Consolidated Financial Statements of

# CAPITAL POWER L.P.

(In millions of Canadian dollars)
Years ended December 31, 2015 and 2014

## Management's responsibility for financial reporting

The preparation and presentation of the accompanying consolidated financial statements of Capital Power L.P. (the Partnership) are the responsibility of management and the consolidated financial statements have been approved by the Board of Directors. In management's opinion, the consolidated financial statements have been prepared within reasonable limits of materiality in accordance with International Financial Reporting Standards. The preparation of financial statements necessarily requires judgment and estimation when events affecting the current year depend on determinations to be made in the future. Management has exercised careful judgment where estimates were required, and these consolidated financial statements reflect all information available to February 18, 2016. Financial information presented elsewhere in the annual filings of the Partnership is consistent with that in the consolidated financial statements.

To discharge its responsibility for financial reporting, management maintains systems of internal controls designed to provide reasonable assurance that the Partnership's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis. The internal control systems are monitored by management, and evaluated by an internal audit function that regularly reports its findings to management and the Audit Committee of the Board of Directors.

The consolidated financial statements have been examined by KPMG LLP, the Partnership's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The independent auditors' report outlines the scope of their audit examination and states their opinion.

The Board of Directors, through the Audit Committee, is responsible for ensuring management fulfills its responsibilities for financial reporting and internal controls. The Audit Committee, which is comprised of independent directors, meets regularly with management, the internal auditors and the external auditors to satisfy itself that each group is discharging its responsibilities with respect to internal controls and financial reporting. The Audit Committee reviews the consolidated financial statements and recommends their approval to the Board of Directors. The external auditors have full and open access to the Audit Committee, with and without the presence of management. The Audit Committee is also responsible for reviewing and recommending the annual appointment of the external auditors and approving the annual external audit plan.

On behalf of management,

Brian Vaasjo
President and Chief Executive Officer

Bryan DeNeve
Senior Vice President, Finance and
Chief Financial Officer

February 18, 2016

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# INDEPENDENT AUDITORS' REPORT

To the Partners of Capital Power L.P.

We have audited the accompanying consolidated financial statements of Capital Power L.P., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.**

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Capital Power L.P. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
February 18, 2016
Edmonton, Canada

# CAPITAL POWER L.P.

Consolidated Statements of Income
(In millions of Canadian dollars, except unit and per unit amounts)

Years ended December 31

| | 2015 | 2014 |
|---|---|---|
| Revenues (note 4) | $ 1,245 | $ 1,220 |
| Energy purchases and fuel | (489) | (506) |
| **Gross margin** | 756 | 714 |
| | | |
| Other raw materials and operating charges (note 5) | (126) | (115) |
| Staff costs and employee benefits expense (note 5) | (18) | (15) |
| Depreciation and amortization (note 5) | (213) | (186) |
| Other administrative expense (note 5) | (159) | (165) |
| Foreign exchange loss | (15) | (10) |
| **Operating income** | 225 | 223 |
| | | |
| Finance expense (note 6) | (124) | (87) |
| Income from joint venture (note 31) | 15 | - |
| **Income before tax** | 116 | 136 |
| | | |
| Income tax expense (note 7) | (4) | (73) |
| **Net income** | $ 112 | $ 63 |
| | | |
| **Attributable to:** | | |
| Non-controlling interests (note 30) | $ (8) | $ (10) |
| Partners of CPLP | $ 120 | $ 73 |
| | | |
| **Earnings per unit** (attributable to partners of CPLP): | | |
| Basic and diluted | $ 1.17 | $ 0.75 |
| | | |
| **Weighted average number of units outstanding:** | | |
| Basic and diluted | 102,702,916 | 97,431,479 |

See accompanying notes to the consolidated financial statements

# CAPITAL POWER L.P.

Consolidated Statements of Comprehensive Income
(In millions of Canadian dollars)

Years ended December 31

| | 2015 | 2014 |
|---|---|---|
| **Net income** | $ 112 | $ 63 |
| **Other comprehensive income:** | | |
| **Items that are or may be reclassified subsequently to net income:** | | |
| Cash flow hedges: | | |
| Unrealized gains on derivative instruments[1] | 101 | 73 |
| Unrealized losses on derivative instruments – joint venture (note 31)[2] | (8) | (15) |
| Reclassification of gains on derivative instruments to income for the year[1] | (81) | (22) |
| Net investment in foreign subsidiaries: | | |
| Unrealized gain[1] | 34 | 16 |
| Total items that are or may be reclassified subsequently to net income, net of tax | 46 | 52 |
| Total other comprehensive income, net of tax | 46 | 52 |
| **Total comprehensive income** | $ 158 | $ 115 |
| **Attributable to:** | | |
| Non-controlling interests (note 30) | $ (8) | $ (10) |
| Partners of CPLP | $ 166 | $ 125 |

[1] For the years ended December 31, 2015 and 2014, net of income tax of nil.

[2] For the year ended December 31, 2015, net of income tax recovery of $3. For the year ended December 31, 2014, net of income tax recovery of $5

See accompanying notes to the consolidated financial statements

# CAPITAL POWER L.P.

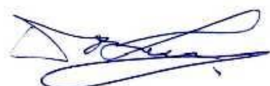
Consolidated Statements of Financial Position
(In millions of Canadian dollars)

As at December 31

| | 2015 | 2014 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (note 10) | $ 81 | $ 69 |
| Trade and other receivables (note 11) | 261 | 182 |
| Inventories (note 12) | 99 | 104 |
| Derivative financial instruments assets (note 13) | 166 | 132 |
| | 607 | 487 |
| Non-current assets: | | |
| Other assets | 24 | 28 |
| Derivative financial instruments assets (note 13) | 54 | 55 |
| Finance lease receivables (note 14) | 689 | 708 |
| Other financial assets (note 15) | 13 | 18 |
| Deferred tax assets (note 16) | 5 | 5 |
| Equity-accounted investment (note 31) | 10 | 22 |
| Intangible assets (note 17) | 334 | 342 |
| Property, plant and equipment (note 18) | 3,728 | 3,753 |
| Goodwill (note 19) | 30 | 25 |
| Total assets | $ 5,494 | $ 5,443 |

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board:



Donald Lowry
Director and Chairman of the Board

Philip Lachambre
Director and Chairman of the Audit Committee

# CAPITAL POWER L.P.

Consolidated Statements of Financial Position
(In millions of Canadian dollars)

As at December 31

| | 2015 | 2014 |
|---|---|---|
| Liabilities and equity | | |
| Current liabilities: | | |
| Trade and other payables (note 20) | $ 186 | $ 193 |
| Derivative financial instruments liabilities (note 13) | 38 | 64 |
| Loans and borrowings (note 21) | 339 | 612 |
| Deferred revenue and other liabilities | 2 | 5 |
| Provisions (note 22) | 7 | 3 |
| | 572 | 877 |
| Non-current liabilities: | | |
| Derivative financial instruments liabilities (note 13) | 15 | 10 |
| Loans and borrowings (note 21) | 1,737 | 1,447 |
| Finance lease obligations (note 14) | 21 | - |
| Deferred revenue and other liabilities | 92 | 93 |
| Deferred tax liabilities (note 16) | 23 | 19 |
| Provisions (note 22) | 180 | 163 |
| | 2,068 | 1,732 |
| Equity: | | |
| Partners' equity | | |
| Partnership capital (note 23) | 2,399 | 2,399 |
| Retained earnings | 136 | 161 |
| Other reserves (note 24) | 229 | 183 |
| Retained earnings and other reserves | 365 | 344 |
| | 2,764 | 2,743 |
| Non-controlling interests (note 30) | 90 | 91 |
| Total equity | 2,854 | 2,834 |
| Total liabilities and equity | $ 5,494 | $ 5,443 |

See accompanying notes to the consolidated financial statements

# CAPITAL POWER L.P.

Consolidated Statement of Changes in Equity
(In millions of Canadian dollars)

| | Partnership capital (note 23) | Cash flow hedges [1] | Cumulative translation reserve [1] | Contributed surplus | Retained earnings | Equity attributable to partners of CPLP | Non-controlling interests (note 30) | Total |
|---|---|---|---|---|---|---|---|---|
| Equity as at January 1, 2015 | $ 2,399 | $ 70 | $ (1) | $ 114 | $ 161 | $ 2,743 | $ 91 | $ 2,834 |
| Net income (loss) | - | - | - | - | 120 | 120 | (8) | 112 |
| Other comprehensive income : | | | | | | | | |
| Cash flow derivative hedge gains | - | 101 | - | - | - | 101 | - | 101 |
| Cash flow derivative hedge losses – joint venture | - | (11) | - | - | - | (11) | - | (11) |
| Reclassification of gains to income | - | (81) | - | - | - | (81) | - | (81) |
| Unrealized gain on foreign currency translation | - | - | 34 | - | - | 34 | - | 34 |
| Tax on items recognized directly in equity | - | 3 | - | - | - | 3 | - | 3 |
| Other comprehensive income | $ - | $ 12 | $ 34 | $ - | $ - | $ 46 | $ - | $ 46 |
| Total comprehensive income (loss) | - | 12 | 34 | - | 120 | 166 | (8) | 158 |
| Distributions (note 23) | - | - | - | - | (145) | (145) | - | (145) |
| Net additional investment by non-controlling interest | - | - | - | - | - | - | 7 | 7 |
| Equity as at December 31, 2015 | $ 2,399 | $ 82 | $ 33 | $ 114 | $ 136 | $ 2,764 | $ 90 | $ 2,854 |
| Equity as at January 1, 2014 | $ 2,246 | $ 34 | $ (17) | $ 114 | $ 217 | $ 2,594 | $ 100 | $ 2,694 |
| Net income (loss) | - | - | - | - | 73 | 73 | (10) | 63 |
| Other comprehensive income : | | | | | | | | |
| Cash flow derivative hedge gains | - | 73 | - | - | - | 73 | - | 73 |
| Cash flow derivative hedge losses – joint venture | - | (20) | - | - | - | (20) | - | (20) |
| Reclassification of gains to income | - | (22) | - | - | - | (22) | - | (22) |
| Unrealized gain on foreign currency translation | - | - | 16 | - | - | 16 | - | 16 |
| Tax on items recognized directly in equity | - | 5 | - | - | - | 5 | - | 5 |
| Other comprehensive income | $ - | $ 36 | $ 16 | $ - | $ - | $ 52 | $ - | $ 52 |
| Total comprehensive income (loss) | - | 36 | 16 | - | 73 | 125 | (10) | 115 |
| Distributions (note 23) | - | - | - | - | (129) | (129) | - | (129) |
| Issue of partnership units | 153 | - | - | - | - | 153 | - | 153 |
| Net additional investment by non-controlling interest | - | - | - | - | - | - | 1 | 1 |
| Equity as at December 31, 2014 | $ 2,399 | $ 70 | $ (1) | $ 114 | $ 161 | $ 2,743 | $ 91 | $ 2,834 |

[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 consolidated financial statements

# CAPITAL POWER L.P.

Consolidated Statements of Cash Flows
(In millions of Canadian dollars)

Years ended December 31

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 112 | $ 63 |
| Non-cash adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation and amortization (note 5) | 213 | 186 |
| Finance expense (note 6) | 124 | 87 |
| Fair value changes on commodity derivative instruments and emission credits held for trading | 1 | (36) |
| Unrealized foreign exchange loss | 17 | 10 |
| Income tax expense (note 7) | 4 | 73 |
| Other items | (20) | (2) |
| Change in fair value of derivative instruments reflected as cash settlement | 8 | 17 |
| Finance lease receivable collected | 19 | 17 |
| Interest paid [1] | (111) | (77) |
| Income taxes paid | (1) | - |
| Change in non-cash operating working capital (note 25) | (60) | (2) |
| Net cash flows from operating activities | 306 | 336 |
| **Cash flows used in investing activities:** | | |
| Purchase of property, plant and equipment and other assets | (136) | (217) |
| Business acquisition, net of acquired cash (note 8) | - | (18) |
| Other cash flows from investing activities | 18 | 21 |
| Change in non-cash investing working capital | (14) | (13) |
| Net cash flows used in investing activities | (132) | (227) |
| **Cash flows used in financing activities:** | | |
| Proceeds from issue of loans and borrowings | 220 | 17 |
| Repayment of loans and borrowings | (282) | (148) |
| Issue costs on loans and borrowings | (1) | - |
| Issuance of partnership units (note 23) | - | 153 |
| Proceeds on sale and leaseback of generating facility (note 18) | 46 | - |
| Distributions paid to CPLP unitholders (note 23) | (142) | (124) |
| Interest paid [1] | (9) | (39) |
| Net cash flows used in financing activities | (168) | (141) |
| Foreign exchange gain on cash held in a foreign currency | 6 | 1 |
| Net increase (decrease) in cash and cash equivalents | 12 | (31) |
| Cash and cash equivalents at beginning of year | 69 | 100 |
| Cash and cash equivalents at end of year | $ 81 | $ 69 |

[1] Total interest paid.

See accompanying notes to the consolidated financial statements

**1. Reporting entity:**

Capital Power L.P. (the Partnership or CPLP) builds, owns and operates power facilities 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 (2014 – 82%). As of April 2, 2015 EPCOR Utilities Inc. (EPCOR) reduced its ownership in the Partnership to nil (December 31, 2014 – 18%) and therefore no longer holds a non-controlling interest in the Partnership as described in note 23.

**2. Significant accounting policies:**

(a) Basis of presentation:

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS).

These consolidated financial statements 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 consolidated financial statements were approved and authorized for issue by the Board of Directors on February 18, 2016.

(b) Basis of consolidation:

These consolidated financial statements include the accounts of CPLP and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Partnership obtains control, and continue to be consolidated until the date that such control ceases to exist.

As of April 2, 2015 EPCOR reduced its ownership in CPLP to nil (December 31, 2014 – 18%) and therefore no longer holds a non-controlling interest in CPLP as described in note 23.

Non-controlling interests in subsidiaries are identified separately from equity attributable to CPLP unitholders. The non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquired business' identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All significant intercompany balances and transactions have been eliminated on consolidation.

The financial statements of the subsidiaries are prepared for the same reporting period as CPLP, using consistent accounting policies.

(c) Business combinations and goodwill:

**Business combinations**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition in exchange for control of the acquired business. Acquisition-related costs are recognized into net income as incurred. Goodwill is measured as the excess of the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately into net income.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the date of acquisition. Where an acquisition involves consideration contingent on future events, any changes in the amount of consideration paid will be recognized into net income.

**2. Significant accounting policies, continued:**

(c) Business combinations and goodwill, continued

**Business combinations, continued**

The Partnership elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Partnership incurs in connection with a business combination are expensed as incurred.

**Goodwill**

After initial recognition, goodwill is not amortized, but is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired, at the cash-generating unit (CGU) level. For the purpose of impairment testing, goodwill acquired in an acquisition is, from the date of acquisition, allocated to each of the Partnership's CGUs that are expected to benefit from the acquisition.

For further discussion on impairment of goodwill, refer to the accounting policy for impairment of non-financial assets (note 2(n)).

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

(d) Investments in joint arrangements:

**Investments in joint operations**

CPLP has interests with other parties (the joint operators), whereby in each case the joint operators have a contractual arrangement that establishes the joint operators' rights to the assets and obligations for the liabilities of the arrangement and the joint operators' rights to the corresponding revenues and obligations for the corresponding expenses. These arrangements are considered to be joint operations.

In these situations CPLP recognizes its share of the joint operations' assets and liabilities in accordance with those associated rights and obligations, along with its share of the revenues from the output of the joint operation along with its share of any expenses incurred. The accounting policies of these joint operations are aligned with the accounting policies of the Partnership.

**Investments in joint ventures**

The Partnership, along with two third parties (the partners), has an equal interest in a partnership established to develop, construct and operate a wind power project. By contractual agreement, each of the partners effectively has rights to the net assets of the arrangement and as a result the arrangement is considered to be a joint venture.

The Partnership's investment in this joint venture is accounted for under the equity method, and was recognized initially at cost and the carrying amount is increased or decreased to recognize the Partnership's share of the joint venture's net income or loss after the date of acquisition. Distributions received from the joint venture reduce the carrying amount of the investment. The accounting policies of the joint venture are aligned with the accounting policies of the Partnership.

(e) Foreign currency translation:

Transactions in foreign currencies are translated to the respective functional currencies of the Partnership, or the subsidiary concerned, at exchange rates in effect at the transaction date. At each reporting date monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the date of the statement of financial position. The translation for other non-monetary assets is not updated from historical exchange rates unless they are carried at fair value. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting foreign exchange gains and losses are included in net income.

**2. Significant accounting policies, continued:**

(e) Foreign currency translation, continued

On consolidation, the assets and liabilities of U.S. operations that have a functional currency that is different from the Partnership's functional currency of Canadian dollars are translated into Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenues and expenses are translated at average exchange rates prevailing during the period. The resulting translation gains and losses are deferred and included in accumulated other comprehensive income as part of translation gains and losses.

(f) Revenue recognition:

**Energy sales**

Revenues from the sales of electricity and natural gas are recognized when the risks and rewards of ownership pass to the buyer, collection is reasonably assured and the price is reasonably determinable. This occurs upon delivery or availability for delivery under take-or-pay contracts. These revenues include an estimate of the value of electricity and natural gas consumed by customers, but billed subsequent to reporting period-end.

The Partnership recognizes revenues from certain of its generation units operating under power purchase agreements (PPAs) as described in note 2(g). PPAs are a form of long-term sales arrangement between the owner of a generation unit and the contracted purchaser under the PPA.

Revenues from the sale of other goods are recognized when the products have been delivered.

**Service revenues**

Revenues from operating and management services are recognized when the service has been performed or delivered.

**Derivative instruments**

Revenues also include realized and unrealized gains and losses from derivatives used in the risk management of the Partnership's generation activities related to commodity prices and foreign currency risk, and from the Partnership's proprietary trading activities. Realized gains and losses are recognized when the settlement of trading positions occurs and unrealized gains and losses are recorded as revenues based on the related changes in the fair value of the financial instrument at the end of each reporting period.

**Deferred revenues**

Payments received on one of the Partnership's operating leases may be in excess of accounting lease revenues. In such cases, the Partnership records deferred revenue on its consolidated statement of financial position.

The Partnership records any gains resulting from sale and leaseback transactions as deferred revenue on its consolidated statement of financial position and amortizes the gain to depreciation and amortization on a straight-line basis over the useful life of the lease term.

Monetary contributions received from third parties used to provide the Partnership with ongoing access to a supply of goods or services are measured at fair value of the cash received and are initially recorded as deferred revenue. Revenue is recognized as the service is performed, or if an ongoing service is performed as part of an agreement, over the lesser of the life of the agreement and the life of the asset.

(g) Leases or arrangements containing a lease:

The Partnership has entered into PPAs to sell power at predetermined prices. PPAs are assessed as to whether they contain leases which convey to the counterparty the right to the use of the Partnership's property, plant and equipment in return for payment. If the PPAs are determined to contain a lease, the arrangements may be classified as either finance or operating leases. PPAs that transfer substantially all of the benefits and risks of ownership of property from the Partnership are classified as finance leases. PPAs that do not transfer substantially all of the benefits and risks of ownership of property, plant and equipment are classified as either operating leases or executory contracts.

**2. Significant accounting policies, continued:**

(g) Leases or arrangements containing a lease, continued

For those PPAs determined to be finance leases with the Partnership as the lessor, finance income is recognized in a manner that produces a constant rate of return on the net investment in the lease. The net investment is composed of minimum lease payments and unearned finance income. Unearned finance income is the difference between the total minimum lease payments and the carrying amount of the leased property. Unearned finance income is deferred and recognized into net income over the lease term.

Payments received under PPAs classified as finance leases are segmented into those for the lease and those for other elements of the PPA on the basis of their relative fair values.

For those PPAs determined to be operating leases with the Partnership as the lessor, revenue is recognized on a straight-line basis unless another method better represents the earnings process.

Where the Partnership has purchased goods or services as a lessee, and the lease has been determined to be an operating lease, rental payments are expensed as incurred over the life of the lease. Contractual arrangements the Partnership has entered into as a lessee that transfer substantially all of the risks and rewards of ownership to the Partnership are considered finance leases. The leased asset and lease obligation are recognized at the lower of fair value or the present value of the minimum lease payments. Lease payments are recorded as interest expense and a reduction of the lease liability. Interest expense is recognized using the effective interest method. The leased asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

(h) Non-derivative financial instruments:

Financial assets are identified and classified as either available for sale, held at fair value through income or loss or loans and receivables. Financial liabilities are classified as either held at fair value through income or loss or other financial liabilities.

**Financial instruments at fair value through income or loss**

A financial asset is classified as held at fair value through income or loss if it is classified as held for trading or is designated as such upon initial recognition. The Partnership may designate financial instruments as held at fair value through income or loss when such financial instruments have a reliably determinable fair value and where doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets and liabilities or recognizing gains and losses on them on a different basis.

Upon initial recognition transaction costs are recognized into net income as incurred. Financial assets classified as held at fair value through income or loss are measured at fair value with the changes in fair value reported in net income. Fair values are determined in the manner described in note 3.

Gains or losses realized on de-recognition of investments held at fair value through income or loss are recognized into net income.

**Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Partnership's current loans and receivables comprise its cash and cash equivalents and trade and other receivables. Non-current loans and other long-term receivables comprise promissory notes receivable and amounts due from customers more than one year from the date of the statement of financial position which will be repaid between 2016 and 2020.

These assets are recognized initially at fair value plus any directly attributable transaction costs. After initial recognition they are measured at amortized cost using the effective interest method less any impairment losses as described in note 2(o). The effective interest method calculates the amortized cost of a financial asset or liability and allocates the interest income or expense over the term of the financial asset or liability using an effective interest rate.

**2. Significant accounting policies, continued:**

(h) Non-derivative financial instruments, continued

**Other financial liabilities**

The Partnership's loans and borrowings, finance lease obligations and trade and other payables are recognized on the date at which the Partnership becomes a party to the contractual arrangement. Liabilities are derecognized when the contractual obligations are discharged or cancelled or expire.

Liabilities are recognized initially at fair value plus any directly attributable transaction costs, such as debenture discounts, premiums and issue expenses. Subsequently these liabilities are measured at amortized cost using the effective interest rate method.

Financial assets and financial liabilities are presented on a net basis when the Partnership has a legally enforceable right to set-off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Partnership participates in a tax-equity structure with a project investor which financed the construction of the Macho Springs project (Macho Springs). This tax-equity structure is used in the U.S. to enable access to U.S income tax benefits such as investment tax credits (ITCs), cash grants, production tax credits (PTCs) and accelerated tax depreciation. In return for purchasing an equity stake in Macho Springs, the project investor receives substantially all earnings, tax benefits and cash flows from Macho Springs until it has yielded an agreed upon target rate of return to the project investor. Immediately thereafter, the structure "flips" such that the Partnership receives the majority of earnings, tax benefits and cash flows from Macho Springs. The date of the "flip" is dependent on the performance of the project. In accordance with the substance of the contractual agreement, the amounts paid by the project investor for their equity stake are classified as loans and borrowings on the consolidated statement of financial position until the "flip" date. Subsequent to the "flip" date, the project investor's equity investment will be accounted for as a non-controlling interest. At all times, both before and after the "flip", the Partnership retains control over Macho Springs.

(i) Derivative instruments and hedging activities:

To reduce its exposure to movements in energy commodity prices, interest rate changes, and foreign currency exchange rates, the Partnership uses various risk management techniques including the use of derivative instruments. Derivative instruments may include forward contracts, fixed-for-floating swaps, and option contracts. Such instruments may be used to establish a fixed price for an energy commodity, an interest-bearing obligation or an obligation denominated in a foreign currency.

All derivative instruments, including embedded derivatives, are recorded at fair value on the statement of financial position as derivative financial instruments assets or derivative financial instruments liabilities except for embedded derivative instruments that are clearly and closely related to their host contract and the combined instrument is not measured at fair value. Any contract to buy or sell a non-financial item is not treated as a non-financial derivative if that contract was entered into and continues to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Partnership's expected purchase, sale or usage requirements. The Partnership accounts separately for any embedded derivatives in any hybrid instruments issued or acquired. The Partnership does not account for foreign currency derivatives embedded in non-financial instrument host contracts when the currency that is commonly used in contracts to purchase or sell non-financial items in the economic environment is that currency in which the transaction takes place.

**2. Significant accounting policies, continued:**

(i) Derivative instruments and hedging activities, continued

All changes in the fair value of derivatives are recorded in net income unless cash flow hedge accounting is used. If hedge accounting requirements are met, realized gains and losses on financial energy derivatives are recorded in revenues or energy purchases and fuel and realized gains and losses on foreign exchange derivatives are recorded in revenues or foreign exchange gains and losses, as appropriate, while unrealized gains and losses are recorded in other comprehensive income. If hedge accounting requirements are not met, unrealized and realized gains and losses on financial energy derivatives are recorded in revenues or energy purchases and fuel as appropriate, unrealized and realized gains and losses on financial foreign exchange derivatives are recorded in revenues or foreign exchange gains and losses and such gains and losses on financial interest rate derivatives are recorded in finance expense.

**Commodity derivative instruments**

The Partnership uses financial contracts-for-differences (or fixed-for-floating swaps) to hedge the Partnership's exposure to fluctuations in electricity prices. Under these instruments, the Partnership agrees to exchange, with creditworthy or adequately secured counterparties, the difference between the variable or indexed price and the fixed price on a notional quantity of the underlying commodity for a specified timeframe.

The Partnership uses non-financial forward delivery derivatives to manage the Partnership's exposure to fluctuations in natural gas prices related to its natural gas customer contracts and obligations arising from its natural gas fired generation facilities. Under these instruments, the Partnership agrees to sell or purchase natural gas at a fixed price for delivery of a pre-determined quantity under a specified timeframe.

The Partnership may use non-financial or financial commodity derivative instruments with the intent of benefiting from short-term actual or expected differences between their buying and selling prices or to lock in arbitrage opportunities. Such transactions are recognized on a net basis in the Partnership's revenues.

**Foreign exchange derivative instruments**

Foreign exchange forward contracts are used by the Partnership to manage foreign exchange exposures, consisting mainly of U.S. dollar exposures, resulting from anticipated transactions denominated in foreign currencies. For transactions involving the development or acquisition of property, plant and equipment, when the real or anticipated transaction subsequently results in the recognition of a financial asset, the associated gains or losses on derivative instruments are included in the initial carrying amount of the asset acquired in the same period or periods in which the asset is acquired or constructed.

**Interest rate derivative instruments**

The Partnership uses cross currency interest rate swaps to manage the foreign currency exchange risk on U.S. dollar denominated loans and borrowings. Under these instruments, the Partnership and the counterparties exchange principal amounts at initiation of the transaction, whereby the Partnership pays the counterparties U.S. dollar principal amounts and the counterparties pay the Partnership Canadian dollar principal amounts. Over the terms of these instruments, the Partnership makes fixed rate interest payments in Canadian dollars on the initial principal to the counterparties while the counterparties make fixed rate interest payments in U.S. dollars to the Partnership.

The Partnership uses fixed for floating interest rate swaps to optimize its mix of loans and borrowings at fixed interest rates and those at floating interest rates. Under these instruments, the Partnership agrees to pay the counterparties floating rate interest payments in exchange for the counterparties paying the Partnership fixed rate interest payments on the notional amount of loans and borrowings.

**Hedge accounting**

The Partnership may use hedge accounting when there is a high degree of correlation between the risk in the item designated as being hedged (the hedged item) and the derivative instrument designated as a hedge (the hedging instrument). The Partnership documents all relationships between hedging instruments and hedged items at the hedge's inception, including its risk management objectives and its assessment of the effectiveness of the hedging relationship on a retrospective and prospective basis.

**2. Significant accounting policies, continued:**

(i) Derivative instruments and hedging activities, continued:

**Hedge accounting, continued**

The Partnership uses cash flow hedges for certain of its anticipated transactions to reduce exposure to fluctuations in changes in commodity prices and to reduce exposure to currency risk pertaining to the variability of cash flows on U.S. dollar loans and borrowings. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income, while the ineffective portion is recognized in energy revenues or energy purchases or fuel, as appropriate. The amounts recognized in other comprehensive income as cash flow hedging gains/losses are reclassified into net income in the same period or periods in which the hedged item occurs and is recorded in net income when it becomes probable that the hedged items will not occur. The Partnership has not designated any fair value hedges at the date of the statement of financial position.

A hedging relationship is discontinued if the hedge relationship ceases to be effective, if the hedged item is an anticipated transaction and it is probable that the transaction will not occur by the end of the originally specified time period, if the Partnership terminates its designation of the hedging relationship, or if either the hedged or hedging instrument ceases to exist as a result of its maturity, expiry, sale, termination or cancellation and is not replaced as part of the Partnership's hedging strategy.

If a cash flow hedging relationship is discontinued or ceases to be effective, any cumulative gains or losses arising prior to such time are deferred in accumulated other comprehensive income as part of cash flow hedging gains/losses and recognized in net income in the same period as the hedged item, and subsequent changes in the fair value of the derivative instrument are reflected in net income. If the hedged or hedging item matures, expires, or is sold, extinguished or terminated and the hedging item is not replaced, any gains or losses associated with the hedging item that were previously recognized in other comprehensive income are recognized in net income in the same period as the corresponding gains or losses on the hedged item. When it is no longer probable that an anticipated transaction will occur within the originally determined period and the associated cash flow hedge has been discontinued, any remaining gains or losses associated with the hedging item that were previously recognized in other comprehensive income are recognized in net income in the period.

When the conditions for hedge accounting cannot be applied, the changes in fair value of the derivative instruments are recognized in net income. The fair value of derivative financial instruments reflects changes in the commodity market prices, interest rates and foreign exchange rates. Fair value is determined based on exchange or over-the-counter quotations by reference to bid or asking price, as appropriate, in active markets. In illiquid or inactive markets, the Partnership uses appropriate valuation and price modeling techniques commonly used by market participants to estimate fair value. Fair values determined using valuation models require the use of assumptions concerning the amounts and timing of future cash flows. Fair value amounts reflect management's best estimates using external readily observable market data such as future prices, interest rate yield curves, foreign exchange rates, discount rates for time value, and volatility where available. 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.

(j) Property, plant and equipment:

Property, plant and equipment are recorded at cost, net of accumulated depreciation and/or accumulated impairment losses, if any.

**Capitalization**

Cost includes contracted services, materials, borrowing costs on qualifying assets, direct labour, directly attributable overhead costs, development costs associated with specific property, plant and equipment and asset retirement costs. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**2. Significant accounting policies, continued:**

(j) Property, plant and equipment, continued

**Capitalization, continued**

The cost of replacing a part of an item of property, plant and equipment is capitalized if it is probable that the future economic benefits of the part will flow to the Partnership and that its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Costs of day to day repairs and maintenance costs are recognized into net income as incurred.

**Depreciation**

Depreciation is charged to net income on a straight-line basis over the estimated useful lives of each major component of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the asset. Major components of property, plant and equipment are depreciated separately over their respective useful lives. Land and construction work in progress are not depreciated. The estimated useful lives for major components of generation facilities and equipment range from 1 to 53 years.

The estimated useful lives, residual values and methods of depreciation are reviewed annually, and adjusted prospectively if appropriate.

Gains and losses on the disposal or retirement of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount at the date of disposal.

(k) Intangible assets:

**Capitalization**

Intangible assets with definite lives are recorded at cost, net of accumulated amortization and/or accumulated impairment losses, if any. Intangible assets with definite lives are amortized over the related assets useful lives, as described below. Refer to note 17 for additional discussion on intangible assets.

The only indefinite life intangible assets recorded by the Partnership are purchased emission credits held for compliance purposes.

**Amortization**

Amortization is charged to net income on a straight-line basis to write-off the cost less the estimated residual value over the estimated remaining term of the agreement or in line with the life of the related generating facility to which it relates. Software work in progress is not amortized as the software is not available for use. Land lease rights are amortized when the related wind power assets are constructed and commissioned for service over the lives of the related wind power assets or the term of the lease, whichever is shorter. Coal supply access rights are amortized over the life of the coal supply agreement related to the Keephills 3 facility. The Partnership's purchased emission credits held for compliance purposes are not amortized, but are expensed as the associated benefits are realized.

The periods over which intangible assets are amortized are as follows:

| | |
|---|---|
| Alberta PPA | 12 years |
| Contract rights | 7 to 51 years |
| Software | 1 to 10 years |

Estimated useful lives, methods of amortization and residual values are reviewed annually, and adjusted prospectively if required.

Gains or losses on the disposal of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized into net income as gains or losses on disposals.

**2. Significant accounting policies, continued:**

(l) Development costs:

Development costs related to an acquisition or construction project are capitalized only if they can be measured reliably, future economic benefits are probable, and the Partnership intends to and has sufficient resources to complete development and to use or sell the asset. Other development costs not meeting these criteria are recognized in income or loss as incurred. Capitalized development costs are measured at cost less accumulated amortization and accumulated impairment losses.

(m) Capitalized borrowing costs:

The Partnership capitalizes interest during construction on its property, plant and equipment and intangible assets to reflect the costs of borrowing on its construction activities. Where project specific debt is not used to finance construction, interest is applied during construction using the weighted average cost of debt incurred on the Partnership's external borrowings used to finance qualifying assets. Interest is only capitalized on assets which necessarily take a significant amount of time to get ready for their intended use.

(n) Impairment of non-financial assets:

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into a CGU, which is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Partnership reviews the recoverability of non-financial assets subject to depreciation or amortization (property, plant and equipment and definite life intangible assets) when events or changes in circumstances may indicate or cause the asset's carrying amount to exceed its recoverable amount. The Partnership reviews the recoverability of goodwill and indefinite life intangibles on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. The asset's recoverable amount is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of expected future cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. Fair value less costs to sell is determined using estimated market values utilizing actual market transactions, if available. When actual market transactions are not available, a valuation model is used.

The Partnership's corporate assets, such as its computer networks and infrastructure, do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Any impairment loss is recorded in net income in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is recorded as the excess of the carrying amount of the asset over its recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGUs, and then to reduce the carrying amounts of the other assets in the CGUs on a pro rata basis.

At the end of each reporting period the Partnership makes an assessment as to whether there is any indication that previously incurred impairment losses no longer exist. If such an indication exists, the Partnership estimates the asset's recoverable amount. Any reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or the carrying amount that would have been determined, after depreciation or amortization, had the original impairment loss not been recognized. Any reversal is recognized into net income for the period. An impairment loss in respect of goodwill is not reversed.

**2. Significant accounting policies, continued:**

(o) Impairment of financial assets:

Financial assets, other than those classified as held at fair value through income or loss, are assessed for indicators of impairment at the end of each reporting period. An impairment loss is recorded for investments recorded at cost where it is identified that there is objective evidence that one or more events has occurred after the initial recognition of the asset, that has had a negative impact on the estimated future cash flows of the asset that can be reliably estimated.

For listed and unlisted equity investments classified as available for sale, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are in addition assessed for impairment on a collective basis. Objective evidence of impairment includes the Partnership's past experience of collecting payments, as well as observable changes in national or local economic conditions.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate. Any impairment loss is recognized in net income. If, in a subsequent reporting period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is adjusted through net income.

(p) Income taxes:

The income earned by the Partnership, and the Partnership's subsidiary partnerships, is taxed at the partner level. As a result, provisions for income taxes are not made by the Partnership relating to income or temporary differences of the Partnership or the Partnership's subsidiary partnerships. The Partnership's Canadian subsidiaries are subject to income taxes pursuant to the Income Tax Act (Canada) (ITA) and provincial income tax acts. The Partnership's U.S. subsidiaries are subject to income taxes pursuant to U.S. federal and state tax laws.

Income tax expense is comprised of current and deferred tax. Current and deferred tax is recognized in net income or loss except to the extent that it relates to a business combination, or items recognized directly in equity, other comprehensive income, or in loans and borrowings.

**Current income taxes**

Current income taxes comprise the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current income tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current income taxes also include any tax arising from dividends. Current income tax assets and liabilities are only offset if certain criteria are met.

**Deferred income taxes**

Deferred income taxes are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the respective amounts used for taxation purposes. Deferred income taxes are not recognized for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither the accounting nor taxable profit or loss;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Partnership is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- Taxable temporary differences arising on the initial recognition of goodwill.

**2. Significant accounting policies, continued:**

(p) Income taxes, continued

**Deferred income taxes, continued**

Deferred income tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable income will be available against which they can be used. Future taxable income is determined based on the Partnership's cash flow projections, which include estimates described in note 9. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable income improves. Unrecognized deferred income tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable income will be available against which they can be used.

Deferred income taxes are measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date. The measurement of deferred income taxes reflects the tax consequences that would follow from the manner in which the Partnership expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred income tax assets and liabilities are offset only if certain criteria are met.

(q) Inventories:

Parts and other consumables and coal, principally all of which are consumed by the Partnership in the provision of its goods and services, are valued at the lower of cost and net realizable value. Cost includes the purchase price, transportation costs and other costs to bring the inventories to their present location and condition. The cost of any assembled inventory includes direct labour, materials and directly attributable overhead. The costs of inventory items that are interchangeable are determined on an average cost basis. For inventory items that are not interchangeable, cost is assigned using specific identification of their individual costs. Emission credits held for trading are carried at fair value as estimated by quoted market prices available as of the valuation date. Previous write-downs of inventories from cost to net realizable value can be fully or partially reversed if supported by economic circumstance.

(r) Cash and cash equivalents:

Cash and cash equivalents include cash or highly liquid investment-grade short-term investments with original terms to maturity of three months or less, and are measured at amortized cost using the effective interest method.

(s) Provisions:

A provision is recognized if, as a result of a past event, the Partnership has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The obligation is discounted using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation for which the estimates of future cash flows have not been adjusted. The change in discount rate due to the passage of time is recognized as a finance expense, and is recorded over the estimated time period until settlement of the obligation. Provisions are reviewed and adjusted, when required, to reflect the current best estimate at the end of each reporting period.

The Partnership recognizes decommissioning provisions in the period in which a legal or constructive obligation is incurred. A corresponding decommissioning cost is added to the carrying amount of the associated property, plant and equipment, and it is depreciated over the estimated useful life of the asset. Unwinding of the discount rate on the decommissioning provisions is recorded in finance expense over the estimated useful life of the asset.

(t) Earnings per unit:

Basic earnings per unit is calculated by dividing income available to CPLP unitholders by the weighted average number of CPLP units outstanding during the period. There are no potentially dilutive items that would impact the Partnership's earnings per unit.

**2. Significant accounting policies, continued:**

(u) Future accounting changes:

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 to IAS 1 are effective for annual periods beginning on or after January 1, 2016. Early application is permitted.

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 are effective for annual periods beginning on or after January 1, 2016. Early application is permitted.

IAS 7 – Statement of Cash Flows (Amendment) – The objective of the amendment issued 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 amendments to IAS 7 are effective for annual periods beginning on or after January 1, 2017.

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.

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 is intended 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.

IFRS 16 – Leases – The new standard which replaces IAS 17 – Leases addresses the recognition, measurement, presentation and disclosure of leases. IFRS 16 also provides a new approach to lessee accounting, requiring lessees to recognize assets and liabilities for all leases, which will require the Partnership 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. Early application is permitted if IFRS 15 – Revenue from Contracts with Customers has also been applied.

Management is currently assessing the impact of the above future accounting changes on the Partnership's consolidated financial statements.

**3. Use of judgments and estimates:**

The preparation of the Partnership's consolidated financial statements in accordance with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses in the consolidated financial statements and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. The Partnership reviews its estimates and assumptions on an ongoing basis and uses the most current information available and exercises careful judgment in making these estimates and assumptions.

**Critical judgments in applying accounting policies**

The main judgments that were used in preparing the Partnership's consolidated financial statements relate to:

*Non-financial assets*

The determination of CGUs was based on management's judgment, giving consideration to geographic proximity and shared risk exposure and risk management.

Identifying events or changes in circumstances that may indicate or cause an asset's carrying amount to exceed its recoverable amount requires judgment in assessing what events or circumstances would have such an impact.

**3. Use of judgments and estimates, continued:**

**Critical judgments in applying accounting policies, continued**

*Classification of arrangements which contain a lease*

As noted in note 2(g), the Partnership has exercised judgment in determining whether the risks and rewards of its generation assets which are subject to a PPA are transferred to the contracted purchaser under the PPA, in determining whether a lease exists and if so, whether the lease should be treated as a finance or operating lease. Details of those PPAs which contain either finance or operating leases are provided in note 14.

*Consolidation of subsidiaries that are less than wholly owned*

The Partnership has exercised judgment in determining certain subsidiaries are controlled by the Partnership even though the subsidiaries are less than wholly owned as described in note 30.

*Classification of joint arrangements structured through a separate vehicle*

The Partnership has exercised judgment in determining the classification of joint arrangements structured through separate vehicles as described in note 31.

**Key sources of estimation uncertainty**

The main sources of estimation uncertainty in preparing the Partnership's consolidated financial statements relate to:

*Measurement of fair values*

A number of the Partnership's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. Fair value represents the Partnership's estimate of the price that could be agreed on 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. 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 following levels were established for each input:

- Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical instruments. Assets or liabilities classified in Level 1 include highly liquid short-term investments, and traded commodities obtained from active exchanges such as the New York Mercantile Exchange (NYMEX) whereby the Partnership can obtain quoted prices for identically traded commodities.
- Level 2: Fair value is based on other than unadjusted quoted prices included in Level 1, which are either directly or indirectly observable at the reporting date. Level 2 includes those assets or liabilities that are valued using commonly used valuation techniques, such as a discounted cash flow model or the Black-Scholes option pricing model. Valuation models use inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active but observable, and other observable inputs that are principally derived from or corroborated by observable market data for substantially the full term of the instrument.
- Level 3: Fair value is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the instrument. Level 3 includes assets or liabilities that are also valued using commonly used valuation techniques described in Level 2. However, some inputs used in the models may not be based on observable market data, but rather are based on the Partnership's best estimate from the perspective of a market participant.

The fair value measurement of an asset or liability 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 December 31, 2015 and 2014, 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 years ended December 31, 2015 and 2014.

**3. Use of judgments and estimates, continued:**

**Key sources of estimation uncertainty, continued**

*Measurement of fair values, continued*

Further information about the significant assumptions made in measuring fair values is included in the following notes:

- Note 9 – Impairment testing;
- Note 12 – Inventories – emission credits;
- Notes 13 and 27 – Financial instruments; and
- Note 22 – Decommissioning and other provisions.

*Depreciation and amortization*

Depreciation and amortization allocate the cost of assets and their components over their estimated useful lives on a systematic and rational basis. Estimating the appropriate useful lives of assets requires significant judgment and is generally based on estimates of the life characteristics of common assets.

*Income taxes*

Income taxes are determined based on estimates of the Partnership's current income taxes and estimates of deferred income taxes resulting from temporary tax differences. Deferred income tax assets are assessed to determine the likelihood that they will be realized from future taxable income. Details of tax losses expected to be utilized and the basis of utilization are provided in note 16.

*Revenue recognition*

As noted in note 2(f), estimates of the value of electricity and natural gas consumed by customers but not billed until after the reporting period-end are based on contracted prices and volume data provided by the parties responsible for delivering the commodity.

Actual results may differ from these estimates. Adjustments to previous estimates, which may be material, will be recorded in the period they become known.

**4. Revenues:**

CPLP is a party to various agreements with Prairie Mines & Minerals Royalty Ltd. (PMRL) in relation to the operations of the Genesee Coal Mine (Genesee Coal Mine Agreements). Pursuant to the Genesee Coal Mine Agreements, PMRL operates the Genesee Coal Mine. In connection with the 2014 acquisition by Westmoreland Coal Company (Westmoreland) of PMRL and the 2014 acquisition by Altius Minerals Corporation (Altius) of the royalty assets of PMRL, the Genesee Coal Mine Agreements and certain related agreements were, among other things, amended to: (a) confirm the acquisitions by Westmoreland and Altius; (b) provide for certain amendments to the Genesee Coal Mine Agreements; and (c) provide for a payment to Capital Power of $20 million upon completion of the acquisitions, which was received and recorded within revenues in 2014.

## 5. Expenses:

| Year ended December 31 | 2015 | 2014 |
|---|---|---|
| **Included in other raw materials and operating charges** | | |
| Settlement of claim with turbine supplier | $ - | $ (8) |
| **Included in staff costs and employee benefits expense** | | |
| Post-employment defined contribution plan expense | 8 | 8 |
| **Included in depreciation and amortization** | | |
| Depreciation of property, plant and equipment (note 18) | 185 | 155 |
| Amortization of intangible assets (note 17) | 22 | 20 |
| Losses on retirement of property, plant and equipment | 2 | 2 |
| Other | 4 | 9 |
| | 213 | 186 |
| **Included in other administrative expenses** | | |
| Operating lease payments | 8 | 8 |

## 6. Finance expense:

| Year ended December 31 | 2015 | 2014 |
|---|---|---|
| **Interest expense:** | | |
| Interest on loans and borrowings | $ 120 | $ 116 |
| Capitalized interest | (9) | (39) |
| Total interest expense | 111 | 77 |
| **Other finance expense:** | | |
| Loss (gain) on interest rate non-hedges (note 13) | 2 | (2) |
| Charge on early debt extinguishment | 1 | 2 |
| Unwinding of the discount on decommissioning provisions (note 22) | 4 | 3 |
| Other | 6 | 7 |
| Finance expense | $ 124 | $ 87 |

## 7. Income tax expense:

| Year ended December 31 | 2015 | 2014 |
|---|---|---|
| **Current income tax** | | |
| Current income tax expense | $ 1 | $ 1 |
| **Deferred income tax** | | |
| Origination and reversal of temporary differences | - | (7) |
| Adjustments for prior periods | 4 | (2) |
| Recognition of previously unrecognized tax benefits | (1) | - |
| Write-downs of deferred tax assets | - | 81 |
| Total deferred income tax expense | 3 | 72 |
| Income tax expense | $ 4 | $ 73 |

**7. Income tax expense, continued**

**Reconciliation of effective income tax rate**

| Year ended December 31 | 2015 | 2014 |
|---|---|---|
| Income before tax | $ 116 | $ 136 |
| Income tax at the statutory rate of 26.0%[1] (2014 – 25.0%) | 30 | 34 |
| Increase (decrease) resulting from | | |
| Amounts attributable to partnership unitholders and non-controlling interests | (30) | (38) |
| Change in unrecognized tax benefits | (1) | 81 |
| Non-deductible (taxable) amounts | - | (1) |
| Adjustments for prior periods | 4 | (2) |
| Statutory and other rate differences | (2) | (1) |
| Other | 3 | - |
| Income tax expense | $ 4 | $ 73 |

[1] The statutory rate increased to 27.0% from 25.0% on July 1, 2015 due to legislative changes. This increase resulted in a nominal amount of deferred income tax expense, which is included in the statutory and other rate differences line above.

**8. Business combination:**

The purchase price allocation of the Partnership's 2014 acquisition of Element Power U.S. LLC (Element) was finalized during the third quarter of 2015. The adjustments from the amounts recorded and disclosed at December 31, 2014 resulted from the receipt of final information related to balances as of the acquisition date and minor changes in assumptions related to the replacement cost of property, plant and equipment. The adjustments were as follows:

| | December 31, 2014 | Adjustments | December 31, 2015 |
|---|---|---|---|
| Cash | $ 3 | $ - | $ 3 |
| Other assets | 3 | - | 3 |
| Intangibles | 36 | - | 36 |
| Property, plant and equipment | 103 | (7) | 96 |
| Loans and borrowings | (76) | 4 | (72) |
| Provisions | (3) | - | (3) |
| Deferred tax liabilities | (29) | 3 | (26) |
| Fair value of net assets acquired | $ 37 | $ - | $ 37 |

**9. Impairment testing:**

**Property, plant and equipment and definite life intangible assets**

On November 22, 2015, the Alberta Government (the Government) announced its Climate Leadership Plan (CLP). The key elements of the CLP that impact CPLP are as follows:

- Coal emissions in Alberta are proposed to be phased out by 2030. This would mean a significant reduction in the economic lives of CPLP's coal plants. The Government also announced it would not unnecessarily strand capital and clarified that compensation for plant owners will be important for maintaining investor confidence. However, it is highly uncertain what level of compensation will be provided, how it will be determined or how and when it will be paid.

**9. Impairment testing, continued:**

**Property, plant and equipment and definite life intangible assets, continued**

- The CLP proposes a Carbon Competitiveness Regulation (CCR), which stipulates a carbon price to be borne by producers of $CO_2$ emissions. The carbon price starts at $20 per tonne ($/t) in January 2017 and rises to $30/t in January 2018, escalating thereafter, subject to further adjustments if the per tonne amount is inconsistent with peer regimes. The CCR will replace the existing Specified Gas Emitters Regulation (SGER) starting in 2018. Emission allowances for power generation units are expected to be based on "good as best gas" standards. Under the CCR, the carbon price can be settled either through payment of the $30/t levy to the Government or through procurement of equivalent $CO_2$ offsets. CPLP's existing $CO_2$ offsets inventory, acquired for SGER compliance prior to the CLP announcement, is expected to be used to settle carbon costs through to 2018.
- The province is expected to move to more renewable sources of generation, including wind and solar to replace up to two-thirds of retiring coal plants.

There are numerous uncertainties associated with the CLP. Most significantly, it represents a proposed framework and has not been substantively enacted in legislation and therefore the final legal form and substance of the CLP is unknown. Accordingly, the CLP is not in itself a triggering event for purposes of assessing potential asset impairment. However, the uncertainties created by the CLP 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 CGUs (together referred to as the Alberta CGUs) were tested for impairment during the fourth quarter of 2015. The Partnership determined that no other CGUs were affected by the triggering event, since they operate in geographic regions that are not directly impacted by the events in Alberta.

The carrying amount of the Alberta Commercial CGU was within the range of its estimated recoverable amount and as such, no impairment was required. The carrying amount of the Alberta Contracted CGU was below the range of its estimated recoverable amount and as such, no impairment was required.

*Key assumptions – property, plant and equipment and definite life intangible assets recoverable amounts*

The recoverable amounts for the Alberta CGUs were determined based on their respective fair value less cost to sell, estimated using discounted cash flows. The fair value measurement of the Alberta CGUs is categorized in Level 3 of the fair value hierarchy, as described in note 3, based on the inputs used in the valuation models. The calculation of the recoverable amounts for the Alberta CGUs are sensitive to several key assumptions as described below.

**Discount rates**

The after-tax discount rates used ranged within the respective CGUs and reflect the market weighted average cost of capital (WACC) using a capital asset pricing model approach, giving consideration to the risks specific to each CGU. The method and assumptions used to calculate the WACC rate are consistent with the Partnership's past experience and with previous valuations performed by the Partnership.

The discount rates used by the Partnership in the calculation of the recoverable amounts for the Alberta CGUs were as follows:

| | Merchant | Contracted |
|---|---|---|
| Discount rate | 9.0% to 10.0% | 6.5% to 7.5% |

## 9. Impairment testing, continued:

**Property, plant and equipment and definite life intangible assets, continued**

*Key assumptions – property, plant and equipment and definite life intangible assets recoverable amounts, continued*

**Other key cash flow assumptions**

The Partnership's cash flow projections incorporate estimates of annual plant revenues, expenses and capital expenditures to the end of each plant's useful life. These estimates incorporate past experience and the Partnership's current view of future generating capacity and natural gas forward pricing. The average forecasted Alberta power price is also a significant assumption used in determining the cash flows for any generation from the Alberta Commercial CGU that is not already sold forward at a contracted price as of the testing date. Forecasted Alberta power prices are also used for the post-PPA period for the Alberta Contracted CGU. The PPA for the Alberta Contracted CGU ends in 2020. Consideration is given to externally available information related to future pricing of electricity and natural gas inputs when developing certain pricing assumptions. Such external information is also used to validate the Partnership's current view of future pricing. These external sources of information include market information from the Alberta Electric System Operator (AESO) and information from third party advisory and research firms serving the industry.

The impact of the new carbon pricing under the proposed CCR has been incorporated into the cash flows. The Partnership assumed that the carbon pricing after 2018 will escalate at a rate of the Consumer Price Index to the end of the current estimated useful lives of the plants.

Given the uncertainty in the form, timing and amount of compensation associated with early closure of the coal plants, the cash flows assume that the coal plants will continue to operate until the end of their current estimated useful lives rather than 2030. As noted in the CLP, the Government is committed to ensuring that it would not unnecessarily strand capital through the compensation process. The Partnership will re-assess potential impairments arising from the early plant closures once there is reasonable certainty in respect of compensation.

**Goodwill and indefinite life intangible assets**

The Partnership reviews its CGUs that contain goodwill on an annual basis, generally in the third quarter, to determine whether any impairment should be recognized. As a result, the Partnership's Southport CGU was tested for impairment during the third quarter of 2015. The carrying amount of the Southport CGU was within the range of its estimated recoverable amount and as such, no impairment was required (2014 – nil). The estimated recoverable amount of the Southport CGU exceeded its carrying amount by approximately $7 million (2014 - $3 million).

*Key assumptions – goodwill and indefinite life intangible assets recoverable amounts*

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

**Discount rates and growth rates**

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

**9. Impairment testing, continued:**

**Goodwill and indefinite life intangible assets, continued**

*Key assumptions – goodwill and indefinite life intangible assets recoverable amounts, continued*

**Discount rates and growth rates, continued**

The Partnership has projected cash flows for a period of ten years and used a growth rate to extrapolate the cash flow projections beyond the ten year period through to the end of the useful life of the CGU. The growth rate reflects past experience and is consistent with industry practice.

The discount and growth rates used by the Partnership in the calculation of the recoverable amount for the Southport CGU were as follows:

| | 2015 | 2014 |
|---|---|---|
| Discount rate – currently contracted period | 6.8% | 7.9% |
| Discount rate – post current contract period | 8.8% | 9.9% |
| Growth rate | 2.0% | 2.0% |

**Other key cash flow assumptions**

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

The Partnership has assumed the Southport power purchase agreement will be extended for 10 years following the expiry of the current agreement in 2021 at rates consistent with current pricing, adjusted for 1% inflation. The Partnership has also assumed that the Southport facility will optimize its fuel mix at 50% wood waste, 45% tire-derived fuel (TDF), and 5% coal, and that long-term contracts will be executed with wood waste and TDF suppliers at prices consistent with current rates, adjusted for inflation.

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

**Sensitivities for key cash flow assumptions**

Management has identified that a reasonably possible change in the following assumptions could cause the carrying amount to exceed the recoverable amount. The following table shows the amount by which these assumptions would need to change individually for the carrying amount to equal to the high end of the Southport CGU's estimated recoverable range:

| | Change required |
|---|---|
| Discount rate – currently contracted and post current contract period, together | +0.3% |
| Growth rate | -3.7% |
| Annual cash flow projections | -2.3% |

**10. Cash and cash equivalents:**

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Cash on deposit | $ 73 | $ 41 |
| Cash equivalents | 8 | 28 |
| | $ 81 | $ 69 |

Cash and cash equivalents includes $65 million (2014 - $32 million) related to margin posted with an exchange counterparty required as a result of the Partnership's commodity trading activity. As part of its collateral requirements, the exchange counterparty updates its bank margin accounts daily, by recording fair value changes on unsettled derivative financial instruments outstanding with the Partnership.

Included in the Partnership's cash and cash equivalents is its proportionate share of its rights to cash and cash equivalents, which are restricted to use within its joint operations of $10 million (2014 - $18 million).

**11. Trade and other receivables:**

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Accrued revenues | $ 121 | $ 124 |
| Trade receivables | 40 | 33 |
| Receivables from related parties (note 26) | 75 | 2 |
| Finance lease receivable (note 14) | 21 | 20 |
| Allowance for doubtful accounts | (5) | (5) |
| Net trade receivables | 252 | 174 |
| Prepayments | 9 | 8 |
| | $ 261 | $ 182 |

Details of the aging of trade receivables and analysis of the movement on the allowance for doubtful accounts are provided in note 28.

**12. Inventories:**

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Parts and other consumables | $ 60 | $ 53 |
| Coal | 19 | 19 |
| Emission credits | 20 | 32 |
| | $ 99 | $ 104 |

Inventories expensed upon usage for the year ended December 31, 2015 of $144 million (2014 - $163 million) were charged to energy purchases and fuel, and other raw materials and operating charges. Emission credits held for trading are carried at fair value as estimated by quoted market prices available as of the valuation date. Details of the valuation techniques used in determining the fair values are described in note 13. No write-downs in inventories were recognized during the year ended December 31, 2015 (2014 - $1 million). There were no reversals of previous write downs recognized in the year ended December 31, 2015 (2014 - nil). As at December 31, 2015, no inventories were pledged as security for liabilities (2014 - nil).

### 13. 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 as described in note 28 consist of the following:

| | 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 | $ 68 | $ 5 | $ 166 |
| Non-current | 22 | 32 | - | - | 54 |
| Derivative instruments liabilities: | | | | | |
| Current | (2) | (25) | - | (11) | (38) |
| Non-current | (2) | (13) | - | - | (15) |
| 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[1] | 0.1 to 4.0 | 0.1 to 5.3 | 5.5 to 10.5 | 4.4 to 7.4 | |

[1] 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.

### 13. Derivative financial instruments and hedge accounting, continued:

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

[2] Terms of certain foreign exchange cash flow hedge contracts and interest rate non-hedge contracts require settlement in 2.0 years and 0.9 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, when possible, using exchange or over-the-counter price quotations by reference to quoted bid, ask or closing market prices dependent on which is most representative of fair value in the circumstances, in the principal market for that instrument. The extent to which fair values of derivative instruments are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. When traded markets are not considered to be sufficiently active or do not exist, the Partnership uses appropriate valuation and price modeling techniques commonly used by market participants to estimate fair value. The Partnership may also rely on price forecasts prepared by third party market experts to estimate fair value when there are limited observable prices available. Fair values determined using valuation models require the use of assumptions concerning the amounts and timing of future cash flows. Fair value amounts reflect management's best estimates and maximize, when available, the use of external readily observable market data including future prices, interest rate yield curves, foreign exchange rates, quoted Canadian dollar swap rates, counterparty credit risk, the Partnership's own credit risk and volatility. When a valuation technique utilizes unobservable market data, no inception gains or losses are recognized, until inputs become observable. 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. As at December 31, 2015 and 2014, the Partnership classified all financial instruments under Level 2 of the fair value hierarchy described in note 3.

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

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Unrealized gains (losses) | Realized gains | Unrealized gains | Realized gains |
| Energy cash flow hedges | $ 20 | $ 81 | $ 49 | $ 22 |
| Energy and emission non-hedges | - | 51 | 34 | 43 |
| Foreign exchange cash flow hedges[3] | - | 2 | 2 | - |
| Interest rate non-hedges | (5) | 3 | - | 2 |

[3] For the year ended December 31, 2015, unrealized gains of $47 million (2014 – $19 million) related to foreign exchange cash flow hedges were reclassified from other comprehensive income to net income to offset the impact of unrealized foreign exchange losses from revaluation of U.S. dollar denominated loans and borrowings.

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

| | 2015 | 2014 |
|---|---|---|
| Revenues | $ 234 | $ 311 |
| Energy purchases and fuel | (102) | (212) |
| Foreign exchange loss | 47 | 19 |
| Finance expense | (2) | 2 |

The Partnership has elected to apply hedge accounting on certain derivatives it uses to manage commodity price risk relating to electricity and natural gas prices and certain derivatives it uses to manage currency risk relating to U.S. dollar denominated loans and borrowings. For the year ended December 31, 2015, the changes in the fair value of the ineffective portion of hedging derivatives required to be recognized in the statement of income was nil (2014 - 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 in the following periods:

| As at December 31 | 2015 |
|---|---|
| Within one year | $ 58 |
| Between one and five years | 29 |
| After five years | - |
| | $ 87 |

**14. Leases:**

**Finance lease receivables**

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| As at December 31 | 2015 | 2014 | 2015 | 2014 |
| Amounts receivable under finance leases: | | | | |
| Less than one year | $ 57 | $ 57 | $ 21 | $ 20 |
| Between one and five years | 229 | 229 | 94 | 89 |
| More than five years | 868 | 925 | 595 | 619 |
| Unearned finance income | (444) | (483) | - | - |
| Lease payment receivable | 710 | 728 | 710 | 728 |
| Less current portion: (included within trade and other receivables (note 11)) | 21 | 20 | 21 | 20 |
| | $ 689 | $ 708 | $ 689 | $ 708 |

The PPAs pertaining to the Partnership's wind generation facilities located in Ontario (Kingsbridge 1 and Port Dover and Nanticoke) and British Columbia (Quality Wind) are finance leases and expire in 2026, 2033 and 2037 respectively and have effective rates inherent in the leases of 3.21%, 6.16% and 4.86% respectively. The lease receivables contain unguaranteed residual values of $13 million, $44 million and nil for the Kingsbridge, Port Dover and Nanticoke and Quality Wind facilities respectively.

Details of the fair value of the finance lease receivables are provided in note 27.

Finance income of $37 million was recognized in revenues during the year ended December 31, 2015 (2014 - $43 million).

**Finance lease obligation**

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| As at December 31 | 2015 | 2014 | 2015 | 2014 |
| Amounts payable under finance leases: | | | | |
| Less than one year | $ 2 | $ - | $ 1 | $ - |
| Between one and five years | 8 | - | 5 | - |
| More than five years | 19 | - | 16 | - |
| Interest costs | (7) | - | - | - |
| Lease obligation | 22 | - | 22 | - |
| Less current portion: (included within trade and other payables (note 20)) | 1 | - | 1 | - |
| | $ 21 | $ - | $ 21 | $ - |

During the year ended December 31, 2015, the Partnership sold its Beaufort solar generating facility (Beaufort Solar) and immediately leased the facility back under a finance lease which expires in 2025 and has an effective rate inherent in the lease of 4.50%. Details of the assets under finance lease are provided in note 18.

Details of the fair value of the finance lease obligation are provided in note 27.

No interest expense was recognized in finance expense during the year ended December 31, 2015 as the lease was entered into on December 28, 2015 (2014 - nil).

## 14. Leases, continued:

### Facilities under operating leases

Certain power generation facilities owned by the Partnership operate under PPAs that convey the right to the holder of the agreement to use the related property plant and equipment. Consequently, Roxboro, Genesee units 1 and 2 and Island Generation power generation facilities are accounted for as assets under operating leases.

As at December 31, 2015, the cost of such property, plant and equipment was $1,280 million (2014 - $1,261 million), less accumulated depreciation of $324 million (2014 - $279 million).

The minimum future rental payments to be received on these PPAs are:

| As at December 31 | 2015 |
|---|---|
| Within one year | $ 62 |
| Between one and five years | 253 |
| After five years | 19 |
| | $ 334 |

## 15. Other financial assets:

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Loans and other long-term receivables | $ 12 | $ 16 |
| Available for sale - portfolio investments | 1 | 2 |
| | $ 13 | $ 18 |

## 16. Deferred tax:

### Movement of deferred tax balances

| | As at January 1, 2015 | Recognized in net income | Recognized directly in other compre-hensive income | Amounts relating to acquisitions and disposals | Recognized directly in loans and borrowings | As at December 31, 2015 | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|---|
| Losses carried forward | $ 1 | $ 6 | $ - | $ - | $ - | $ 7 | $ 7 | $ - |
| Property, plant and equipment | (28) | (10) | (4) | 6 | - | (36) | - | (36) |
| Intangible assets | (3) | 3 | (1) | - | - | (1) | - | (1) |
| Derivative financial instruments | - | (4) | - | - | - | (4) | 12 | (16) |
| Equity-accounted investment | 5 | (12) | 3 | - | - | (4) | - | (4) |
| Deferred revenue and other liabilities | 4 | 2 | 1 | (1) | - | 6 | 6 | - |
| Decommissioning provisions | 9 | 1 | 2 | - | - | 12 | 12 | - |
| Goodwill | (8) | - | (1) | - | - | (9) | - | (9) |
| Loans and borrowings | 6 | 11 | - | (2) | (4) | 11 | 11 | - |
| Deferred tax assets (liabilities) | $ (14) | $ (3) | $ - | $ 3 | $ (4) | $ (18) | $ 48 | $ (66) |
| Set-off tax | | | | | | | (43) | 43 |
| Net deferred tax assets (liabilities) | | | | | | $ (18) | $ 5 | $ (23) |

### 16. Deferred tax, continued:

**Movement of deferred tax balances, continued**

| | As at January 1, 2014 | Recognized in net income | Recognized directly in other compre-hensive income | Amounts relating to acquisitions and disposals | As at December 31, 2014 | Deferred tax assets | Deferred tax liabilities |
|---|---|---|---|---|---|---|---|
| Losses carried forward | $ 69 | $ (71) | $ 3 | $ - | $ 1 | $ 1 | $ - |
| Property, plant and equipment | 2 | 1 | - | (31) | (28) | - | (28) |
| Intangible assets | 6 | - | - | (9) | (3) | - | (3) |
| Derivative financial instruments | - | - | - | - | - | 21 | (21) |
| Equity-accounted investment | - | - | 5 | - | 5 | 5 | - |
| Deferred revenue and other liabilities | - | - | - | 4 | 4 | 4 | - |
| Decommissioning provisions | 7 | - | 1 | 1 | 9 | 9 | - |
| Goodwill | (8) | - | - | - | (8) | - | (8) |
| Loans and borrowings | - | - | - | 6 | 6 | 6 | - |
| Other items | 2 | (2) | - | - | - | - | - |
| Deferred tax assets (liabilities) | $ 78 | $ (72) | $ 9 | $ (29) | $ (14) | $ 46 | $ (60) |
| Set-off tax | | | | | | (41) | 41 |
| Net deferred tax assets (liabilities) | | | | | $ (14) | $ 5 | $ (19) |

**Unrecognized deferred tax assets**

Deferred tax assets have not been recognized on the following items as it is not probable the future taxable income will be available against which the Partnership can use the benefits therefrom.

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Non-capital losses | $ 328 | $ 281 |

**Tax losses carried forward**

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | Tax losses | Expiry dates | Tax losses | Expiry dates |
| Unrecognized tax losses carried forward [1] | $ 328 | 2027-2035 | $ 281 | 2027-2034 |

As at December 31, 2015, the Partnership has non-capital losses carried forward of $355 million (2014 - $285 million), of which $328 million (US$237 million) (2014 - $281 million (US$242 million)) relates to U.S. subsidiaries.

During the year ended December 31, 2014, the Partnership reversed previously recognized deferred tax assets of $73 million (US$66 million) relating to non-capital losses of $216 million (US$186 million) from U.S. subsidiaries that will expire between 2027 and 2033.

The deferred tax assets presented on the consolidated statements of financial position are recoverable based on estimated future net income and the reversal of taxable temporary differences. The assumptions used in the estimate of future net income are based on the Partnership's cash flow projections, which include estimates described in note 9.

## 17. Intangible assets:

| | Intangible work in progress | PPAs | Contract rights | Other rights | Emission credits | Software | Total |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at January 1, 2014 | $ 30 | $ 158 | $ 36 | $ 111 | $ 29 | $ 17 | $ 381 |
| Additions from separate acquisition | 8 | - | - | 6 | 16 | - | 30 |
| Additions into service | (3) | - | - | 1 | - | 2 | - |
| Acquisition through business combination (note 8) | 36 | - | - | - | - | - | 36 |
| Retirements and other disposals | - | - | - | - | (1) | (1) | (2) |
| Transfers to finance lease receivables | (5) | - | - | - | - | - | (5) |
| As at December 31, 2014 | $ 66 | $ 158 | $ 36 | $ 118 | $ 44 | $ 18 | $ 440 |
| Additions | 3 | - | - | - | 11 | - | 14 |
| Additions into service | (45) | - | 2 | 37 | - | 6 | - |
| Disposal through sale and leaseback | (2) | - | - | - | - | - | (2) |
| Retirements and other disposals | - | - | - | - | (9) | - | (9) |
| Transfers from property, plant and equipment (note 18) | - | - | - | 4 | - | - | 4 |
| Foreign currency translation adjustments | 4 | - | - | 3 | - | - | 7 |
| As at December 31, 2015 | $ 26 | $ 158 | $ 38 | $ 162 | $ 46 | $ 24 | $ 454 |
| **Accumulated amortization** | | | | | | | |
| As at January 1, 2014 | $ - | $ (62) | $ (4) | $ (8) | $ - | $ (4) | $ (78) |
| Amortization (note 5) | - | (14) | (2) | (2) | - | (2) | (20) |
| As at December 31, 2014 | $ - | $ (76) | $ (6) | $ (10) | $ - | $ (6) | $ (98) |
| Amortization (note 5) | - | (13) | (2) | (4) | - | (3) | (22) |
| As at December 31, 2015 | $ - | $ (89) | $ (8) | $ (14) | $ - | $ (9) | $ (120) |
| **Net book value** | | | | | | | |
| As at January 1, 2014 | $ 30 | $ 96 | $ 32 | $ 103 | $ 29 | $ 13 | $ 303 |
| As at December 31, 2014 | $ 66 | $ 82 | $ 30 | $ 108 | $ 44 | $ 12 | $ 342 |
| As at December 31, 2015 | $ 26 | $ 69 | $ 30 | $ 148 | $ 46 | $ 15 | $ 334 |

Acquired PPAs are recorded at the cost of acquisition. Under the terms of the Partnership's Sundance and Joffre PPAs, the Partnership is obligated to make fixed and variable payments to the owners of the underlying generation units over their respective terms. Such amounts are recorded as operating expenses as incurred.

The Sundance PPA is owned under an equity syndication agreement with an equity syndicate. Under the terms of the agreement, the syndicate members receive their proportionate share of the committed generating capacity in exchange for their proportionate share of the price paid for the Sundance PPA and all payments to the generation unit owners.

Contract rights include the cost of acquired management and operations agreements and a 20-year agreement whereby the Partnership will sell Renewable Energy Credits produced by the Halkirk Wind Project to a third party.

Other rights include the cost of land lease agreements for use in wind power projects in Alberta and Ontario, solar power projects in the United States, and coal supply access rights relating to the Keephills 3 Project.

### Impairments

No impairments of intangible assets were recognized during the year ended December 31, 2015 (2014 - nil). No previous impairments of intangible assets were reversed during the year ended December 31, 2015 (2014 - nil).

### Capitalized borrowing costs

Borrowing costs were not capitalized on intangible assets during the years ended December 31, 2015 or 2014.

### Restrictions on assets

There are no charges over the Partnership's intangible assets.

**18. Property, plant and equipment:**

| | Construction work in progress | Land | Plant and equipment | Total |
|---|---|---|---|---|
| Cost | | | | |
| As at January 1, 2014 | $ 676 | $ 107 | $ 3,346 | $4,129 |
| Additions | 200 | - | - | 200 |
| Additions into service | (69) | 4 | 65 | - |
| Acquisition through business combination (note 8) | - | - | 103 | 103 |
| Retirements and other disposals | - | (3) | (36) | (39) |
| Transfers to finance lease receivables | (1) | - | (7) | (8) |
| Revisions to decommissioning costs (note 22) | - | - | 32 | 32 |
| Foreign currency translation adjustments | - | - | 12 | 12 |
| As at December 31, 2014 | $ 806 | $ 108 | $ 3,515 | $4,429 |
| Additions | 139 | - | - | 139 |
| Additions into service | (876) | 9 | 867 | - |
| Additions through finance lease | - | - | 22 | 22 |
| Disposal through sale and leaseback | (39) | - | - | (39) |
| Retirements and other disposals | (2) | (1) | (22) | (25) |
| Transfers to intangible assets (note 17) | (4) | - | - | (4) |
| Transfers to finance lease receivables | - | - | (1) | (1) |
| Revisions to decommissioning costs (note 22) | - | - | 12 | 12 |
| Foreign currency translation adjustments | 1 | - | 50 | 51 |
| As at December 31, 2015 | $ 25 | $ 116 | $ 4,443 | $4,584 |
| **Accumulated depreciation** | | | | |
| At January 1, 2014 | $ - | $ - | $ (551) | $ (551) |
| Depreciation (note 5) | - | - | (155) | (155) |
| Retirements and other disposals | - | - | 36 | 36 |
| Foreign currency translation adjustments | - | - | (6) | (6) |
| As at December 31, 2014 | $ - | $ - | $ (676) | $ (676) |
| Depreciation (note 5) | - | - | (185) | (185) |
| Retirements and other disposals | - | - | 21 | 21 |
| Foreign currency translation adjustments | - | - | (16) | (16) |
| As at December 31, 2015 | $ - | $ - | $ (856) | $ (856) |
| **Net book value** | | | | |
| As at January 1, 2014 | $ 676 | $ 107 | $ 2,795 | $3,578 |
| As at December 31, 2014 | $ 806 | $ 108 | $ 2,839 | $3,753 |
| As at December 31, 2015 | $ 25 | $ 116 | $ 3,587 | $3,728 |

**Assets under finance lease**

During the year ended December 31, 2015 the Partnership sold Beaufort Solar, which consisted of property, plant and equipment and intangible assets, for gross proceeds of $46 million (US$34 million) (2014 – nil) and immediately leased the facility back under a finance lease arrangement described in note 14. The Partnership recorded a gain of $5 million (US$4 million) for the year ended December 31, 2015 (2014 – nil) to deferred revenue which will be amortized over the lease term. As at December 31, 2015, the asset under finance lease had a net book value of $22 million (2014 – nil) and the Partnership recorded depreciation expense of nil during the year ended December 31, 2015.

**Impairments**

No impairments on property, plant and equipment were recognized during the year ended December 31, 2015 (2014 - nil) as described in note 9. No reversals of impairments on property, plant and equipment were recognized during the year ended December 31, 2015 (2014 - nil).

**18. Property, plant and equipment, continued:**

**Capitalized borrowing costs**

Details of borrowing costs capitalized as part of property, plant and equipment are provided in note 6. The average borrowing rate used to capitalize interest during the year was 4.87% (2014 – 5.26%) for projects financed using general borrowings. For the years ended December 31, 2015 and 2014, there were no projects financed using specific borrowings that were included as part of property, plant and equipment.

**Restrictions on assets**

Details of charges over land, plant and equipment are provided in note 21.

**19. Goodwill:**

| | 2015 | 2014 |
|---|---|---|
| **Cost and net book value** | | |
| As at January 1 | $ 25 | $ 23 |
| Foreign currency translation adjustments | 5 | 2 |
| As at December 31 | $ 30 | $ 25 |

The aggregate carrying amounts of goodwill allocated to the Partnership's CGUs at December 31, 2015 and 2014 are substantially all related to the Partnership's Southport CGU.

**Impairments**

No impairments of goodwill were recorded in the consolidated statement of income for the year ended December 31, 2015 (2014 – nil).

**20. Trade and other payables:**

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Operating accruals | $ 94 | $ 99 |
| Trade payables | 38 | 39 |
| Distributions payable | 37 | 35 |
| Accrued interest | 14 | 15 |
| Finance lease obligation (note 14) | 1 | - |
| Taxes payable | 2 | 5 |
| | $ 186 | $ 193 |

### 21. Loans and borrowings:

| | Effective interest rate | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| **Debt payable to Capital Power** | | | |
| Subordinated debentures payable semi-annually: | | | |
| At 6.70% due in 2040 | 6.73% | $ 121 | $ 121 |
| At 5.28% due in 2020[1] | 5.34% | 300 | - |
| At 6.66% due in 2042 | 6.68% | 145 | 145 |
| At 4.85% due in 2019[1] | 4.96% | 250 | - |
| At 6.51% due in 2043 | 6.50% | 194 | 194 |
| Demand note payable at 2.68% | 2.68% | - | 13 |
| Total debt payable to Capital Power | | 1,010 | 473 |
| Less: current portion | | - | 13 |
| | | 1,010 | 460 |
| **Unsecured senior debt, payable annually to EPCOR** | | | |
| At 6.75% due in 2016 | 6.16% | $ 130 | $ 130 |
| At 5.80% due in 2018 | 5.63% | 164 | 164 |
| At 9.00% due between 2016 and 2018 | 7.41% | 31 | 40 |
| | | 325 | 334 |
| **Unsecured senior notes, payable semi-annually to third parties** | | | |
| US$230, at 5.21% due in 2021 | 5.29% | 318 | 267 |
| US$65, at 5.61% due in 2026 | 5.67% | 90 | 75 |
| | | 408 | 342 |
| **Unsecured senior medium-term notes, payable semi-annually to third parties** | | | |
| At 4.60% repaid in 2015 | 4.69% | - | 249 |
| At 4.85% due in 2019[1] | 4.96% | - | 250 |
| At 5.28% due in 2020[1] | 5.34% | - | 300 |
| | | - | 799 |
| **Non-recourse financing, payable quarterly** | | | |
| Joffre Cogeneration Project, at 8.59%, due in 2020 | 8.31% | 24 | 29 |
| Macho Springs, US$50 at 6.90%, due in 2031 | 7.00% | 69 | 59 |
| | | 93 | 88 |
| **Tax-equity financing, payable quarterly** | | | |
| Macho Springs, US$7 at 13.85% | 13.85% | 10 | 16 |
| **Revolving extendible credit facilities** | | | |
| US$20, at floating rates, due in 2020 | 2.35% | 27 | 17 |
| At floating rates, due in 2020 | 2.30% | 212 | - |
| | | 239 | 17 |
| Total debt payable to non-related parties | | 1,075 | 1,596 |
| Less: current portion | | 339 | 599 |
| | | 736 | 997 |
| | | 1,746 | 1,457 |
| Less: deferred debt issue costs | | 9 | 10 |
| | | $1,737 | $1,447 |

[1] On December 18, 2015, all issued and outstanding medium-term notes of CPLP were exchanged for an equal principal amount of newly issued medium-term notes of Capital Power, having identical terms and conditions, resulting in subordinated debentures payable to Capital Power.

**21. Loans and borrowings, continued:**

**Unsecured senior debt payable to EPCOR**

The unsecured senior debt payable to EPCOR matures between 2016 and 2018. As at December 31, 2015, since EPCOR does not own any of the outstanding limited partnership units of CPLP (2014 – owns less than 20%), EPCOR may, by written notice, require repayment of all or any portion of the outstanding principal amount of this debt and accrued interest thereon. As a result, as at December 31, 2015 and 2014, all of the unsecured senior debt payable to EPCOR has been classified as current loans and borrowings.

**Non-recourse financing**

Joffre Cogeneration Project financing represents the Partnership's share of syndicated loans for the project. The debt is secured by a charge against project assets which have a carrying amount of $58 million.

Macho Springs financing represents loans for the project. The debt is secured by a charge against project assets which have a carrying amount of $114 million.

**Tax-equity financing**

Macho Springs tax-equity financing represents the initial equity investment made by the project investor adjusted for earnings, tax benefits and cash distributions paid to date. The maturity date of this obligation is subject to change and is driven by the date on which the project investor reaches the agreed upon target rate of return. The Partnership anticipates the maturity date will occur in 2017.

**CPLP revolving extendible credit facilities**

Unsecured credit facilities of $700 million committed to 2020 and uncommitted amounts of $20 million are available to CPLP. As at December 31, 2015, the Partnership had bankers' acceptances of $212 million (2014 – nil) and U.S. prime loans of $27 million (US$20 million) (2014 – $17 million (US$14 million)) outstanding under these facilities.

The Partnership also has committed credit facilities of $300 million and demand bilateral credit facilities of $200 million for a total of $500 million of unsecured credit facilities available. These facilities have a maturity date of July 9, 2020. As at December 31, 2015, no amounts have been drawn on these facilities (2014 – nil), and letters of credit of $125 million (2014 – $122 million) have been issued as described in note 33.

Under the terms of the extendible facilities, the Partnership may obtain advances by way of Canadian or U.S. prime loans, U.S. base rate loans, U.S. LIBOR loans and bankers' acceptances. Amounts drawn by way of prime or base rate loans each bear interest at the prevailing Canadian Prime, U.S. Prime, or U.S. base rate respectively, plus a spread ranging from nil to 1.25%, depending on CPLP's credit rating. Amounts drawn by way of U.S. LIBOR loans or bankers' acceptances bear interest at the prevailing LIBOR rate or applicable bankers' acceptance rate plus a spread ranging from 1.00% to 2.25%, depending on CPLP's credit rating.

**22. Provisions:**

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Decommissioning | $ 184 | $ 161 |
| Employee benefits | 2 | 2 |
| Other | 1 | 3 |
| | 187 | 166 |
| Less: current portion | 7 | 3 |
| | $ 180 | $ 163 |

**22. Provisions, continued:**

| | Decommissioning | Employee benefits | Other | Total |
|---|---|---|---|---|
| As at January 1, 2014 | $ 120 | $ 2 | $ 3 | $ 125 |
| Additional liabilities incurred | 2 | 2 | - | 4 |
| Additional liabilities acquired in business combination (note 8) | 3 | - | - | 3 |
| Liabilities settled | (1) | (2) | - | (3) |
| Amounts reversed unused | 1 | - | - | 1 |
| Foreign currency translation adjustments | 1 | - | - | 1 |
| Revisions to decommissioning costs (note 18) | 32 | - | - | 32 |
| Unwinding of the discount (note 6) | 3 | - | - | 3 |
| As at December 31, 2014 | $ 161 | $ 2 | $ 3 | $ 166 |
| Additional liabilities incurred | 3 | 1 | - | 4 |
| Liabilities settled | (1) | (1) | - | (2) |
| Amounts reversed unused | - | - | (2) | (2) |
| Foreign currency translation adjustments | 5 | - | - | 5 |
| Revisions to decommissioning costs (note 18) | 12 | - | - | 12 |
| Unwinding of the discount (note 6) | 4 | - | - | 4 |
| As at December 31, 2015 | $ 184 | $ 2 | $ 1 | $ 187 |

**Decommissioning provisions**

The Partnership has recorded decommissioning provisions for its power generation facilities and the Genesee coal mine as it is obliged to remove the facilities at the end of their useful lives and restore the power facilities 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.

At December 31, 2015, the Partnership's estimate of the undiscounted cash flow required to settle its decommissioning obligations is approximately $318 million, calculated using an inflation rate of 2%. The expected timing for settlement of the obligations is between 2016 and 2061, which reflects the anticipated useful lives of the different power facilities. The majority of the payments to settle the obligations are expected to occur between 2044 and 2055 for the power generation facilities and in 2055 for the un-reclaimed sections of the Genesee coal mine. Discount rates used to calculate the carrying amount of the obligations range from 0.49% to 2.65%. The actual timing and costs to settle decommissioning obligations may vary from estimates as a result of changes to contractor rates required to perform the decommissioning.

No assets have been legally restricted for settlement of these liabilities.

**23. Partnership capital:**

Authorized units

| | Number of units authorized |
|---|---|
| Common limited partnership units | unlimited |
| Exchangeable common limited partnership units | unlimited |
| General partnership units | unlimited |

**23. Partnership capital, continued:**

| | Common limited partnership units | | Exchangeable common limited partnership units | | General partnership units | |
|---|---|---|---|---|---|---|
| | Number of units | Amount | Number of units | Amount | Number of units | Amount |
| As at January 1, 2014 | 56,299,001 | $ 1,313 | 18,841,000 | $ 433 | 21,750,001 | $ 500 |
| Units exchanged [1] | 5,812,914 | 153 | - | - | - | - |
| As at December 31, 2014 | 62,111,915 | $ 1,466 | 18,841,000 | $ 433 | 21,750,001 | $ 500 |
| Units exchanged [2] | 18,841,000 | 433 | (18,841,000) | (433) | - | - |
| As at December 31, 2015 | 80,952,915 | $ 1,899 | - | $ - | 21,750,001 | $ 500 |

[1] During the year ended December 31, 2014, the Partnership issued 5,812,914 common limited partnership units to Capital Power to settle $153 million of indebtedness owed by CPLP.

[2] On April 2, 2015, EPCOR exchanged 18,841,000 of its exchangeable limited partnership units in CPLP on a one-for-one basis for common shares of Capital Power. Upon exchange for common shares of Capital Power, the exchangeable common limited partnership units transferred to Capital Power were immediately converted into an equal number of common limited partnership units. As a result of the unit exchange and share offering, EPCOR's ownership interest in CPLP was reduced to nil; therefore EPCOR ceased to be a related party of the Partnership as of April 2, 2015.

On July 27, 2015, the Partnership's Board of Directors approved an increase of 7.4% in the annual distribution to $1.46 per unit effective for the third quarter of 2015.

For the year ended December 31, 2015, distributions of $145 million were declared by the Partnership to the unitholders. For the year ended December 31, 2015, distributions of $142 million or $1.385 per unit were paid by the Partnership to unitholders. For the year ended December 31, 2014, distributions of $129 million or $1.31 per unit were declared by the Partnership to the unitholders. For the year ended December 31, 2014, distributions of $124 million or $1.285 per unit were paid by the Partnership to unitholders.

**24. Other reserves:**

Components of other comprehensive income and other reserves are established as follows:

**Cash flow hedges**

The cash flow hedging reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is reclassified to net income or loss only when the hedged transaction affects the net income or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the relevant accounting policy.

**Cumulative translation reserve**

The cumulative translation reserve for foreign operations represents the cumulative portion of gains and losses on retranslation of foreign operations that have a functional currency other than Canadian dollars. The cumulative deferred gain or loss on the foreign operation is reclassified to net income or loss only on disposal of the foreign operation.

**25. Change in non-cash operating working capital:**

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Trade and other receivables | $ (62) | $ 25 |
| Inventories | 13 | (13) |
| Trade and other payables | (9) | (12) |
| Deferred revenue and other liabilities | (1) | (1) |
| Provisions | (1) | (1) |
| | $ (60) | $ (2) |

## 26. Related party balances and transactions:

### Nature of transactions

As described in note 31, the Partnership is party to a number of joint arrangements, primarily for the construction and operation of power generating facilities. The joint arrangements provide energy to the Partnership and the Partnership provides management and operation services to the joint arrangements. Transactions with joint arrangements are eliminated to the extent of the Partnership's interest in the joint arrangement.

The Partnership provides electricity to EPCOR's residential customers and EPCOR provides distribution and transmission services to the Partnership along with various other services pursuant to service agreements arranged with EPCOR.

EPCOR was a related party of the Partnership until April 2, 2015, following the secondary offering and exchange of exchangeable common limited partnership units, as described in note 23, which decreased EPCOR's interest in the Partnership to nil. The City of Edmonton, as the sole shareholder of EPCOR, was also a related party of CPLP until April 2, 2015.

### Transactions and balances

The following transactions took place during the years ended December 31, 2015 and 2014 between the Partnership and its related parties:

| | 2015[1] | 2014 |
|---|---|---|
| **Revenues – energy sales:** | | |
| EPCOR and City of Edmonton [1,2] | $ 5 | $ 13 |
| Capital Power | - | (2) |
| **Energy purchases and fuel:** | | |
| EPCOR [1,3] | - | 2 |
| **Purchase of raw materials and other services:** | | |
| EPCOR [1] | - | 1 |
| Capital Power [1,4] | 138 | 135 |
| **Finance expense:** | | |
| EPCOR [1,5] | 5 | 13 |
| Capital Power [1,5] | 31 | 32 |

[1] The 2015 amounts related to EPCOR and the City of Edmonton represent the period in which they were related parties of CPLP from January 1 through April 2.

[2] Energy sales of $ 5 million (2014 - $11 million) to EPCOR, and nil (2014 - $2 million) to the City of Edmonton.

[3] Energy purchases and fuel include energy distribution and transmission charges from EPCOR, net of charges flowed through to the City of Edmonton.

[4] Purchase of raw materials and other services includes service fees charged to CPLP by subsidiaries of Capital Power for services provided under the Management and Operations Agreements pertaining to the Partnership's Canadian facilities. CPLP is required to pay fees for services related to the operation and maintenance of the power facilities under the Management and Operations Agreements. The service fees are on a cost plus recovery basis.

[5] Net finance expenses on loans and borrowings.

| As at December 31 | 2015 | 2014 |
|---|---|---|
| **Balances with Capital Power:** | | |
| Trade and other receivables | $ 75 | $ - |
| Trade and other payables [6] | 56 | 46 |
| Loans and borrowings (including current portion) (note 21) | 1,010 | 473 |
| Partnership capital (note 23) | 2,399 | 1,966 |

[6] Trade and other payables includes distributions payable of $37 million (2014 - $28 million).

**26. Related party balances and transactions, continued:**

In addition to the transactions disclosed above, in the year ended December 31, 2015 the Partnership has recorded total distributions of $138 million (2014 - $104 million) and paid distributions of $129 million (2014 - $100 million) to Capital Power. For the period ended April 2, 2015, the Partnership recorded distributions of $6 million (year ended December 31, 2014 - $25 million) and paid distributions of $13 million (year ended December 31, 2014 - $24 million) to EPCOR.

No provisions for doubtful debts have been established against the trade and other receivables balances with Capital Power. No bad debt expense was recognized in relation to any transaction with a related party that occurred during the year (2014 - nil).

Details of any commitments between the Partnership and its related parties are disclosed in note 32.

Key management services are provided to the Partnership by Capital Power and the costs of such services are included within the various related party expense lines disclosed above with Capital Power.

**27. Financial instruments:**

**Fair values**

The Partnership classifies its cash and cash equivalents as loans and receivables and measures them at amortized cost which approximates their fair values.

Trade and other receivables and current other financial assets are classified as loans and receivables; trade and other payables are classified as other financial liabilities; all of which are measured at amortized cost and their fair values are not materially different from their carrying amounts due to their short-term nature.

Details of the Partnership's derivative instruments are described in note 13.

The classification, carrying amount and fair value of the Partnership's other financial instruments are summarized as follows:

| | | December 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| | Fair value hierarchy level | Carrying amount | Fair value | Carrying amount | Fair value |
| Other financial assets (note 15) | | | | | |
| Loans and receivables | Level 2 | $ 12 | $ 12 | $ 16 | $ 17 |
| Finance lease receivable (note 14) | | | | | |
| Loans and receivables | Level 2 | 689 | 786 | 708 | 712 |
| Loans and borrowings (note 21) | | | | | |
| Other financial liabilities (includes current portion) | Level 2 | 2,076 | 2,577 | 2,059 | 2,208 |
| Finance lease obligation (note 14) | | | | | |
| Other financial liabilities (includes current portion) | Level 2 | 22 | 22 | - | - |

**Loans and receivables**

The fair values of the Partnership's finance lease receivables and other loans and receivables are estimated by discounting the expected future cash flows of these instruments at current market interest rates for comparable instruments with similar terms, plus an estimated credit spread based on the counterparty credit risk as at December 31, 2015 and 2014.

**Other financial liabilities**

The fair value of the Partnership's loans and borrowings and finance lease obligation is based on determining a current yield for the Partnership's loans and borrowings as at December 31, 2015 and 2014. This yield is based on an estimated credit spread for the Partnership over the yields of long-term Government of Canada and U.S. Government bonds that have similar maturities to the Partnership's loans and borrowings. The estimated credit spread is based on the Partnership's indicative spread as published by independent financial institutions.

**27. Financial instruments, continued:**

**Offsetting of financial assets and liabilities**

The Partnership's commodity trading transactions are typically transacted on an exchange or under International Swap Dealers Association (ISDA) Master Agreements or similar master agreements. In general, under the Partnership's trading agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount being payable by one party to the other. Such amounts meet the criteria for offsetting and are presented as such on the Partnership's statements of financial position. In certain circumstances, including when a credit event such as a default occurs, generally all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable by one party to the other in settlement of all transactions. Amounts that may only be offset in these circumstances do not meet the criteria for offsetting on the Partnership's statements of financial position.

The Partnership also has an agreement in place with one of its energy trading counterparties that conveys to the counterparty the right to set-off amounts receivable and amounts payable between the Partnership and the counterparty in certain circumstances, including when a credit event such as a default occurs on the part of the Partnership. Such amounts do not meet the criteria for offsetting on the Partnership's statements of financial position.

The Partnership issues and accepts collateral in the form of cash and letters of credit in respect of its commodity trading transactions. Such collateral is generally subject to standard industry terms. The terms generally give each counterparty the right to terminate the related transactions upon the other counterparty's failure to post collateral.

*Financial assets subject to offsetting, enforceable master netting arrangements or similar arrangements*

As at December 31, 2015

| | | | | Related amounts not offset in the statement of financial position | | |
|---|---|---|---|---|---|---|
| Types of financial assets | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position [1] | Financial instruments | Collateral received [2] | Net amount |
| Commodity trading assets | $ 204 | $ (9) | $ 195 | $ (22) | $ (19) | $ 154 |

[1] The net amounts of commodity trading assets presented in the statement of financial position include current derivative instruments assets of $93 million, non-current derivative instruments assets of $54 million and trade and other receivables of $48 million.

[2] Collateral received relating to the net financial assets disclosed above is in the form of letters of credit received from the Partnership's counterparties.

**27. Financial instruments, continued:**

**Offsetting of financial assets and liabilities, continued**

*Financial liabilities subject to offsetting, enforceable master netting arrangements or similar arrangements*

As at December 31, 2015

| | | | | Related amounts not offset in the statement of financial position | | |
|---|---|---|---|---|---|---|
| Types of financial liabilities | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets offset in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position [3] | Financial instruments | Collateral pledged | Net amount |
| Commodity trading liabilities | $ 71 | $ (3) | $ 68 | $ (28) | $ - | $ 40 |

[3] The net amounts of commodity trading liabilities presented in the statement of financial position include current derivative instruments liabilities of $27 million, non-current derivative instruments liabilities of $15 million and trade and other payables of $26 million.

*Financial assets subject to offsetting, enforceable master netting arrangements or similar arrangements*

As at December 31, 2014

| | | | | Related amounts not offset in the statement of financial position | | |
|---|---|---|---|---|---|---|
| Types of financial assets | Gross amounts of recognized financial assets | Gross amounts of recognized financial liabilities offset in the statement of financial position | Net amounts of financial assets presented in the statement of financial position [5] | Financial instruments | Collateral received [6] | Net amount |
| Commodity trading assets | $ 230 | $ (10) | $ 220 | $ (55) | $ (2) | $ 163 |

[4] The net amounts of commodity trading assets presented in the statement of financial position include current derivative instruments assets of $107 million, non-current derivative instruments assets of $55 million and trade and other receivables of $58 million.

[5] Collateral received relating to the net financial assets disclosed above is in the form of letters of credit received from the Partnership's counterparties.

*Financial liabilities subject to offsetting, enforceable master netting arrangements or similar arrangements*

As at December 31, 2014

| | | | | Related amounts not offset in the statement of financial position | | |
|---|---|---|---|---|---|---|
| Types of financial liabilities | Gross amounts of recognized financial liabilities | Gross amounts of recognized financial assets offset in the statement of financial position | Net amounts of financial liabilities presented in the statement of financial position [7] | Financial instruments | Collateral pledged [8] | Net amount |
| Commodity trading liabilities | $ 109 | $ (10) | $ 99 | $ (57) | $ (10) | $ 32 |

[6] The net amounts of commodity trading liabilities presented in the statement of financial position include current derivative instruments liabilities of $59 million, non-current derivative instruments liabilities of $10 million and trade and other payables of $30 million.

[7] Collateral pledged against the net financial liabilities disclosed above consists of $9 million in cash collateral and $1 million in letters of credit issued.

**28. Risk management:**

**Risk management overview**

The Partnership is exposed to a number of different financial risks, arising from business activities and its use of financial instruments, including market risk, credit risk and liquidity risk. The Partnership's overall risk management process is designed to identify, manage and mitigate business risk which includes, among other risks, financial risk. Risk management is overseen by the Partnership's executive team according to objectives, targets, and policies approved by the Capital Power Board of Directors. The executive team is comprised of the most senior management group within the Partnership.

Risk management strategies, policies, and limits are designed to help ensure the risk exposures are managed within the Partnership's business objectives and risk tolerance. The Partnership's financial risk management objective is to protect and limit the volatility in income and cash flow.

Commodity price risk management and the associated credit risk management are carried out in accordance with the respective commodity, credit, and financial exposures risk management policies, as approved by the executive team and the Board of Directors. Financial risk management including foreign exchange risk, interest rate risk, liquidity risk, and the associated credit risk, is carried out by a centralized Treasury function, also in accordance with a financial risk management policy approved by the executive team and the Board of Directors. Capital Power's Audit Committee of the Board of Directors, in its oversight role, monitors the assessment of financial risk management controls and procedures to ensure compliance with applicable policies.

**Market risk**

Market risk is the risk of loss that results from changes in market factors such as commodity prices, foreign currency exchange rates, interest rates and equity prices. The level of market risk to which the Partnership is exposed at any point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Partnership's financial assets and liabilities held, non-trading physical asset and contract portfolios, and trading portfolios.

To manage the exposure related to changes in market risk, the Partnership uses various risk management techniques including derivative instruments. Derivative instruments may include forward contracts, fixed-for-floating swaps (or contracts-for-differences), and option contracts. Such derivative instruments may be used to establish a fixed price for an energy commodity, an interest-bearing obligation or an obligation denominated in a foreign currency. Commodity risk exposures are monitored daily against approved risk limits, and control processes are in place to monitor that only authorized activities are undertaken.

The sensitivities provided in each of the following risk discussions disclose the effect of reasonably possible changes in relevant prices and rates on net income at the reporting date. The sensitivities are hypothetical and should not be considered to be predictive of future performance or indicative of income on these contracts. The Partnership's actual exposure to market risks is constantly changing as the Partnership's portfolio of debt, foreign currency and commodity contracts changes. Changes in fair values or cash flows based on market variable fluctuations cannot be extrapolated since the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Partnership.

*Commodity price risk*

The Partnership is exposed to commodity price risk as part of its normal business operations, including energy procurement activities in Alberta and the U.S. The Partnership's energy procurement activities consist of power generation, non-market traded and market traded electricity and natural gas purchase and sales contracts, and derivative contracts. The Partnership is primarily exposed to changes in the prices of electricity, and to a lesser extent is exposed to changes in the prices of natural gas and coal. The Partnership actively manages commodity price risk by optimizing its asset and contract portfolios utilizing the following methods:

**28. Risk management, continued:**

**Market risk, continued**

*Commodity price risk, continued*

- The Partnership reduces its exposure to the volatility of commodity prices related to electricity sales by entering into offsetting contracts such as contracts-for-differences and firm price physical contracts for periods of varying duration.
- The Partnership enters into fixed-price energy sales contracts and power purchase arrangements which limit the exposure to electricity prices. The Partnership has entered into long-term tolling arrangements whereby variable changes linked to the price of natural gas and coal are assumed by the counterparty.
- The Partnership enters into back-to-back electricity and natural gas physical and financial contracts in order to lock in a margin.

The Partnership also engages in taking market risk positions within authorized limits approved by Capital Power's executive team and Board of Directors. The trading portfolio consists of electricity and natural gas physical and financial derivative contracts which are transacted with the intent of benefiting from short-term actual or expected differences between their buying and selling prices or to lock in arbitrage opportunities.

The fair value of the Partnership's energy related derivatives as at December 31, 2015, that are required to be measured at fair value with the respective changes in fair value recognized in net income are disclosed in note 13.

The Partnership employs specific volumetric limits and a Value-at-Risk (VaR) methodology to manage risk exposures to commodity prices on a consolidated basis. VaR measures the estimated potential loss in a portfolio of positions associated with the movement of a commodity price for a specified time or holding period and a given confidence level. Capital Power's current period VaR uses a statistical confidence interval of 99% over a five business day holding period. This measure reflects a 1% probability that, over the five day period commencing with the point in time that the VaR is measured, the fair value of the overall commodity portfolio could decrease by an amount in excess of the VaR amount. The VaR methodology is a statistically-defined, probability-based approach that takes into consideration market volatilities and risk diversification by recognizing offsetting positions and correlations between products and markets. This technique makes use of historical data and makes an assessment of the market risk arising from possible future changes in commodity prices over the holding period.

VaR should be interpreted in light of the limitations of the methodologies used. These limitations include the following:

- VaR calculated based on a holding period may not fully capture the market risk of positions that cannot be liquidated or hedged within the holding period.
- The Partnership computes VaR of the portfolios at the close of business and positions may change substantially during the course of the day.
- VaR, at a 99% confidence level, does not reflect the extent of potential losses beyond that percentile. Losses on the other 1% of occasions could be substantially greater than the estimated VaR.

These limitations and the nature of the VaR measurements mean that the Partnership can neither guarantee that losses will not exceed the VaR amounts or that losses in excess of the VaR amounts will not occur more frequently than 1% of the time. As VaR is not a perfect predictor of risk, the Partnership undertakes back testing and periodically calibrates the VaR calculation to a 99% confidence level.

The estimation of VaR takes into account positions from all wholly-owned subsidiaries and subsidiaries in which the Partnership has a controlling interest, and reflects the Partnership's aggregate commodity positions from its trading and asset portfolios. Capital Power's Board of Directors has approved the methodology for the ongoing determination of commodity risk limits, under their commodity risk management policy. Commodity risk is monitored and reported to the executive team on a daily basis. The portfolios are stress tested regularly to observe the effects of plausible scenarios taking into account historical maximum volatilities and maximum observed price movements. Based on the commodity portfolio as at December 31, 2015, there is a 99% probability that unfavourable daily market variations would not reduce the fair value of the trading portfolio.

**28. Risk management, continued:**

**Market risk, continued**

*Foreign exchange risk*

The Partnership is exposed to foreign exchange risk on foreign currency denominated forecasted transactions, firm commitments, and monetary assets and liabilities denominated in a foreign currency and on its net investments in foreign operations. The Partnership's operations expose it to foreign exchange risk arising from transactions denominated in foreign currencies. The Partnership's foreign exchange risk arises primarily with respect to the U.S. dollar but it is potentially exposed to changes in other currencies if and when it transacts in other currencies. The risk is that the functional currency value of cash flows will vary as a result of the movements in exchange rates.

The Partnership's foreign exchange management policy is to limit economic and material transactional exposures arising from movements in the Canadian dollar relative to the U.S. dollar or other foreign currencies. The Partnership's exposure to foreign exchange risk arises from future anticipated cash flows from its U.S. operations, debt service obligations on U.S. dollar borrowings, and from certain capital expenditure commitments denominated in U.S. dollars or other foreign currencies. The Partnership co-ordinates and manages foreign exchange risk centrally, by identifying opportunities for naturally-occurring opposite movements and then dealing with any material residual foreign exchange risks; these are hereinafter referred to as being economically hedged. The Partnership may also use derivative instruments to manage foreign exchange risk. At December 31, 2015, the Partnership held foreign exchange derivatives as disclosed in note 13.

As at December 31, 2015, holding all other variables constant, a $0.10 strengthening or weakening of the Canadian dollar against the U.S. dollar would have decreased or increased net income attributable to the Partners of CPLP by $5 million. There would be no impact to other comprehensive income.

This sensitivity analysis excludes translation risk associated with the translation of subsidiaries that have a different functional currency to the functional currency of the Partnership and financial instruments denominated in the functional currency in which they are transacted and measured.

*Interest rate risk*

The Partnership is exposed to changes in interest rates on its cash and cash equivalents, and floating rate current and non-current loans and borrowings. The Partnership is exposed to interest rate risk from the possibility that changes in interest rates will affect future cash flows or the fair values of its financial instruments. In some circumstances, floating rate funding may be used for current borrowings and other liquidity requirements. As at December 31, 2015, the proportion of fixed rate loans and borrowings was approximately 89% of total loans and borrowings outstanding (2014 - 99%). The Partnership may also use derivative instruments to manage interest rate risk. At December 31, 2015, the Partnership held interest rate derivatives as disclosed in note 13 which have effectively reduced the proportion of fixed rate loans and borrowing disclosed above to 74% (2014 – 90%).

Assuming that the amount and mix of fixed and floating rate loans and borrowings, net loans and borrowings and derivative instruments used to manage interest rate risk remains unchanged from that held as at December 31, 2015, a 100 basis point decrease or increase to interest rates would decrease or increase full year net income attributable to common shareholders by $12 million and would have no direct impact on other comprehensive income.

The effect on net income does not consider the effect of an overall change in economic activity that would accompany such an increase or decrease in interest rates.

**Credit risk**

Credit risk is the possible financial loss associated with the inability of counterparties to satisfy their contractual obligations to the Partnership. The Partnership's counterparty credit risk management policy is established by the executive team and approved by the Capital Power Board of Directors. The associated procedures and practices are designed to manage the credit risks associated with the various business activities throughout the Partnership. Credit risk management procedures and practices generally include assessment of individual counterparty creditworthiness and establishment of exposure limits prior to entering into any agreements or

**28. Risk management, continued:**

**Credit risk, continued**

transactions with the counterparty. Credit exposures and concentrations are subsequently monitored and are regularly reported to management on an ongoing basis. Counterparty creditworthiness also continues to be evaluated on an ongoing basis after transactions have been initiated.

Credit risk is managed and mitigated through a number of risk mitigation practices such as securing parent company guarantees to enhance counterparty credit quality, negotiating and obtaining security (such as cash, letters of credit or property) to offset potential losses, utilization of credit derivatives to reduce credit risk and margining to limit credit risk where applicable.

*Maximum credit risk exposure*

The Partnership's maximum credit exposure was represented by the following financial assets:

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | $ 81 | $ 69 |
| Trade and other receivables [1] | 261 | 182 |
| Derivative financial instruments assets [1] | 220 | 187 |
| Loans and other long-term receivables (note 15) | 12 | 16 |
| Finance lease receivables | 689 | 708 |
| | $ 1,263 | $ 1,162 |

[1] The Partnership's maximum credit exposures related to trade and other receivables and derivative financial instruments assets by major credit concentration are comprised of maximum exposures of $313 million (2014 - $96 million) for generation counterparties and $168 million (2014 - $273 million) for wholesale counterparties at December 31, 2015.

This table does not take into account collateral held. As at December 31, 2015, the Partnership held cash deposits of nil (2014 - nil) as security for certain counterparty trade and other receivables and derivative contracts. The Partnership is not permitted to sell or re-pledge collateral in the absence of default of the collateral providers. As at December 31, 2015, the Partnership also held other forms of credit enhancement in the forms of letters of credit of $71 million (2014 - $55 million), property registrations valued at nil (2014 - $12 million) and parental guarantees of $1,301 million (2014 - $1,254 million) related to the financial assets noted above. As at December 31, 2015 and 2014, the Partnership also held parental guarantees which do not have a defined amount or limit, but which provide full support on any outstanding positions related to certain development projects and counterparty performance for power purchase arrangements.

*Credit quality and concentrations*

The Partnership is exposed to credit risk on outstanding trade and other receivables associated with its generation and optimization activities including power purchase arrangements, agreements with independent system operators, power and steam sales contracts, energy supply agreements with government sponsored entities, wholesale customers, and trading counterparties. The Partnership is also exposed to credit risk related to its cash and cash equivalents (which include short-term investments), financial and non-financial derivative instruments assets and long-term financing arrangements.

The credit quality and concentrations of the Partnership's trade and other receivables and other financial assets, by major credit concentrations are the following:

*Cash and cash equivalents*

The Partnership has significant credit and performance exposures to financial institutions as they provide committed credit lines and cash deposit facilities, are the primary counterparty of the Partnership's foreign exchange and interest rate derivative instruments, and facilitate letters of credit to mitigate the Partnership's exposure to certain counterparties. The Partnership manages its credit risk on cash and cash equivalents, and short-term investments by dealing with investment grade rated banks and financial institutions and reviewing each investment vehicle to ensure the underlying credit risk is known.

**28. Risk management, continued:**

**Credit risk, continued**

*Loans and long-term financing*

As at December 31, 2015 loans and long-term financing consists primarily of notes receivable attributable to two Alberta PPA syndicate members. The Partnership is exposed to credit risk in the event of non-performance by the syndicate members, but does not anticipate such non-performance. Although the syndicate members are not investment grade, the notes receivable are secured by security interests in the syndicate members' respective shares of the power syndicate agreement.

*Trade and other receivables and financial derivative instruments*

Trade and other receivables are substantially made up of receivables related to the generation and sale of electricity to customers including industrial and commercial customers, independent system operators from various regions and government-owned or sponsored entities and the settlement of financial derivative instruments related to merchant price risk mitigation and trading activities. The Partnership manages its credit risk on these financial assets through its credit adjudication process, dealing with creditworthy counterparties and utilizing the credit risk mitigation practices noted above.

*Generation credit risk*

Credit risk exposure from PPAs, agreements with independent system operators, power and steam sales contracts, and certain energy supply agreements is predominantly restricted to trade and other receivables and contract default. In certain cases, the Partnership relies on a single or small number of customers to purchase all or a significant portion of a facility's output. The failure of any one of these counterparties to fulfill its contractual obligations could negatively impact the Partnership's financial results. Financial loss resulting from events of default by counterparties in certain PPAs and steam purchase arrangements may not be recovered since the contracts may not be replaceable on similar terms under current market conditions. Consequently, the

*Generation credit risk, continued*

Partnership's financial performance depends on the continued performance by customers and suppliers of their obligations under these long-term agreements. Credit risk exposure is mitigated by dealing with creditworthy counterparties that are determined to be investment grade based on the Partnership's internally assigned ratings or employing mitigation strategies as noted above, netting amounts by legally enforceable set-off rights, and, when appropriate, taking back security from the counterparty. Credit risk with counterparties in this asset class that are government-owned or sponsored entities and regulated public utility distributors is generally considered low.

*Wholesale and merchant credit risk*

Credit risk exposure for wholesale and merchant trading counterparties is measured by calculating the costs (or proceeds) of replacing the commodity position (physical and derivative contracts), adjusting for settlement amounts due to or due from the counterparty and, if permitted, netting amounts by legally enforceable set-off rights. Financial loss on wholesale contracts could include, but is not limited to, the cost of replacing the obligation, amounts owing from the counterparty or any loss incurred on liability settlements. Wholesale and merchant credit risk exposure is mitigated by trading with investment grade and creditworthy counterparties, portfolio diversification, monitoring of credit exposure limits, margining to reduce energy trading risks, obtaining parent company guarantees, and when appropriate taking back security from counterparties.

*Trade and other receivables and allowance for doubtful accounts*

Trade and other receivables consist primarily of amounts due from customers including industrial and commercial customers, independent system operators from various regions, government-owned or sponsored entities, and other counterparties. Larger commercial and industrial customer contracts and contract-for-differences provide for performance assurances including letters of credit if deemed appropriate. The Partnership also has credit exposures to large suppliers of electricity and natural gas. The Partnership mitigates these exposures by dealing with creditworthy counterparties and, when appropriate, taking back appropriate security from the supplier.

**28. Risk management, continued:**

**Credit risk, continued**

*Trade and other receivables and allowance for doubtful accounts, continued*

The aging of trade and other receivables as at December 31, 2015 was:

| | Gross trade and other receivables | Allowance for doubtful accounts | Net trade and other receivables |
|---|---|---|---|
| Current [2] | $ 261 | $ - | $ 261 |
| Outstanding 30 - 60 days | - | - | - |
| Outstanding 60 - 90 days | - | - | - |
| Outstanding greater than 90 days | 5 | (5) | - |
| | $ 266 | $ (5) | $ 261 |

[2] Current amounts represent trade and other receivables outstanding zero to 30 days. Amounts outstanding more than 30 days are considered past due.

The changes in the allowance for doubtful accounts were as follows:

| As at December 31 | 2015 | 2014 |
|---|---|---|
| As at January 1 | $ 5 | $ - |
| Net allowance | - | 5 |
| As at December 31 | $ 5 | $ 5 |

No bad debt expenses were recognized in the year (2014 - $5 million).

As at December 31, 2015, the Partnership held no customer deposits for the purpose of mitigating the credit risk associated with accounts receivable from customers (2014 - nil).

As at December 31, 2015 and 2014, there were no provisions for credit losses associated with trade and other receivables from treasury, trading and energy procurement counterparties as all balances were considered to be fully collectible.

**Liquidity risk**

Liquidity risk is the risk that the Partnership will not be able to meet its financial obligations as they become due. The Partnership's liquidity is managed centrally by the Treasury function. The Partnership manages liquidity risk through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and also by matching the maturity profiles of financial assets and liabilities to identify financing requirements. The financing requirements are addressed through a combination of committed and demand revolving credit facilities, financings in public and private capital debt markets and equity offerings by the Partnership.

CPLP has long-term debt ratings of BBB- (Outlook Stable) and BBB/stable outlook, assigned by Standard & Poor's (S&P) and DBRS Limited (DBRS) respectively.

As at December 31, 2015, the Partnership had undrawn bank credit facilities and operating lines of credit and demand facilities, totaling $856 million (2014 - $1,081 million), of which $745 million is committed for at least 4 years (2014 - $1,061 million committed for at least 3 years).

In addition to the facilities noted above, the Partnership has a Canadian shelf prospectus, which expires in January 2017, under which it may raise up to $3 billion in medium-term notes. As at December 31, 2015, CPLP has not drawn on the shelf prospectus (2014 – nil).

**28. Risk management, continued:**

**Liquidity risk, continued**

The following are the undiscounted cash flow requirements and contractual maturities of the Partnership's financial liabilities, including interest payments, and where applicable, net of financial assets that generate cash inflows to meet cash outflows on financial liabilities as at December 31, 2015:

| | Due within 1 year | Due between 1 and 2 years | 2 and 3 years | 3 and 4 years | 4 and 5 years | Due after more than 5 years | Total contractual cash flows |
|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities**: | | | | | | | |
| Loans and borrowings | $ 154 | $ 22 | $ 184 | $ 259 | $ 546 | $ 920 | $ 2,085 |
| Interest payments on loans and borrowings | 107 | 99 | 94 | 82 | 71 | 645 | 1,098 |
| Trade and other payables [3] | 171 | - | - | - | - | - | 171 |
| Finance lease obligation | 1 | 1 | 2 | 2 | 2 | 14 | 22 |
| Other current liabilities and deferred revenue | 2 | - | - | - | - | - | 2 |
| **Derivative financial liabilities:** | | | | | | | |
| Net commodity contracts for differences | 15 | 5 | - | - | - | - | 20 |
| Interest rate derivatives | 11 | - | - | - | - | - | 11 |
| Total | $ 461 | $ 127 | $ 280 | $ 343 | $ 619 | $ 1,579 | $ 3,409 |

[3] Excluding accrued interest on loans and borrowings of $14 million and current portion of finance lease obligation of $1 million.

**29. Capital management:**

The Partnership's primary objectives when managing capital are to safeguard the Partnership's ability to continue as a going concern, pay regular distributions to its unitholders, maintain a suitable credit rating, and to facilitate the acquisition or development of projects in Canada and the U.S. consistent with the growth strategy of the Partnership. The Partnership manages its capital structure in a manner consistent with the risk characteristics of the underlying assets.

The Partnership manages capital through regular monitoring of cash and currency requirements by preparing short-term and long-term cash flow forecasts and reviewing monthly financial results. The Partnership matches the maturity profiles of financial assets and liabilities to identify financing requirements to help ensure an adequate amount of liquidity.

The Partnership considers its capital structure to consist of loans and borrowings net of cash and cash equivalents and equity (which includes non-controlling interests).

The following table represents the total capital of the Partnership:

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Loans and borrowings (note 21) | $ 2,076 | $ 2,059 |
| Finance lease obligation (note 14) | 22 | - |
| Cash and cash equivalents (note 10) | (81) | (69) |
| **Net debt** | 2,017 | 1,990 |
| Non-controlling interests (note 30) | 90 | 91 |
| Partnership capital (note 23) | 2,399 | 2,399 |
| Retained earnings and other reserves | 365 | 344 |
| **Total equity** | 2,854 | 2,834 |
| | $ 4,871 | $ 4,824 |

**29. Capital management, continued:**

CPLP has the following externally imposed requirements on its capital as a result of its credit facilities and certain debt covenants, as defined in the respective agreements:

- Maintenance of modified consolidated net tangible assets to consolidated net tangible assets ratio, as defined in the debt agreements, of not less than 0.8 to 1.0;
- Maintenance of senior debt to consolidated capitalization ratio, as defined in the debt agreements, of not more than 0.65 to 1.0;
- Limitation on debt issued by subsidiaries; and
- In the event that CPLP is assigned a rating of less than BBB- by S&P and BBB (Low) by DBRS, CPLP would also be required to maintain a ratio of net income before interest, income taxes, depreciation and amortization to finance expense, as defined in the debt agreements, of not less than 2.5 to 1.0.

For the year ended December 31, 2015, the Partnership and its subsidiaries complied with all externally imposed capital restrictions. Effective January 2016, amendments made to the loan credit agreements will require Capital Power to meet the financial covenants referenced above in place of CPLP.

To manage or adjust its capital structure, the Partnership can issue new loans and borrowings, issue new partnership units, buy back partnership units, repay existing loans and borrowings or adjust distributions paid to its unitholders.

**30. Investments in subsidiaries that have non-controlling interests:**

Set out below is the Partnership's principal subsidiary that has non-controlling interests (NCI) at December 31, 2015:

| | Place of business | Percentage of ownership interest held by the Partnership | Percentage of ownership interest held by the NCI | Principal activities |
|---|---|---|---|---|
| Genesee Coal Mine Assets (Coal Mine) [1] | Canada | 50% | 50% | Coal production for use in power generation |

[1] The Partnership holds a 50% interest in the Coal Mine while the other 50% is held by a third party. The decisions about the relevant activities of the coal mine are made based on majority vote by the Management Committee. The Management Committee is comprised of three members appointed by each of the Partnership and the third party. Based on the terms of the agreement surrounding the operations of the Coal Mine, it is noted that under the circumstance where the two parties are in a deadlock with respect to a decision that would affect the relevant activities of the Coal Mine, CPLP holds the deciding vote. Given CPLP's voting rights, CPLP has control to affect the variability in its returns. Based on an assessment of the relationship between CPLP and the Coal Mine, CPLP controls the Coal Mine and therefore the Coal Mine is treated as a subsidiary of CPLP.

There are no significant restrictions on access to a subsidiary's assets that relate to the subsidiaries above, other than those described in note 29.

The summarized financial information of the Coal Mine is as follows:

| Consolidated statements of financial position | 2015 | 2014 |
|---|---|---|
| Non-current assets | $ 136 | $ 142 |
| Net assets | $ 136 | $ 142 |

| Consolidated statements of income | 2015 | 2014 |
|---|---|---|
| Net loss and total comprehensive loss attributable to partners | $ (19) | $ (22) |

**30. Investments in subsidiaries that have non-controlling interests, continued:**

| Consolidated statements of cash flows | 2015 | 2014 |
|---|---|---|
| Net cash flows used in investing activities | $ (13) | $ (8) |
| Net cash flows from financing activities | 13 | 8 |
| Net increase in cash and cash equivalents | - | - |
| Cash and cash equivalents at beginning of year | - | - |
| Cash and cash equivalents at end of year | $ - | $ - |

Non-controlling interests reflected on the consolidated balance sheet are comprised of:

| Year ended December 31 | 2015 | 2014 |
|---|---|---|
| Non-controlling interests in subsidiary partnerships, beginning of year | $ 19 | $ 22 |
| Net income attributable to non-controlling interests | 2 | 1 |
| Net additional investment by non-controlling interests | 1 | (4) |
| Non-controlling interests in subsidiary partnerships, end of year | 22 | 19 |
| | | |
| Non-controlling interest in Genesee Coal Mine, beginning of year | 72 | 78 |
| Net loss attributable to non-controlling interest | (10) | (11) |
| Net additional investment by non-controlling interest | 6 | 5 |
| Non-controlling interest in Genesee Coal Mine, end of year | 68 | 72 |
| | $ 90 | $ 91 |

**31. Interests in joint arrangements:**

**Joint operations**

The Partnership holds interests in the following joint operations as at December 31, 2015:

| | Place of business | % of ownership interest |
|---|---|---|
| Genesee (G3) project [1] | Canada | 50% |
| Keephills 3 (K3) Project [2] | Canada | 50% |
| Joffre Cogeneration Project [3] | Canada | 40% |
| Shepard Energy Centre (Shepard) [4] | Canada | 50% |
| Genesee 4 and 5 [5] | Canada | 50% |

[1] G3 is a 516MW coal-fired generating facility and is a 50/50 joint arrangement between CPLP and a third party, with CPLP acting as the manager and operator. Both parties independently dispatch and market their share of the electrical output through Alberta’s competitive wholesale market.

[2] K3 is a 516MW coal-fired generating facility and is a 50/50 joint arrangement between CPLP and a third party with the third party responsible for operations. Both parties independently dispatch and market their share of the facility's electrical output through Alberta’s competitive wholesale market.

[3] Joffre Cogeneration Project is a 480MW gas-fired combined cycle cogeneration facility in which CPLP holds a 40% interest with third parties holding 40% and 20% interests, respectively. The Partnership’s investment in the Joffre Cogeneration Project joint arrangement, which is incorporated as a separate legal entity, has been determined to be a joint operation since the contractual arrangements governing the joint arrangement indicate that the parties to the arrangement are entitled to the assets of the joint arrangement and are exposed to the liabilities of the joint arrangement in proportion to their ownership interest.

[4] Shepard is an 800MW gas-fired generating facility which is a 50/50 joint arrangement between Capital Power and a third party with the third party responsible for operations. Both parties independently dispatch and market their share of the electrical output through Alberta’s competitive wholesale market.

[5] Genesee 4 and 5 is a 1,060MW gas-fired generating project and is a 50/50 joint arrangement between Capital Power and a third party, with Capital Power responsible for construction and operations of the project. Regulatory approvals have been received. The Partnership’s commitments associated with Genesee 4 and 5 are described in note 32(b).

There are no significant restrictions pertaining to the joint operations described above, other than those described in note 21 pertaining to the charges on the Joffre Cogeneration project assets.

**31. Interests in joint arrangements, continued:**

**Joint ventures**

The Partnership holds an interest in the following joint venture as at December 31, 2015:

| | Place of business | Measurement Method |
|---|---|---|
| K2 Wind Power Project (K2 Wind)[6] | Canada | Equity method |

[6] K2 Wind is a 270MW wind facility in which CPLP holds an equal 33.33% interest with two other third parties. The Partnership's investment in K2 Wind, which consists of separate legal entities, has been determined to be a joint venture. The Partnership's obligations are limited to their capital contributions to the joint arrangement, and the Partnership's receipts of the economic benefits of the joint arrangement are limited to annual distributions. As a result, there is no indication that the Partnership has rights to the assets or obligations for the liabilities of the joint arrangement and the investment has been classified as a joint venture.

The summarized financial information of K2 Wind is as follows:

| Statements of Financial Position | 2015 | 2014 |
|---|---|---|
| Cash and cash equivalents | $ 39 | $ 1 |
| Other current assets[7] | 25 | 40 |
| Non-current assets [7] | 875 | 756 |
| Financial current liabilities | (46) | - |
| Other current liabilities | (19) | (76) |
| Financial non-current liabilities | (850) | (646) |
| Other non-current liabilities | (16) | (10) |
| Net assets | $ 8 | $ 65 |

[7] K2 Wind has restricted cash of $20 million included in other current and non-current assets above (2014 - $28 million in non-current assets) which represents security for a standby line of credit with a third party.

| Statements of Income (Loss) and Comprehensive Loss | 2015 | 2014 |
|---|---|---|
| Revenues | $ 75 | $ - |
| Other raw materials and operating charges | (6) | - |
| Other administrative expense | (10) | - |
| Depreciation and amortization | (21) | - |
| Finance expense | (15) | - |
| Net income (loss) | 23 | (1) |
| Other comprehensive loss: | | |
| Unrealized losses on derivative instruments | (32) | (60) |
| Total comprehensive loss | $ (9) | $ (61) |

A reconciliation of the Partnership's recorded equity investment in K2 Wind is as follows:

| As at December 31 | 2015 | 2014 |
|---|---|---|
| Opening balance | $ 22 | $ 15 |
| Proportionate share of comprehensive loss (33.33%) | (3) | (20) |
| Distributions received – return of capital | (8) | - |
| Distributions received – operating | (8) | - |
| Contributions paid | - | 27 |
| Adjustments for differences in accounting policies | 7 | - |
| | $ 10 | $ 22 |

**32. Commitments and contingencies:**

(a) Under the terms of the Sundance PPA, the Partnership is obligated to make monthly payments for fixed and variable costs. The estimated annual total of these payments for 2016 is $99 million. It is expected that the annual payments over the remaining term of the Sundance PPA, as described in note 17, will range from $99 million to $146 million, adjusted for inflation, other than in the event of a forced outage. The actual amounts for future years may vary from estimates depending on generation volume, scheduled outages, and force majeure events.

(b) The Partnership is party to a series of agreements with a third party to develop, build and own a 50% interest in Genesee 4 and 5 located in central Alberta. The Partnership expects to invest approximately $820 million, including capitalized borrowing costs, into Genesee 4 and 5, which are expected to commence commercial operations as early as 2020 and 2021 respectively, contingent on compensation the Partnership will receive for the projected accelerated closure of coal-fired generating units in Alberta, the implementation of the CLP not having adverse impacts to the Alberta electricity market design and upon price signals from the energy only market. It is expected that the two parties will build, own and operate Genesee 4 and 5, which would operate as a joint arrangement. In conjunction with the joint arrangement, the parties would be subject to various commercial agreements, including an eight year tolling agreement. Under the tolling agreement, 50% of Capital Power's share of the output will be sold to the other party to the joint arrangement starting in 2021.

(c) The Partnership is party to number of long-term energy purchase and transportation contracts, operating and maintenance contracts, contracts to purchase environmental credits and operating leases for premises in the normal course of operations. Some of the energy purchase and transportation contracts are measured at their fair value and recorded on the consolidated statement of financial position as derivative financial instruments assets and liabilities as appropriate. The energy purchase and transportation contract amounts disclosed below are based on gross settlement amounts.

Approximate future payments under each group of contracts are as follows:

| | Energy purchase and transportation contracts | Operating and maintenance contracts | Environmental credits | Operating leases |
|---|---|---|---|---|
| Within one year | $ 105 | $ 22 | $ 39 | $ 8 |
| Between one and five years | 286 | 89 | 62 | 32 |
| After five years | 433 | 206 | 6 | 65 |
| | $ 824 | $ 317 | $ 107 | $ 105 |

**32. Commitments and contingencies, continued:**

(d) The Partnership 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, among other things, the loss factors to be applied for the years 2006 forward and is expected to be completed in three modules. In January 2015, the AUC issued its decision in Module A of the proceeding and concluded that it has the jurisdiction and authority to retroactively apply loss factors resulting from a new LLR. Module A was subsequently appealed by numerous parties, including the Company. Principles for the new LLR were considered in Module B and in November 2015, the AUC issued a decision in which it directed the AESO to make several changes to the currently non-compliant LLR including that it be based on an incremental loss factor methodology. The AUC also directed the AESO to file a plan and timeline for a revised LLR incorporating this new methodology and on February 1, 2016, the AESO indicated that it will work to develop and implement the new LLR by January 1, 2017. Module C of the LLR Proceeding will address the compensation to be paid or received by the various parties. As at February 18, 2016, no retroactive loss factors have been produced by the AESO using the new LLR nor has any mechanism for determining retrospective adjustments been established by the AUC. It is unclear when such loss factors will be made available and the timing of a Module C decision is unknown. Capital Power may incur material additional transmission charges on a retrospective and go-forward basis but a provision has not been recorded in the Company's audited consolidated financial statements since the outcome of the proceeding is not known.

(e) The Partnership has contingent consideration payable upon reaching specified milestones in connection with the development sites acquired in connection with its acquisition of Element in 2014. As at December 31, 2015, contingent consideration of $13 million (US$9 million) is recorded in non-current other liabilities. The valuation model for contingent consideration is based on the present value of the expected payment discounted using a risk-adjusted discount rate of 8%. The expected payment is determined by considering the possible scenarios for the development sites reaching specified milestones, the amount to be paid under each scenario and the probability of each scenario.

(f) The Partnership 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 Partnership arising from these claims is immaterial and therefore no provision has been made.

**33. Guarantees:**

The Partnership has issued letters of credit of $125 million (2014 - $122 million) to meet the credit requirements of energy market participants, to meet conditions of certain service agreements, and to satisfy legislated reclamation requirements.

### 34. 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:

| | Year ended December 31, 2015 | | | | Year ended December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | U.S. | Inter-area eliminations | Total | Canada | U.S. | Inter-area eliminations | Total |
| Revenues – external | $ 1,119 | $ 126 | $ - | $1,245 | $1,053 | $ 167 | $ - | $1,220 |
| Revenues - inter-area | 7 | 12 | (19) | - | 12 | 1 | (13) | - |
| Total revenues | $ 1,126 | $ 138 | $ (19) | $1,245 | $1,065 | $ 168 | $ (13) | $1,220 |

| | As at December 31, 2015 | | | As at December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Canada | U.S. | Total | Canada | U.S. | Total |
| Property, plant and equipment | $ 3,501 | $ 227 | $ 3,728 | $ 3,563 | $ 190 | $ 3,753 |
| Intangible assets | 293 | 41 | 334 | 305 | 37 | 342 |
| Goodwill | - | 30 | 30 | - | 25 | 25 |
| Other assets | 22 | 2 | 24 | 28 | - | 28 |
| | $ 3,816 | $ 300 | $ 4,116 | $ 3,896 | $ 252 | $ 4,148 |

### 35. Comparative figures:

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