discussion of the key drivers of the changes in revenues and other income, adjusted EBITDA, net income and net income attributable to shareholders of the Company.

The changes in basic and diluted earnings per share were driven by the same factors as net income which are discussed in Consolidated Net Income and Results of Operations. The changes in normalized earnings per share and normalized earnings attributable to common shareholders were affected by the same drivers as basic earnings per share, but also the adjustments between earnings per share and normalized earnings per share described under Non-GAAP Financial Measures.

See Liquidity and Capital Resources for discussion of the key drivers of the changes in net cash flows from operating activities. Adjusted funds from operations for the three months ended March 31, 2017 was comparable with adjusted funds from operations for the same period in 2016

The increase in purchases of property, plant and equipment and other assets is discussed in Liquidity and Capital Resources.

## SIGNIFICANT EVENT

### Amendment of Genesee Coal Mine Joint Venture Agreement

On March 28, 2017, the Company announced that it entered into an agreement (the Amending Agreement) to amend its Genesee Mine Joint Venture Agreement with Prairie Mines & Royalty ULC (PMRU), a subsidiary of Westmoreland Coal Company, to accelerate the repayment of amounts it would otherwise have owed to PMRU during the term of the agreement and eliminate all future payments to PMRU relating to existing capital assets at the Genesee Coal Mine (Coal Mine). Capital Power will continue to pay PMRU contracted mining fees for PMRU's ongoing operation of the Coal Mine.

By accelerating the $70 million repayment of capital expenditures to PMRU, the transaction will reduce Capital Power's cost of coal for the Genesee facility, and enhance the Company's net income, adjusted EBITDA, net cash flows from operating activities and adjusted funds from operations. These cost reductions were anticipated to take place and have been included in the adjusted funds from operations guidance that was provided as part of the Company's year-end disclosure on February 17, 2017. As a result of the transaction, net cash flows from operating activities are expected to increase by $14 million for 2017. The operations and management of the Coal Mine are unchanged as a result of the Amending Agreement and the Company will continue to control the Coal Mine and treat it as a subsidiary.

Coal for the Genesee facility is supplied by the adjacent Coal Mine under a long-term, cost of service supply agreement. Prior to the Amending Agreement, Capital Power paid PMRU a fee to cover PMRU's depreciation expense and certain other costs, as well as provide a variable rate of return to PMRU. These fees paid to PMRU were included as part of Capital Power's cost of coal for operating the Genesee facility, and will be eliminated with the Amending Agreement.

The cost savings for Capital Power will be magnified through 2030 with the phase-out of coal units under the CLP, which would accelerate the amounts in respect of depreciation that would have been paid to PMRU due to the shortened asset lives.

## SUBSEQUENT EVENTS

### Appointments to the Board of Directors

Effective April 3, 2017, Keith Trent and Katharine Stevenson were appointed to the Capital Power Board of Directors.

### Acquisition of Decatur Energy and $183 million subscription receipt offering

On April 12, 2017, the Company announced that it entered into an agreement to acquire all of the ownership interests in Decatur Power Holdings, LLC, which owns the Decatur Energy Center (Decatur Energy) from an affiliate of LS Power Equity Partners III for US$441 million, subject to working capital and other closing adjustments (the Decatur Energy Acquisition). Decatur Energy is a 795 MW natural gas-fired combined cycle power generation plant located in Decatur, Alabama that operates under a tolling agreement.

Decatur Energy sells capacity and energy to a regional entity under a long-term contract which has an original term of 10 years and expires December 31, 2022. Decatur Energy is well-positioned, given anticipated market conditions, as well as significant remaining useful life, to be re-contracted or to pursue other commercial alternatives at the end of the current long-term contract, including the ability to sell power into the Pennsylvania, New Jersey, and Maryland interconnection market starting in 2023.

Financing of the Decatur Energy Acquisition will consist of a combination of debt and equity. The Company entered into an agreement with a syndicate of underwriters to issue 7,375,000 subscription receipts (the Subscription Receipts), on a bought deal basis, at an issue price of $24.75 per Subscription Receipt (the Offering Price), for total gross proceeds of approximately $183 million (the Public Offering). The net proceeds from the Public Offering will be used to partially finance the Decatur Energy Acquisition. Closing of the Public Offering occurred on April 24, 2017 and the over-allotment option associated with the Public Offering was not exercised and is no longer exercisable.

Each Subscription Receipt will entitle the holder thereof to receive, without payment of additional consideration or further action, upon closing of the Decatur Energy Acquisition, one common share of Capital Power. In addition, while the Subscription Receipts remain outstanding, holders will be entitled to receive cash payments (Dividend Equivalent Payments) per Subscription Receipt equal to dividends declared by Capital Power on each common share. Such Dividend Equivalent Payments will have the same record date as the related common share dividend and will be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend.

The balance of the purchase price is expected to be financed through debt utilizing a temporary expansion of Capital Power's credit facilities followed by permanent financing with an issuance of long-term debt expected later in 2017.

The Decatur Energy Acquisition supports the Company's growth strategy and increases the Company's geographical diversification. During the first full year of operations, the Decatur Energy Acquisition is expected to increase adjusted funds from operations by $43 million and increase adjusted EBITDA by $60 million. The transaction is expected to close in June 2017, subject to regulatory approvals and satisfaction of closing conditions.

### Acquisition of thermal facilities

On February 21, 2017, the Company announced that it entered into an agreement to acquire the thermal power business of Veresen Inc. Under the terms of the agreement, Capital Power will acquire 284 MW of generation from two natural gas-fired power assets in Ontario consisting of the 84 MW East Windsor Cogeneration Centre (East Windsor) and a 50% interest in the 400 MW York Energy Centre (York Energy), and will operate both facilities. The transaction also includes 10 MW of zero-emissions waste heat generation from two facilities (5 MW each) located at Westcoast Energy's BC Gas Pipeline compressor stations in Savona and 150 Mile House, British Columbia.

On April 13, 2017, the Company announced that it had completed the acquisition of the two natural gas-fired power facilities in Ontario. The purchase price for the natural gas-fired facilities consisted of (i) $235 million in total cash consideration, including working capital and other closing adjustments of $11 million, and (ii) the assumption of $253 million of project level debt (proportionate basis). Given the close proximity of the transaction close date to the release of the Company's first quarter results, information required to finalize the working capital adjustments is outstanding and as a result the purchase price is subject to change. As well, the initial purchase price allocation is not available to be disclosed at this time and will be prepared during the second quarter and disclosed in the Company's filings for the three and six months ending June 30, 2017.

The acquisition of these facilities, including the two natural gas-fired facilities in Ontario and the two waste heat facilities in British Columbia, supports the Company's growth strategy and is consistent with the Company's technology and operating focus. During the first full year of operations, this acquisition is expected to increase adjusted funds from operations by $24 million and increase adjusted EBITDA by $55 million.

The acquisition of the two waste heat facilities remains subject to the satisfaction of closing conditions, the work for which is ongoing as at April 28, 2017.

## CONSOLIDATED NET INCOME AND RESULTS OF OPERATIONS

The primary factors contributing to the change in consolidated net income for the three months ended March 31, 2017 compared with 2016 are presented below followed by further discussion of these items.

| (unaudited, $ millions) | | |
|---|---|---|
| **Consolidated net loss for the three months ended March 31, 2016** | | **(8)** |
| Increase (decrease) in adjusted EBITDA: | | |
| Alberta commercial facilities and portfolio optimization | (6) | |
| Alberta contracted facilities | 3 | |
| Ontario and British Columbia contracted facilities | 2 | |
| U.S. contracted facilities | (2) | |
| Corporate | 9 | |
| Change in unrealized net gains or losses related to the fair value of commodity derivatives and emission credits | 17 | 23 |
| Increase in depreciation and amortization expense | | (4) |
| Decrease in foreign exchange gain | | (6) |
| Prior year loss on termination of power purchase arrangement | | 53 |
| Decrease in net finance expense | | 2 |
| Increase in income before tax | | 68 |
| Increase in income tax expense | | (13) |
| **Increase in net income** | | **55** |
| **Consolidated net income for the three months ended March 31, 2017** | | **47** |

### Results by facility category and other

| | Three months ended March 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| | **Electricity generation** (GWh) [1] | | **Facility availability** (%) [2] | | **Revenues and other income** (unaudited, $ millions) | | **Adjusted EBITDA** (unaudited, $ millions) [3] | |
| Total electricity generation, average facility availability and facility revenues excluding the Sundance PPA | 3,962 | 3,898 | 97 | 97 | 184 | 188 | | |
| **Alberta commercial facilities and Sundance PPA** | | | | | | | | |
| Genesee 3 | 493 | 474 | 99 | 99 | 10 | 8 | | |
| Keephills 3 | 445 | 388 | 93 | 90 | 10 | 7 | | |
| Clover Bar Energy Centre 1, 2 and 3 | 36 | 48 | 99 | 99 | 1 | 1 | | |
| Joffre | 35 | 83 | 92 | 89 | 4 | 6 | | |
| Shepard Energy Centre | 649 | 577 | 99 | 100 | 24 | 21 | | |
| Halkirk | 122 | 124 | 96 | 99 | 9 | 8 | | |
| Clover Bar Landfill Gas | 5 | 1 | 95 | 99 | 1 | - | | |
| Alberta commercial facilities – owned | 1,785 | 1,695 | 97 | 96 | 59 | 51 | | |
| Sundance PPA [4] | N/A | 655 | N/A | 95 | - | 13 | | |
| Portfolio optimization | N/A | N/A | N/A | N/A | 95 | 124 | | |
| | 1,785 | 2,350 | 97 | 96 | 154 | 188 | 58 | 64 |
| **Alberta contracted facilities** | | | | | | | | |
| Genesee 1 | 846 | 843 | 100 | 100 | | | | |
| Genesee 2 | 811 | 833 | 97 | 99 | | | | |
| | 1,657 | 1,676 | 98 | 99 | 61 | 64 | 45 | 42 |
| **Ontario and British Columbia contracted facilities** | | | | | | | | |
| Island Generation | - | - | 100 | 100 | 10 | 10 | | |
| K2 Wind [5] | 79 | 71 | 99 | 99 | - | - | | |
| Kingsbridge 1 | 36 | 34 | 98 | 94 | 2 | 2 | | |
| Port Dover and Nanticoke | 93 | 95 | 98 | 97 | 12 | 12 | | |
| Quality Wind | 94 | 91 | 97 | 99 | 11 | 10 | | |
| | 302 | 291 | 99 | 99 | 35 | 34 | 40 | 38 |
| **U.S. contracted facilities** | | | | | | | | |
| Roxboro, North Carolina | 79 | 66 | 93 | 89 | 9 | 8 | | |
| Southport, North Carolina | 92 | 127 | 92 | 83 | 14 | 19 | | |
| Beaufort Solar, North Carolina | 6 | 7 | 97 | 98 | 1 | 1 | | |
| Macho Springs, New Mexico | 41 | 36 | 98 | 97 | 5 | 4 | | |
| | 218 | 236 | 94 | 89 | 29 | 32 | 6 | 8 |
| **Corporate** [6] | | | | | 14 | 2 | (15) | (24) |
| Unrealized changes in fair value of commodity derivatives and emission credits | | | | | 45 | 14 | 9 | (8) |
| **Consolidated revenues and other income and adjusted EBITDA** | | | | | **338** | **334** | **143** | **120** |

1 Gigawatt hours (GWh) of electricity generation reflects the Company's share of facility output.

2 Facility availability represents the percentage of time in the period that the facility 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 facility category, except for adjusted EBITDA, were prepared in accordance with GAAP. See Non-GAAP Financial Measures.

4 The Company's role as Buyer of the Sundance PPA was terminated effective March 24, 2016. Revenues, adjusted EBITDA, electricity generation, and facility availability in 2016 include the results of the Sundance PPA up to that date.

5 K2 Wind is accounted for under the equity method. Capital Power's share of the facility's net income is included in income from joint venture on the Company's condensed interim consolidated statements of income. The equivalent of Capital Power's share of the facility's revenue and adjusted EBITDA was $14 million and $13 million, respectively, for 2017 compared with $13 million and $9 million, respectively, for 2016. The facility's revenues are not included in the above results.

6 Corporate revenues were offset by interplant category eliminations.

***Energy prices and hedged positions***

| | | Three months ended March 31 | | Year ended December 31, 2016 |
|---|---|---|---|---|
| **Alberta** | **Unit** | **2017** | **2016** | |
| Hedged position [1] | Percentage sold forward at beginning of period (%) | 100 | 100 | 100 |
| Spot power price average | $ per MWh | 22 | 18 | 18 |
| Realized power price [2] | $ per MWh | 55 | 52 | 61 |
| Natural gas price (AECO) [3] | $ per gigajoule (Gj) | 2.56 | 1.72 | 2.03 |

1 Hedged position is for the Alberta baseload facilities as well as 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.

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 facilities, Sundance PPA and portfolio optimization***

Generation, availability, revenues and other income and adjusted EBITDA for the Alberta commercial facilities include results of the Sundance PPA up to the effective termination date of March 24, 2016.

Generation decreased for the three months ended March 31, 2017 compared with the corresponding period in 2016 primarily due to the termination of the Sundance PPA in the first quarter of 2016. Availability for the three months ended March 31, 2017 was comparable with the corresponding period in 2016.

Revenues and other income and adjusted EBITDA for the three months ended March 31, 2017 compared with the corresponding period in 2016 decreased primarily due to the decline in volume of commercial production that the Company sold forward in 2017, which resulted in lower revenues earned on portfolio optimization activities and the termination of the Sundance PPA.

***Alberta contracted facilities***

Generation and availability for the three months ended March 31, 2017 were comparable with the corresponding period in 2016. Revenues and other income were lower in 2017 compared to 2016 primarily due to lower capacity revenue primarily due to lower PPA input rates. Adjusted EBITDA increased for the three months ended March 31, 2017 compared with the corresponding period in 2016, primarily due to lower coal costs partially offset by the aforementioned lower capacity revenues.

***Ontario and British Columbia contracted facilities***

Generation and adjusted EBITDA for the three months ended March 31, 2017 were higher compared with the corresponding period in 2016 primarily due to higher generation at K2 Wind and higher captured prices at Quality Wind. Revenues and other income and availability for the three months ended March 31, 2017 were consistent with the corresponding period in 2016. Revenues and other income does not include K2 Wind, which is accounted for under the equity method.

***U.S. contracted facilities***

Generation, revenue and other income and adjusted EBITDA decreased in the three months ended March 31, 2017 compared with the corresponding period in 2016 primarily due to lower generation at Southport due to several fuel reserve shutdowns and derates due to sulfur emission restrictions. Availability increased in the three months ended March 31, 2017 compared with the corresponding period in 2016 due to a planned outage at Southport in 2016, a shorter planned outage at Roxboro in 2017 compared with 2016, partially offset by higher unplanned outage hours at Southport in 2017 compared with 2016.

***Corporate***

Corporate results include (i) revenues for cost recoveries and other income related to coal compensation from the Province of Alberta, (ii) costs 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. Note that cost recovery revenues are primarily intercompany revenues that are offset by interplant category transactions.

Net Corporate expenditures decreased and revenue and other income increased in the three months ended March 31, 2017 compared with the corresponding period in 2016 primarily due to coal compensation from the Province of Alberta that is recognized monthly as other income commencing December 2016.

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

| (unaudited, $ millions) | Three months ended March 31 | | | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| **Unrealized changes in fair value of commodity derivatives and emission credits** | **Revenues and other income** | | **Adjusted EBITDA** | |
| Unrealized gains on Alberta energy derivatives | 38 | 13 | 17 | 1 |
| Unrealized gains (losses) on natural gas derivatives | 7 | 5 | (8) | (2) |
| Unrealized losses on emission derivatives | - | (4) | - | (4) |
| Unrealized losses on emission credits held for trading | - | - | - | (3) |
| | **45** | **14** | **9** | **(8)** |

The Company's financial results relating to its Alberta commercial facilities 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 facility category.

During the three months ended March 31, 2017 the Alberta energy portfolio recognized unrealized net gains of $17 million primarily due to the impact of decreasing forward Alberta power prices on net forward sales contracts partially offset by the reversal of prior period unrealized net gains on forward sales contracts that settled during the quarter. Unrealized Alberta energy derivatives for the comparable period in 2016 were immaterial.

Unrealized net losses on natural gas derivatives of $8 million reported by the Company for the quarter ended March 31, 2017 were due to net forward purchase contracts valued against decreasing forward prices combined with the reversal of prior period unrealized gains on forward purchase contracts that settled during the quarter. For the three months ended March 31, 2016, the Company recognized unrealized net losses of $2 million on natural gas derivatives primarily due to decreasing natural gas forward prices combined with net forward purchase contracts.

Emission portfolio activities for the three months ended March 31, 2017 were immaterial. Unrealized net losses of $4 million were recognized on emission derivatives for the three months ended March 31, 2016, primarily due to decreasing forward prices on allowances and renewable energy credits combined with net forward purchase contracts.

Unrealized changes in the fair value of emission credits held for trading were immaterial for the three months ended March 31, 2017. During the three months ended March 31, 2016, the Company recognized unrealized net losses of $3 million on emission credits held for trading, primarily due to the reversal of previously unrealized net gains.

## Consolidated other expenses and non-controlling interests

| (unaudited, $ millions) | Three months ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| Interest on borrowings less capitalized interest | (17) | (21) |
| Other net finance expense – interest on coal compensation from the Province of Alberta, sundry interest, guarantee and other fees | 3 | (1) |
| | (14) | (22) |
| Unrealized gain representing changes in the fair value of interest rate derivatives | - | 1 |
| Other net finance expense – amortization and accretion charges, including accretion of deferred revenue pertaining to coal compensation from the Province of Alberta | (6) | (1) |
| Total net finance expense | (20) | (22) |
| Depreciation and amortization | (60) | (56) |
| Foreign exchange gain | 2 | 8 |
| Loss on termination of power purchase arrangement | - | (53) |
| Finance expense from joint venture | (3) | (3) |
| Income tax expense | (15) | (2) |
| Net loss attributable to non-controlling interests | 3 | 2 |

***Net finance expense***

Lower net finance expense for the three months ended March 31, 2017 compared with the same period in the prior year was primarily due to higher capitalized interest resulting from Bloom Wind construction and reduced interest expense incurred on long-term debt as a result of the EPCOR debt repayment in the first quarter of 2016.

***Depreciation and amortization***

Depreciation and amortization for the three months ended March 31, 2017 increased compared with the same period in the prior year primarily due to the shortening of asset lives in late 2016 related to the coal-fired facilities.

***Foreign exchange gain***

As at March 31, 2017 the Company had outstanding U.S. dollar denominated debt payable totalling US$295 million. Approximately US$195 million is hedged for accounting purposes using foreign currency swaps. The foreign exchange gain consisted primarily of the gain incurred on the revaluation of U.S. dollar denominated debt not hedged for accounting purposes. For the three months ended March 31, 2017, the exchange rate of the Canadian dollar relative to the U.S. dollar strengthened, albeit less than for the three months ended March 31, 2016, resulting in an unrealized gain in both periods.

***Loss on termination of power purchase arrangement***

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 and recorded a pre-tax loss of $53 million with respect to the de-recognition of the Sundance PPA intangible asset.

***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.

***Income tax expense***

Income tax expense increased $13 million for the three months ended March 31, 2017 compared with the corresponding period in 2016 primarily due to higher net income. The termination of the Sundance PPA in the quarter ending March 31, 2016 reduced net income and increased non-deductible amounts.

***Non-controlling interests***

Non-controlling interests consist only of the Coal Mine partner's share of the consolidated depreciation expense of the Coal Mine.

## COMPREHENSIVE INCOME (LOSS)

| (unaudited, $ millions) | Three months ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| Net income (loss) | 47 | (8) |
| Other comprehensive income (loss): | | |
| Net unrealized gains on commodity derivatives designated as cash flow hedges | 23 | 37 |
| Net unrealized losses on derivatives designated as cash flow hedges – joint venture | (1) | (3) |
| Net realized gains on commodity derivatives designated as cash flow hedges reclassified to net income (loss) | (17) | (30) |
| Net realized losses on commodity derivatives designated as cash flow hedges reclassified to net income (loss) – joint venture | 1 | - |
| Unrealized foreign exchange loss on the translation of foreign operations | (2) | (12) |
| | 4 | (8) |
| **Comprehensive income (loss)** | **51** | **(16)** |

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

## FINANCIAL POSITION

The significant changes in the consolidated statements of financial position from December 31, 2016 to March 31, 2017 were as follows:

| (unaudited, $ millions) | **March 31, 2017** | **December 31, 2016** | **Increase (decrease)** | **Primary reason for increase (decrease)** |
|---|---|---|---|---|
| Trade and other receivables | 210 | 223 | (13) | Primarily lower generation receivables at various facilities and the timing of receipts at Quality Wind. |
| Other assets | 74 | 20 | 54 | Increase primarily due to the non-current portion of the prepayment related to the amendment of the Genesee Coal Mine Joint Venture Agreement (see Significant Event). |
| Net derivative financial instruments assets | 195 | 177 | 18 | Impact of decreasing forward Alberta power prices on the fair value of forward sales contracts. |
| Intangible assets | 333 | 299 | 34 | Increase primarily due to the receipt and purchase of emission credit inventory. |
| Trade and other payables | 175 | 217 | (42) | Decrease primarily due to the timing of Bloom Wind construction and Genesee Mine payables and the settlement of emissions compliance payables. |
| Loans and borrowings (including current portion) | 1,604 | 1,508 | 96 | Increase in U.S. dollar bank loans outstanding. |
| Share capital | 2,931 | 2,918 | 13 | Increase due to share options exercised. |

## LIQUIDITY AND CAPITAL RESOURCES

| (unaudited, $ millions) | Three months ended March 31 | | |
|---|---|---|---|
| **Cash inflows (outflows)** | **2017** | **2016** | **Change** |
| Operating activities | 99 | 131 | (32) |
| Investing activities | (198) | (28) | (170) |
| Financing activities | 60 | (129) | 189 |

### Operating activities

Cash flows from operating activities for the three months ended March 31, 2017 decreased compared with the same period in 2016 primarily due to working capital cash outflows in 2017 compared with inflows in 2016, lower cash distributions received from K2 Wind and lower adjusted EBITDA before unrealized changes in fair value of commodity derivatives and emission credits and before the recognition of coal compensation from the Province of Alberta into income.

### Investing activities

Cash flows used in investing activities for the three months ended March 31, 2017 increased compared with the same period in 2016 primarily due to the construction of Bloom Wind, which began in the third quarter of 2016 and the prepayment related to the Amending Agreement (see Significant Event).

***Capital expenditures and investments***

| (unaudited, $ millions) | Pre-2017 Actual | Three months ended March 31, 2017 Actual | Balance of 2017 Estimated [1, 2] | Actual or Projected Total [2, 3] | Timing |
|---|---|---|---|---|---|
| Genesee 4 and 5 [4] | 16 | - | 3 | 700 | Targeted completion as early as 2020 and 2021, respectively |
| Bloom Wind | 219 | 61 | 78 | 358 | Targeted completion in the third quarter of 2017 |
| Development sites | - | 2 | - | 2 | |
| **Subtotal growth projects** | | **63** | | | |
| Sustaining – plant maintenance excluding Genesee mine | | 5 | | | |
| Sustaining – Genesee mine maintenance and lands [5] | | 1 | | | |
| **Total capital expenditures** [6] | | **69** | | | |
| Emission credits held for compliance | | 19 | | | |
| Capitalized interest | | (3) | | | |
| **Purchase of property, plant and equipment and other assets** | | **85** | | | |

1 The Company's 2017 estimated capital expenditures include only expenditures for previously announced growth projects and exclude other potential new development projects.

2 Projected capital expenditures to be incurred over the life of the projects for the previously announced Genesee 4 and 5 and Bloom Wind projects are based on management's estimates. Projected capital expenditures for development sites, based on management's estimates, are for 2017 only.

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

4 Continuation and timing of the Genesee 4 and 5 project will be considered once sufficient Alberta market certainty exists and new generation is required in Alberta to balance supply and demand.

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

6 Capital expenditures include capitalized interest. Capital expenditures excluding capitalized interest are presented on the condensed interim consolidated statements of cash flows as purchase of property, plant and equipment and other assets.

### Financing activities

The cash flows used in financing activities for the three months ended March 31, 2017 primarily reflected the net issuance of loans and borrowings partially offset by the repayment of loans and borrowings and the sum of common share dividends and preferred share dividends.

The Company's credit facilities consisted of:

| (unaudited, $ millions) | | As at March 31, 2017 | | | As at December 31, 2016 | | |
|---|---|---|---|---|---|---|---|
| | Maturity timing | Total facilities | Credit facility utilization | Available | Total facilities | Credit facility utilization | Available |
| CPLP committed credit facility | 2020/2021 | 1,055 | | | 1,055 | | |
| Letters of credit outstanding | | | 22 | | | 58 | |
| U.S. dollar bank loans outstanding | | | 237 | | | 134 | |
| | | 1,055 | 259 | 796 | 1,055 | 192 | 863 |
| CPLP bilateral demand credit facilities | N/A | 200 | | | 200 | | |
| Letters of credit outstanding | | | 119 | 81 | | 114 | 86 |
| CPLP demand credit facility | N/A | 20 | - | 20 | 20 | - | 20 |
| Capital Power Corporation demand credit facility | N/A | 5 | - | 5 | 5 | - | 5 |
| | | **1,280** | **378** | **902** | **1,280** | **306** | **974** |

As at March 31, 2017, the committed credit facility utilization increased $72 million compared with the utilization as at December 31, 2016, primarily due to increased U.S. dollar bank loans. The increase in U.S. dollar bank loans was used to fund the construction of Bloom Wind. In July 2016, the Company extended the maturity date of the committed credit facilities to July 9, 2021. In addition, the Company exercised the accordion feature of the committed credit facility to increase the facility size by $55 million. Following the extension of the maturity date in July 2016, $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.

On April 3, 2017, DBRS Limited (DBRS) revised the Company's senior unsecured long-term debt credit rating from BBB to BBB (low) with a stable outlook. The BBB rating category 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 and 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 2017 include:

| (unaudited, $ millions) | **Three months ended March 31, 2017 Actual** | **Balance of 2017 estimated** | **Total 2017 Expected Cash Requirements** |
|---|---|---|---|
| Repayment of debt payable to EPCOR | - | 10 | 10 |
| Capital expenditures – sustaining | 6 | 69 | 75 |
| Capital expenditures – ongoing growth projects [2] | 63 | 81 | 144 |
| Capital expenditures – Genesee performance standard | - | 10 | 10 |
| Common share dividends [1] | 38 | 117 | 155 |
| Preferred share dividends | 8 | 22 | 30 |
| | **115** | **309** | **424** |

[1] Includes 7% annual dividend growth, subject to approval by the Board of Directors of Capital Power.

[2] Ongoing growth projects do not reflect the acquisitions noted in Subsequent Events.

The current portion of loans and borrowings on the March 31, 2017 condensed interim consolidated statement of financial position included $184 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 funds the construction of Bloom Wind using existing bank credit facilities, cash flows from operating activities and expected Project Investor equity contributions. The Company's other cash requirements identified above are 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.

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 March 31, 2017, $141 million of outstanding letters of credit for collateral support for trading operations, conditions of certain service agreements and to satisfy legislated reclamation requirements. If the Company were to terminate these off-statement of financial position arrangements, the penalties or obligations would not have a material impact on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

### Capital resources

| (unaudited, $ millions) | As at | |
|---|---|---|
| | March 31, 2017 | December 31, 2016 |
| Loans and borrowings | 1,604 | 1,508 |
| Finance lease obligation [1] | 20 | 20 |
| Less cash and cash equivalents | 65 | 98 |
| Net debt | 1,559 | 1,430 |
| Share capital | 2,931 | 2,918 |
| Deficit and other reserves | (68) | (75) |
| Non-controlling interests | 55 | 58 |
| Total equity | 2,918 | 2,901 |
| **Total capital** | **4,477** | **4,331** |

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

## CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

### Contingent liabilities

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 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. The AUC approved the AESO’s Compliance Filing relating to the new LLR on November 30, 2016. The AESO has noted it expects to produce prospective loss factors in the second quarter of 2017 to be effective January 1, 2017. One party has subsequently filed an application for review and variance of the AUC’s approval of the AESO’s Compliance Filing, though the AUC has yet to establish a process to consider the application.

In January 2016, the AUC initiated Module C, to determine what retrospective adjustments, if any, are to be paid to or received by the various parties, and what methodology will be adopted for the purposes of determining retroactive adjustments. 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. In January 2017, the Commission established a process and schedule to consider all remaining issues relating to Module C, including the methodology to be used to recalculate and adjust the line loss factor for the historic period and the process to be employed for the collection and payment of retroactive adjustments. The written phase of the process is currently scheduled to conclude in May 2017 and an oral hearing, if determined to be required by the AUC, would commence in June 2017.

As at April 28, 2017, 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 retrospective 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. As a result of the termination of the Company’s role as Buyer of the Sundance PPA and the settlement of the Government of Alberta’s related legal action, the Company has no further obligations, and the Balancing Pool has assumed all obligations, of Buyer under the Sundance PPA, without exception or limitation. Any potential retroactive liability relating to the Company’s role as Buyer of the Sundance PPA for losses has therefore been transferred to the Balancing Pool and Capital Power’s total remaining liability pertaining to its Alberta assets has been cut approximately in half.

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.

## RISKS AND RISK MANAGEMENT

There have been no material changes in the three months ended March 31, 2017 to the Company's business and operational risks as described in the Company's December 31, 2016 MD&A.

## ENVIRONMENTAL MATTERS

The Company recorded decommissioning provisions of $195 million as at March 31, 2017 and December 31, 2016 for its generation facilities and the Coal Mine as it is obliged to remove the facilities at the end of their useful lives and restore the facility 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 vary and the amount of decommissioning provisions could change depending on potential future changes in environmental regulations and the timing of any facility fuel conversions.

The Company is obligated to purchase environmental credits totaling $237 million in 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 judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. There has been no significant changes to the Company's use of judgments and estimates as described in the Company's December 31, 2016 MD&A.

## ACCOUNTING CHANGES

### Effective January 1, 2017

The Company adopted amendments to one accounting standard as issued by the International Accounting Standards Board (IASB). The amendments and impact to Capital Power are:

| Standard | Description | Impact to Capital Power |
|---|---|---|
| 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. | The Company added disclosure of changes in liabilities arising from financing activities in the Company's interim financial statement disclosures. |

### Future

The IASB issued the following new standards and amendments to existing standards that were not yet effective as of March 31, 2017 and are relevant to Capital Power:

| Standard | Description | Impact to Capital Power and current implementation status | Effective Date |
|---|---|---|---|
| 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. | Management has assessed the applicability of this new standard on the Company's various contracts and reporting systems and does not expect significant changes or reclassifications to the consolidated financial statements as a result of this transition. In addition, a number of the Company's revenue contracts are accounted for under IFRS 11 – Joint Arrangements, IAS 17 – Leases, IAS 39 – Financial Instruments: Recognition and Measurement and are therefore excluded from the scope of IFRS 15. For those contracts affected by IFRS 15, management anticipates increased disclosure requirements to consist of: separately disclosed and disaggregated revenue, opening and closing balances of receivables, contract assets and liabilities; and the explanation of significant changes in contract asset and liability balances during the reporting period. | 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 de-recognition of financial assets and liabilities. | Management has assessed the applicability of IFRS 9 on the Company's various contracts and reporting systems and does not expect a significant impact to the consolidated financial statements. | 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. | Management is currently assessing whether certain PPAs that are currently considered to be finance leases with the Company as the lessor will continue to be considered leases upon adoption of IFRS 16. This assessment and any associated practical expedients will also affect disclosures under IFRS 15. Early application is permitted if IFRS 15 has also been applied. This standard 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 March 31, 2017 and December 31, 2016 were as follows:

| (unaudited, $ millions) | | March 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|
| | Fair value hierarchy level [1] | Carrying amount | Fair value | Carrying amount | Fair value |
| **Financial assets:** | | | | | |
| Loans and receivables | | | | | |
| Cash and cash equivalents | N/A | 65 | 65 | 98 | 98 |
| Trade and other receivables [2] | N/A | 133 | 133 | 146 | 146 |
| Government grant receivable [3] | Level 2 | 598 | 598 | 594 | 594 |
| Finance lease receivables [3] | Level 2 | 683 | 761 | 689 | 762 |
| Other financial assets [3] | Level 2 | 6 | 6 | 7 | 7 |
| Designated at fair value through income or loss | | | | | |
| Derivative financial instruments assets – current and non-current | See Below | 273 | 273 | 269 | 269 |
| **Financial liabilities:** | | | | | |
| Other financial liabilities | | | | | |
| Trade and other payables [4] | N/A | 174 | 174 | 216 | 216 |
| Finance lease obligation [3] | Level 2 | 20 | 21 | 20 | 20 |
| Loans and borrowings [3] | Level 2 | 1,604 | 1,660 | 1,508 | 1,540 |
| Designated at fair value through income or loss | | | | | |
| Derivative financial instruments liabilities – current and non-current | See Below | 78 | 78 | 92 | 92 |

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 by the Company's commodity risk group and reviewed by management.

2 Excludes current portion of government grant receivable, finance lease receivables and other financial assets.

3 Includes current portion.

4 Excludes current portion of finance lease obligation.

### Risk management and hedging activities

There have been no material changes in the three months ended March 31, 2017 to the Company's risk management and hedging activities as described in the Company's December 31, 2016 MD&A.

The derivative financial instruments assets and liabilities held at March 31, 2017 compared with December 31, 2016 and used for risk management purposes were measured at fair value and consisted of the following:

| (unaudited, $ millions) | | As at March 31, 2017 | | | |
|---|---|---|---|---|---|
| | **Fair value hierarchy level** | **Commodity cash flow hedges** | **Commodity non-hedges** | **Foreign exchange hedges** | **Total** |
| Derivative financial instruments assets | Level 2 | 69 | 140 | 54 | 263 |
| | Level 3 | - | 10 | - | 10 |
| | | 69 | 150 | 54 | 273 |
| Derivative financial instruments liabilities | Level 2 | (3) | (61) | - | (64) |
| | Level 3 | (14) | - | - | (14) |
| | | (17) | (61) | - | (78) |
| **Net derivative financial instruments assets** | | **52** | **89** | **54** | **195** |

| (unaudited, $ millions) | | As at December 31, 2016 | | | |
|---|---|---|---|---|---|
| | **Fair value hierarchy level** | **Commodity cash flow hedges** | **Commodity non-hedges** | **Foreign exchange hedges** | **Total** |
| Derivative financial instruments assets | Level 2 | 69 | 133 | 58 | 260 |
| | Level 3 | - | 9 | - | 9 |
| | | 69 | 142 | 58 | 269 |
| Derivative financial instruments liabilities | Level 2 | (3) | (70) | - | (73) |
| | Level 3 | (19) | - | - | (19) |
| | | (22) | (70) | - | (92) |
| **Net derivative financial instruments assets** | | **47** | **72** | **58** | **177** |

### 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, 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 net 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 three months ended March 31, 2017 that have materially affected or are reasonably likely to materially affect the Company's disclosures of required information and internal control over financial reporting.

## SUMMARY OF QUARTERLY RESULTS

| (GWh) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Electricity generation** | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| Total generation excluding Sundance PPA | 3,962 | 3,793 | 3,930 | 3,707 | 3,898 | 3,929 | 3,687 | 3,553 |
| **Alberta commercial facilities and Sundance PPA** | | | | | | | | |
| Genesee 3 | 493 | 341 | 498 | 474 | 474 | 500 | 498 | 491 |
| Keephills 3 | 445 | 478 | 464 | 501 | 388 | 489 | 258 | 436 |
| Clover Bar Energy Centre 1, 2 and 3 | 36 | 94 | 79 | 106 | 48 | 41 | 39 | 98 |
| Joffre | 35 | 66 | 27 | 21 | 83 | 84 | 62 | 76 |
| Shepard | 649 | 410 | 611 | 647 | 577 | 387 | 572 | 443 |
| Halkirk | 122 | 121 | 86 | 124 | 124 | 129 | 88 | 107 |
| Clover Bar Landfill Gas | 5 | 3 | 1 | 2 | 1 | 1 | 2 | 3 |
| Alberta commercial facilities – owned | 1,785 | 1,513 | 1,766 | 1,875 | 1,695 | 1,631 | 1,519 | 1,654 |
| Sundance PPA [1] | - | - | - | - | 655 | 717 | 688 | 565 |
| | 1,785 | 1,513 | 1,766 | 1,875 | 2,350 | 2,348 | 2,207 | 2,219 |
| **Alberta contracted facilities** | | | | | | | | |
| Genesee 1 | 846 | 863 | 857 | 770 | 843 | 842 | 865 | 608 |
| Genesee 2 | 811 | 860 | 862 | 582 | 833 | 861 | 843 | 838 |
| | 1,657 | 1,723 | 1,719 | 1,352 | 1,676 | 1,703 | 1,708 | 1,446 |
| **Ontario and British Columbia contracted facilities** | | | | | | | | |
| Island Generation | - | 37 | 2 | - | - | 5 | 37 | 37 |
| K2 Wind | 79 | 77 | 40 | 34 | 71 | 102 | 46 | 19 |
| Kingsbridge 1 | 36 | 37 | 15 | 16 | 34 | 36 | 13 | 21 |
| Port Dover and Nanticoke | 93 | 92 | 53 | 65 | 95 | 95 | 44 | 69 |
| Quality Wind | 94 | 85 | 78 | 90 | 91 | 121 | 97 | 82 |
| | 302 | 328 | 188 | 205 | 291 | 359 | 237 | 228 |
| **U.S. contracted facilities** | | | | | | | | |
| Roxboro, North Carolina | 79 | 84 | 84 | 82 | 66 | 77 | 76 | 70 |
| Southport, North Carolina | 92 | 107 | 140 | 144 | 127 | 131 | 128 | 118 |
| Beaufort Solar, North Carolina | 6 | 6 | 8 | 8 | 7 | - | N/A | N/A |
| Macho Springs, New Mexico | 41 | 32 | 25 | 41 | 36 | 28 | 19 | 37 |
| | 218 | 229 | 257 | 275 | 236 | 236 | 223 | 225 |

1 The Company's role as Buyer of the Sundance PPA was terminated effective March 24, 2016. Results of the Sundance PPA were recognized up to March 24, 2016.

| (%) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Facility availability** | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| Total average facility availability excluding Sundance PPA | 97 | 94 | 96 | 90 | 97 | 99 | 95 | 90 |
| **Alberta commercial facilities and Sundance PPA** | | | | | | | | |
| Genesee 3 | 99 | 68 | 100 | 100 | 99 | 100 | 100 | 100 |
| Keephills 3 | 93 | 99 | 96 | 100 | 90 | 100 | 63 | 97 |
| Clover Bar Energy Centre 1, 2 and 3 | 99 | 99 | 91 | 91 | 99 | 97 | 88 | 95 |
| Joffre | 92 | 98 | 81 | 55 | 89 | 100 | 100 | 87 |
| Shepard | 99 | 76 | 99 | 82 | 100 | 98 | 100 | 73 |
| Halkirk | 96 | 98 | 96 | 98 | 99 | 96 | 97 | 98 |
| Clover Bar Landfill Gas | 95 | 92 | 27 | 99 | 99 | 84 | 81 | 93 |
| Alberta commercial facilities – owned | 97 | 87 | 95 | 87 | 96 | 98 | 92 | 89 |
| Sundance PPA [1] | - | - | - | - | 95 | 92 | 91 | 79 |
| | 97 | 87 | 95 | 87 | 96 | 96 | 92 | 86 |
| **Alberta contracted facilities** | | | | | | | | |
| Genesee 1 | 100 | 100 | 100 | 95 | 100 | 99 | 100 | 72 |
| Genesee 2 | 97 | 100 | 100 | 72 | 99 | 100 | 98 | 100 |
| | 98 | 100 | 100 | 84 | 99 | 100 | 99 | 86 |
| **Ontario and British Columbia contracted facilities** | | | | | | | | |
| Island Generation | 100 | 100 | 92 | 100 | 100 | 100 | 100 | 100 |
| K2 Wind | 99 | 100 | 98 | 99 | 99 | 99 | 98 | 98 |
| Kingsbridge 1 | 98 | 97 | 95 | 97 | 94 | 98 | 94 | 95 |
| Port Dover and Nanticoke | 98 | 99 | 94 | 100 | 97 | 98 | 95 | 97 |
| Quality Wind | 97 | 97 | 91 | 98 | 99 | 98 | 94 | 97 |
| | 99 | 99 | 93 | 99 | 99 | 99 | 97 | 98 |
| **U.S. contracted facilities** | | | | | | | | |
| Roxboro, North Carolina | 93 | 94 | 100 | 100 | 89 | 99 | 94 | 87 |
| Southport, North Carolina | 92 | 98 | 96 | 92 | 83 | 93 | 94 | 88 |
| Beaufort Solar, North Carolina | 97 | 92 | 98 | 91 | 98 | 100 | N/A | N/A |
| Macho Springs, New Mexico | 98 | 97 | 97 | 98 | 97 | 96 | 96 | 99 |
| | 94 | 96 | 97 | 95 | 89 | 96 | 95 | 91 |

1 The Company's role as Buyer of the Sundance PPA was terminated effective March 24, 2016. Results of the Sundance PPA were recognized up to March 24, 2016.

## Financial results

| (unaudited, $ millions) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar 31 2017 | Dec 31 2016 | Sep 30 2016 | Jun 30 2016 | Mar 31 2016 | Dec 31 2015 | Sep 30 2015 | Jun 30 2015 |
| **Revenues and other income** | | | | | | | | |
| Alberta commercial facilities, Sundance PPA and portfolio optimization [1] | 154 | 172 | 163 | 166 | 188 | 199 | 237 | 130 |
| Alberta contracted facilities | 61 | 65 | 64 | 59 | 64 | 66 | 69 | 65 |
| Ontario and British Columbia contracted facilities | 35 | 33 | 23 | 25 | 34 | 40 | 23 | 25 |
| U.S. contracted facilities | 29 | 29 | 34 | 34 | 32 | 30 | 29 | 28 |
| Corporate [2] | 14 | 11 | 2 | 1 | 2 | 1 | 2 | 4 |
| Unrealized changes in fair value of commodity derivatives and emission credits | 45 | (30) | 88 | (59) | 14 | 1 | 106 | (171) |
| | **338** | **280** | **374** | **226** | **334** | **337** | **466** | **81** |
| **Adjusted EBITDA** | | | | | | | | |
| Alberta commercial facilities, Sundance PPA and portfolio optimization [1] | 58 | 70 | 74 | 71 | 64 | 70 | 72 | 49 |
| Alberta contracted facilities | 45 | 40 | 38 | 43 | 42 | 45 | 52 | 45 |
| Ontario and British Columbia contracted facilities [3] | 40 | 40 | 21 | 28 | 38 | 45 | 22 | 21 |
| U.S. contracted facilities | 6 | 8 | 11 | 8 | 8 | 10 | 6 | 6 |
| Corporate | (15) | (20) | (24) | (27) | (24) | (24) | (25) | (27) |
| Unrealized changes in fair value of commodity derivatives and emission credits | 9 | 6 | 28 | (15) | (8) | (12) | 27 | (47) |
| | **143** | **144** | **148** | **108** | **120** | **134** | **154** | **47** |

1 The Company's role as Buyer of the Sundance PPA was terminated effective March 24, 2016. 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 facilities' 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, and planned and unplanned facility outages and items outside the normal course of operations. Net income is also affected by changes in the fair value of the Company's power, natural gas, foreign exchange and interest rate derivative contracts.

## Financial highlights

| (unaudited, $ millions except per share amounts) | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| Revenues and other income | 338 | 280 | 374 | 226 | 334 | 337 | 466 | 81 |
| Adjusted EBITDA [1,2] | 143 | 144 | 148 | 108 | 120 | 134 | 154 | 47 |
| Net income (loss) | 47 | 26 | 64 | 20 | (8) | 34 | 50 | (48) |
| Net income (loss) attributable to shareholders of the Company | 50 | 28 | 66 | 23 | (6) | 35 | 49 | (34) |
| Basic earnings (loss) per share ($) | 0.44 | 0.21 | 0.63 | 0.19 | (0.11) | 0.29 | 0.44 | (0.39) |
| Normalized earnings per share ($) [1] | 0.34 | 0.27 | 0.31 | 0.30 | 0.33 | 0.42 | 0.33 | 0.10 |
| Net cash flows from operating activities | 99 | 69 | 105 | 70 | 131 | 114 | 184 | 14 |
| Adjusted funds from operations [1] | 91 | 56 | 79 | 79 | 93 | 118 | 83 | 38 |
| Purchase of property, plant and equipment and other assets | 85 | 174 | 27 | 81 | 31 | 17 | 36 | 35 |

1 The consolidated financial highlights, except for adjusted EBITDA, normalized earnings per share and adjusted 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 facilities' 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.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Spot price averages** | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| Alberta power ($ per MWh) | 22 | 22 | 18 | 15 | 18 | 21 | 26 | 57 |
| Alberta natural gas (AECO) ($ per Gj) | 2.56 | 2.97 | 2.14 | 1.34 | 1.72 | 2.35 | 2.77 | 2.52 |
| **Capital Power's Alberta portfolio average realized power price ($ per MWh)** | 55 | 67 | 70 | 61 | 52 | 55 | 61 | 46 |

### Factors impacting results for the previous quarters

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

For the quarter ended December 31, 2016, the Company recorded net income attributable to shareholders of $28 million and normalized earnings per share of $0.27, compared to $35 million and $0.42, respectively, for the quarter ended December 31, 2015. Net income attributable to common shareholders was lower for the quarter compared to the same quarter in the prior year primarily due to the payment for the settlement of legal action related to the termination of the Sundance PPA in 2016, partially offset by higher adjusted EBITDA and lower interest costs in the fourth quarter of 2016 compared with the same period in 2015. Normalized earnings per share of $0.27 in the fourth quarter of 2016 was lower than the comparable amount of $0.42 in the fourth quarter of 2015 primarily due to the decrease in adjusted EBITDA after removing the effects of unrealized changes in fair value of derivative contracts and increased preferred share dividends in 2016 compared with 2015.

The results for the third quarter of 2016 reflected strong portfolio results as the portfolio was fully hedged at an average realized price of $70 per MWh compared with $61 per MWh in the third quarter of 2015. The spot price average in the third quarter of 2016 was $18 per MWh compared with $26 per MWh in the third quarter of 2015. Because of the lower spot price in 2016 compared with 2015, the portfolio results in the third quarter of 2016 were partially offset by lower revenues from the Alberta commercial and Alberta contracted facilities. 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. In the third quarter of 2016, the Alberta energy portfolio recognized unrealized gains of $32 million compared with unrealized gains of $26 million in the third quarter of 2015. The Company also recognized a pre-tax impairment loss of $6 million related to the Southport cash generating unit. During the quarter the Company announced a 6.8% increase in the annual dividend for holders of its common shares commencing with the third quarter dividend paid on October 31, 2016.

The results for the second quarter of 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 facilities. 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 of 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 prices 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 de-recognition 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 the prior year primarily due to lower adjusted EBITDA, increased depreciation on new assets and net finance expense on additional financing, partially offset by the contribution of K2 equity earnings and lower taxes. Generating facilities contributed higher adjusted EBITDA for the fourth quarter with higher generation across the fleet, including the fully hedged Alberta baseload units, the addition of Shepard and a full quarter of Macho Springs compared to the same quarter in the prior 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 combined with its forward natural gas purchase contracts. 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 facility 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 facilities 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 Government of Alberta 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.

## SHARE AND PARTNERSHIP UNIT INFORMATION

### Quarterly common share trading information

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

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Mar 31 2017** | **Dec 31 2016** | **Sep 30 2016** | **Jun 30 2016** | **Mar 31 2016** | **Dec 31 2015** | **Sep 30 2015** | **Jun 30 2015** |
| **Share price ($/common share)** | | | | | | | | |
| High | 26.43 | 24.49 | 22.16 | 20.23 | 18.93 | 20.21 | 22.42 | 25.58 |
| Low | 23.15 | 19.90 | 18.95 | 17.31 | 16.37 | 15.41 | 18.28 | 21.53 |
| Close | 26.06 | 23.23 | 20.62 | 19.28 | 18.00 | 17.77 | 18.88 | 21.54 |
| **Volume of shares traded (millions)** | 17.0 | 23.2 | 16.0 | 14.8 | 19.2 | 20.5 | 19.4 | 21.1 |

### Outstanding share and partnership unit data

As at April 25, 2017, the Company had 96.708 million common shares, 7.375 million subscription receipts (See Subsequent Events), 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 and subscription receipts to common shares and ignoring exercise prices, the outstanding and issuable common shares as at April 25, 2017 were 108.342 million. The outstanding special limited voting share is held by EPCOR.

As at April 25, 2017, CPLP had 21.750 million general partnership units outstanding, 80.953 million common limited partnership units outstanding. All of the outstanding general partnership units and the outstanding common limited partnership units are held by the Company.

## ADDITIONAL INFORMATION

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

Condensed Interim Consolidated Financial Statements of

# CAPITAL POWER CORPORATION

(Unaudited, in millions of Canadian dollars)
Three months ended March 31, 2017 and 2016

# CAPITAL POWER CORPORATION

Condensed Interim Consolidated Financial Statements
Three months ended March 31, 2017 and 2016

**Condensed Interim Consolidated Financial Statements:**

# CAPITAL POWER CORPORATION

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

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| Revenues | $ 322 | $ 332 |
| Other income | 16 | 2 |
| Energy purchases and fuel | (131) | (148) |
| **Gross margin** | 207 | 186 |
| Other raw materials and operating charges | (23) | (26) |
| Staff costs and employee benefits expense | (34) | (32) |
| Depreciation and amortization | (60) | (56) |
| Loss on termination of power purchase arrangement | - | (53) |
| Other administrative expenses | (20) | (19) |
| Foreign exchange gain | 2 | 8 |
| **Operating income** | 72 | 8 |
| Net finance expense | (20) | (22) |
| Income from joint venture | 10 | 8 |
| **Income (loss) before tax** | 62 | (6) |
| Income tax expense (note 5) | (15) | (2) |
| **Net income (loss)** | $ 47 | $ (8) |
| **Attributable to:** | | |
| Non-controlling interests | $ (3) | $ (2) |
| Shareholders of the Company | $ 50 | $ (6) |

**Earnings (loss) per share** (attributable to common shareholders of the Company):

| | 2017 | 2016 |
|---|---|---|
| Basic (note 6) | $ 0.44 | $ (0.11) |
| Diluted (note 6) | $ 0.43 | $ (0.11) |

See accompanying notes to the condensed interim consolidated financial statements

# CAPITAL POWER CORPORATION

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

| | Three months ended March 31, 2017 | Three months ended March 31, 2016 |
|---|---|---|
| **Net income (loss)** | $ 47 | $ (8) |
| **Other comprehensive income (loss):** | | |
| **Items that are or may be reclassified subsequently to net income (loss):** | | |
| Cash flow hedges: | | |
| Unrealized gains on derivative instruments[1] | 23 | 37 |
| Unrealized losses on derivative instruments – joint venture[2] | (1) | (3) |
| Reclassification of gains on derivative instruments to net income (loss) for the period[3] | (17) | (30) |
| Reclassification of losses on derivative instruments to net income (loss) for the period – joint venture[4] | 1 | - |
| Net investment in foreign subsidiaries: | | |
| Unrealized loss[5] | (2) | (12) |
| Total items that are or may be reclassified subsequently to net income (loss), net of tax | 4 | (8) |
| Total other comprehensive income (loss), net of tax | 4 | (8) |
| **Total comprehensive income (loss)** | $ 51 | $ (16) |
| **Attributable to:** | | |
| Non-controlling interests | $ (3) | $ (2) |
| Shareholders of the Company | $ 54 | $ (14) |

[1] For the three months ended March 31, 2017 and 2016, net of income tax expense of $9 and $13, respectively.

[2] For the three months ended March 31, 2017 and 2016, net of income tax recovery of nil and $1, respectively.

[3] For the three months ended March 31, 2017 and 2016, net of reclassification of income tax expense of $6 and $11, respectively.

[4] For the three months ended March 31, 2017 and 2016, net of reclassification of income tax recovery of nil.

[5] For the three months ended March 31, 2017 and 2016, net of income tax of nil.

See accompanying notes to the condensed interim consolidated financial statements

# CAPITAL POWER CORPORATION

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

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 65 | $ 98 |
| Trade and other receivables (note 7) | 210 | 223 |
| Inventories | 117 | 118 |
| Derivative financial instruments assets (note 8) | 122 | 115 |
| | 514 | 554 |
| Non-current assets: | | |
| Other assets (note 7) | 74 | 20 |
| Derivative financial instruments assets (note 8) | 151 | 154 |
| Finance lease receivables | 661 | 667 |
| Government grant receivable | 546 | 542 |
| Other financial assets | 3 | 5 |
| Deferred tax assets | 17 | 16 |
| Equity-accounted investment | 20 | 18 |
| Intangible assets | 333 | 299 |
| Property, plant and equipment | 3,773 | 3,764 |
| Goodwill | 23 | 23 |
| Total assets | $ 6,115 | $ 6,062 |
| Liabilities and equity | | |
| Current liabilities: | | |
| Trade and other payables | $ 175 | $ 217 |
| Derivative financial instruments liabilities (note 8) | 44 | 48 |
| Loans and borrowings | 201 | 200 |
| Deferred revenue and other liabilities | 59 | 57 |
| Provisions | 17 | 26 |
| | 496 | 548 |
| Non-current liabilities: | | |
| Derivative financial instruments liabilities (note 8) | 34 | 44 |
| Loans and borrowings | 1,403 | 1,308 |
| Finance lease obligation | 19 | 19 |
| Deferred revenue and other liabilities | 623 | 632 |
| Deferred tax liabilities | 393 | 379 |
| Provisions | 229 | 231 |
| | 2,701 | 2,613 |
| Equity: | | |
| Equity attributable to shareholders of the Company | | |
| Share capital (note 9) | 2,931 | 2,918 |
| Deficit | (120) | (124) |
| Other reserves | 52 | 49 |
| Deficit and other reserves | (68) | (75) |
| | 2,863 | 2,843 |
| Non-controlling interests | 55 | 58 |
| Total equity | 2,918 | 2,901 |
| Total liabilities and equity | $ 6,115 | $ 6,062 |

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 reserve[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, 2017 | $ 2,918 | $ 22 | $ 26 | $ (10) | $ 11 | $ (124) | $ 2,843 | $ 58 | $ 2,901 |
| Net income | - | - | - | - | - | 50 | 50 | (3) | 47 |
| Other comprehensive income (loss): | | | | | | | | | |
| Cash flow derivative hedge gains | - | 32 | - | - | - | - | 32 | - | 32 |
| Cash flow derivative hedge losses – joint venture | - | (1) | - | - | - | - | (1) | - | (1) |
| Reclassification of gains to net income | - | (23) | - | - | - | - | (23) | - | (23) |
| Reclassification of losses to net income – joint venture | - | 1 | - | - | - | - | 1 | - | 1 |
| Unrealized loss on foreign currency translation | - | - | (2) | - | - | - | (2) | - | (2) |
| Tax on items recognized directly in equity | - | (3) | - | - | - | - | (3) | - | (3) |
| Other comprehensive income (loss) | $ - | $ 6 | $ (2) | $ - | $ - | $ - | $ 4 | $ - | $ 4 |
| Total comprehensive income (loss) | - | 6 | (2) | - | - | 50 | 54 | (3) | 51 |
| Common share dividends (note 9) | - | - | - | - | - | (38) | (38) | - | (38) |
| Preferred share dividends (note 9) | - | - | - | - | - | (8) | (8) | - | (8) |
| Share-based payment | - | - | - | - | (1) | - | (1) | - | (1) |
| Share options exercised | 13 | - | - | - | - | - | 13 | - | 13 |
| Equity as at March 31, 2017 | $ 2,931 | $ 28 | $ 24 | $ (10) | $ 10 | $ (120) | $ 2,863 | $ 55 | $ 2,918 |

[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 reserve[1] | Defined benefit plan actuarial losses[1] | Employee benefits reserve | Retained earnings | Equity attributable to shareholders of the Company | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|---|---|
| Equity as at January 1, 2016 | $ 2,744 | $ 42 | $ 31 | $ (9) | $ 10 | $ (70) | $ 2,748 | $ 68 | $ 2,816 |
| Net loss | - | - | - | - | - | (6) | (6) | (2) | (8) |
| Other comprehensive income (loss): | | | | | | | | | |
| Cash flow derivative hedge gains | - | 50 | - | - | - | - | 50 | - | 50 |
| Cash flow derivative hedge losses – joint venture | - | (4) | - | - | - | - | (4) | - | (4) |
| Reclassification of gains to net loss | - | (41) | - | - | - | - | (41) | - | (41) |
| Unrealized loss on foreign currency translation | - | - | (12) | - | - | - | (12) | - | (12) |
| Tax on items recognized directly in equity | - | (1) | - | - | - | - | (1) | - | (1) |
| Other comprehensive income (loss) | $ - | $ 4 | $ (12) | $ - | $ - | $ - | $ (8) | $ - | $ (8) |
| Total comprehensive income (loss) | - | 4 | (12) | - | - | (6) | (14) | (2) | (16) |
| Common share dividends (note 9) | - | - | - | - | - | (35) | (35) | - | (35) |
| Preferred share dividends (note 9) | - | - | - | - | - | (5) | (5) | - | (5) |
| Common shares purchased (note 9) | (21) | - | - | - | - | - | (21) | - | (21) |
| Equity as at March 31, 2016 | $ 2,723 | $ 46 | $ 19 | $ (9) | $ 10 | $ (116) | $ 2,673 | $ 66 | $ 2,739 |

[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)

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income (loss) | $ 47 | $ (8) |
| Non-cash adjustments to reconcile net income (loss) to net cash flows from operating activities: | | |
| Loss on termination of power purchase arrangement | - | 53 |
| Depreciation and amortization | 60 | 56 |
| Net finance expense | 20 | 22 |
| Fair value changes on commodity derivative instruments and emission credits held for trading | (9) | 8 |
| Unrealized foreign exchange gain | (3) | (8) |
| Income tax expense | 15 | 2 |
| Income from joint venture | (10) | (8) |
| Reduction in finance lease receivable | 5 | 5 |
| Recognition of government grant deferred revenue | (13) | - |
| Other items | 2 | (3) |
| Change in fair value of derivative instruments reflected as cash settlement | (2) | - |
| Distribution received from joint venture | 8 | 14 |
| Interest paid[1] | (14) | (18) |
| Other cash items | (5) | (3) |
| Change in non-cash operating working capital | (2) | 19 |
| Net cash flows from operating activities | 99 | 131 |
| **Cash flows used in investing activities:** | | |
| Purchase of property, plant and equipment and other assets | (85) | (31) |
| Genesee Coal Mine prepayment (note 7) | (70) | - |
| Other cash flows from investing activities | 5 | 9 |
| Change in non-cash investing working capital | (48) | (6) |
| Net cash flows used in investing activities | (198) | (28) |
| **Cash flows from financing activities:** | | |
| Proceeds from issue of loans and borrowings (note 10) | 103 | 68 |
| Repayment of loans and borrowings (note 10) | (3) | (133) |
| Proceeds from exercise of share options | 13 | - |
| Common shares purchased (note 9) | - | (21) |
| Common share dividends paid (note 9) | (38) | (36) |
| Preferred share dividends paid (note 9) | (8) | (5) |
| Capitalized interest paid[1] | (3) | - |
| Income taxes paid | (4) | (2) |
| Net cash flows from (used in) financing activities | 60 | (129) |
| Foreign exchange gain (loss) on cash held in a foreign currency | 6 | (1) |
| Net decrease in cash and cash equivalents | (33) | (27) |
| Cash and cash equivalents at beginning of period | 98 | 80 |
| Cash and cash equivalents at end of period | $ 65 | $ 53 |

[1] Total interest 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 2016 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 April 28, 2017.

**3. Current accounting changes:**

Effective January 1, 2017, the Company has adopted the following amendment:

IAS 7 - Statement of Cash Flows (Amendment) - The objective of this amendment is to improve disclosures of changes in financing liabilities to allow users of the financial statements to evaluate changes in liabilities arising from financing activities. The IAS 7 amendment is effective for annual periods beginning on or after January 1, 2017 and the resulting disclosure is presented in note 10.

**4. Future accounting changes:**

IFRS 15 – Revenue from Contracts with Customers – IFRS 15 is a single and comprehensive framework for revenue recognition that replaces previous revenue standards. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Management has assessed the applicability of this new standard on the Company’s various contracts and reporting systems and does not expect significant changes or reclassifications to the consolidated financial statements as a result of this transition. In addition, a number of the Company’s revenue contracts are accounted for under IFRS 11 – Joint Arrangements, IAS 17 – Leases, IAS 39 – Financial Instruments: Recognition and Measurement and are therefore excluded from the scope of the new standard. For those contracts affected by the new standard, Management anticipates increased disclosure requirements to consist of: separately disclosed and disaggregated revenue, opening and closing balances of receivables, contract assets and liabilities; and the explanation of significant changes in contract asset and liability balances during the reporting period.

IFRS 9 – Financial Instruments – IFRS 9 addresses the classification and measurement requirements of financial assets and liabilities and is intended to improve transparency in the disclosure of expected credit losses and to improve the overall usefulness of financial statements for users by revising the current hedge accounting requirements. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. Earlier application is permitted. Management has assessed the applicability of this new standard on the Company’s various contracts and reporting systems and does not expect a significant impact to the consolidated financial statements.

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

**4. Future accounting changes, continued:**

IFRS 16 – Leases – The new standard which replaces IAS 17 – Leases addresses the recognition, measurement, presentation and disclosure of leases. IFRS 16 provides a new approach to lessee accounting, requiring lessees to recognize assets and liabilities for all leases, which will require the Company to recognize a leased asset and leased obligation with respect to its lease arrangements for office space. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Management is currently assessing whether certain PPAs that are currently considered to be finance leases with the Company as the lessor will continue to be considered leases upon adoption of this new standard. This assessment and any associated practical expedients will also affect disclosures under IFRS 15 – Revenue from Contracts with Customers. Early application is permitted if IFRS 15 – Revenue from Contracts with Customers has also been applied.

**5. Income tax:**

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

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| Income (loss) before tax | $ 62 | $ (6) |
| Income tax at the statutory rate of 27% | 17 | (2) |
| Increase (decrease) resulting from: | | |
| Non-deductible (taxable) amounts | (1) | 5 |
| Amounts attributable to non-controlling interests | 1 | 1 |
| Statutory and other rate differences | (1) | (2) |
| Change in unrecognized tax benefits | (1) | (1) |
| Other | - | 1 |
| Income tax expense | $ 15 | $ 2 |

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

## 6. Earnings (loss) per share:

### Basic earnings (loss) per share

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

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| Income (loss) for the period attributable to shareholders of the Company | $ 50 | $ (6) |
| Preferred share dividends of the Company[1] | (8) | (5) |
| Earnings (loss) used in the calculation of basic earnings per share | $ 42 | $ (11) |

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

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| Weighted average number of common shares used in the calculation of basic earnings (loss) per share | 96,312,118 | 96,448,844 |

### Diluted earnings (loss) per share

The earnings (loss) used in the calculation of diluted earnings (loss) per share does not differ from the earnings (loss) used in the calculation of basic earnings per share for the three months ended March 31, 2017 and 2016. The weighted average number of common shares for the purposes of diluted earnings (loss) per share reconciles to the weighted average number of common shares used in the calculation of basic earnings (loss) per share as follows:

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| Weighted average number of common shares used in the calculation of basic earnings (loss) per share | 96,312,118 | 96,448,844 |
| Effect of dilutive share purchase options[2] | 380,970 | - |
| Weighted average number of common shares used in the calculation of diluted earnings (loss) per share | 96,693,088 | 96,448,844 |

[2] For the three months ended March 31, 2017, the average market price of the Company's common shares was above the exercise price of certain granted share purchase options and had a dilutive impact on earnings per share. For the three months ended March 31, 2016, the average market price of the Company's common shares was below the exercise price of the granted share purchase options and as a result, none of the share purchase options had a dilutive effect on earnings (loss) per share.

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

**7. Amendment of Genesee Coal Mine Joint Venture Agreement:**

On March 28, 2017, the Company entered into an agreement (the Amending Agreement) to amend the Genesee Coal Mine Joint Venture Agreement to accelerate the repayment of $70 million it would otherwise have owed to an external party during the term of the agreement and eliminate all future payments to the external party relating to existing capital assets of the Genesee Coal Mine (Coal Mine). Capital Power will also receive a security interest in the portion of the Coal Mine held by the external party.

The operations and management of the Coal Mine are unchanged as a result of the Amending Agreement. The Company will continue to control the Coal Mine and treat it as a subsidiary and will continue to pay the third party contracted mining fees for the ongoing operation of the Coal Mine. This payment is recorded as a prepayment, with the current and non-current portions recorded within trade and other receivables and other assets, respectively. The prepayment will be recognized into income through 2030, within energy purchases and fuel, based on the remaining lives of the existing capital assets of the Coal Mine.

**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:

| | March 31, 2017 | | | |
|---|---|---|---|---|
| | Energy and emission allowances | | Foreign exchange | |
| | cash flow hedges | non-hedges | cash flow hedges | Total |
| Derivative instruments assets: | | | | |
| Current | $ 38 | $ 82 | $ 2 | $ 122 |
| Non-current | 31 | 68 | 52 | 151 |
| Derivative instruments liabilities: | | | | |
| Current | (6) | (38) | - | (44) |
| Non-current | (11) | (23) | - | (34) |
| Net fair value | $ 52 | $ 89 | $ 54 | $ 195 |
| Net notional buys (sells) (millions): | | | | |
| Megawatt hours of electricity | (15) | (4) | | |
| Gigajoules of natural gas | | 33 | | |
| Metric tons of emission allowances | | 2 | | |
| Number of renewable energy credits | | (1) | | |
| Cross currency swaps (U.S. dollars) | | | $ 195 | |
| Range of remaining contract terms in years[1] | 0.1 to 10.3 | 0.1 to 8.2 | 4.2 to 9.2 | |

[1] Terms of foreign exchange cash flow hedge contracts require settlement in 1.2 years. 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, 2016 | | | |
|---|---|---|---|---|
| | Energy and emission allowances | | Foreign exchange | |
| | cash flow hedges | non-hedges | cash flow hedges | Total |
| Derivative instruments assets: | | | | |
| Current | $ 38 | $ 75 | $ 2 | $ 115 |
| Non-current | 31 | 67 | 56 | 154 |
| Derivative instruments liabilities: | | | | |
| Current | (5) | (43) | - | (48) |
| Non-current | (17) | (27) | - | (44) |
| Net fair value | $ 47 | $ 72 | $ 58 | $ 177 |
| Net notional buys (sells) (millions): | | | | |
| Megawatt hours of electricity | (15) | (6) | | |
| Gigajoules of natural gas | | 26 | | |
| Number of renewable energy credits | | (1) | | |
| Cross currency swaps (U.S. dollars) | | | $ 195 | |
| Range of remaining contract terms in years[2] | 0.1 to 10.5 | 0.1 to 8.4 | 4.5 to 9.5 | |

[2] Terms of foreign exchange cash flow hedge contracts require settlement in 1.5 years. The remaining years of the underlying derivatives of these contracts are reflected in the table above.

Fair values of derivative instruments are determined, using valuation techniques, inputs, and assumptions as described in the Company's 2016 annual consolidated financial statements. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

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

| | Three months ended March 31, 2017 | | Three months ended March 31, 2016 | |
|---|---|---|---|---|
| | Unrealized gains (losses) | Realized gains | Unrealized gains (losses) | Realized gains |
| Energy cash flow hedges | $ 11 | $ 23 | $ 8 | $ 36 |
| Energy and emission allowances non-hedges | 9 | 13 | (5) | 30 |
| Foreign exchange cash flow hedges[3] | (2) | - | 1 | - |
| Interest rate non-hedges | - | - | 1 | - |

[3] For the three months ended March 31, 2017, unrealized losses of $2 million (three months ended March 31, 2016 – unrealized losses 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 gains and 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:**

Realized gains and losses relate only to derivative financial instruments. The following realized and unrealized gains and losses are included in the Company's statements of income (loss) for the three months ended March 31, 2017 and 2016:

| | Three months ended March 31, 2017 | 2016 |
|---|---|---|
| Revenues | $ 110 | $ 118 |
| Energy purchases and fuel | (65) | (57) |
| Foreign exchange loss | (1) | (17) |
| Finance expense | - | 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 months ended March 31, 2017 the changes in the fair value of the ineffective portion of hedging derivatives required to be recognized in the statement of income (loss) was a gain of $1 million recorded to foreign exchange gain (three months ended March 31, 2016 – nil).

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

| | March 31, 2017 |
|---|---|
| Within one year | $ 42 |
| Between 1 – 5 years | 15 |
| After more than 5 years | (4) |
| | $ 53 |

**9. Share capital:**

| | Dividends declared | | | | Dividends paid | | | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Per share | Total | Per share | Total | Per share | Total | Per share | Total |
| Common | $ 0.3900 | $38 | $ 0.3650 | $ 35 | $ 0.3900 | $ 38 | $ 0.3650 | $ 36 |
| Preference, Series 1 | 0.1913 | 1 | 0.1913 | 1 | 0.1913 | 1 | 0.1913 | 1 |
| Preference, Series 3 | 0.2875 | 2 | 0.2875 | 2 | 0.2875 | 2 | 0.2875 | 2 |
| Preference, Series 5 | 0.2813 | 2 | 0.2813 | 2 | 0.2813 | 2 | 0.2813 | 2 |
| Preference, Series 7 | 0.3750 | 3 | - | - | 0.3750 | 3 | - | - |

During the three months ended March 31, 2017, the Company did not purchase and cancel any of its outstanding common shares (three months ended March 31, 2016 – 1,186,212 common shares, $21 million) under its Toronto Stock Exchange approved normal course issuer bids.

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

## 10. Reconciliation of movements of liabilities to cash flows arising from financing activities:

| | Total loans and borrowings[1] | Finance lease obligation[2] | Foreign exchange contracts used for hedging - assets |
|---|---|---|---|
| As at January 1, 2017 | $ 1,508 | $ 20 | $ 58 |
| Changes from financing cash flows: | | | |
| Proceeds from issue of loans and borrowings | 103 | - | - |
| Repayment of loans and borrowings | (3) | - | - |
| Total changes from financing cash flows | 100 | - | - |
| Effect of changes in foreign exchange rates | (4) | - | - |
| Change in fair value | - | - | (4) |
| Total other changes | (4) | - | (4) |
| As at March 31, 2017 | $ 1,604 | $ 20 | $ 54 |

[1] Includes deferred debt issue costs.

[2] Includes the current portion disclosed within trade and other payables.

## 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 2016 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 2016 annual consolidated financial statements. The classification, carrying amount and fair value of the Company's other financial instruments are summarized as follows:

| | | March 31, 2017 | | December 31, 2016 | |
|---|---|---|---|---|---|
| | Fair value hierarchy level | Carrying amount | Fair value | Carrying amount | Fair value |
| Loans and receivables[1] | | | | | |
| Other financial assets | Level 2 | $ 6 | $ 6 | $ 7 | $ 7 |
| Finance lease receivables | Level 2 | 683 | 761 | 689 | 762 |
| Government grant receivable | Level 2 | 598 | 598 | 594 | 594 |
| Other financial liabilities[1] | | | | | |
| Loans and borrowings | Level 2 | 1,604 | 1,660 | 1,508 | 1,540 |
| Finance lease obligation | Level 2 | 20 | 21 | 20 | 20 |

[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

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

## 11. Financial instruments, continued:

### Fair value hierarchy, continued

instruments are the same as those used as at December 31, 2016.

The fair value measurement of a financial instrument is included in only one of the three levels described in the Company's 2016 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 transfers between levels in the fair value hierarchy for the three months ended March 31, 2017 and the year ended December 31, 2016.

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 2016 annual consolidated financial statements.

| | March 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Derivative financial instruments assets | $ - | $ 263 | $ 10 | $ 273 |
| Derivative financial instruments liabilities | - | (64) | (14) | (78) |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Derivative financial instruments assets | $ - | $ 260 | $ 9 | $ 269 |
| Derivative financial instruments liabilities | - | (73) | (19) | (92) |

*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 March 31, 2017 and December 31, 2016, the Company holds a contract for the sale of renewable energy certificates (RECs) for which pricing beyond two years is not readily observable and is 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:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| REC pricing (per certificate) | $0.53 to $0.57 | $0.54 to $0.58 |
| Power pricing (per megawatt hour) | $23.68 to $43.82 | $22.67 to $44.44 |

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

**11. Financial instruments, continued:**

**Fair value hierarchy, continued**

*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:

| | March 31, 2017 | December 31, 2016 |
|---|---|---|
| REC pricing[1] | $ 1 | $ 1 |
| Power pricing[1] | $ 8 | $ 8 |

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

*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:

| | Three months ended March 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| As at January 1[1] | $ (10) | $ 11 |
| Unrealized and realized gains included in net income[2] | 1 | 1 |
| Unrealized and realized gains (losses) included in other comprehensive income (loss) | 5 | (19) |
| Settlements[3] | - | (3) |
| As at end of period | $ (4) | $ (10) |
| Total unrealized gains (losses) for the period included in other comprehensive income (loss) | $ 5 | $ (19) |
| Total unrealized gains (losses) for the period included in net income[2] | $ 1 | $ (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.

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

## 12. Segment information:

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

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

| | Three months ended March 31, 2017 | | | | Three months ended March 31, 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | U.S. | Inter-area eliminations | Total | Canada | U.S. | Inter-area eliminations | Total |
| Revenues - external | $ 286 | $ 36 | $ - | $ 322 | $ 292 | $ 40 | $ - | $ 332 |
| Revenues - inter-area | 9 | 18 | (27) | - | 9 | 15 | (24) | - |
| Other Income | 16 | - | - | 16 | 2 | - | - | 2 |
| Total revenues | $ 311 | $ 54 | $ (27) | $ 338 | $ 303 | $ 55 | $ (24) | $ 334 |

| | As at March 31, 2017 | | | As at December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | Canada | U.S. | Total | Canada | U.S. | Total |
| Property, plant and equipment | $ 3,308 | $ 465 | $ 3,773 | $ 3,355 | $ 409 | $ 3,764 |
| Intangible assets | 279 | 54 | 333 | 249 | 50 | 299 |
| Goodwill | - | 23 | 23 | - | 23 | 23 |
| Other assets | 14 | 1 | 15 | 19 | 1 | 20 |
| | $ 3,601 | $ 543 | $ 4,144 | $ 3,623 | $ 483 | $ 4,106 |

## 13. Subsequent events:

**Acquisition of Decatur Energy and $183 million subscription receipt offering**

On April 12, 2017, the Company announced that it entered into an agreement to acquire all of the ownership interests in Decatur Power Holdings, LLC, which owns the Decatur Energy Center (Decatur Energy) from an affiliate of LS Power Equity Partners III for US$441 million, subject to working capital and other closing adjustments (the Decatur Energy Acquisition). Decatur Energy is a 795 megawatt (MW) natural gas-fired combined cycle power generation plant located in Decatur, Alabama that operates under a tolling agreement. Decatur Energy sells capacity and energy to an external party under a long-term contract, which has an original term of 10 years and expires December 31, 2022.

Financing of the Decatur Energy Acquisition will consist of a combination of debt and equity. The Company has entered into an agreement with a syndicate of underwriters to issue 7,375,000 subscription receipts (the Subscription Receipts), on a bought deal basis, at an issue price of $24.75 per Subscription Receipt (the Offering Price), for total gross proceeds of approximately $183 million (the Public Offering). The net proceeds from the Public Offering will be used to partially finance the Decatur Energy Acquisition. Closing of the Public Offering occurred on April 24, 2017 and the over-allotment option associated with the Public Offering was not exercised and is no longer exercisable.

**13. Subsequent events, continued:**

**Acquisition of Decatur Energy and $183 million subscription receipt offering, continued**

Each Subscription Receipt will entitle the holder thereof to receive, without payment of additional consideration or further action, upon closing of the Decatur Energy Acquisition, one common share of Capital Power. In addition, while the Subscription Receipts remain outstanding, holders will be entitled to receive cash payments (Dividend Equivalent Payments) per Subscription Receipt equal to dividends declared by Capital Power on each common share. Such Dividend Equivalent Payments will have the same record date as the related common share dividend and will be paid to holders of Subscription Receipts concurrently with the payment date of each such dividend.

The transaction is expected to close in June 2017, subject to regulatory approvals and satisfaction of closing conditions.

**Acquisition of thermal facilities**

On February 21, 2017, the Company announced that it entered into an agreement to acquire the thermal power business of Veresen Inc. Under the terms of the agreement, Capital Power will acquire 284 MW of generation from two natural gas-fired power assets in Ontario consisting of the 84 MW East Windsor Cogeneration Centre (East Windsor) and a 50% interest in the 400 MW York Energy Centre (York Energy), and will operate both facilities. The transaction also includes 10 MW of zero-emissions waste heat generation from two facilities (5 MW each) located at Westcoast Energy's BC Gas Pipeline compressor stations in Savona and 150 Mile House, British Columbia.

On April 13, 2017, the Company announced that it had completed the acquisition of the two natural gas-fired power facilities in Ontario. The purchase price for the natural gas-fired facilities consisted of (i) $235 million in total cash consideration, including working capital and other closing adjustments of $11 million, and (ii) the assumption of $253 million of project level debt (proportionate basis). As of the release date of these condensed interim consolidated financial statements, information required to finalize the working capital adjustments associated with the acquisition of the thermal assets of Veresen Inc. is outstanding and as a result the purchase price is preliminary and is subject to change. The Company expects to finalize the purchase price allocation for the natural gas-fired assets later in 2017.

As at April 28, 2017, the initial accounting for the above transaction is incomplete due to the proximity of the closing date to the release of the condensed interim consolidated financial statements for the three months ended March 31, 2017. As a result, the following items were not available for disclosure in these condensed interim consolidated financial statements for the three months ended March 31, 2017 but will be presented in the condensed interim consolidated financial statements for the six months ended June 30, 2017:

- the fair value, gross contractual, and best estimate at the acquisition date of the contractual cash flows not expected to be collected for acquired receivables;
- amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed;
- the estimated amount, if any, of goodwill, though if any, none would be expected to be deductible for tax purposes and;
- the revenue and income or loss of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the reporting period.

This acquisition supports the Company's growth strategy and is consistent with the Company's technology and operating focus.

**13. Subsequent events, continued:**

**Acquisition of thermal facilities, continued**

The Company incurred nominal acquisition costs which have been recorded on the Company's statement of income as other administrative expenses for the three months ended March 31, 2017.

The acquisition of the two waste heat facilities remains subject to the satisfaction of closing conditions, the work for which is ongoing.

**14. Comparative figures:**

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