Condensed Interim Consolidated Financial Statements of

CAPITAL POWER L.P.

(Unaudited, in millions of Canadian dollars)
Three months ended March 31, 2016 and 2015

Management's Comments on Unaudited Condensed Interim Financial Statements

These condensed interim consolidated financial statements of Capital Power LP (CPLP or the Partnership) for the three months ended March 31, 2016 and 2015 have not been reviewed by KPMG LLP, the independent external auditors of the Partnership.

Condensed Interim Consolidated Financial Statements:

CAPITAL POWER L.P.

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

	Three months ended March 31, 2016	2015
Revenues	$ 339	$ 356
Energy purchases and fuel	(154)	(142)
Gross margin	185	214
Other raw materials and operating charges	(34)	(26)
Staff costs and employee benefits expense	(6)	(5)
Depreciation and amortization	(55)	(50)
Loss on termination of power purchase arrangement (note 4)	(62)	-
Other administrative expenses	(45)	(38)
Foreign exchange gain (loss)	8	(8)
Operating income	(9)	87
Finance expense	(32)	(26)
Income from joint venture	8	-
Income (loss) before tax	(33)	61
Income tax expense (note 5)	-	(1)
Net (loss) income	$ (33)	$ 60
Attributable to:		
Non-controlling interests	$ (2)	$ (2)
Partners of CPLP	$ (31)	$ 62
Earnings (loss) per unit (attributable to partners of CPLP):		
Basic	$ (0.30)	$ 0.60
Diluted	$ (0.30)	$ 0.60
Weighted average number of units outstanding:		
Basic	102,702,916	102,702,916
Diluted	102,702,916	102,702,916

See accompanying notes to the condensed interim consolidated financial statements

CAPITAL POWER L.P.

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

	Three months ended March 31, 2016	2015
Net (loss) income	$ (33)	$ 60
Other comprehensive (loss) income:		
Items that are or may be reclassified subsequently to net (loss) income:		
Cash flow hedges:		
Unrealized gains on derivative instruments[1]	50	71
Unrealized losses on derivative instruments – joint venture[2]	(3)	(8)
Reclassification of gains on derivative instruments to (loss) income for the period[1]	(41)	(27)
Net investment in foreign subsidiaries:		
Unrealized (loss) gain[1]	(12)	16
Total items that are or may be reclassified subsequently to net (loss) income, net of tax	(6)	52
Other comprehensive (loss) income, net of tax	(6)	52
Total comprehensive (loss) income	$ (39)	$ 112
Attributable to:		
Non-controlling interests	$ (2)	$ (2)
Partners of CPLP	$ (37)	$ 114

[1] For the three months ended March 31, 2016 and 2015, net of income tax expense of nil.

[2] For the three months ended March 31, 2016 and 2015, net of income tax recovery of $1 and $3, respectively.

See accompanying notes to the condensed interim consolidated financial statements

CAPITAL POWER L.P.

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

	March 31, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 52	$ 81
Trade and other receivables	251	261
Inventories	83	99
Derivative financial instruments assets (note 7)	113	93
	499	534
Non-current assets:		
Other assets	20	24
Derivative financial instruments assets (note 7)	132	127
Finance lease receivables	683	689
Other financial assets	11	13
Deferred tax assets	3	5
Equity-accounted investment	-	10
Intangible assets (note 4)	281	334
Property, plant and equipment	3,686	3,728
Goodwill	28	30
Total assets	$ 5,343	$ 5,494
Liabilities and equity		
Current liabilities:		
Trade and other payables	$ 169	$ 186
Derivative financial instruments liabilities (note 7)	38	27
Loans and borrowings	211	339
Deferred revenue and other liabilities	6	2
Provisions	6	7
	430	561
Non-current liabilities:		
Derivative financial instruments liabilities (note 7)	52	26
Loans and borrowings	1,770	1,737
Finance lease obligation	19	21
Deferred revenue and other liabilities	89	92
Deferred tax liabilities	19	23
Provisions	186	180
	2,135	2,079
Equity:		
Partners’ equity		
Partnership capital (note 8)	2,399	2,399
Retained earnings	68	136
Other reserves	223	229
Retained earnings and other reserves	291	365
	2,690	2,764
Non-controlling interests	88	90
Total equity	2,778	2,854
Total liabilities and equity	$ 5,343	$ 5,494

See accompanying notes to the condensed interim consolidated financial statements

CAPITAL POWER L.P.

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

	Partnership capital	Cash flow hedges [1]	Cumulative translation reserve [1]	Contributed surplus	Retained earnings	Equity attributable to partners of CPLP	Non-controlling interests	Total
Equity as at January 1, 2016	$ 2,399	$ 82	$ 33	$ 114	$ 136	$ 2,764	$ 90	$ 2,854
Net loss	-	-	-	-	(31)	(31)	(2)	(33)
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 income	-	(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)	$ -	$ 6	$ (12)	$ -	$ -	$ (6)	$ -	$ (6)
Total comprehensive income (loss)	-	6	(12)	-	(31)	(37)	(2)	(39)
Distributions (note 8)	-	-	-	-	(37)	(37)	-	(37)
Equity as at March 31, 2016	$ 2,399	$ 88	$ 21	$ 114	$ 68	$ 2,690	$ 88	$ 2,778
Equity as at January 1, 2015	$ 2,399	$ 70	$ (1)	$ 114	$ 161	$ 2,743	$ 91	$ 2,834
Net income (loss)	-	-	-	-	62	62	(2)	60
Other comprehensive income :								
Cash flow derivative hedge gains	-	71	-	-	-	71	-	71
Cash flow derivative hedge losses – joint venture	-	(11)	-	-	-	(11)	-	(11)
Reclassification of gains to income	-	(27)	-	-	-	(27)	-	(27)
Unrealized gain on foreign currency translation	-	-	16	-	-	16	-	16
Tax on items recognized directly in equity	-	3	-	-	-	3	-	3
Other comprehensive income	$ -	$ 36	$ 16	$ -	$ -	$ 52	$ -	$ 52
Total comprehensive income (loss)	-	36	16	-	62	114	(2)	112
Distributions (note 8)	-	-	-	-	(35)	(35)	-	(35)
Net additional investment by non-controlling interest	-	-	-	-	-	-	4	4
Equity as at March 31, 2015	$ 2,399	$ 106	$ 15	$ 114	$ 188	$ 2,822	$ 93	$ 2,915

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

See accompanying notes to the condensed interim consolidated financial statements

CAPITAL POWER L.P.

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

	Three months ended March 31, 2016	2015
Cash flows from operating activities:		
Net (loss) income	$ (32)	$ 60
Non-cash adjustments to reconcile net (loss) income to net cash flows from operating activities:		
Loss on termination of power purchase arrangement (note 4)	62	-
Depreciation and amortization	55	50
Finance expense	32	26
Fair value changes on commodity instruments and emission credits held for trading	8	(32)
Unrealized foreign exchange (gain) loss	(8)	9
Income tax expense	-	1
Income from joint venture	(8)	-
Other items	(7)	-
Distribution received from joint venture	14	-
Finance lease receivable collected	5	5
Interest paid[1]	(34)	(15)
Change in non-cash operating working capital	17	1
Net cash flows from operating activities	104	105
Cash flows used in investing activities:		
Purchase of property, plant and equipment and other assets	(31)	(51)
Other cash flows from investing activities	9	10
Change in non-cash investing working capital	(6)	24
Net cash flows used in investing activities	(28)	(17)
Cash flows used in financing activities:		
Proceeds from issue of loans and borrowings	67	5
Repayment of loans and borrowings	(134)	(42)
Distributions paid to CPLP unitholders (note 8)	(37)	(35)
Interest paid[1]	-	(8)
Net cash flows used in financing activities	(104)	(80)
Foreign exchange (loss) gain on cash held in a foreign currency	(1)	3
Net (decrease) increase in cash and cash equivalents	(29)	11
Cash and cash equivalents at beginning of period	81	69
Cash and cash equivalents at end of period	$ 52	$ 80

[1] Total interest paid.

1. Reporting entity:

Capital Power L.P. (the Partnership or CPLP) 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 Partnership is located at 10423 101 Street, Edmonton, Alberta, Canada, T5H 0E9. Capital Power Corporation (Capital Power), through its subsidiaries, holds a 100% interest in the Partnership (December 31, 2015 – 100%). As of April 2, 2015 EPCOR Utilities Inc. (EPCOR) reduced its ownership in the Partnership to nil.

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 Partnership's 2015 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

These condensed interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual consolidated financial statements, except as outlined in note 3, and have been prepared under the historical cost basis, except for the Partnership's derivative instruments and emission credits held for trading, which are stated at fair value.

3. Changes in accounting policies:

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

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

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

4. Loss on termination of power purchase arrangement:

On March 24, 2016, the Partnership gave notice to terminate its role as Buyer of the Sundance C Power Purchase Arrangement (Sundance PPA) effective March 24, 2016. As a result, no further economic benefits are expected from the Sundance PPA and the related intangible asset was derecognized. The Partnership has recorded a non-cash loss of $62 million, net of income tax of nil, with respect to the derecognition of the Sundance PPA asset. In addition, the Partnership is no longer obligated to make fixed and variable payments to the owners of the underlying generation units, which were estimated to range from $99 million to $146 million annually, adjusted for inflation, over the remaining term of the Sundance PPA. Effective March 24, 2016, the Partnership also de-designated certain energy cash flow hedges related to forecasted transactions no longer expected to occur as a result of the Sundance PPA termination, which resulted in the reclassification of unrealized gains of $5 million, net of income tax of nil, from other comprehensive loss to net loss. No hedge ineffectiveness resulted from the de-designation of the cash flow hedges.

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

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, 2016	2015
Income (loss) before tax	$ (33)	$ 61
Income tax at the statutory rate of 27% (2015 - 25%)	(9)	15
Decrease resulting from:		
Amounts attributable to partnership unitholders and non-controlling interests	9	(14)
Statutory and other rate differences	(1)	-
Non-taxable amounts	1	-
Income tax expense	$ -	$ 1

6. Impairment testing:

Property, plant and equipment and definite life intangible assets

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

During the first quarter of 2016, the Partnership's market capitalization continued to be below the book value of its net assets, which management concluded was a continuation of the factors described above; there have been no material changes to the previous impairment assessment performed in the fourth quarter of 2015.

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

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

7. 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, 2016				
	Energy and emission allowances		Foreign exchange	Interest rate	
	cash flow hedges	non-hedges	cash flow hedges	non-hedges	Total
Derivative instruments assets:					
Current	$ 46	$ 67	$ -	$ -	$ 113
Non-current	28	43	52	9	132
Derivative instruments liabilities:					
Current	(3)	(35)	-	-	(38)
Non-current	(4)	(34)	-	(14)	(52)
Net fair value	$ 67	$ 41	$ 52	$ (5)	$ 155
Net notional buys (sells) (millions):					
Megawatt hours of electricity	(8)	(9)			
Gigajoules of natural gas		20			
Metric tons of emission allowances		(1)			
Cross currency swaps and interest rate swaps (U.S. dollars)			$ 195	$ 100	
Interest rate swaps (Canadian dollars)				$ 200	
Range of remaining contract terms in years[1]	0.1 to 3.8	0.1 to 5.0	5.2 to 10.2	4.2 to 7.2	

[1] Terms of certain foreign exchange cash flow hedge contracts and interest rate non-hedge contracts require settlement in 2.2 years and 4.2 years respectively. The remaining years of the underlying derivatives of these contracts are reflected in the table above.

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

7. Derivative financial instruments and hedge accounting, continued:

	December 31, 2015				
	Energy and emission allowances		Foreign exchange	Interest rate	
	cash flow hedges	non-hedges	cash flow hedges	non-hedges	Total
Derivative instruments assets:					
Current	$ 42	$ 51	$ -	$ -	$ 93
Non-current	22	32	68	5	127
Derivative instruments liabilities:					
Current	(2)	(25)	-	-	(27)
Non-current	(2)	(13)	-	(11)	(26)
Net fair value	$ 60	$ 45	$ 68	$ (6)	$ 167
Net notional buys (sells) (millions):					
Megawatt hours of electricity	(8)	(3)			
Gigajoules of natural gas		19			
Metric tons of emission allowances		2			
Number of renewable energy credits		(2)			
Cross currency swaps and interest rate swaps (U.S. dollars)			$ 195	$ 100	
Interest rate swaps (Canadian dollars)				$ 200	
Range of remaining contract terms in years [2]	0.1 to 4.0	0.1 to 5.3	5.5 to 10.5	4.4 to 7.4	

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

Fair values of derivative instruments are determined, using valuation techniques, inputs, and assumptions as described in the Partnership's 2015 annual consolidated financial statements. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

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

	Three months ended March 31, 2016		Three months ended March 31, 2015	
	Unrealized gains (losses)	Realized gains	Unrealized gains (losses)	Realized gains
Energy cash flow hedges	$ 8	$ 36	$ 41	$ 28
Energy and emission allowances non-hedges	(5)	30	31	23
Foreign exchange cash flow hedges [3]	1	-	2	-
Interest rate non-hedges	1	-	(2)	-

[3] For the three months ended March 31, 2016, unrealized losses of $17 million (three months ended March 31, 2015 – unrealized gains of $21 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 unit and per unit amounts)

7. 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 Partnership's statements of (loss) income for the three months ended March 31, 2016 and 2015:

	Three months ended March 31, 2016	2015
Revenues	$ 118	$ 147
Energy purchases and fuel	(57)	(65)
Foreign exchange gain (loss)	(17)	21
Finance expense	1	(2)

The Partnership 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, 2016 and March 31, 2015, the changes in the fair value of the ineffective portion of hedging derivatives required to be recognized in the statement of (loss) income was nil.

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

	March 31, 2016
Within one year	$ 45
Between 1 – 5 years	24
After more than 5 years	-
	$ 69

8. Partnership capital:

For the three months ended March 31, 2016, distributions of $37 million, or 36.5 cents per unit have been declared and paid by the Partnership to the unitholders (three months ended March 31, 2015 - $35 million or 34.0 cents per unit declared and paid).

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

9. Financial instruments:

Fair values

Details of the fair values of the Partnership's derivative instruments are described in note 7.

The classification and measurement of the Partnership's other short-term financial instruments are consistent with the methodologies described in the Partnership's 2015 annual consolidated financial statements. Due to the short-term nature of the financial instruments, the fair values are not materially different from their carrying amounts.

The fair values of the Partnership's other long-term financial instruments are determined using the same valuation techniques, inputs, and assumptions as described in the Partnership's 2015 annual consolidated financial statements. The classification, carrying amount and fair value of the Partnership's other financial instruments are summarized as follows:

		March 31, 2016		December 31, 2015	
	Fair value hierarchy level	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables					
Other financial assets	Level 2	$ 10	$ 10	$ 12	$ 12
Finance lease receivables	Level 2	683	778	689	786
Other financial liabilities[1]					
Loans and borrowings	Level 2	1,981	2,519	2,076	2,577
Finance lease obligation	Level 2	20	21	22	22

[1] Includes current portion.

Fair value hierarchy

Fair value represents the Partnership'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 Partnership in determining the fair value of its financial instruments are the same as those used as at December 31, 2015.

The fair value measurement of a financial instrument is included in only one of the three levels, the determination of which is based upon the lowest level input that is significant to the derivation of the fair value. The Partnership's assessment of the significance of a particular input to the fair value measurement requires judgment which will affect the placement within the fair value hierarchy levels. As at March 31, 2016 and December 31, 2015, the Partnership did not classify any financial instruments in Level 3 of the hierarchy.

The Partnership's policy is to recognize transfers between levels as of the date of the event of change in circumstances that caused the transfer. There were no significant transfers between levels in the fair value hierarchy for the three months ended March 31, 2016 and the year ended December 31, 2015.

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

10. Segment information:

The Partnership 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 Partnership also holds a portfolio of wind and solar development sites in the U.S.

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

	Three months ended March 31, 2016				Three months ended March 31, 2015			
	Canada	U.S.	Inter-area eliminations	Total	Canada	U.S.	Inter-area eliminations	Total
Revenues - external	$ 299	$ 40	$ -	$ 339	$ 323	$ 33	$ -	$ 356
Revenues - inter-area	8	15	(23)	-	2	-	(2)	-
Total revenues	$ 307	$ 55	$ (23)	$ 339	$ 325	$ 33	$ (2)	$ 356

	As at March 31, 2016			As at December 31, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Property, plant and equipment	$ 3,471	$ 215	$ 3,686	$ 3,501	$ 227	$ 3,728
Intangible assets	243	38	281	293	41	334
Goodwill	-	28	28	-	30	30
Other assets	18	2	20	22	2	24
	$ 3,732	$ 283	$ 4,015	$ 3,816	$ 300	$ 4,116

11. Subsequent event:

On April 25, 2016, CPLP announced that construction of its Bloom Wind project (Bloom Wind) is expected to commence in the third quarter of 2016. Bloom Wind is a 178 megawatt (MW) project in southwestern Kansas consisting of 54 3.3 MW turbines and is anticipated to cost $358 million (US$272 million). Commercial operation is expected in the third quarter of 2017. CPLP will operate Bloom Wind under a 10-year, fixed price contract with Allianz Risk Transfer (rated AA- stable by Standard & Poor's), a subsidiary of Allianz SE, the world wide insurance and asset management group, covering 100% of the project's output. Under the contract, which was executed on April 21, 2016, CPLP will swap the market revenue of the project's generation for a fixed annual payment for a 10-year term. The agreement will secure long-term predictable revenues and mitigate generation volume uncertainty related to wind resources.

12. Comparative figures:

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