Condensed Interim Consolidated Financial Statements of

CAPITAL POWER L.P.

(Unaudited, in millions of Canadian dollars)
Six months ended June 30, 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 and six months ended June 30, 2016 and 2015 have not been reviewed by KPMG LLP, the independent external auditors of the Partnership.

CAPITAL POWER L.P.

Condensed Interim Consolidated Financial Statements
Six months ended June 30, 2016 and 2015

Condensed Interim Consolidated Financial Statements:

CAPITAL POWER L.P.

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

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Revenues	$ 228	$ 82	$ 567	$ 438
Energy purchases and fuel (note 7)	(46)	43	(200)	(99)
Gross margin	182	125	367	339
Other raw materials and operating charges	(39)	(37)	(73)	(63)
Staff costs and employee benefits expense	(3)	(3)	(9)	(8)
Depreciation and amortization	(53)	(55)	(108)	(105)
Loss on termination of power purchase arrangement (note 4)	-	-	(62)	-
Other administrative expense	(34)	(42)	(79)	(80)
Foreign exchange (loss) gain	(1)	1	7	(7)
Operating income (loss)	52	(11)	43	76
Finance expense	(28)	(31)	(60)	(57)
Income from joint venture	5	1	13	1
Income (loss) before tax	29	(41)	(4)	20
Income tax (expense) recovery (note 5)	(2)	2	(2)	1
Net income (loss)	$ 27	$ (39)	$ (6)	$ 21
Attributable to:				
Non-controlling interests	$ (2)	$ (2)	$ (4)	$ (4)
Partners of CPLP	$ 29	$ (37)	$ (2)	$ 25
Earnings (loss) per unit (attributable to partners of CPLP):				
Basic	$ 0.28	$ (0.36)	$ (0.02)	$ 0.24
Diluted	$ 0.28	$ (0.36)	$ (0.02)	$ 0.24
Weighted average number of units outstanding:				
Basic	102,702,916	102,702,916	102,702,916	102,702,916
Diluted	102,702,916	102,702,916	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
(Unaudited, in millions of Canadian dollars)

	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Net income (loss)	$ 27	$ (39)	$ (6)	$ 21
Other comprehensive loss:				
Items that are or may be reclassified subsequently to net income (loss):				
Cash flow hedges:				
Unrealized (losses) gains on derivative instruments[1]	(19)	(121)	31	(50)
Unrealized (losses) gains on derivative instruments – joint venture[2]	(5)	5	(8)	(3)
Reclassification of (gains) losses on derivative instruments to income for the period[3]	(26)	7	(67)	(20)
Net investment in foreign subsidiaries:				
Unrealized (loss) gain[3]	(1)	(2)	(13)	14
Total items that are or may be reclassified subsequently to net income (loss), net of tax	(51)	(111)	(57)	(59)
Total other comprehensive loss, net of tax	(51)	(111)	(57)	(59)
Total comprehensive loss	$ (24)	$ (150)	$ (63)	$ (38)
Attributable to:				
Non-controlling interests	$ (2)	$ (2)	$ (4)	$ (4)
Partners of CPLP	$ (22)	$ (148)	$ (59)	$ (34)

[1] For the three and six months ended June 30, 2016, net of income tax recovery of $5 million. For the three and six months ended June 30, 2015, net of income tax expense of nil.

[2] For the three and six months ended June 30, 2016, net of income tax recovery of $2 million and $3 million, respectively. For the three and six months ended June 30, 2015, net of income tax expense of $2 million and income tax recovery of $1 million, respectively.

[3] For the three and six months ended June 30, 2016 and June 30, 2015, net of income tax expenses of nil.

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)

	June 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 28	$ 81
Trade and other receivables	257	261
Inventories	90	99
Derivative financial instruments assets (note 7)	101	93
	476	534
Non-current assets:		
Other assets	20	24
Derivative financial instruments assets (note 7)	113	127
Finance lease receivables	678	689
Other financial assets	9	13
Deferred tax assets	3	5
Equity-accounted investment	-	10
Intangible assets (note 4)	271	334
Property, plant and equipment	3,729	3,728
Goodwill	28	30
Total assets	$ 5,327	$ 5,494
Liabilities and equity		
Current liabilities:		
Trade and other payables	$ 154	$ 186
Derivative financial instruments liabilities (note 7)	41	27
Loans and borrowings	201	339
Deferred revenue and other liabilities	6	2
Provisions	6	7
	408	561
Non-current liabilities:		
Derivative financial instruments liabilities (note 7)	69	26
Loans and borrowings	1,813	1,737
Finance lease obligation	19	21
Deferred revenue and other liabilities	89	92
Deferred tax liabilities	14	23
Provisions	199	180
	2,203	2,079
Equity:		
Partners' equity		
Partnership capital (note 8)	2,399	2,399
Retained earnings	59	136
Other reserves	172	229
Retained earnings and other reserves	231	365
	2,630	2,764
Non-controlling interests	86	90
Total equity	2,716	2,854
Total liabilities and equity	$ 5,327	$ 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 account [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	-	-	-	-	(2)	(2)	(4)	(6)
Other comprehensive loss:								
Cash flow derivative hedge gains	-	26	-	-	-	26	-	26
Cash flow derivative hedge losses – joint venture	-	(11)	-	-	-	(11)	-	(11)
Reclassification of gains to net loss	-	(67)	-	-	-	(67)	-	(67)
Unrealized loss on foreign currency translation	-	-	(13)	-	-	(13)	-	(13)
Tax on items recognized directly in equity	-	8	-	-	-	8	-	8
Other comprehensive loss	$ -	$ (44)	$ (13)	$ -	$ -	$ (57)	$ -	$ (57)
Total comprehensive loss	-	(44)	(13)	-	(2)	(59)	(4)	(63)
Distributions (note 8)	-	-	-	-	(75)	(75)	-	(75)
Equity as at June 30, 2016	$ 2,399	$ 38	$ 20	$ 114	$ 59	$ 2,630	$ 86	$ 2,716
Equity as at January 1, 2015	$ 2,399	$ 70	$ (1)	$ 114	$ 161	$ 2,743	$ 91	$ 2,834
Net income (loss)	-	-	-	-	25	25	(4)	21
Other comprehensive (loss) income :								
Cash flow derivative hedge losses	-	(50)	-	-	-	(50)	-	(50)
Cash flow derivative hedge losses – joint venture	-	(4)	-	-	-	(4)	-	(4)
Reclassification of gains to net income	-	(20)	-	-	-	(20)	-	(20)
Unrealized gain on foreign currency translation	-	-	14	-	-	14	-	14
Tax on items recognized directly in equity	-	1	-	-	-	1	-	1
Other comprehensive (loss) income	$ -	$ (73)	$ 14	$ -	$ -	$ (59)	$ -	$ (59)
Total comprehensive (loss) income	-	(73)	14	-	25	(34)	(4)	(38)
Distributions (note 8)	-	-	-	-	(69)	(69)	-	(69)
Net additional investment by non-controlling interest	-	-	-	-	-	-	5	5
Equity as at June 30, 2015	$ 2,399	$ (3)	$ 13	$ 114	$ 117	$ 2,640	$ 92	$ 2,732

[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)

	Six months ended June 30, 2016	2015
Cash flows from operating activities:		
Net (loss) income	$ (6)	$ 21
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	108	105
Finance expense	60	57
Fair value changes on commodity derivative instruments and emission credits held for trading	23	16
Unrealized foreign exchange (gain) loss	(6)	7
Income tax expense (recovery)	2	(1)
Income from joint venture	(13)	(1)
Other items	(8)	(6)
Change in fair value of derivative instruments reflected as cash settlement	(13)	(22)
Distribution received from joint venture	17	-
Finance lease receivable collected	10	10
Interest paid[1]	(65)	(49)
Income taxes paid	(1)	(1)
Change in non-cash operating working capital	(3)	(33)
Net cash flows from operating activities	167	103
Cash flows used in investing activities:		
Purchase of property, plant and equipment and other assets	(110)	(86)
Other cash flows from investing activities	9	10
Change in non-cash investing working capital	(9)	21
Net cash flows used in investing activities	(110)	(55)
Cash flows used in financing activities:		
Proceeds from issue of loans and borrowings	114	60
Repayment of loans and borrowings	(146)	(54)
Distributions paid to CPLP unitholders (note 8)	(75)	(69)
Interest paid[1]	(1)	(8)
Net cash flows used in financing activities	(108)	(71)
Foreign exchange (loss) gain on cash held in a foreign currency	(2)	3
Net decrease in cash and cash equivalents	(53)	(20)
Cash and cash equivalents at beginning of period	81	69
Cash and cash equivalents at end of period	$ 28	$ 49

[1] Total interest paid.

See accompanying notes to the condensed interim consolidated financial statements

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, 2014 – 82%). As of April 2, 2015 EPCOR Utilities Inc.'s (EPCOR) ownership in the Partnership was reduced to nil (December 31, 2014 – 18%).

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 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.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on July 22, 2016.

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.

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

4. Loss on termination of power purchase arrangement:

On March 24, 2016, the Partnership notified the Balancing Pool of the Partnership's decision 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 intangible asset. 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.

As at July 22, 2016, CPLP has not received acceptance of the Sundance PPA termination or of the effective termination date from the Balancing Pool. The Balancing Pool and CPLP could differ in opinion as to the effective date of termination which, in the event that the termination date is determined to be later than the March 24, 2016 termination notification date, may result in an estimated additional loss of up to $26 million as at June 30, 2016 pertaining to the total Sundance PPA. Of this estimated loss, CPLP's share of up to $13 million as at June 30, 2016 would be recognized in the Partnership's consolidated statements of income (loss) in the event that the termination date is determined to be later than the March 24, 2016 termination notification date. The calculation of the estimated loss is based on several key assumptions, including output generated by the Sundance PPA units during the period, Alberta power prices that settled during the period, emission intensity factors, and other fixed payment terms as specified in the Sundance PPA. Although there can be no assurance that the termination date will be accepted as filed by the Partnership, the Partnership does not believe that the resulting outcome will have a material adverse impact on its financial position.

5. Income tax:

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Income (loss) before tax	$ 29	$ (41)	$ (4)	$ 20
Income tax at the statutory rates of 27% (2015 – 26.0%)	8	(11)	(1)	5
Increase (decrease) resulting from:				
Amounts attributable to partnership unitholders and non-controlling interests	(8)	7	1	(7)
Change in unrecognized tax benefits	1	1	1	1
Non-taxable amounts	-	(1)	-	(1)
Statutory and other rate differences	-	(1)	(1)	(1)
Other	1	3	2	2
Income tax expense (recovery)	$ 2	$ (2)	$ 2	$ (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 six months ended June 30, 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. Accordingly, 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 for phasing out coal-fired electricity emissions by 2030 that will maintain both the reliability of Alberta's electricity grid and stability of prices for consumers, while avoiding unnecessarily stranding capital assets. The Partnership anticipates the Facilitator's work to be completed in 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:

	June 30, 2016				
	Energy and emission allowances		Foreign exchange	Interest rate	
	cash flow hedges	non-hedges	cash flow hedges	non-hedges	Total
Derivative instruments assets:					
Current	$ 29	$ 68	$ 2	$ 2	$ 101
Non-current	16	37	53	7	113
Derivative instruments liabilities:					
Current	(2)	(39)	-	-	(41)
Non-current	(17)	(37)	-	(15)	(69)
Net fair value	$ 26	$ 29	$ 55	$ (6)	$ 104
Net notional (sells) buys (millions):					
Megawatt hours of electricity	(15)	(8)			
Gigajoules of natural gas		25			
Metric tons of emission allowances		1			
Number of renewable energy certificates		(2)			
Cross currency swaps and interest rate swaps (U.S. dollars)			$ 195	$ 100	
Interest rate swaps (Canadian dollars)				$ 200	
Range of remaining contract terms in years[1]	0.2 to 11.0	0.1 to 7.5	5.0 to 10.0	3.9 to 6.9	

[1] Terms of certain foreign exchange cash flow hedge contracts and interest rate non-hedge contracts require settlement in 2.0 years and 3.9 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 certificates		(2)			
Cross currency swaps and interest rate swaps (U.S. dollars)			$ 195	$ 100	
Interest rate swaps (Canadian dollars)				$ 200	
Range of remaining contract terms in years [2]	0.1 to 4.0	0.1 to 5.3	5.5 to 10.5	4.4 to 7.4	

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

Except as disclosed in note 9, 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 loss and net income (loss) were:

	Three months ended June 30, 2016		Three months ended June 30, 2015	
	Unrealized (losses) gains	Realized gains	Unrealized losses	Realized (losses) gains
Energy cash flow hedges	$ (53)	$ 26	$ (110)	$ (8)
Energy and emission allowances non-hedges	(15)	38	(46)	(8)
Foreign exchange cash flow hedges[3]	3	1	(3)	-
Interest rate non-hedges	(1)	-	-	1

[3] For the three months ended June 30, 2016, unrealized losses of $1 million (three months ended June 30, 2015 – unrealized losses of $4 million) related to foreign exchange cash flow hedges were reclassified from other comprehensive loss to net income (loss) to offset the impact to unrealized foreign exchange gains 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:

	Six months ended June 30, 2016		Six months ended June 30, 2015	
	Unrealized (losses) gains	Realized gains	Unrealized losses	Realized gains
Energy cash flow hedges	$ (45)	$ 62	$ (69)	$ 20
Energy and emission allowances non-hedges	(20)	68	(15)	15
Foreign exchange cash flow hedges[4]	4	1	(1)	-
Interest rate non-hedges	-	-	(2)	1

[4] For the six months ended June 30, 2016, unrealized losses of $18 million (six months ended June 30, 2015 – unrealized gains of $17 million) related to foreign exchange cash flow hedges were reclassified from other comprehensive loss to net income (loss) to offset the impact to unrealized foreign exchange gains and losses from the revaluation of U.S. dollar denominated loans and borrowings.

Realized and unrealized gains and losses relate only to derivative financial instruments. The following gains and losses are included in the Partnership's statements of income (loss) for the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Revenues	$ 35	$ (181)	$ 153	$ (34)
Energy purchases and fuel[5]	14	119	(43)	54
Foreign exchange (loss) gain	-	(4)	(17)	17
Finance expense	(1)	1	-	(1)

[5] For the three and six months ended June 30, 2016, energy purchases and fuel includes unrealized gains of $44 million and $22 million, respectively (three and six months ended June 30, 2015 – unrealized gains of $124 million and $143 million, respectively).

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 and six months ended June 30, 2016, the changes in the fair value of the ineffective portion of hedging derivatives required to be recognized in the statements of income (loss) were nil (three and six months ended June 30, 2015 – nil).

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

	June 30, 2016
Within one year	$ 42
Between 1 – 5 years	21
After more than 5 years	3
	$ 66

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

8. Partnership capital:

For the three and six months ended June 30, 2016, distributions of $38 million and $75 million, or 36.5 cents and 73.0 cents per unit respectively have been declared and paid by the Partnership to the unitholders (three and six months ended June 30, 2015 - $34 million and $69 million or 34.0 cents and 68.0 cents respectively declared and paid).

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:

		June 30, 2016		December 31, 2015	
	Fair value hierarchy level	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables					
Other financial assets	Level 2	$ 8	$ 8	$ 12	$ 12
Finance lease receivables	Level 2	678	799	689	786
Other financial liabilities[1]					
Loans and borrowings	Level 2	2,014	2,350	2,076	2,577
Finance lease obligation	Level 2	20	20	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.

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

9. Financial instruments, continued:

Fair value hierarchy, continued

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 and six months ended June 30, 2016 and the year ended December 31, 2015.

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

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments assets	$ -	$ 205	$ 9	$ 214
Derivative financial instruments liabilities	-	(96)	(14)	(110)

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

Valuation techniques used in determination of fair values within Level 3

On April 21, 2016, the Partnership 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 contract is classified as Level 3. In addition, as at June 30, 2016 and December 31, 2015, the Partnership holds a contract for the sale of renewable energy certificates (RECs) for which pricing beyond two years is not readily observable and therefore classified in Level 3 of the hierarchy.

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

	June 30, 2016	December 31, 2015
REC pricing (per certificate)	$0.35 to $0.45	$0.39 to $0.45
Power pricing (per MWh)	$18.50 to $32.55	n/a

Valuation process applied to Level 3

The valuation model used to calculate the fair value of derivative financial instruments assets and liabilities within Level 3 is reviewed by the Partnership'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:

	June 30, 2016	December 31, 2015
REC pricing [1]	$ 2	$ 2
Power pricing [1]	4	n/a

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

9. Financial instruments, continued:

Fair value hierarchy, continued

Continuity of Level 3 balances

The Partnership 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:

	Six months ended June 30, 2016	Year ended December 31, 2015
As at January 1 [2]	$ 11	$ 11
Unrealized and realized gains included in net income (loss) [3]	1	2
Unrealized and realized losses included in other comprehensive loss	(14)	-
Settlements [3]	(3)	(2)
As at end of period	$ (5)	$ 11
Total unrealized losses for the period included in other comprehensive loss	$ (14)	$ -
Total unrealized losses for the period included in net income (loss) [4]	$ (2)	$ -

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

[3] Gains are recorded in revenues.

[4] 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 Partnership. 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 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 June 30, 2016				Three months ended June 30, 2015			
	Canada	U.S.	Inter-area eliminations	Total	Canada	U.S.	Inter-area eliminations	Total
Revenues - external	$ 201	$ 27	$ -	$ 228	$ 54	$ 28	$ -	$ 82
Revenues - inter-area	(5)	(16)	21	-	1	2	(3)	-
Total revenues	$ 196	$ 11	$ 21	$ 228	$ 55	$ 30	$ (3)	$ 82

	Six months ended June 30, 2016				Six months ended June 30, 2015			
	Canada	U.S.	Inter-area eliminations	Total	Canada	U.S.	Inter-area eliminations	Total
Revenues - external	$ 500	$ 67	$ -	$ 567	$ 377	$ 61	$ -	$ 438
Revenues - inter-area	3	(1)	(2)	-	3	2	(5)	-
Total revenues	$ 503	$ 66	$ (2)	$ 567	$ 380	$ 63	$ (5)	$ 438

	June 30, 2016			December 31, 2015		
	Canada	U.S.	Total	Canada	U.S.	Total
Property, plant and equipment	$ 3,463	$ 266	$ 3,729	$ 3,501	$ 227	$ 3,728
Intangible assets	233	38	271	293	41	334
Goodwill	-	28	28	-	30	30
Other assets	18	2	20	22	2	24
	$ 3,714	$ 334	$ 4,048	$ 3,816	$ 300	$ 4,116

11. Subsequent event:

The Partnership undertook a legal reorganization effective July 6, 2016 which transferred ownership of the Partnership's U.S. legal entities and interest in the K2 Wind Power Project joint venture to Capital Power, the Partnership's parent company.

On July 22, 2016, the Board of Directors of the general partner of CPLP approved a 6.8% increase in the annual distributions for holders of its partnership units to $1.56 per unit effective for the third quarter of 2016.

12. Comparative figures:

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