Consolidated Financial Statements of

Capital Power Corporation

(In millions of Canadian dollars)
Years ended December 31, 2021 and 2020

Management's responsibility for financial reporting

The preparation and presentation of the accompanying consolidated financial statements of Capital Power Corporation (the Company) 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 23, 2022. Financial information presented elsewhere in the Company's Integrated Annual Report 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 Company'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 Company'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 Integrated Annual Report 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

Sandra Haskins
Senior Vice President, Finance and Chief Financial Officer

February 23, 2022

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Capital Power Corporation

Opinion

We have audited the consolidated financial statements of Capital Power Corporation (the Entity), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020
- the consolidated statements of income for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

Evaluation of the fair value of level 3 derivative financial instruments

Description of the matter

We draw your attention to Note 2(j), Note 3, Note 14 and Note 29 to the financial statements. The Entity has recorded level 3 derivative financial instrument assets of $14 million and liabilities of $198 million. The estimate of fair value for level 3 derivative financial instruments contains significant unobservable inputs, including forward pricing and anticipated generation based on internally developed models.

Why the matter is a key audit matter

We identified the evaluation of the fair value of level 3 derivative financial instruments as a key audit matter. This matter represented an area of significant risk of material misstatement requiring significant auditor effort and specialized skills and knowledge to evaluate the Entity's internally developed fair value models.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We inspected the terms of relevant underlying contracts and compared these to the Entity's internally developed models of fair value for the level 3 derivative financial instruments.

For level 3 derivative financial instruments where anticipated generation was an unobservable input:

- We involved valuation professionals with specialized skills and knowledge to assess the appropriateness of the internally developed model for a contract entered in the year.
- To assess the appropriateness of anticipated generation used in the models for operating assets, we compared the anticipated generation predicted by the models in the prior year to the actual generation.
- To assess the appropriateness of anticipated generation used in the models for assets in development, we compared the anticipated generation predicted by the models to the actual generation of a similar operating asset.

For level 3 derivative financial instruments where forward pricing was an unobservable input:

- We involved valuation professionals with specialized skills and knowledge to assess the appropriateness of the forward pricing in the Entity's internally developed model for a contract entered in the year by comparing to independently derived forward pricing.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2021 Integrated Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions and the "2021 Integrated Annual Report" as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Ravine Basahti.

Edmonton, Canada
February 23, 2022

Consolidated statements of income

(In millions of Canadian dollars, except per share amounts)

Years ended December 31		2021		2020
Revenues	**$**	**1,757**	$	1,791
Other income (note 6)		**233**		146
Energy purchases and fuel (note 7)		**(667)**		(584)
Gross margin		**1,323**		1,353
Other raw materials and operating charges		**(151)**		(160)
Staff costs and employee benefits expense (note 7)		**(176)**		(171)
Depreciation and amortization (note 7)		**(539)**		(478)
Impairments, net of reversal (note 19)		**(58)**		(26)
Other administrative expense		**(114)**		(106)
Foreign exchange loss		**(9)**		–
Operating income		**276**		412
Gains on disposals and other transactions (note 5)		**36**		–
Net finance expense (note 8)		**(174)**		(197)
Income (loss) from joint venture (note 32)		**9**		(3)
Income before tax		**147**		212
Income tax expense (note 9)		**(60)**		(82)
Net income	**$**	**87**	$	130
Attributable to:				
Non-controlling interests	**$**	**(11)**	$	(6)
Shareholders of the Company	**$**	**98**	$	136
Earnings per share (attributable to common shareholders of the Company):				
Basic (note 10)	**$**	**0.39**	$	0.78
Diluted (note 10)	**$**	**0.39**	$	0.77

See accompanying notes to the consolidated financial statements

Consolidated statements of comprehensive income

(In millions of Canadian dollars)

Years ended December 31		2021		2020
Net income	**$**	**87**	$	130
Other comprehensive loss:				
Items that will not be reclassified subsequently to net income:				
Defined benefit plans:				
Actuarial gains (losses)[1]		**3**		(5)
Items that are or may be reclassified subsequently to net income:				
Cash flow hedges:				
Unrealized losses on derivative instruments[2]		**(194)**		(18)
Reclassification of losses (gains) on derivative instruments to income for the year[3]		**158**		(20)
Net investment in foreign subsidiaries:				
Unrealized gains (losses)[4]		**6**		(18)
Total items that are or may be reclassified subsequently to net income, net of tax		**(30)**		(56)
Total other comprehensive loss, net of tax		**(27)**		(61)
Total comprehensive income	**$**	**60**	$	69
Attributable to:				
Non-controlling interests	**$**	**(11)**	$	(6)
Shareholders of the Company	**$**	**71**	$	75

[1] For the years ended December 31, 2021 and December 31, 2020, net of income tax expenses of $1 and income tax recoveries of $1, respectively.
[2] For the years ended December 31, 2021 and December 31, 2020, net of income tax recoveries of $61 and $2, respectively.
[3] For the years ended December 31, 2021 and December 31, 2020, net of reclassifications of income tax recoveries of $49 and income tax expenses of $8, respectively.
[4] For the years ended December 31, 2021 and December 31, 2020, net of income tax expenses of nil and $1, respectively.

See accompanying notes to the consolidated financial statements

Consolidated statements of financial position

(In millions of Canadian dollars)

At December 31		2021		2020
Assets				
Current assets:				
Cash and cash equivalents (note 11)	$	**387**	$	367
Trade and other receivables (note 12)		**474**		499
Inventories (note 13)		**217**		220
Derivative financial instruments assets (note 14)		**108**		71
		1,186		1,157
Non-current assets:				
Other assets		**47**		37
Derivative financial instruments assets (note 14)		**222**		177
Government grant receivable (note 15)		**349**		387
Deferred tax assets (note 16)		**17**		19
Equity-accounted investments (note 32)		**145**		134
Right-of-use assets (note 17)		**120**		129
Intangible assets and goodwill (note 18)		**784**		773
Property, plant and equipment (note 19)		**6,203**		6,098
Total assets	$	**9,073**	$	8,911

See accompanying notes to the consolidated financial statements

Consolidated statements of financial position

(In millions of Canadian dollars)

At December 31		**2021**		2020
Liabilities and equity				
Current liabilities:				
Trade and other payables (note 20)	**$**	**624**	$	470
Derivative financial instruments liabilities (note 14)		**252**		91
Loans and borrowings (note 21)		**126**		417
Deferred revenue and other liabilities (note 23)		**153**		135
Provisions (note 24)		**50**		37
		1,205		1,150
Non-current liabilities:				
Derivative financial instruments liabilities (note 14)		**352**		212
Loans and borrowings (note 21)		**3,234**		3,135
Lease liabilities (note 17)		**137**		143
Deferred revenue and other liabilities (note 23)		**291**		277
Deferred tax liabilities (note 16)		**584**		601
Provisions (note 24)		**411**		464
		5,009		4,832
Equity:				
Equity attributable to shareholders of the Company				
Share capital (note 25)		**3,631**		3,465
Deficit		**(671)**		(474)
Other reserves		**(119)**		(91)
Deficit and other reserves		**(790)**		(565)
		2,841		2,900
Non-controlling interests		**18**		29
Total equity		**2,859**		2,929
Total liabilities and equity	**$**	**9,073**	$	8,911

See accompanying notes to the consolidated financial statements

Approved on behalf of the Board:

Jill Gardiner
Director and Chair of the Board

Katharine Stevenson
Director and Chair of the Audit Committee

Consolidated statements of changes in equity

(In millions of Canadian dollars)

	Share capital (note 25)	Cash flow hedges[1]	Cumulative translation reserve[1]	Defined benefit plan actuarial (losses) gains[1]	Employee benefits reserve	Deficit	Equity attributable to shareholders of the Company	Non-controlling interests	Total
Equity at January 1, 2021	$ 3,465	$ (48)	$ (34)	$ (20)	$ 11	$ (474)	$ 2,900	$ 29	$ 2,929
Net income	–	–	–	–	–	98	98	(11)	87
Other comprehensive (loss) income:									
Defined benefit plan actuarial gain	–	–	–	4	–	–	4	–	4
Cash flow derivative hedge losses	–	(255)	–	–	–	–	(255)	–	(255)
Reclassification of losses to net income	–	207	–	–	–	–	207	–	207
Unrealized gains on foreign currency translation	–	–	6	–	–	–	6	–	6
Tax on items recognized directly in equity	–	12	–	(1)	–	–	11	–	11
Other comprehensive (loss) income	$ –	$ (36)	$ 6	$ 3	$ –	$ –	$ (27)	$ –	$ (27)
Total comprehensive (loss) income	–	(36)	6	3	–	98	71	(11)	60
Common share dividends (note 25)	–	–	–	–	–	(241)	(241)	–	(241)
Preferred share dividends (note 25)	–	–	–	–	–	(51)	(51)	–	(51)
Tax on preferred share dividends	–	–	–	–	–	(3)	(3)	–	(3)
Preferred share redemption	(200)	–	–	–	–	–	(200)	–	(200)
Issue of share capital	288	–	–	–	–	–	288	–	288
Share issue costs	(12)	–	–	–	–	–	(12)	–	(12)
Tax on share issue costs	3	–	–	–	–	–	3	–	3
Dividends reinvested	64	–	–	–	–	–	64	–	64
Share-based payments	–	–	–	–	1	–	1	–	1
Share options exercised	23	–	–	–	(2)	–	21	–	21
Equity at December 31, 2021	$ 3,631	$ (84)	$ (28)	$ (17)	$ 10	$ (671)	$ 2,841	$ 18	$ 2,859

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

See accompanying notes to the consolidated financial statements

Consolidated statements of changes in equity

(In millions of Canadian dollars)

	Share capital (note 25)	Cash flow hedges[1]	Cumulative translation reserve[1]	Defined benefit plan actuarial losses[1]	Employee benefits reserve	Deficit	Equity attributable to shareholders of the Company	Non-controlling interests	Total
Equity at January 1, 2020	$ 3,441	$ (10)	$ (16)	$ (15)	$ 11	$ (347)	$ 3,064	$ 37	$ 3,101
Net income	–	–	–	–	–	136	136	(6)	130
Other comprehensive loss:									
Defined benefit plan actuarial loss	–	–	–	(6)	–	–	(6)	–	(6)
Cash flow derivative hedge losses	–	(20)	–	–	–	–	(20)	–	(20)
Reclassification of gains to net income	–	(28)	–	–	–	–	(28)	–	(28)
Unrealized losses on foreign currency translation	–	–	(17)	–	–	–	(17)	–	(17)
Tax on items recognized directly in equity	–	10	(1)	1	–	–	10	–	10
Other comprehensive loss	$ –	$ (38)	$ (18)	$ (5)	$ –	$ –	$ (61)	$ –	$ (61)
Total comprehensive (loss) income	–	(38)	(18)	(5)	–	136	75	(6)	69
Distributions to non-controlling interests	–	–	–	–	–	–	–	(2)	(2)
Common share dividends (note 25)	–	–	–	–	–	(209)	(209)	–	(209)
Preferred share dividends (note 25)	–	–	–	–	–	(52)	(52)	–	(52)
Tax on preferred share dividends	–	–	–	–	–	(2)	(2)	–	(2)
Dividends reinvested	15	–	–	–	–	–	15	–	15
Common shares purchased	(10)	–	–	–	–	–	(10)	–	(10)
Share-based payments	–	–	–	–	1	–	1	–	1
Share options exercised	19	–	–	–	(1)	–	18	–	18
Equity at December 31, 2020	$ 3,465	$ (48)	$ (34)	$ (20)	$ 11	$ (474)	$ 2,900	$ 29	$ 2,929

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

See accompanying notes to the consolidated financial statements

Consolidated statements of cash flows

(In millions of Canadian dollars)

Years ended December 31		2021		2020
Cash flows from operating activities:				
Net income	$	**87**	$	130
Non-cash adjustments to reconcile net income to net cash flows from operating activities:				
Impairments, net of reversal (note 19)		**58**		26
Depreciation and amortization (note 7)		**539**		478
Net finance expense (note 8)		**174**		197
Fair value changes on commodity derivative instruments and emission credits held for trading		**220**		15
Foreign exchange losses		**9**		–
Income tax expense (note 9)		**60**		82
(Income) loss from joint venture (note 32)		**(9)**		3
Recognition of government grant deferred revenue		**(126)**		(50)
Tax equity attributes (note 6)		**(88)**		(88)
Other items		**9**		13
Change in fair value of derivative instruments reflected as cash settlement		**(43)**		(14)
Distributions received from joint venture (note 32)		**11**		11
Interest paid		**(111)**		(132)
Income taxes recovered (paid)		**7**		(41)
Other cash items		**(30)**		(45)
Change in non-cash operating working capital (note 26)		**100**		26
Net cash flows from operating activities		**867**		611
Cash flows used in investing activities:				
Purchase of property, plant and equipment and other assets, net[1]		**(622)**		(318)
Business acquisitions, net of acquired cash (note 4)		**–**		(79)
Government grant received		**50**		50
Other cash flows from (used in) investing activities		**7**		(2)
Net cash flows used in investing activities		**(565)**		(349)
Cash flows used in financing activities:				
Proceeds from issue of loans and borrowings		**236**		578
Repayment of loans and borrowings		**(341)**		(444)
Issue costs on loans and borrowings		**(8)**		(9)
Repayment of lease liabilities		**(6)**		(6)
Issue of share capital (note 25)		**288**		–
Share issue costs (note 25)		**(12)**		–
Proceeds from exercise of share options		**21**		18
Common shares purchased (note 25)		**–**		(10)
Redemption of preferred shares (note 25)		**(200)**		–
Dividends paid (note 25)		**(219)**		(242)
Capitalized interest paid		**(10)**		(5)
Income taxes paid on preferred share dividends		**(21)**		(22)
Other cash flows used in financing activities		**(3)**		(4)
Net cash flows used in financing activities		**(275)**		(146)
Foreign exchange (loss) gain on cash held in a foreign currency		**(7)**		3
Net increase in cash and cash equivalents		**20**		119
Cash and cash equivalents, beginning of year		**367**		248
Cash and cash equivalents, end of year	$	**387**	$	367

[1] Reflects total additions for the year ended December 31, 2021, reduced by $159 million for changes in non-cash investing working capital and other non-current liabilities (2020 – increased by $12 million), to arrive at cash additions of property, plant and equipment and other assets.

See accompanying notes to the consolidated financial statements

Notes to the consolidated financial statements

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

1. Reporting entity:

Capital Power Corporation (the Company or Capital Power) develops, acquires, owns and operates utility-scale renewable and thermal power generation facilities and manages its related electricity and natural gas portfolios by undertaking trading and marketing activities.

The registered and head office of the Company is located at 10423 101 Street, Edmonton, Alberta, Canada, T5H 0E9. The common shares of the Company are traded on the Toronto Stock Exchange under the symbol “CPX”.

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 Company’s derivative instruments, emission credits held for trading, defined benefit pension plan assets and cash-settled share-based payments, which are stated at fair value.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on February 23, 2022.

(b) Basis of consolidation:

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

The Company has a 100% interest in each of Capital Power L.P. (CPLP), Capital Power L.P. Holdings Inc., and Capital Power (US Holdings) Inc. (2020 – 100%), which are all controlled by Capital Power and are therefore treated as subsidiaries of the Company.

Non-controlling interests in subsidiaries are identified separately from equity attributable to shareholders of the Company. 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.

(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. 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.

The Company elects on a transaction-by-transaction basis whether to measure a 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 and other acquisition costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

2. Significant accounting policies, continued:

(c) Business combinations and goodwill, continued:

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 Company's CGUs that are expected to benefit from the acquisition.

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.

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

(d) Investments in joint arrangements:

Investments in joint operations

Capital Power 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, Capital Power 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 and its share of any expenses incurred. The accounting policies of these joint operations are aligned with the accounting policies of the Company.

Investment in joint venture

When the Company has an equal interest in a partnership with an external party where, by contractual agreement, each of the Partners effectively has rights to the net assets of the arrangement, the arrangement is considered to be a joint venture.

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

(e) Foreign currency translation:

Transactions in foreign currencies are translated to the respective functional currencies of the Company, 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, other income and expenses are translated at average exchange rates prevailing during the period. The resulting foreign exchange gains and losses are included in net income.

On consolidation, the assets and liabilities of U.S. operations that have a functional currency that is different from the Company'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, other income 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 loss as unrealized gains and losses on net investment in foreign subsidiaries.

(f) Government grant:

The Company's government grant reflects compensation to be received from the Province of Alberta (the Province) through 2030 related to the phase-out of coal-fired generation (see note 15). The Company recognizes government grants initially at fair value, and subsequently at amortized cost using the effective interest method and records such grants as a receivable and deferred revenue when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Interest income is accrued on the government grant receivable, within net finance expense, until the final payment is received in 2030 and the associated deferred revenue is recognized as other income on a straight-line basis over the depreciable life of the coal-fired assets.

2. Significant accounting policies, continued:

(f) Government grant, continued:

The Company also applies the recognition and measurement principles of IAS 20 – Accounting for government grants and disclosure of government assistance for certain U.S. income tax benefits received under tax-equity structures with participating project investors (refer to note 2(i)).

(g) Revenue recognition:

The Company's revenues from contracts with customers are disaggregated by major type of revenues and operational groupings by facility category. Major types of revenues include energy revenues and emission credit revenues. Revenues excluded from the scope of IFRS 15 – Revenue from Contracts with Customers are disclosed as revenues from other sources and consist of contracts accounted for under IFRS 16 – Leases (note 2(h)) and IFRS 9 – Financial Instruments as described in the following table. Disaggregated revenues are disclosed in note 35.

Contracts with customers by operational groupings

Operational grouping[1]	Description
Alberta commercial[3]	Power sold into energy markets on a merchant or non-contracted basis is included in energy revenues. Renewable Energy Credit (REC) sales from Halkirk Wind are also within the scope of IFRS 15 and are described in the contracts with customers table below. The Company's portfolio optimization activities and associated revenues and certain contracts to sell renewable generation and environmental attributes from solar facilities are accounted for under IFRS 9 and excluded from the scope of IFRS 15.
Western Canada contracted[3]	Power generation revenue from the Western Canada contracted facilities is sold pursuant to long-term energy supply contracts which are included in energy revenues within the scope of IFRS 15. Energy sales from Island Generation are managed under an electricity purchase agreement that is considered a lease and accounted for under IFRS 16 and excluded from the scope of IFRS 15. REC sales from Whitla Wind are also within the scope of IFRS 15 and are described in the contracts with customers table below. By-product energy sales are included in energy revenues within the scope of IFRS 15.
Ontario contracted	Power generation revenue from the Ontario contracted facilities is sold pursuant to long-term energy supply contracts which are included in energy revenues within the scope of IFRS 15.
U.S. contracted	Power generation revenue from the U.S. contracted facilities that are managed under PPAs[2] and emission credit revenues under fixed price contracts are included in energy revenues and emission credit revenues, respectively, within the scope of IFRS 15. Power generation revenues from U.S. contracted facilities that are managed under tolling agreements are leases and accounted for under IFRS 16 and excluded from the scope of IFRS 15. In addition, certain U.S. renewable facilities contain revenue swap arrangements that are accounted for under IFRS 9 which are also excluded from the scope of IFRS 15.

[1] During the first quarter of 2021, management reviewed its facility groupings as a result of the change in classification of Genesee 1 and 2 as well as internal organizational changes. To best reflect how the Company operates, commencing January 1, 2021, the British Columbia and Alberta contracted facilities will be reported together as Western Canada contracted facilities with the Ontario contracted facilities in a separate grouping. Comparative figures have been reclassified to conform to the current year's presentation within disaggregated revenues disclosed in note 35.

[2] Certain of the Company's facilities derive revenues under power purchase agreements or arrangements (PPAs).

[3] The PPAs for Genesee 1 and 2 expired on December 31, 2020 and as a result, commencing January 1, 2021, power sold by Genesee 1 and 2 into the energy market on a merchant or non-contracted basis is presented within Alberta commercial facilities. Comparative figures within disaggregated revenues disclosed in note 35 reflect energy sold on a contracted basis. These contracts were considered to be leases accounted for under IFRS 16 and excluded from the scope of IFRS 15 and disclosed as revenues from other sources.

2. Significant accounting policies, continued:

(g) Revenue recognition, continued:

Contracts with customers

Revenue type	Nature, timing of satisfaction of performance obligations and significant payment terms
Energy revenues	Electricity and natural gas supply contracts include a single performance obligation that is satisfied over time. Revenues from the sale of electricity and natural gas are recognized under the right to invoice practical expedient. The right to invoice practical expedient allows an entity to recognize revenue when it has the right to invoice the customer, if that amount corresponds directly with the value to the customer of the entity's performance completed to date. This occurs upon delivery or availability for delivery under the respective contracts. Customers are billed in the reporting period subsequent to when the performance obligation was met and settlements are in accordance with the agreed-upon contractual terms. In instances where the right to invoice practical expedient cannot be applied, energy revenues are recognized as the performance obligation is satisfied and measured under the output method which is based on energy generated, or availability, depending on the nature of the contracts with customers.
Emission credit revenues	RECs generated by certain of the Company's facilities are sold to the respective customers under the terms of fixed price agreements. REC revenues are recognized when the performance obligations are satisfied at the specified transaction price. This can occur when physical control of RECs is transferred to the customer or recognized upon production and delivery of the electricity pursuant to an agreement for the bundled sale of electricity and RECs.

The Company's contracts with customers are billed and paid in accordance with agreed-upon contractual terms. The Company has not incurred additional costs to obtain or fulfill the contracts with its customers.

At December 31, 2021 and 2020, the Company has not recorded any conditional unbilled receivables (contract assets) and has recorded customer advances and deposits (contract liabilities) related to certain joint operation recoveries within deferred revenue and other liabilities (note 23).

Derivative instruments

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

Deferred revenue

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

The government grant described in note 2(f) is recorded as deferred revenue. Accretion of the deferred revenue is recognized in net finance expense on the consolidated statements of income.

Monetary contributions received from external parties used to provide the Company 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 straight-line over the life of the associated depreciable asset or 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.

2. Significant accounting policies, continued:

(h) Leases or arrangements containing a lease:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. This assessment involves determining whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lessee

The Company recognizes a right-of-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received. The right-of-use asset is depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case, the right-of-use asset would be depreciated over the useful life of the underlying asset. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. Lease payments are recorded as interest expense and a reduction of the lease liability. Interest expense is recognized using the effective interest method. The Company is the lessee in contracts for various office, equipment and land leases.

Lessor

At lease inception the Company determines whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is classified as a finance lease; otherwise it is classified as an operating lease and revenues are recognized on a straight-line basis as part of energy revenues unless another method better represents the earnings process.

(i) Non-derivative financial instruments:

Classification

The Company classifies its non-derivative financial instruments in the following categories: fair value through income or loss (FVTIL) or amortized cost.

The Company determines the classification of financial assets and liabilities at initial recognition. Classification of financial assets and liabilities is determined based on the business model by which assets and liabilities are managed and their cash flow characteristics.

Financial assets and liabilities are measured at FVTIL if they are classified as held for trading or are designated as such upon initial recognition. The Company may designate financial instruments as held at FVTIL 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.

Measurement

Financial assets and liabilities at fair value through income or loss

Upon initial recognition, transaction costs are recognized into net income as incurred. Financial assets and liabilities classified as held at FVTIL 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 derecognition of investments held at fair value through income or loss are recognized into net income.

Financial assets and liabilities at amortized cost

The Company's financial assets measured at amortized cost are comprised of cash and cash equivalents, trade and other receivables, and the government grant receivable.

Financial 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.

The Company's financial liabilities measured at amortized cost are comprised of loans and borrowings and trade and other payables and are recognized on the date at which the Company becomes a party to the contractual arrangement. Liabilities are derecognized when the contractual obligations are discharged, cancelled or expired.

2. Significant accounting policies, continued:

(i) Non-derivative financial instruments, continued:

Financial 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 method.

Financial assets and financial liabilities are presented on a net basis when the Company 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 Company participates in tax-equity structures with project investors which have financed the construction of certain renewables projects. Such tax-equity structures are used in the U.S. to provide investors with access to U.S. income tax benefits such as investment tax credits, cash grants, production tax credits and accelerated tax depreciation. In return for purchasing equity stakes in these projects, the project investors receive a substantial portion of earnings, tax benefits and cash flows from the projects financed with a tax-equity structure until the projects have yielded an agreed-upon target rate of return to the project investors. Immediately thereafter, the structures “flip” such that the Company receives the majority of earnings, tax benefits and cash flows from the projects financed with tax-equity structures. The dates of the “flips” are dependent on the performance of the respective projects. In accordance with the substance of the contractual agreements, the amounts paid by the project investors for their equity stakes are classified as loans and borrowings on the consolidated statements of financial position until the respective “flip” dates of the projects. Subsequent to the “flip” dates, the project investor’s equity investments will be accounted for as non-controlling interests. At all times, both before and after the projects “flip,” the Company retains control over the projects financed with a tax-equity structure.

The loans and borrowings associated with the tax-equity structures are measured at amortized cost using the effective interest method and are settled over time through the following components:

Components	Description
Production tax credits (PTCs)	Allocation of PTCs to the tax-equity investor derived from the power generated by the respective renewables facility during the period and recognized in other income as earned.
Taxable income (loss), including tax attributes such as accelerated tax depreciation	Allocation of taxable income (loss) and other tax attributes to the tax-equity investor recognized in other income as earned.
Cash distributions	Cash allocation to the tax-equity investor.

(j) Derivative instruments and hedging activities:

To reduce its exposure to movements in energy commodity prices, interest rates and foreign currency exchange rates, the Company 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.

Classification and measurement

All changes in the fair value of derivatives are recorded in net income unless cash flow hedge accounting requirements are met and the derivative is designated as a hedge, in which case such derivatives are classified as fair value through other comprehensive income (FVTOCI). Realized gains and losses on financial energy derivatives classified as FVTOCI are recorded in revenues or energy purchases and fuel. Realized gains and losses on interest rate derivatives classified as FVTOCI are recorded in finance expense during the periods when the variability in cash flows of the hedged items affects net income or as the original hedged item settles. Realized gains and losses on foreign exchange derivatives classified as FVTOCI are recorded in foreign exchange gains or losses, or where the hedged transaction results in the recognition of net assets, those realized gains will flow through the initial carrying amount of those net assets. Unrealized gains and losses are recorded in other comprehensive income or loss. Fair values are determined in the manner described in note 3.

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. Derivative instruments are measured at FVTIL unless cash flow hedge accounting is used, in which case they are measured at FVTOCI. Embedded derivative instruments that are clearly and closely related to their host contract as noted above are never separated and are classified and measured as a combined instrument.

2. Significant accounting policies, continued:

(j) Derivative instruments and hedging activities, continued:

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 Company's expected purchase, sale or usage requirements. The Company accounts separately for any embedded derivatives in any hybrid instruments issued or acquired. The Company 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.

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 interest rate derivatives are recorded in net finance expense and such gains and losses on financial foreign exchange derivatives are recorded in foreign exchange gains and losses.

Hedge accounting

The Company 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 Company 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.

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 (loss), while the ineffective portion is recognized in revenues, energy purchases and fuel, net finance expense or foreign exchange gain/loss as appropriate. The amounts recognized in other comprehensive income (loss) 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 Company has not designated any fair value hedges at the date of the statement of financial position.

A hedging relationship is discontinued when it no longer meets the risk management objective and qualifying criteria for hedge accounting. 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 loss 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 (loss) 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 near 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 (loss) 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 Company uses appropriate valuation and price modelling 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.

(k) Property, plant and equipment

Property, plant and equipment is 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:

(k) Property, plant and equipment, continued:

The cost of replacing a part of property, plant and equipment is capitalized if it is probable that the future economic benefits of the part will flow to the Company 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 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 which, for our generation facilities and equipment, range from 1 to 40 years. Land and construction work in progress are not depreciated. 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. Gains or losses on disposals are recognized on their own line within the consolidated statements of income while losses on retirements are recognized within depreciation and amortization.

(l) 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 generally amortized over the related assets useful lives, as described below. Refer to note 18 for additional discussion on intangible assets.

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. The Company's purchased emission credits held for compliance purposes are not amortized, but are expensed as the associated benefits are realized. Such emission credits have definite lives as prescribed by their respective vintage years and any emission credits not used by the end of their lives would be expensed at that time.

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

Contract rights	16 to 30 years
Software	5 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.

(m) 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 Company intends to and has sufficient resources to complete development and 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.

(n) Capitalized borrowing costs:

The Company 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 Company'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.

2. Significant accounting policies, continued:

(o) Impairment of assets:

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 Company reviews the recoverability of non-financial assets subject to depreciation or amortization (right-of-use assets, 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 Company 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 post-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 Company'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 Company makes an assessment as to whether there is any indication that previously incurred impairment losses no longer exist. If such an indication exists, the Company 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.

Financial assets

The Company applies the "expected credit loss" (ECL) impairment model which applies to all financial assets. The Company considers the probability of default upon initial recognition of financial assets and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The Company applies judgment to assess whether there is a significant increase in credit risk and considers available and reasonable forward-looking information in supporting this assessment.

The Company has applied the simplified approach to providing for ECLs prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade and other receivables.

For all other financial assets, expected allowances are recognized as 12-month ECLs unless the credit risk of a financial asset has increased significantly, in which case lifetime ECL measurement applies. The Company has identified no financial instruments for which credit risk has increased significantly since initial recognition nor financial assets that are impaired at December 31, 2021. Credit risk management procedures, including risk mitigation practices, are as described in note 30.

2. Significant accounting policies, continued:

(p) Income taxes:

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 (loss), 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 Company's operations are complex, and the related domestic and foreign tax interpretations, regulations, legislation and jurisprudence are continually changing. 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. There are usually some tax matters in question that result in uncertain tax positions. The Company recognizes the income tax benefit of an uncertain tax position only when it is more likely than not that the ultimate determination of the tax treatment of the position will result in that benefit being realized; however, this does not mean that tax authorities cannot challenge these positions. 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 from the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither the taxable nor the accounting income;
- Temporary differences related to investments in subsidiaries, associates and joint arrangements to the extent that the Company 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
- Temporary differences arising on the initial recognition of goodwill.

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 Company's cash flow projections, which include estimates described in note 3. Deferred income tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable 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 Company 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 fuel, principally all of which are consumed by the Company 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.

2. Significant accounting policies, continued:

(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 Company 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 Company 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 net finance expense over the estimated useful lives of the assets.

(t) Share-based payments:

The Company operates an equity-settled, share-based compensation plan where each stock option converts into one common share. The fair value of options granted for employee services is recognized over a three-year vesting period as a compensation expense within staff costs and employee benefits expense and credited to the employee benefits reserve. The employee benefits reserve is reduced as the options are exercised and the amount initially recorded as a credit in employee benefits reserve is reclassified to share capital. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The Company determines the fair value of stock options using a binomial option pricing model at the date of grant. Measurement inputs include the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds).

The Company has incorporated an estimated forfeiture rate for stock options that will not vest into its determination of share-based compensation for each period.

The Company also operates share-based compensation plans for certain senior employees under a Performance Share Unit (PSU) Plan and a Restricted Share Unit (RSU) Plan. Share-based compensation for directors operates under a directors' Deferred Share Unit (DSU) Plan. The fair values of the amounts payable to employees/directors in respect of the PSU Plan, RSU Plan and the DSU Plan, which are settled in cash, are recognized as expenses with corresponding increases in liabilities, over the period that the employees/directors unconditionally become entitled to payments. The PSU Plan and RSU Plan grant date fair values are determined using a binomial lattice valuation based on a five-day weighted average price of the Company's shares immediately prior to the grant, adjusted for estimated forfeitures and discounted using the risk-free interest rate. The DSU Plan grant date fair values are determined using the five-day weighted average price of the Company's shares immediately prior to the grant. The liability is re-measured to fair value at each reporting date and at the settlement date. Any changes in the fair value of the liability are recognized in income or loss.

(u) Earnings per share:

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated on the treasury stock method, by dividing income available to common shareholders, adjusted for the effects of dilutive securities, by the weighted average number of common shares outstanding during the period and all additional common shares that would have been outstanding had all potential dilutive common shares been issued.

3. Use of judgments and estimates:

The preparation of the Company'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 Company 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 Company's consolidated financial statements relate to:

Non-financial assets

The determination of CGUs was based on management's judgment and gives 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.

Determining whether an arrangement contains a lease

The Company has exercised judgment in determining whether an arrangement contains a lease. This includes assessing whether a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration for each agreement that was evaluated.

As noted in note 2(h), the Company has exercised judgment in determining whether the control 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. Details of those PPAs are provided in note 17.

Classification of joint arrangements structured through a separate vehicle

The Company has exercised judgment in determining the classification of joint arrangements structured through separate vehicles as described in note 32.

Operating segments

As noted in note 35, the Company operates in one reportable business segment. The Company has aggregated its operating segments into one reportable business segment as its operating segments have similar products, production processes, types of customers, product distribution methods, regulatory environments and economic characteristics. Each operating segment is involved with the generation and sale of electricity, which includes the process of turning various fuel sources into electricity and managing the revenues and costs of such electricity, including engaging in trading activities. The Company's customers tend to be large industrial and commercial customers, independent system operators and government-owned or sponsored entities. Given the similar size and credit profiles of these counterparties, they are deemed to be similar types of customers. The method of distributing electricity is the same across all facilities, and none of the Company's entities are rate-regulated.

Key sources of estimation uncertainty

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

Measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. Fair value represents the Company'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, as well as those included within note disclosures, 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.

3. Use of judgments and estimates, continued:

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 whereby the Company can obtain quoted prices for identically traded commodities.
- Level 2: Fair value is based on inputs other than 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 Company'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 Company's assessment of the significance of a particular input to the fair value measurement requires judgment which will affect the placement within the fair value hierarchy levels.

Further information about the significant assumptions made in measuring certain fair values that are considered to be key sources of estimation uncertainty is included in the following notes:

- Note 4 – Acquisition of Buckthorn Wind;
- Notes 14 and 29 – Financial instruments;
- Note 19 – Property, Plant and Equipment; and
- Note 24 – 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. During 2021 and 2020, management assessed the major components of existing and acquired property, plant and equipment in the respective years (see note 4) and estimated the useful lives of the respective components consistent with the Company's estimated useful lives for existing major components of similar generation facilities and equipment.

In December 2020, the Company announced its plan to repower Genesee 1 and 2 and be off coal in 2023. Accordingly, the Company prospectively adjusted the useful lives of its coal-fired assets from 2029 to 2023 to reflect the shortened useful lives and extended the useful lives of certain natural gas components by approximately 21 years.

Income taxes

Income taxes are determined based on estimates of the Company'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.

4. Acquisition of Buckthorn Wind:

On April 1, 2020, the Company acquired a 100% ownership interest in Buckthorn Wind, a 101 megawatt (MW) wind facility in Texas, from co-sellers John Laing Investments and Clearway Renew LLC, a subsidiary of Clearway Energy Group LLC. The purchase price consisted of (i) $84 million (US$60 million) in total cash consideration, including working capital and other closing adjustments, (ii) the assumption of tax-equity financing of $95 million (US$68 million) and (iii) contingent consideration valued at nil. Contingent consideration, to a maximum of US$8 million, would become payable in the future if certain market outcomes lead to Buckthorn Wind exceeding agreed-upon thresholds. At the acquisition date, the Company considered the likelihood of contingent consideration payment to be low, resulting in no value being ascribed to the contingent consideration in the purchase price allocation. The acquisition was accounted for as a business combination.

This acquisition supports the Company's growth strategy with long-term contracts strengthening the Company's contracted cash flow profile, while also expanding its renewables portfolio.

The allocation of the purchase price to the assets acquired and liabilities assumed based on their estimated fair values was as follows:

		April 1, 2020
Cash and cash equivalents	$	5
Trade and other receivables		1
Derivative financial instrument assets[1,2]		48
Right-of-use assets		7
Property, plant and equipment		171
Trade and other payables		(2)
Loans and borrowings[1]		(95)
Lease liabilities[1]		(7)
Provisions		(6)
Deferred revenue and other liabilities[1]		(3)
Deferred tax liabilities		(35)
Fair value of net assets acquired	$	84

[1] Includes current portion.

[2] The balance consists of $4 million classified in Level 2 and $44 million in Level 3 of the fair value hierarchy.

Buckthorn Wind has the following revenue swap arrangements (see note 29 for details on the fair value of these derivative financial instruments):

- Offtake swap: The offtake swap is a 20-year contract with an investment grade counterparty which covers 55% of the facility's output. Under this contract the Company will swap the market revenue and environmental attributes associated with the contract quantity for a fixed price per megawatt hour (MWh). There were 18 years remaining on this contract as of the acquisition date.
- Commodity swap: The commodity swap is a 13-year contract with an investment grade counterparty, with a fixed notional quantity equal to 45% of the long-term average forecasted annual production. Under this contract, the Company will swap the market revenue associated with the fixed notional quantity for a fixed price per MWh. There were 11 years remaining on this contract as of the acquisition date.

The tax-equity financing related to Buckthorn Wind 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 dates on which the project investor reaches the agreed-upon target rate of return (note 21).

The results of operations of Buckthorn Wind are included in the Company's consolidated statements of income and statements of changes in equity from the date of acquisition. Such results of operations and the related assets and liabilities at the statement of financial position date are included in the consolidated statements of financial position. For the year ended December 31, 2020, and since the acquisition date, the consolidated statements of income reflect losses of $2 million recorded in revenues (net of unrealized mark to market losses on derivative financial instruments), $9 million of other income and $8 million of net loss related to Buckthorn Wind.

4. Acquisition of Buckthorn Wind, continued:

Had the acquisition occurred at January 1, 2020, the combined entity of the Company and Buckthorn Wind would have had a total of $1,784 million of revenues, $151 million of other income and $124 million of net income for the year ended December 31, 2020.

In conjunction with the acquisition of Buckthorn Wind, for the year ended December 31, 2020, the Company incurred $1 million in acquisition costs which were recorded on the Company's consolidated statements of income as other administrative expenses.

5. Gains on disposals and other transactions:

Year ended December 31		**2021**		2020
Insurance recoveries net of related expenses[1]	**$**	**23**	$	–
Net gains on decommissioning of facilities[2]		**7**		–
Other gains on disposals		**6**		–
Total gains on disposals and other transactions	**$**	**36**	$	–

[1] In July 2021, Genesee 2 experienced a forced outage due to a generator failure. Genesee 2 was repaired and returned to service in early December 2021. The amount reflected here for the year ended December 31, 2021 includes insurance recoveries of $35 million less $6 million of expenses incurred related to the outage and a loss on disposal of the damaged equipment of $6 million written off from property, plant and equipment. These insurance recoveries reflect both the expensed costs noted above and capitalized costs incurred to repair Genesee 2 (recorded within property, plant and equipment), net of the deductible amount under the insurance contract. In the fourth quarter of 2021, $21 million of these insurance recoveries were received with the remaining $14 million accrued as trade and other receivables at December 31, 2021.

Additionally, business interruption insurance recoveries of $11 million were accrued within other income (see note 6) for the year ended December 31, 2021.

[2] In March 2021, the Southport and Roxboro facilities ceased operations and have since commenced decommissioning. The net gains above reflect lower decommissioning costs than what the Company previously established as provisions net of inventory write-offs (see note 13).

6. Other income:

Year ended December 31		**2021**		2020
Contributions and grants	**$**	**7**	$	6
Government compensation (note 15)		**126**		50
Production tax credits		**61**		61
Other Tax Equity Investment tax attributes		**27**		27
Other		**12**		2
Other income	**$**	**233**	$	146

7. Expenses:

Year ended December 31		2021		2020
Included in energy purchases and fuel				
Recovery of flow-through expenses related to the Genesee 1 and 2 PPAs	**$**	**–**	$	(108)
Included in staff costs and employee benefits expense				
Share based payments (note 28)		**16**		9
Post-employment defined contribution plan expense		**8**		8
Post-employment defined benefit plan expense		**3**		3
		27		20
Included in depreciation and amortization				
Depreciation of property, plant and equipment (note 19)		**445**		383
Amortization of intangible assets (note 18)		**80**		81
Depreciation of right-of-use assets (note 17)		**9**		9
Other		**5**		5
	$	**539**	$	478

8. Net finance expense:

Year ended December 31		2021		2020
Interest expense				
Interest on loans and borrowings	**$**	**142**	$	165
Capitalized interest		**(10)**		(5)
Total interest expense		**132**		160
Other finance expense				
Accretion on decommissioning provisions (note 24)		**5**		5
Interest on lease liabilities		**8**		6
Accretion on deferred government grant revenue		**36**		17
Interest on long-term government grant receivable		**(13)**		(14)
Other		**6**		23
Net finance expense	**$**	**174**	$	197

9. Income tax expense:

Year ended December 31		2021		2020
Current income tax				
Current income tax expense	**$**	**60**	$	17
Adjustments for prior periods		**–**		1
Total current income tax expense		**60**		18
Deferred income tax				
Origination and reversal of temporary differences		**23**		64
Recognition of previously unrecognized tax benefits		**(21)**		(2)
Change in write-downs of deferred tax assets		**(2)**		2
Total deferred income tax expense		**–**		64
Income tax expense	**$**	**60**	$	82

Reconciliation of effective income tax rate

Year ended December 31		2021		2020
Income before tax	**$**	**147**	$	212
Income tax at the statutory rate of 23% (2020 – 24%)[1]		**34**		51
Increase (decrease) resulting from:				
Amounts attributable to non-controlling interests and tax-equity interests		**21**		20
Change in unrecognized tax benefits		**(2)**		2
Non-deductible (taxable) amounts		**7**		(2)
Adjustments for prior periods		**–**		(2)
Statutory and other rate differences[1]		**(2)**		10
Other		**2**		3
Income tax expense	**$**	**60**	$	82

[1] On June 29, 2020, the Alberta Government accelerated the remaining tax rate reduction and decreased the Alberta corporate income tax rate to 8% effective July 1, 2020. As a result, the 2020 statutory tax rate is 24% and decreased to 23% for 2021 and onwards. Even though the Alberta corporate income tax rate decrease was accelerated, no further significant remeasurement of the Canadian deferred tax assets and liabilities was recognized.

10. Earnings per share:

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

Year ended December 31		2021		2020
Income for the period attributable to shareholders	**$**	**98**	$	136
Preferred share dividends[1]		**(54)**		(54)
Earnings available to common shareholders	**$**	**44**	$	82
Weighted average number of common shares		**112,054,541**		105,302,806
Basic earnings per share	**$**	**0.39**	**$**	0.78
Weighted average number of common shares		**112,054,541**		105,302,806
Effect of dilutive share purchase options		**752,885**		550,568
Diluted weighted average number of common shares		**112,807,426**		105,853,374
Diluted earnings per share	**$**	**0.39**	$	0.77

[1] Includes preferred share dividends declared and related taxes.

11. Cash and cash equivalents:

At December 31		2021		2020
Cash on deposit	**$**	**218**	$	67
Cash equivalents		**169**		300
	$	**387**	$	367

Included in the Company'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 and tax-equity interests of $17 million (2020 – $24 million).

12. Trade and other receivables:

At December 31		2021		2020
Accrued revenues	**$**	**308**	$	330
Trade receivables		**62**		50
Net trade receivables[1]		**370**		380
Government grant receivable (note 15)		**55**		54
Income taxes recoverable		**7**		29
Prepayments		**42**		36
	$	**474**	$	499

[1] At December 31, 2021, includes no amounts (2020 – $83 million) related to the Line Loss Rule Proceeding as described in note 33(c) and the amount in dispute with the Balancing Pool of approximately $25 million has been recorded in other assets.

Details of the aging of trade receivables and analysis of the movement on the allowance for doubtful accounts are provided in note 30.

13. Inventories:

At December 31		2021		2020
Parts and other consumables	**$**	**144**	$	157
Emission credits		**51**		49
Fuel		**22**		14
	$	**217**	$	220

Inventories expensed upon usage for the year ended December 31, 2021 of $115 million (2020 – $156 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 14. There were inventory write-downs of $10 million recognized (including $8 million (US$7 million) related to the decommissioning of Southport and Roxboro – see note 5) in the year ended December 31, 2021 (2020 – $1 million). There were no reversals of previous write-downs recognized in the year ended December 31, 2021 (2020 – nil). At December 31, 2021, no inventories were pledged as security for liabilities (2020 – nil).

14. Derivative financial instruments and hedge accounting:

Derivative instruments assets and liabilities are primarily used for risk management purposes as described in note 30 and consist of the following:

	December 31, 2021				
	Energy and emission allowances		Interest rate		
	Cash flow hedges	Non-hedges	Cash flow hedges	Non-hedges	Total
Derivative instruments assets:					
Current	$ 5	$ 94	$ –	$ 9	$ 108
Non-current	2	210	10	–	222
Derivative instruments liabilities:					
Current	(72)	(149)	(31)	–	(252)
Non-current	(21)	(290)	(40)	(1)	(352)
Net fair value	$ (86)	$ (135)	$ (61)	$ 8	$ (274)
Net notional buys (sells) (millions):					
Megawatt hours of electricity	(5)	(26)			
Gigajoules of natural gas purchased[1]		129			
Gigajoules of natural gas basis swaps[1]		128			
Number of renewable energy credits		(8)			
Interest rate swaps			$ 1,501	$ 80	
Range of remaining contract terms in years	0.1 to 4.0	0.1 to 25.1	0.7 to 5.1	1.4 to 1.9	

[1] The Company's natural gas trading strategy employs future purchase derivative instruments as well as basis swaps pertaining to certain of the future purchase derivative instruments, to manage its exposure to commodity price risk.

	December 31, 2020					
	Energy and emission allowances		Interest rate			
	Cash flow hedges	Non-hedges	Cash flow hedges	Non-hedges	Foreign exchange cash flow hedges	Total
Derivative instruments assets:						
Current	$ 1	$ 65	$ 5	$ –	$ –	$ 71
Non-current	1	173	3	–	–	177
Derivative instruments liabilities:						
Current	(13)	(39)	(23)	(1)	(15)	(91)
Non-current	(18)	(120)	(74)	–	–	(212)
Net fair value	$ (29)	$ 79	$ (89)	$ (1)	$ (15)	$ (55)
Net notional buys (sells) (millions):						
Megawatt hours of electricity	(5)	(20)				
Gigajoules of natural gas purchased[2]		195				
Gigajoules of natural gas basis swaps[2]		197				
Metric tonnes of emission allowances		1				
Number of renewable energy credits		(6)				
Interest rate swaps			$ 1,001	$ 260		
Interest rate swaps (U.S. dollars)			$ 180			
Forward currency buys (U.S. dollars)					$ 94	
Range of remaining contract terms in years	0.1 to 4.0	0.1 to 17.0	0.5 to 6.1	0.9 to 1.7	0.3 to 1.0	

[2] The Company's natural gas trading strategy employs future purchase derivative instruments as well as basis swaps pertaining to certain of the future purchase derivative instruments, to manage its exposure to commodity price risk.

14. Derivative financial instruments and hedge accounting, continued:

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 Company uses appropriate valuation and price modelling techniques commonly used by market participants to estimate fair value. The Company 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 Company'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. At December 31, 2021 and 2020, the Company classified financial instruments under Level 2 and Level 3 of the fair value hierarchy described in note 3.

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

	2021		2020	
	Unrealized (losses) gains	**Realized (losses) gains**	Unrealized losses	Realized gains (losses)
Energy cash flow hedges	**$ (88)**	**$ (201)**	$ (10)	$ 34
Energy and emission allowances non-hedges	**(224)**	**6**	(14)	46
Interest rate cash flow hedges[3]	**25**	**(6)**	(23)	(6)
Interest rate non-hedges	**9**	**–**	(3)	(5)
Foreign exchange cash flow hedges	**15**	**–**	(15)	–
Foreign exchange non-hedges	**–**	**(2)**	–	1

[3] Includes the settlement of interest rate cash flow hedges of US$180 million in June 2021 for a gain of $14 million of which $12 million was deferred within accumulated other comprehensive loss to be reclassified to net income in future periods within the associated net finance expense pertaining to the hedged note offering.

The following realized and unrealized gains and (losses) on derivative financial instruments are included in the Company's statements of income for the years ended December 31, 2021 and 2020:

	2021	2020
Revenues	**$ (840)**	$ 38
Energy purchases and fuel	**421**	28
Foreign exchange (loss) gain	**(2)**	1
Net finance expense	**3**	(14)

The Company has elected to apply hedge accounting on certain derivatives it uses to manage commodity price risk relating to electricity prices, interest rate risk relating to future borrowings and foreign exchange risk relating to future capital investment in U.S. dollars. For the year ended December 31, 2021, $2 million of gains were realized within net finance expense pertaining to the ineffective portion of hedging derivatives (2020 – nil).

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

At December 31	**2021**
Within one year	**$ (78)**
Between one and five years	**(18)**
After five years	**1**
	$ (95)

15. Government compensation:

In 2016, the Company reached an agreement with the Government of Alberta (GoA) related to the 2030 phase-out of coal-fired generation. As compensation for the capital that the Company invested in coal generating assets that would be stranded effective December 31, 2030, the Company was to receive cash payments from the Province of $52 million annually for 14 years, commencing July 31, 2017, for a total of $734 million. This future compensation stream has been recognized as a government grant, recorded within deferred revenue and other liabilities and is being recognized into net income over the useful lives of the related coal-fired generation assets. Additionally, the compensation to be received has been recognized as a government grant receivable which will be drawn down as cash payments are received.

The amount recorded within deferred revenue and other liabilities was originally being recognized into net income through 2030 and was subsequently updated to reflect the change in mandated phase-out of coal-fired generation by December 31, 2029. In December 2020, the Company announced plans to be off-coal in 2023 which further shortened the useful lives of its coal-fired assets from 2029 to 2023 and adjusted the recognition of the government grant deferred revenue to align with the depreciation of the coal-fired assets.

The GoA conducted an audit on the calculation of net book values driving the compensation payments and has withheld approximately $2.7 million from each of the payments from 2017 through 2021. The Company is disputing the withholding but has reduced the amounts recorded related to the compensation stream to reflect the uncertainty around the withheld portion of the payments. This has resulted in a reduction of $1.5 million to the government compensation amount recorded in other income for each of the corresponding years from 2017 through 2021. The respective deferred revenue and government grant receivable amounts were likewise adjusted to reflect total payments over the 14-year term of $712 million.

The conditions on the government grant include the Company agreeing to cease coal-fired emissions on or before December 31, 2030 and the Company continuing to participate in and make a minimum annual investment of $1 million in the Alberta electricity market, with a minimum total investment in the Alberta electricity market of $70 million by the end of 2030. By 2019, the Company well exceeded the total required investment with its investment in the first phase of Whitla Wind and continues to invest in Alberta with the repowering of Genesee 1 and 2 and other renewable projects under construction (see note 33(a)). Additional conditions include the Company supporting the local communities surrounding the coal facilities through 2030, and fulfilling its pension and other commitments to employees.

16. Deferred tax:

Movement of deferred tax balances

	At January 1, 2021	Recognized in net income	Recognized directly in other comprehensive income	Amounts relating to acquisitions and disposals	Recognized directly in equity	**At December 31, 2021**	Deferred tax assets	Deferred tax liabilities
Losses carried forward	$ 67	$ (9)	$ –	$ –	$ –	$ 58	$ 58	$ –
Property, plant and equipment	(699)	(67)	–	2	–	(764)	–	(764)
Intangible assets	(65)	7	–	–	–	(58)	37	(95)
Deferred partnership (income) losses	(35)	42	–	–	–	7	7	–
Derivative financial instruments	6	56	13	–	–	75	160	(85)
Share issue costs and deferred financing charges	3	–	–	–	1	4	4	–
Deferred revenue and other liabilities	115	(25)	–	–	–	90	90	–
Right-of-use assets	(28)	1	–	–	–	(27)	–	(27)
Government grant receivable	(104)	9	–	–	–	(95)	–	(95)
Other financial assets	(3)	3	–	–	–	–	–	–
Decommissioning provisions	101	(13)	–	–	–	88	88	–
Goodwill	8	(1)	–	–	–	7	7	–
Prepaid reclamation amounts	(15)	1	–	–	–	(14)	–	(14)
Other provisions	15	2	(1)	–	–	16	16	–
Loans and borrowings	9	(5)	–	–	–	4	5	(1)
Other assets	6	(4)	–	–	–	2	2	–
Trade and other receivables	–	3	–	–	–	3	3	–
Trade and other payables	–	1	–	–	–	1	1	–
Lease liabilities	37	(1)	–	–	–	36	36	–
Deferred tax (liabilities) assets	$ (582)	$ –	$ 12	$ 2	$ 1	$ (567)	$ 514	$ (1,081)
Set-off of tax						–	(497)	497
Net deferred tax (liabilities) assets						$ (567)	$ 17	$ (584)

16. Deferred tax, continued:

Movement of deferred tax balances, continued:

	At January 1, 2020	Recognized in net income	Recognized directly in other comprehensive income	Amounts relating to acquisitions and disposals	Recognized directly in equity	At December 31, 2020	Deferred tax assets	Deferred tax liabilities
Losses carried forward	$ 51	$ 22	$ (1)	$ –	$ (5)	$ 67	$ 67	$ –
Property, plant and equipment	(645)	(34)	6	(26)	–	(699)	–	(699)
Intangible assets	(71)	7	(1)	–	–	(65)	42	(107)
Deferred partnership losses (income)	40	(75)	–	–	–	(35)	–	(35)
Derivative financial instruments	10	(2)	11	(13)	–	6	69	(63)
Share issue costs and deferred financing charges	4	–	–	–	(1)	3	3	–
Deferred revenue and other liabilities	119	(3)	(1)	–	–	115	115	–
Right-of-use assets	(21)	(5)	–	(2)	–	(28)	–	(28)
Government grant receivable	(112)	8	–	–	–	(104)	–	(104)
Other financial assets	(3)	1	(1)	–	–	(3)	–	(3)
Decommissioning provisions	83	17	(1)	2	–	101	101	–
Goodwill	8	–	–	–	–	8	8	–
Prepaid reclamation amounts	(15)	–	–	–	–	(15)	–	(15)
Other provisions	20	(6)	1	–	–	15	15	–
Loans and borrowings	11	(2)	–	–	–	9	9	–
Other assets	6	–	–	–	–	6	6	–
Trade and other receivables	1	(1)	–	–	–	–	–	–
Lease liabilities	26	9	–	2	–	37	37	–
Deferred tax (liabilities) assets	$ (488)	$ (64)	$ 13	$ (37)	$ (6)	$ (582)	$ 472	$ (1,054)
Set-off of tax						–	(453)	453
Net deferred tax (liabilities) assets						$ (582)	$ 19	$ (601)

Unrecognized deferred tax assets

Deferred tax assets have not been recognized on the following items:

At December 31	**2021**	2020
Non-capital losses	**$ 59**	$ 148
Deductible temporary differences with no expiry	**60**	87
	119	235

16. Deferred tax, continued:

Tax losses carried forward

	2021		2020	
	Tax losses	**Expiry dates**	Tax losses	Expiry dates
Unrecognized tax losses carried forward	**$ 59**	**2031–2041**	$ 148	2028–2040

At December 31, 2021, the Company has non-capital losses carried forward of $325 million (2020 – $445 million), of which $304 million (US$240 million) (2020 – $220 million (US$172 million)) relates to U.S. subsidiaries. The Company determined that it is probable that there is sufficient future taxable income that would be available to utilize the non-capital losses carried forward that have been recognized.

17. Leases:

Lessee – right-of-use assets

	Land	Offices	Equipment	Total
At January 1, 2020	$ 39	$ 25	$ 31	$ 95
Additions	46	2	–	48
Depreciation	(3)	(3)	(3)	(9)
Foreign currency translation adjustments	(5)	–	–	(5)
At December 31, 2020	$ 77	$ 24	$ 28	$ 129
Additions	**3**	**–**	**1**	**4**
Other adjustments	**(3)**	**–**	**–**	**(3)**
Depreciation	**(3)**	**(3)**	**(3)**	**(9)**
Foreign currency translation adjustments	**(1)**	**–**	**–**	**(1)**
At December 31, 2021	**$ 73**	**$ 21**	**$ 26**	**$ 120**

Lessee – lease liabilities

The following table presents amounts recognized in the consolidated statements of income:

Year ended December 31,	**2021**	2020
Income from rental and sub-leasing	**$ 1**	$ 1
Interest on lease liabilities	**(8)**	(6)
Variable lease payments not included in the measurement of lease liabilities	**(6)**	(7)

At December 31, 2021, expenses related to short-term and low-value leases was $1 million (2020 – nil).

Lessor – facilities under operating leases

The Island Generation, Decatur Energy and Arlington Valley power generation facilities are accounted for as assets under operating leases. The Genesee 1 and 2 PPAs were accounted for as assets under operating leases through to the end of the PPAs on December 31, 2020.

At December 31, 2021, the cost of such property, plant and equipment was $1,041 million (December 31, 2020 – $2,065 million including Genesee 1 and 2 of $970 million), less accumulated depreciation of $273 million (December 31, 2020 – $612 million including Genesee 1 and 2 of $374 million).

17. Leases, continued:

Lessor – facilities under operating leases, continued:

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

At December 31		2021
2022	$	**123**
2023		**111**
2024		**105**
2025		**105**
2026		**118**
Thereafter		**674**
Total	**$**	**1,236**

18. Intangible assets and goodwill:

		Intangible work in progress		PPAs		Contract rights		Other rights		Emission credits		Software		Goodwill		Total
Cost																
At January 1, 2020	$	21	$	604	$	60	$	124	$	25	$	53	$	35	$	922
Additions		20		–		–		2		35		–		–		57
Additions into service		(20)		–		7		10		–		3		–		–
Retirements and other disposals		(1)		(3)		–		–		(6)		–		–		(10)
Other		–		(2)		(1)		1		13		–		–		11
At December 31, 2020	$	20	$	599	$	66	$	137	$	67	$	56	$	35	$	980
Additions		**17**		**–**		**–**		**25**		**66**		**–**		**–**		**108**
Additions into service		**(32)**		**–**		**16**		**5**		**–**		**11**		**–**		**–**
Retirements and other disposals		**–**		**–**		**–**		**–**		**(3)**		**–**		**–**		**(3)**
Other		**(2)**		**–**		**–**		**(9)**		**(3)**		**–**		**–**		**(14)**
At December 31, 2021	**$**	**3**	**$**	**599**	**$**	**82**	**$**	**158**	**$**	**127**	**$**	**67**	**$**	**35**	**$**	**1,071**
Accumulated amortization																
At January 1, 2020	$	–	$	(58)	$	(16)	$	(18)	$	–	$	(35)	$	–	$	(127)
Amortization (note 7)		–		(69)		(3)		(4)		–		(5)		–		(81)
Other		–		1		–		–		–		–		–		1
At December 31, 2020	$	–	$	(126)	$	(19)	$	(22)	$	–	$	(40)	$	–	$	(207)
Amortization (note 7)		**–**		**(66)**		**(4)**		**(5)**		**–**		**(5)**		**–**		**(80)**
At December 31, 2021	**$**	**–**	**$**	**(192)**	**$**	**(23)**	**$**	**(27)**	**$**	**–**	**$**	**(45)**	**$**	**–**	**$**	**(287)**
Net book value																
At January 1, 2020	$	21	$	546	$	44	$	106	$	25	$	18	$	35	$	795
At December 31, 2020	$	20	$	473	$	47	$	115	$	67	$	16	$	35	$	773
At December 31, 2021	**$**	**3**	**$**	**407**	**$**	**59**	**$**	**131**	**$**	**127**	**$**	**22**	**$**	**35**	**$**	**784**

Contract rights include acquired management and operations agreements and an agreement whereby the Company sells RECs produced by Halkirk Wind to a third party.

Other rights include the cost of land lease agreements for use in wind and solar power projects, and pipeline access rights relating to Arlington Valley.

18. Intangible assets and goodwill, continued:

Goodwill impairment testing

As part of the Company's annual impairment testing, the East Windsor CGU, which contains all of the Company's goodwill, was tested for impairment and the carrying amount of the East Windsor CGU was less than its estimated recoverable amount for both the 2021 and 2020 annual impairment tests. As such, no impairments were required for the East Windsor CGU.

Capitalized borrowing costs

Borrowing costs were not capitalized on intangible assets during the years ended December 31, 2021 and 2020.

Restrictions on assets

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

19. Property, plant and equipment:

	Construction work in progress	Land	Plant and equipment	Total
Cost				
At January 1, 2020	$ 350	$ 151	$ 7,262	$ 7,763
Additions	236	–	16	252
Additions into service	(394)	–	394	–
Retirements and other disposals	(5)	(1)	(9)	(15)
Acquisition of Buckthorn Wind (note 4)	–	–	181	181
Impairments	(26)	–	–	(26)
Revisions to decommissioning costs (note 24)	–	–	42	42
Foreign currency translation adjustments	7	–	(67)	(60)
At December 31, 2020	$ 168	$ 150	$ 7,819	$ 8,137
Additions	**667**	**–**	**19**	**686**
Additions into service	**(421)**	**1**	**420**	**–**
Retirements and other disposals	**(6)**	**(4)**	**(299)**	**(309)**
Impairments	**(6)**	**–**	**(51)**	**(57)**
Revisions to decommissioning costs (note 24)	**–**	**–**	**(46)**	**(46)**
Foreign currency translation adjustments	**(11)**	**–**	**(4)**	**(15)**
Other	**5**	**–**	**(12)**	**(7)**
At December 31, 2021	**$ 396**	**$ 147**	**$ 7,846**	**$ 8,389**
Accumulated depreciation				
At January 1, 2020	$ –	$ –	$ (1,674)	$ (1,674)
Depreciation (note 7)	–	–	(383)	(383)
Retirements and other disposals	–	–	9	9
Foreign currency translation adjustments	–	–	9	9
At December 31, 2020	$ –	$ –	$ (2,039)	$ (2,039)
Depreciation (note 7)	**–**	**–**	**(445)**	**(445)**
Retirements and other disposals	**–**	**–**	**295**	**295**
Foreign currency translation adjustments	**–**	**–**	**3**	**3**
At December 31, 2021	**$ –**	**$ –**	**$ (2,186)**	**$ (2,186)**
Net book value				
At January 1, 2020	$ 350	$ 151	$ 5,588	$ 6,089
At December 31, 2020	$ 168	$ 150	$ 5,780	$ 6,098
At December 31, 2021	**$ 396**	**$ 147**	**$ 5,660**	**$ 6,203**

19. Property, plant and equipment, continued:

Island Generation impairment

In October 2021, the B.C. government released its CleanBC plan indicating it intends to phase out all natural gas generation by 2030 resulting in a change in useful life for the Island Generation facility. In December 2021, BC Hydro released its final 2021 Integrated Resource Plan (IRP), which excluded Island Generation. These events were indicators for the Company to test the Island Generation CGU for impairment in the fourth quarter of 2021.

The carrying amount of the Island Generation CGU was above its estimated recoverable amount of $43 million and a pre-tax impairment of $52 million was recorded to reduce the carrying amount of the Island Generation CGU, comprising $51 million from property, plant and equipment and $1 million from intangible assets (note 18).

Key assumptions – recoverable amount

The Island Generation CGU was tested for impairment using the discounted cash flow method to calculate fair value less costs of disposal. The fair value measurement of the Island Generation CGU is categorized in Level 3 of the fair value hierarchy, as described in note 3, based on the inputs to the valuation model described below. The recoverable amount is sensitive to several key assumptions, specifically assumptions around a potential contract renewal.

Despite the final IRP announcement, the Company continues to believe the Island Generation facility is needed to ensure secure and reliable electricity supply for homes and businesses on Vancouver Island and in Metro Vancouver. In response to issues with the submarine cable between Vancouver Island and the mainland, BC Hydro has initiated further discussions with the Company to determine if Island Generation can provide economic backup capacity while repairs are undertaken over the next two to four years and negotiations are ongoing with BC Hydro for the potential renewal of the energy purchase agreement (EPA) set to expire in 2022.

The Company's cash flow projections for impairment testing purposes assume renewal of the EPA for a four-year term, at pricing terms within the range of potential outcomes based on initial renewal discussions. If negotiations result in a term and/or pricing that differ materially from the assumptions included in the Company's assessment of recoverable amount, an additional impairment or an impairment reversal could be required in future periods.

Other impairments

During the years ended December 31, 2021 and 2020, the Company recognized other impairments of property plant and equipment of $6 million and $26 million, respectively, pertaining to the following capital projects:

- Genesee 4 and 5 project: During the first quarter of 2020, the Company and its partner on the Genesee 4 and 5 project determined that they would no longer be pursuing the project. As a result, $13 million of capital expenditures incurred by the Company that were purely related to the development of Genesee 4 and 5 were recognized as an impairment in the first quarter of 2020. During the third quarter of 2021, a settlement was reached concerning the costs of exiting the series of previously executed agreements and the Company recognized an additional impairment, net of reversal, of $6 million on the Company's consolidated statements of income related to the assets acquired upon settlement.
- Genesee 1 and 2 dual-fuel project: In December 2020, the Company announced that, subject to successful permitting and regulatory approvals, it is proceeding with the repowering of Genesee 1 and 2 as described in note 33(a). As a result of this announcement, the Company will no longer pursue the Genesee 1 and 2 dual-fuel project. Accordingly, the Company recorded an impairment of $13 million, in 2020, of construction work in progress related to the termination of this project.

In 2020, Impairment testing was also completed on the Alberta CGU as a result of the prolonged nature of COVID-19 and oil pricing impacts, and the carrying amount of the Alberta CGU was less than its estimated recoverable amount. As such, no impairments were required for the Alberta CGU. There were no other indicators to test non-financial assets for impairment during 2021 and 2020.

19. Property, plant and equipment, continued:

Capitalized borrowing costs

Details of borrowing costs capitalized as part of property, plant and equipment are provided in note 8. The average borrowing rate used to capitalize interest during the year was 4.13% (2020 – 4.25%) for projects financed using general borrowings. For the years ended December 31, 2021 and 2020, 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.

20. Trade and other payables:

At December 31		**2021**		2020
Operating accruals[1,2]	**$**	**436**	$	308
Trade payables[1]		**69**		78
Dividends payable		**64**		54
Accrued interest		**24**		23
Taxes payable		**31**		7
	$	**624**	$	470

[1] At December 31, 2021, includes no amounts (2020 – $92 million) related to the Line Loss Rule Proceeding as described in note 33(c).

[2] As part of its collateral requirements, the Company maintains brokerage margin accounts which are held with specific exchange counterparties and fluctuate daily between negative and positive positions based on fair value changes of certain unsettled derivative financial instruments outstanding as well as the timing of cash deposits and withdrawals made by the Company. At December 31, 2021, the brokerage margin is in a liability position of $93 million (2020 – liability of $6 million).

21. Loans and borrowings:

	Effective interest rate	December 31, 2021	December 31, 2020
Unsecured senior medium-term notes, payable semi-annually			
Issued by CPC, at 4.28% due in 2024	4.37%	**450**	450
Issued by CPC, at 4.99% due in 2026	5.07%	**300**	300
Issued by CPC, at 4.42% due in 2030	4.49%	**275**	275
Issued by CPC, at 3.15% due in 2032	3.21%	**350**	350
		1,375	1,375
CPC private placement, payable semi-annually			
Issued by CPC, at 3.85% due in 2026	3.85%	**160**	160
Issued by CPC, at 4.56% due in 2029	4.64%	**210**	210
Issued by CPC, at 4.72% due in 2031	4.79%	**65**	65
Issued by CPC, US$150, at 3.24% due in 2033	3.29%	**190**	–
Issued by CPC, at 4.96% due in 2034	5.02%	**50**	50
		675	485
CPLP unsecured senior notes, payable semi-annually			
US$230, at 5.21% due in 2021	5.29%	**–**	293
US$65, at 5.61% due in 2026	5.67%	**82**	83
		82	376
CPLP non-recourse financing, payable quarterly			
Goreway Power Station, $564 at floating rates, due in 2027[1]	1.79%	**476**	524
East Windsor Cogeneration Project, at 6.28%, due in 2029	6.23%	**106**	117
Macho Springs, US$50 at 6.90%, due in 2031	7.00%	**45**	48
		627	689
Tax-equity financing, payable quarterly[2]			
Bloom Wind, US$78		**98**	111
New Frontier Wind, US$55		**69**	80
Cardinal Point Wind, US$118		**150**	184
Buckthorn Wind, US$59		**75**	88
Committed credit facilities			
CPLP US$191, at floating rates, due in 2026[3]	3.69%	**241**	193
		633	656
Total debt payable		**3,392**	3,581
Less: current portion		**126**	417
		3,266	3,164
Less: deferred debt issue costs		**32**	29
		$ 3,234	$ 3,135

[1] In the first quarter of 2020, $564 million at floating rates was extended to mature in 2027.

[2] Effective interest rates on tax-equity financing reflect the internal rates of return on the respective tax-equity investments ranging from 6.50% to 8.95%.

[3] At December 31, 2020, CPLP US$151, at floating rates, due in 2024 with an effective interest rate of 2.20%.

21. Loans and borrowings, continued:

Medium-term notes

On October 1, 2020, the Company closed a public offering of unsecured medium-term notes in the aggregate principal amount of $350 million (the Offering). The notes have a coupon rate of 3.147% and mature on October 1, 2032. On October 9, 2020, the Company redeemed its outstanding 5.276% medium-term notes, due November 16, 2020, in the aggregate principal amount of $251 million. The redemption price was an aggregate amount of $258 million, including applicable early redemption premiums, as well as accrued and unpaid interest to and including the day immediately preceding the redemption date.

US$150 million private placement of senior notes

On October 28, 2021, the Company closed a US$150 million private placement of senior notes due in 2033 with interest payable semi-annually at 3.24% commencing April 28, 2022.

Non-recourse financing

East Windsor Cogeneration Project financing represents Series 1 Senior bonds issued by the Company. The debt is secured by a charge against project assets which have a carrying amount of $134 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 $62 million.

Goreway financing represents the asset level debt assumed on acquisition. The debt is secured by a charge against the assets of the facility which have a carrying amount of $509 million.

Tax-equity financing

Tax-equity financing represents the initial equity investments made by the project investors, on the respective projects, adjusted for earnings, tax benefits and cash distributions paid to date. The maturity dates of these obligations are subject to change and are driven by the dates on which the project investors reach the agreed-upon target rates of return on the respective projects.

On March 16, 2020, Capital Power's Cardinal Point Wind project began commercial operations. Subsequently, the Company received approximately $221 million (US$157 million) in tax-equity financing on March 26, 2020, net of issue costs of $3 million (US$2 million) associated with the financing, from two U.S. financial institutions in exchange for Class A interests of a subsidiary of the Company.

Committed credit facilities

On July 14, 2021, the Company announced the extension, amendment and transition of its existing committed credit facilities to sustainability-linked credit facilities (SLCs). The five-year commitment to SLCs extends the Company's existing $1 billion of unsecured credit facilities, which include a $700 million syndicated credit facility and an unsecured club credit facility of $300 million, to July 2026. The SLCs are structured with one key performance indicator with annual sustainability performance targets aligned to one of Capital Power's publicly stated sustainability targets: to reduce Scope 1 CO_2 emission intensity by 65% by 2030 from 2005 levels. The SLCs include terms that reduce or increase borrowing costs as the annual targets are met or missed beginning in 2022. At December 31, 2021, the Company had U.S. loans of $241 million (US$191 million) (2020 – $193 million (US$151 million)) and letters of credit of $30 million (2020 – $9 million) outstanding under these facilities as described in note 34.

Bilateral unsecured demand credit facilities are available to CPC and include $773 million for the issuance of letters of credit and a further $25 million in general facilities. The general facilities are undrawn at December 31, 2021 and 2020 while letters of credit of $465 million (2020 – $259 million) have been issued as described in note 34.

Under the terms of the unsecured credit facilities, the Company's subsidiaries 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 the Company'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 the Company's credit rating.

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

	2021	2020
Loans and borrowings[1]		
At January 1	**$ 3,552**	$ 3,413
Changes from financing cash flows:		
Proceeds from issue of loans and borrowings (note 21)	**236**	578
Repayments	**(341)**	(444)
Deferred debt issue costs	**(8)**	(9)
Total changes from financing cash flows	**(113)**	125
Additions through business acquisition (note 4)	**(8)**	103
Effect of changes in foreign exchange rates	**(15)**	(35)
Non-cash repayments on tax-equity financing	**(88)**	(88)
Implicit interest on tax-equity financing	**29**	32
Other non-cash items	**3**	2
Total other changes	**(79)**	14
At December 31	**$ 3,360**	$ 3,552

[1] Includes deferred debt issue costs.

	2021	2020
Lease liabilities[2]		
At January 1	**$ 149**	$ 111
Changes from financing cash flows:		
Repayments	**(6)**	(6)
Total changes from financing cash flows	**(6)**	(6)
Additions	**4**	42
Additions through business acquisition (note 4)	**–**	7
Other adjustments	**(3)**	–
Effects of changes in foreign exchange rates	**(1)**	(5)
Total other changes	**–**	44
At December 31	**$ 143**	$ 149

[2] Includes the current portion disclosed within current deferred revenue and other liabilities.

23. Deferred revenue and other liabilities:

At December 31		2021		2020
Deferred government grant revenue (note 15)	$	**219**	$	309
Deferred payments on capital project costs		**126**		–
Contract liabilities[1]		**42**		48
Other deferred revenue and liabilities		**57**		55
		444		412
Less current portions:				
Deferred government grant revenue		**117**		117
Lease liabilities		**6**		6
Contract liabilities[1]		**6**		4
Other deferred revenue and liabilities		**24**		8
Total current deferred revenue and other liabilities		**153**		135
	$	**291**	$	277

[1] At December 31, 2021, $39 million (2020 – $21 million) was recognized as revenues in relation to outstanding contract liabilities settled during the year.

24. Provisions:

		Decommissioning		Employee benefits[1]		Other		Total
At January 1, 2021	$	**414**	$	**86**	$	**1**	$	**501**
Additional liabilities incurred		**22**		**38**		**2**		**62**
Liabilities settled		**(13)**		**(32)**		**–**		**(45)**
Amounts reversed unused[2]		**(15)**		**–**		**–**		**(15)**
Foreign currency translation adjustments		**(1)**		**–**		**–**		**(1)**
Revisions to decommissioning costs (note 19)		**(46)**		**–**		**–**		**(46)**
Accretion (note 8)		**5**		**–**		**–**		**5**
At December 31, 2021		**366**		**92**		**3**		**461**
Non-current		**355**		**55**		**1**		**411**
Current		**11**		**37**		**2**		**50**
	$	**366**	$	**92**	$	**3**	$	**461**

[1] Included in the employee benefits provision is $24 million pertaining to the share-based payment obligations described in note 28, of which $24 million is vested at December 31, 2021 (2020 – $21 million total share-based payment obligation, $21 million vested).

[2] Reflects unused decommissioning provisions related to the Southport and Roxboro facilities recorded within gains on disposals and other transactions (note 5).

Decommissioning provisions

The Company has recorded decommissioning provisions for its power generation facilities and the Genesee coal mine (the Genesee 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 Genesee 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, 2021, the Company's estimate of the undiscounted cash flow required to settle its decommissioning obligations is approximately $556 million (2020 – $561 million), calculated using an inflation rate of 2% (2020 – 2%). The expected timing for settlement of the obligations is between 2022 and 2055, which reflects ongoing reclamation of areas of the Genesee Mine, the Company's plan to repower Genesee 1 and 2 to be off coal in 2023, the remaining decommissioning of the Southport and Roxboro facilities in 2022 and the anticipated useful lives of the different power generation facilities.

24. Provisions, continued:

Decommissioning provisions, continued:

Other than the remaining decommissioning of the Southport and Roxboro facilities in 2022, the payments to settle the obligations are expected to occur between 2031 and 2055 for the power generation facilities and between 2022 and 2023 for the mined, but unreclaimed sections of the Genesee Mine. Discount rates used to calculate the carrying amount of the obligations range from 0.78% to 1.94%. The actual timing and net 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.

25. Share capital:

Authorized shares

	Number of shares authorized
Common shares	unlimited
Unlimited preference shares, issuable in series:	
Series 1 and 2	5 million
Series 3 and 4	6 million
Series 5 and 6	8 million
Series 9 and 10	6 million
Series 11 and 12	6 million
Special limited voting share	one

Issued and fully paid shares

	Common shares		Preference shares	
	Number of shares	Amount	Number of shares	Amount
At January 1, 2020	105,381,786	$ 2,488	39,000,000	$ 953
Share purchase options exercised (note 28)	749,155	19	–	–
Common shares purchased[1]	(461,832)	(10)	–	–
Dividend reinvestment plan[2]	511,881	15	–	–
At December 31, 2020	106,180,990	$ 2,512	39,000,000	$ 953
Shares issued[3]	**7,480,750**	**288**	**–**	**–**
Share issue costs[3]	**–**	**(12)**	**–**	**–**
Deferred taxes on share issue costs (note 16)	**–**	**3**	**–**	**–**
Share purchase options exercised (note 28)	**888,580**	**23**	**–**	**–**
Preferred share redemption[4]	**–**	**–**	**(8,000,000)**	**(200)**
Dividend reinvestment plan[2]	**1,643,361**	**64**	**–**	**–**
At December 31, 2021	**116,193,681**	**$ 2,878**	**31,000,000**	**$ 753**

[1] During the year ended December 31, 2021, the Company did not purchase and cancel any of its outstanding common shares (year ended December 31, 2020 – purchased and cancelled at an average exercise price of $22.67 per share) under the Company's Toronto Stock Exchange approved normal course issuer bid.

[2] Effective for the December 31, 2021 dividend, the Company suspended its dividend re-investment plan for its common shares. The dividend re-investment plan was previously reinstated on July 30, 2020.

[3] In June 2021, the Company completed a public offering of 7,480,750 common shares (inclusive of the full exercise of a 975,750 common share over-allotment option) at an issue price of $38.45 per common share for total gross proceeds of approximately $288 million less issue costs of $12 million.

[4] On December 31, 2021, the Company redeemed all of its 8 million issued and outstanding 6.00% cumulative rate reset preference shares, Series 7 at a price of $25.00 per share for an aggregate total of $200 million.

25. Share capital, continued:

Issued and fully paid shares, continued:

The Company's shares are subject to a Shareholder Rights Plan (Rights Plan). The objective of the Rights Plan is to ensure, to the extent possible, the fair treatment of all shareholders in connection with any take-over bid for the securities of the Company, and to provide the Board with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize shareholder value. The Rights Plan will continue in force until the end of the annual meeting of shareholders in 2022, at which time the Company expects to extend the Rights Plan for an additional three years, subject to Board of Directors and shareholder approval and subject to any changes in applicable securities law requirements.

Cumulative rate reset preference shares

Preferred shares	Dividend per share per annum[5]	Dividend rate reset[6]	Redemption and conversion option date[7,8]	Right to convert into[8]
Series 1	$0.655	Reset from $0.765 per annum to $0.655 per annum effective December 31, 2020 for the March 31, 2021 dividend payment.	December 31, 2025	Series 2
Series 3	$1.363	Reset from $1.150 per annum to $1.363 per annum effective December 31, 2018 for the March 31, 2019 dividend payment.	December 31, 2023	Series 4
Series 5	$1.310	Reset from $1.125 per annum to $1.310 per annum effective June 30, 2018 for the September 30, 2018 dividend payment.	June 30, 2023	Series 6
Series 7	$1.500	Dividend rate reset will not be applied as Series 7 Shares were redeemed on December 31, 2021.	Redeemed on December 31, 2021	No longer applicable
Series 9	$1.438	Dividend rate will be reset on September 30, 2022.	September 30, 2022	Series 10
Series 11	$1.438	Dividend rate will be reset on June 30, 2024.	June 30, 2024	Series 12

[5] Dividend rate per annum – Holders of Series 1, Series 3, Series 5, Series 7, Series 9 and Series 11 shares will be entitled to receive fixed cumulative quarterly dividends that yield 2.62%, 5.45%, 5.24%, 6.00% (effective until Series 7 shares were redeemed on December 31, 2021), 5.75% and 5.75% respectively, per annum payable on the last business day of March, June, September and December of each year, as and when declared by the Board of Directors of Capital Power.

[6] Dividend rate reset terms – Dividend rates on Series 1, Series 3, Series 9 and Series 11 shares will be reset every five years following the issuance date or most recent rate reset date at a rate equal to the sum of the then five-year Government of Canada bond yield plus 2.17%, 3.23%, 3.15%, 4.12% and 4.15% (provided that, in any event, such rate shall not be less than 5.75% for Series 9 and Series 11 shares), respectively, as and when declared by the Board of Directors of Capital Power.

[7] Redemption option date and terms – Series 1, Series 3, Series 5, Series 9 and Series 11 shares are redeemable by Capital Power, at its option, on the redemption date and every five years thereafter.

[8] Conversion option date – Holders of Series 1, Series 3, Series 5, Series 9 and Series 11 shares will have the right, at their option, on the conversion date and every five years thereafter, to convert all or any part of their shares into Cumulative Floating Rate Preference Shares Series 2, Series 4, Series 6, Series 10 and Series 12, respectively, subject to certain conditions.

Conversion terms – Holders of Series 2, Series 4, Series 6, Series 10 and Series 12 shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 2.17%, 3.23%, 3.15%, 4.12% and 4.15% respectively, as and when declared by the Board of Directors of Capital Power.

25. Share capital, continued:

Common and preferred share dividends

The common and preferred share dividends declared and paid by the Company for the years ended December 31, 2021 and 2020 are summarized as follows:

	Dividends declared				Dividends paid			
	2021		2020		**2021**		2020	
	Per share	**Total**	Per share	Total	**Per share**	**Total**	Per share	Total
Common[9,10]	**$ 2.1200**	**$ 241**	$ 1.9850	$ 209	**$ 2.0850**	**$ 232**	$ 1.9525	$ 205
Preference:								
Series 1	**0.6553**	**3**	0.7650	4	**0.6553**	**3**	0.7650	4
Series 3	**1.3633**	**8**	1.3633	8	**1.3633**	**8**	1.3633	8
Series 5	**1.3095**	**10**	1.3095	10	**1.3095**	**10**	1.3095	10
Series 7[11]	**1.5000**	**12**	1.5000	12	**1.5000**	**12**	1.5000	12
Series 9	**1.4375**	**9**	1.4375	9	**1.4375**	**9**	1.4375	9
Series 11	**1.4375**	**9**	1.4375	9	**1.4375**	**9**	1.4375	9

[9] On July 29, 2021, the Company's Board of Directors approved an increase of 6.8% in the annual dividend to $2.19 per common share effective for the third quarter of 2021.

[10] For the year ended December 31, 2021, dividends paid on common shares consist of $168 million paid in cash (2020 – $190 million) and $64 million paid through the Company's dividend re-investment plan as common shares issued (2020 – $15 million).

[11] The quarterly dividend for the fourth quarter of 2021 will be the final quarterly dividend on the Series 7 Shares and, as the Redemption Date is also the dividend payment date, the Redemption Price will not include the quarterly dividend for the fourth quarter of 2021. Instead, the quarterly dividend for the fourth quarter of 2021 will be paid on the Redemption Date separately to shareholders of record as of December 16, 2021.

26. Change in non-cash operating working capital:

Year ended December 31	**2021**	2020
Trade and other receivables	**$ (1)**	$ (23)
Inventories	**1**	(31)
Trade and other payables	**86**	89
Deferred revenue and other liabilities	**16**	(5)
Provisions	**(2)**	(4)
	$ 100	$ 26

27. Related party balances and transactions:

Nature of transactions

As described in note 32, the Company 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 Company and the Company provides management and operation services to the joint arrangements. Transactions with joint arrangements are eliminated to the extent of the Company's interest in the joint arrangement.

Compensation of key management personnel

Year ended December 31	**2021**	2020
Short-term employee benefits	**$ 8**	$ 8
Share-based payments	**5**	5
	$ 13	$ 13

Key management personnel include certain executive officers of the Company in addition to the directors of the Company.

28. Share-based payments:

Share purchase options

Under the Company's long-term incentive plan, the Company provides share purchase options to certain employees to purchase common shares, provided that the number of shares reserved for issuance will not exceed 10% of the common shares to be outstanding at closing and that the aggregate number of shares issued by the Company under this plan will not exceed 9,194,506 common shares.

In March 2021, the Company granted 340,832 share purchase options with one third vesting on March 9 of each of 2022, 2023 and 2024. The fair values of these options at grant date were $2.43, $2.47 and $2.50 per option for the 2022, 2023 and 2024 tranches respectively. Granted options may be exercised within seven years of the grant date at a price of $34.23 per share.

In April 2020, the Company granted 393,245 share purchase options with one-third vesting on April 1 of each of 2021, 2022 and 2023. The fair values of these options at grant date were $1.90, $2.05 and $2.20 per option for the 2021, 2022 and 2023 tranches respectively. Granted options may be exercised within seven years of the grant date at a price of $27.15 per share.

The following assumptions were used in estimating the fair value of the granted share purchase options:

	Share purchase options issued in:	
	2021	2020
Share price at grant date	**$ 34.23**	$ 27.15
Expected volatility[1]	**17.40%**	17.90%
Expected option life[2]	**4.5 years**	4.5 years
Expected dividend yield	**5.989%**	7.072%
Risk-free interest rate[3]	**0.36%**	1.68%
Exercise price	**$ 34.23**	$ 27.15
Expiry date	**March 9, 2028**	April 1, 2027

[1] Volatility was estimated based on the historical volatility in the Company's share prices.

[2] Represents the average expected life of the three tranches for each grant date.

[3] Based on the Government of Canada zero-coupon yield curve. Represents the average risk-free rate of the three tranches for each grant date.

The following illustrates share purchase options activity during the years ended December 31, 2021 and 2020:

	2021		2020	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, at January 1	**2,697,842**	**$ 25.15**	3,176,990	$ 24.66
Granted	**340,832**	**34.23**	393,245	27.15
Exercised[4]	**(888,580)**	**24.45**	(749,155)	23.56
Forfeited	**(13,467)**	**28.41**	(122,050)	28.65
Expired	**–**	**–**	(1,188)	21.76
Options outstanding, at December 31	**2,136,627**	**$ 26.87**	2,697,842	$ 25.15
Vested options outstanding, at December 31	**1,374,743**	**$ 24.48**	1,748,541	$ 23.59

[4] The weighted average share price at the date of exercise was $38.27 (2020 – $33.00).

During the year ended December 31, 2021, the Company recorded compensation expense of $1 million related to share purchase options in staff costs and employee benefits expense (year ended December 31, 2020 – $1 million).

The weighted average remaining contractual life of the Company's outstanding share purchase options at December 31, 2021 is 3.72 years (2020 – 3.82 years). The exercise prices of share purchase options outstanding at December 31, 2021 range from $17.33 to $34.23 (2020 – $17.33 to $30.78).

28. Share-based payments, continued:

Performance share units

Capital Power grants PSUs to certain employees, which make those employees eligible to receive cash payments based on an equivalent number of common shares at a specified release date for an amount based on the 30-day volume-weighted average price (VWAP) of such number of common shares on the release date. PSUs are fully vested three years from the grant date and vest as service is rendered over that three-year period. Payments are based on the number of units vested including dividend equivalents, with the total number of units adjusted for a factor ranging from 0% to 200% based on the Company's share price performance relative to a group of peer organizations, as determined by comparing total shareholder return.

	2021	2020
PSUs outstanding, at January 1	**333,090**	338,545
Granted[5]	**114,194**	123,513
Released[6]	**(165,708)**	(191,729)
Dividends reinvested	**56,089**	88,375
Forfeited	**(28,932)**	(25,614)
PSUs outstanding, at December 31	**308,733**	333,090

[5] The fair value of the PSUs at the grant date was $36.06 (2020 – $28.91).

[6] The weighted average share price at the date of release was $34.98 (2020 – $33.45).

During the year ended December 31, 2021, the Company recorded a compensation expense of $8 million (2020 – $2 million) related to the outstanding PSUs in staff costs and employee benefits expense.

Restricted share units

Capital Power grants RSUs to certain employees, which make those employees eligible to receive cash payments based on an equivalent number of common shares, including dividend equivalents, at a specified release date for an amount based on the 30-day VWAP of such number of common shares on the release date. RSUs are fully vested three years from the grant date and vest as service is rendered over that three-year period.

	2021	2020
RSUs outstanding, at January 1	**295,650**	274,319
Granted[7]	**95,098**	112,437
Released[8]	**(106,611)**	(99,767)
Dividends reinvested	**15,967**	19,075
Forfeited	**(13,674)**	(10,414)
RSUs outstanding, at December 31	**286,430**	295,650

[7] The fair value of the RSUs at the grant date was $36.06 (2020 – $28.91).

[8] The weighted average share price at the date of release was $34.57 (2020 – $33.34).

During the year ended December 31, 2021, the Company recorded a compensation expense of $4 million (2020 – $4 million) related to the outstanding RSUs in staff costs and employee benefits expense.

28. Share-based payments, continued:

Deferred share units

The Company has approved a DSU Plan pursuant to which non-employee directors or executives of the Company may receive their annual equity retainer or their Short-Term Incentive award, respectively, in the form of DSUs. Directors are entitled to elect to receive their annual retainer, committee retainer, and/or committee chair retainer in full or partial DSUs. Executives who are not yet in compliance of their share ownership requirements may elect to defer all or a portion of their Short-Term Incentive award in the form of DSUs. Directors and executives will receive additional DSUs in respect of dividends payable on an equivalent number of common shares of the Company on the recognized record date. DSUs vest immediately and may be redeemed for cash no earlier than six months after a director's resignation from the Board of Directors or no earlier than the executive's resignation from the Company and no later than December 15th of the year following their resignation. The payout uses the volume-weighted average closing price of the Company's common shares on the Toronto Stock Exchange for the five trading days immediately before the redemption date. During the year ended December 31, 2021, the Company recorded a compensation expense of $3 million (2020 – $2 million) related to the outstanding DSUs in staff costs and employee benefits expense.

29. Financial instruments:

Fair values

The Company classifies and measures its cash and cash equivalents, trade and other receivables and trade and other payables at amortized cost and their fair values are not materially different from their carrying amounts due to their short term nature.

Details of the Company's derivative instruments are described in note 14.

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

		December 31, 2021		December 31, 2020	
	Fair value hierarchy level	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets[1]					
Government grant receivable (note 15)	Level 2	**$ 404**	**$ 395**	$ 441	$ 448
Financial liabilities[1]					
Loans and borrowings (note 21)	Level 2	**$ 3,360**	**$ 3,515**	$ 3,552	$ 3,838

[1] Includes current portion.

Fair value hierarchy

The table below presents the Company's financial instruments measured at fair value on a recurring basis in the consolidated statements of financial position, classified using the fair value hierarchy described in note 3.

	December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Derivative financial instruments assets	**$ –**	**$ 316**	**$ 14**	**$ 330**
Derivative financial instruments liabilities	**–**	**(406)**	**(198)**	**(604)**

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments assets	$ –	$ 182	$ 66	$ 248
Derivative financial instruments liabilities	–	(272)	(31)	(303)

29. Financial instruments, continued:

Fair value hierarchy, continued:

Valuation techniques used in determination of fair values within Level 3

The Company has various commodity contracts with terms that extend beyond a liquid trading period. As forward market prices are not available for the full period of these contracts, their fair values are derived using forecasts based on internal modelling and as a result, are classified within Level 3 of the hierarchy.

The Company has a fixed price contract to swap the market revenue of its Bloom Wind generation for a fixed annual payment for a 10-year term that expires in 2027. Anticipated generation continues to be forecasted based on internal modelling. Accordingly, this financial instrument is classified as Level 3.

The Company has a 20-year revenue offtake swap agreement for Buckthorn Wind (see note 4), expiring in 2038, where the market price is swapped for a fixed price per unit of actual generation. The notional quantities are not set forth in the contract and observable forward market pricing is only available for the next 12 years. As such, the Company has developed a generation forecast for the remainder of the contract and a price forecast for the five years for which forward market prices are not available. These are both significant inputs to the determination of fair value, therefore this financial instrument is classified as Level 3.

The Company has a 15-year fixed price contract for Enchant Solar and a 25-year fixed price contract for Strathmore Solar, expiring in 2037 and 2047, respectively, to generate renewable generation and deliver environmental attributes. Observable forward market prices are not available for the full terms of the contract and notional quantities used to calculate fair value reflect anticipated generation, therefore pricing and generation forecasts have been developed based on internal modelling. Accordingly, these financial instruments are classified as Level 3.

In addition, at December 31, 2021 and December 31, 2020, the Company holds contracts for the sale of RECs for which pricing beyond two years is not readily observable and the contracts are therefore classified in Level 3 of the hierarchy.

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

At December 31	2021	2020
REC pricing (per certificate) – Solar	**$2.96 to $352.48**	$206.86 to $384.76
REC pricing (per certificate) – Wind	**$2.07 to $4.18**	$1.99
Forward power pricing (per MWh) – Solar	**$35.32 to $113.86**	N/A
Forward power pricing (per MWh) – Wind	**$25.25 to $88.42**	$19.32 to $79.17
Average monthly generation (MWh) – Strathmore Solar	**7,123**	N/A
Average monthly generation (MWh) – Enchant Solar	**6,905**	N/A
Average monthly generation (MWh) – Bloom Wind	**54,914**	53,841
Average monthly generation (MWh) – Buckthorn Wind	**17,702**	17,698

Valuation process applied to Level 3

The valuation models used to calculate the fair value of the derivative financial instrument assets and liabilities within Level 3 are prepared by appropriate internal subject matter experts and reviewed by the Company's commodity risk group and by management. The valuation technique and the associated inputs are assessed on a regular basis for ongoing reasonability.

The table below presents the increase or decrease to fair value of Level 3 derivative instruments based on a 10% decrease or increase in the respective input:

At December 31	2021	2020
REC pricing – Solar	**$ –**	$ –
REC pricing – Wind	**1**	1
Forward power pricing – Solar	**16**	N/A
Forward power pricing – Wind	**31**	41
Generation – Solar	**1**	N/A
Generation – Wind	**14**	7

29. Financial instruments, continued:

Fair value hierarchy, continued:

Continuity of Level 3 balances

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

		2021		2020
At January 1[2]	**$**	**35**	$	41
Acquired with Buckthorn Wind (note 4)		**–**		44
Unrealized and realized losses included in net income[3]		**(211)**		(41)
Settlements[4]		**(6)**		(4)
Transfers[5]		**–**		(3)
Foreign exchange losses		**(2)**		(2)
At December 31	**$**	**(184)**	$	35
Total unrealized and realized losses for the period included in net income[3]	**$**	**(211)**	$	(41)

[2] The fair value of derivative instruments assets and liabilities are presented on a net basis.
[3] Recorded in revenues.
[4] Relates to settlement of financial derivative instruments.
[5] Relates to transfers from Level 3 to Level 2 when pricing inputs became readily observable.

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

Financial assets

The fair value of the Company's government grant receivable held at amortized cost is estimated by discounting its expected future cash flows at current market interest rates for comparable instruments with similar terms, plus an estimated credit spread based on the counterparty credit risk at December 31, 2021 and 2020.

Financial liabilities

The fair values of the Company's loans and borrowings are based on determining a current yield for the Company's loans and borrowings at December 31, 2021 and 2020. This yield is based on an estimated credit spread for the Company over the yields of long-term Government of Canada and U.S. Government bonds that have similar maturities to the Company's loans and borrowings. The estimated credit spread is based on the Company's indicative spread as published by independent financial institutions.

Offsetting of financial assets and liabilities

The Company's commodity trading transactions are typically transacted on an exchange or under International Swap Dealers Association Master Agreements or similar master agreements. In general, under the Company'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 Company'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 Company's statements of financial position.

29. Financial instruments, continued:

Offsetting of financial assets and liabilities, continued:

The Company 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 Company and the counterparty in certain circumstances, including when a credit event such as a default occurs on the part of the Company. Such amounts do not meet the criteria for offsetting on the Company's statements of financial position. The Company 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 also give each counterparty the right to terminate the related transactions upon the counterparty's failure to post collateral.

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

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[6]	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Collateral received[7]	Net amount
At December 31, 2021						
Commodity trading assets	**$ 669**	**$ (208)**	**$ 461**	**$ (74)**	**$ (1)**	**$ 386**
At December 31, 2020						
Commodity trading assets	$ 399	$ (113)	$ 286	$ (66)	$ –	$ 220

[6] The net amounts of commodity trading assets presented in the statement of financial position include current derivative instruments assets of $99 million, non-current derivative instruments assets of $212 million and trade and other receivables of $150 million (December 31, 2020: current derivative instruments assets of $66 million, non-current derivative instruments assets of $174 million and trade and other receivables of $46 million).

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

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

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[8]	Related amounts not offset in the statement of financial position: Financial instruments	Related amounts not offset in the statement of financial position: Collateral pledged	Net amount
At December 31, 2021						
Commodity trading liabilities	**$ 877**	**$ (208)**	**$ 669**	**$ (79)**	**$ (161)**	**$ 429**
At December 31, 2020						
Commodity trading liabilities	$ 315	$ (113)	$ 202	$ (68)	$ (19)	$ 115

[8] The net amounts of commodity trading liabilities presented in the statement of financial position include current derivative instruments liabilities of $221 million, non-current derivative instruments liabilities of $311 million and trade and other payables of $137 million (December 31, 2020: current derivative instruments liabilities of $52 million, non-current derivative instruments liabilities of $138 million and trade and other payables of $12 million).

30. Risk management:

Risk management overview

The Company is exposed to a number of financial risks, arising from business activities and its use of financial instruments, including market risk, credit risk and liquidity risk. The Company'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 Company'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 Company.

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

30. Risk management, continued:

Risk management overview, continued:

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, and liquidity 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.

In 2020, the COVID-19 pandemic created a dynamic and challenging environment to navigate. Combined with a sharp decline in oil prices, the result was notable market volatility, including fluctuations in interest rates, foreign currency rates and the Company's share price. The COVID-19 pandemic continued through 2021, however, the economic impacts eased notably. The key implications of these developments on the Company's financial risk exposures and key strategies for mitigating those risks are addressed below within the relevant sections.

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 Company 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 Company'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 Company 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 Company's actual exposure to market risks is constantly changing as the Company'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 Company.

Commodity price risk

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

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

30. Risk management, continued:

Market risk, continued:

Responses to the COVID-19 pandemic throughout North America drove a reduction in demand for electricity during 2020 and into 2021, as municipal, provincial and state authorities implemented social distancing policies, and stay-at-home and/or "shelter-in-place" directives. In turn, this put downward pressure on forward electricity prices. Various regions have experienced additional "waves" of the pandemic through 2021, including increasing COVID-19 variant cases, and while there is no certainty as to when the pandemic will be brought fully under control, progress on vaccine distribution during 2021 has led to more optimism around the ultimate duration of the pandemic. In addition, although government restrictions continue in many regions, including requiring proof of vaccination to access certain businesses and services, such restrictions are now largely structured to lessen impacts on day-to-day business. While impacts of the COVID-19 pandemic may extend further into 2022, a recovery in demand has already been well underway over the back half of 2021, along with a recovery in forward electricity prices, supported by the strong electricity pricing experienced in 2021.

Approximately half of Capital Power's net cash flows from operating activities come from facilities located outside of Alberta. These facilities are under long-term contractual arrangements with investment grade counterparties. As a result, these facilities have little exposure to any downward pressure on electricity prices as a result of lower electricity demand. The Company's thermal facility contracts typically are tolling arrangements in which most of the revenue is in the form of capacity payments that are paid regardless of the degree the facility is run. The Company's wind facilities receive fixed pricing for the power produced. The Company is also exposed to node-to-hub basis risk at many of its U.S. wind facilities. Basis risk is the difference between the power price at the node, where the power is produced, and the hub, where the power is financially settled with the off-taker. In Ontario, where the lower electricity demand could result in some additional physical curtailment of wind facilities, Capital Power is held whole under the contractual arrangements even in the event of physical curtailment.

The balance of the Company's net cash flows from operating activities come from Alberta generation facilities. In 2021, approximately 15% of the Company's net cash flows from operating activities from Alberta facilities were under long-term contract with investment grade counterparties, including the tolling arrangement on the Shepard Energy Centre. The balance of the output from the Company's Alberta facilities is sold into the Alberta merchant market. However, the Company continues to manage this exposure by entering into various purchase and sale arrangements for periods of varying duration.

For 2022, the portion of net cash flows from operating activities from Alberta facilities under long-term contracts is approximately 15%, and at December 31, 2021, the balance of the Company's Alberta commercial baseload generation not under long-term contract was 72% sold forward for 2022. With improvements in liquidity and forward power pricing during 2021, the percentage sold forward for 2022 returned to a normal level as compared to the lower percentage sold forward we experienced entering 2021. The Company balances the risk associated with being exposed to a higher volume of fluctuations in power prices with the risk of missing opportunities to sell power at higher expected prices in future periods.

The reduction in oil prices in 2020 drove a reduction in oil production which also impacted natural gas production tied to oil drilling. These reductions in natural gas supply put upward pressure on natural gas prices. While oil prices have continued to recover during 2021, there were below-average injections of natural gas into storage over the summer due to the impacts of extreme heat in North America. Global changes in power production fuel from coal to natural gas along with increased exports of liquefied natural gas to European and Asian markets and the expectation of colder temperatures in the near term have all increased the demand and reduced supply putting continued upward pressure on natural gas prices.

The Company's portfolio of generation comes from a variety of fuel types which minimizes exposure to any one fuel type. For natural gas, the Company uses long-term supply agreements including natural gas contracts as well as fixed transportation agreements to manage its exposure to increases in natural gas prices. At December 31, 2021, the Company has economically hedged all of its expected natural gas burn for 2022, and as a result does not anticipate significant fuel price risk in 2022.

The Company also engages in taking market risk positions within authorized limits approved by Capital Power's Executive Team and Board of Directors. The trading portfolio includes 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 Company's energy-related derivatives at December 31, 2021 that are required to be measured at fair value with the respective changes in fair value recognized in net income are disclosed in note 14.

30. Risk management, continued:

Market risk, continued:

The Company employs 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 commodity prices for a specified time period and a given confidence level. Capital Power's VaR for positions expected to settle in 2022, at December 31, 2021, uses a statistical confidence level of 99% over a 10-business-day holding period. This measure reflects a 1% probability that, over the 10-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 price volatilities and risk diversification by recognizing offsetting positions and correlations between products and markets. This technique makes use of historical data and assesses 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 Company 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 Company 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 Company 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 Company has a controlling interest, and reflects the Company'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. The Executive Team has access to daily risk reports which provide key measures in relation to applicable limits and quarterly risk reports are reviewed by Capital Power's Audit Committee. The portfolios are stress tested regularly to observe the effects of plausible scenarios taking into account historical price movements and certain hypothetical extreme events. At December 31, 2021, the VaR of the Company's commodity trading and assets portfolios for 2022 as a result of unfavourable market price changes is $34 million based on a 99% confidence level and a holding period of 10 days.

Foreign exchange risk

The Company 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 Company's operations expose it to foreign exchange risk arising from transactions denominated in foreign currencies. The Company'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 Company'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 Company'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 Company coordinates 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 Company may also use derivative instruments to manage foreign exchange risk.

For the Company's facilities that have a U.S. functional currency, foreign exchange movements are largely matched within its U.S. operations and hence foreign exchange exposure is mitigated. The largest exposure the Company had to foreign exchange movements in 2021 was related to capital costs for the Whitla Wind 2 and 3 project. The Company entered into cash flow hedges, which have settled by the end of 2021, to mitigate the foreign exchange exposure on those capital costs. At December 31, 2021, the Company held foreign exchange derivatives as disclosed in note 14.

30. Risk management, continued:

Market risk, continued:

At December 31, 2021, 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 shareholders by $5 million (2020 – increased or decreased by less than $1 million) and would have decreased or increased other comprehensive income by nil (2020 – $8 million). This sensitivity analysis excludes translation risk associated with the translation of subsidiaries that have a different functional currency to the functional currency of the Company and financial instruments denominated in the functional currency in which they are transacted and measured. As a result, the impact to other comprehensive income reflects only the sensitivity relating to the foreign exchange cash flow hedges.

Interest rate risk

The Company is exposed to changes in interest rates on its cash and cash equivalents, and floating rate current and non-current loans and borrowings. The Company 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. The Company uses floating rate funding for current borrowings and other liquidity requirements. At December 31, 2021, the proportion of fixed rate loans and borrowings was approximately 79% of total loans and borrowings outstanding (2020 – 80%). The Company uses derivative instruments to manage interest rate risk. At December 31, 2021, the Company held interest rate derivatives as disclosed in note 14 which effectively fixed the Company's interest rate spread and increased the proportion of fixed rate loans and borrowings to 93% (2020 – 95%) at December 31, 2021.

Assuming that the amount and mix of fixed and floating rate loans and borrowings and net loans and borrowings remains unchanged from that held at December 31, 2021, a 100 basis point decrease or increase to interest rates would increase or decrease full year net income attributable to common shareholders by $2 million (2020 – $1 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 Company. The Company's counterparty credit risk management policy is established by the Executive Team and approved by the Board of Directors. The associated procedures and practices are designed to manage the credit risks associated with the various business activities throughout the Company. 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 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 deposits, letters of credit or property) to offset potential losses, and margining to limit credit risk where applicable.

Maximum credit risk exposure

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

At December 31		**2021**		2020
Cash and cash equivalents (note 11)	**$**	**387**	$	367
Trade and other receivables (note 12)[1]		**474**		499
Derivative financial instruments assets (note 14)[1]		**330**		248
Government grant receivable (note 15)		**349**		387
	$	**1,540**	$	1,501

[1] The Company'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 $388 million (2020 – $215 million) for wholesale counterparties and $416 million (2020 – $532 million) for generation and other counterparties at December 31, 2021.

30. Risk management, continued:

Credit risk, continued:

The Company is not permitted to sell or re-pledge collateral in the absence of default of the collateral providers. At December 31, 2021, the Company also held other forms of credit enhancement in the forms of letters of credit of $7 million (2020 – $11 million), parental guarantees of $2,655 million (2020 – $2,589 million) and property registrations of $23 million (2020 – $39 million) related to the financial assets noted above. At December 31, 2021 and 2020, the Company also held parental guarantees which do not have a defined amount or limit, but which provide full support on any outstanding positions related to counterparty performance for power purchase arrangements and certain other operating and construction contracts.

Credit quality and concentrations

The Company 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 sales contracts, energy supply agreements with government sponsored entities, wholesale customers and trading counterparties. The Company 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 Company's trade and other receivables and other financial assets, by major credit concentrations, are the following:

Cash and cash equivalents

The Company 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 Company's interest rate and foreign exchange derivative instruments, and facilitate letters of credit to mitigate the Company's exposure to certain counterparties. The Company 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.

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 Company 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 sales contracts, and certain energy supply agreements is predominantly restricted to trade and other receivables and contract default. In certain cases, the Company 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 Company's financial results. Financial loss resulting from events of default by counterparties in certain PPAs may not be recovered since the contracts may not be replaceable on similar terms under current market conditions. Consequently, the Company'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 Company's internally assigned ratings or employing mitigation strategies as noted above, netting amounts by legally enforceable set-off rights, and, when appropriate, taking 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 security from counterparties.

30. Risk management, continued:

Credit risk, continued:

Trade and other receivables and allowance for doubtful accounts

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

As a result of the economic impacts of COVID-19, the risk that certain of the Company's counterparties will be unable to satisfy their contractual obligations has increased. However, the improving economic environment during 2021 has led to reductions in these increased risk levels, albeit still heightened from the pre-COVID-19 environment. These exposures include trade and other receivables on certain commercial and industrial customers as well as derivative financial instruments assets related to emissions portfolio trading.

The aging of trade and other receivables at December 31, 2021 was:

	Gross trade and other receivables	Allowance for doubtful accounts	Net trade and other receivables
Current[2]	$ 474	$ 1	$ 473
Outstanding greater than 30 days	1	–	1
	$ 475	$ 1	$ 474

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

At December 31, 2021 and 2020, the Company held $13 million in customer deposits for the purpose of mitigating the credit risk associated with accounts receivable from customers. At December 31, 2021, the Company recorded an allowance of $1 million (2020 – $1 million) for expected credit losses on trade and other receivables associated with energy procurement counterparties.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's liquidity is managed centrally by the Treasury function. The Company 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 debt markets and equity offerings by the Company or its CPLP subsidiary. The Company also ladders its debt maturities to avoid large repayments in a single year.

The Company's current liquidity remains strong, with the Company being able to complete a U.S. private placement of senior notes which funded on October 28, 2021 (see note 21). Additionally, the Company also continues to have available committed credit facilities to draw upon as described below.

At December 31, 2021, the Company had undrawn bank credit facilities and operating lines of credit and demand facilities, totalling $1,062 million (2020 – $991 million), of which $729 million is committed to 2026 (2020 – $798 million committed to 2024).

The Company has a shelf prospectus under which it may raise funds in the form of debt or equity, subject to market conditions. At December 31, 2021, Capital Power has a Canadian shelf prospectus, which expires in June 2022, under which it may raise up to $3 billion collectively in common shares of the Company, preference shares of the Company, subscription receipts exchangeable for common shares and/or other securities of the Company, and debt securities of the Company.

30. Risk management, continued:

Liquidity risk, continued:

The following are the undiscounted cash flow requirements and contractual maturities of the Company's financial liabilities, including interest payments, and where applicable, net of financial assets that generate cash inflows to meet cash outflows on financial liabilities at December 31, 2021:

	Due within 1 year	Due between 1 and 2 years	Due between 2 and 3 years	Due between 3 and 4 years	Due between 4 and 5 years	Due after more than 5 years	Total contractual cash flows
Non-derivative financial liabilities:							
Loans and borrowings[3] (note 21)	$ 68	$ 73	$ 527	$ 82	$ 788	$ 1,505	$ 3,043
Interest payments on loans and borrowings	115	112	111	89	72	220	719
Trade and other payables[4] (note 20)	600	–	–	–	–	–	600
Lease liabilities (note 17)	14	14	14	22	12	184	260
Derivative financial liabilities (net of financial assets):							
Commodity and other derivatives	140	29	23	21	18	96	327
Total	$ 937	$ 228	$ 675	$ 214	$ 890	$ 2,005	$ 4,949

[3] Repayments of loans and borrowings exclude fair value differentials of $14 million related to debt assumed on previous asset acquisitions and $335 million related to repayments of tax-equity financing through non-cash tax-equity attributes.

[4] Excluding accrued interest on loans and borrowings of $24 million.

31. Capital management:

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, pay regular dividends to its shareholders, 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 Company. The Company manages its capital structure in a manner consistent with the risk characteristics of the underlying assets.

The Company 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 Company matches the maturity profiles of financial assets and liabilities to identify financing requirements to help ensure an adequate amount of liquidity.

The Company 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 Company:

At December 31	**2021**	2020
Loans and borrowings (note 21)	**$ 3,360**	$ 3,552
Lease liabilities[1] (note 17)	**143**	149
Cash and cash equivalents (note 11)	**(387)**	(367)
Net debt	**3,116**	3,334
Share capital (note 25)	**3,631**	3,465
Deficit and other reserves	**(790)**	(565)
Non-controlling interests	**18**	29
Total equity	**2,859**	2,929
	$ 5,975	$ 6,263

[1] Includes the current portion disclosed within deferred revenue and other liabilities.

Capital Power has senior unsecured long-term debt ratings of BBB- (stable outlook) and BBB (low) assigned by Standard & Poor's (S&P) and DBRS Limited (DBRS), respectively. Capital Power has preferred share ratings of P-3 and Pfd-3 (low) assigned by S&P and DBRS, respectively.

31. Capital management, continued:

Capital Power 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 0.75 to 1.0;
- Maintenance of consolidated 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 Capital Power is assigned a rating of less than BBB- from S&P and BBB (low) from DBRS (in each case with a stable outlook), Capital Power would also be required to maintain a ratio of consolidated earnings before interest, income taxes, depreciation and amortization to consolidated interest expense, as defined in the debt agreements, of not less than 2.5 to 1.0.

For the years ended December 31, 2021 and 2020, Capital Power complied with all externally imposed capital restrictions.

To manage or adjust its capital structure, the Company can issue new loans and borrowings, issue common or preferred shares, buy back common shares, redeem preferred shares, repay existing loans and borrowings or adjust dividends paid to its shareholders.

32. Interests in joint arrangements and associates:

Joint operations

The Company holds interests in the following joint operations at December 31, 2021:

	Place of business	% of ownership interest
Joffre Cogeneration Project (Joffre)[1]	Canada	40%
Shepard Energy Centre (Shepard)[2]	Canada	50%

[1] Joffre is a 480 MW gas-fired combined cycle cogeneration facility in which Capital Power holds a 40% interest with external parties holding 40% and 20% interests, respectively. The Company's investment in the Joffre 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.

[2] Shepard is an 860 MW gas-fired generating facility in which Capital Power holds a 50% interest while the other 50% is held by an external party, with the external party responsible for management and operations. Both parties independently dispatch and market their share of the electrical output through Alberta's competitive wholesale market.

There are no significant restrictions pertaining to the joint operations described above.

Equity-accounted investments

Joint venture

York Energy Centre L.P. (York Energy) is a 400 MW natural gas-fired power generating facility, located in Ontario, Canada, in which Capital Power holds a 50% interest while the other 50% is held by an external party. The Company's investment in York Energy, which consists of separate legal entities, has been determined to be a joint venture and is accounted for under the equity method. The Company's obligations are limited to their capital contributions to the joint arrangement, and the Company's receipts of the economic benefits of the joint arrangement are limited to the quarterly distributions. As a result, there is no indication that the Company has rights to the assets or obligations for the liabilities of the joint arrangement and the investment has been classified as a joint venture.

32. Interests in joint arrangements and associates, continued:

Equity-accounted investments, continued:

The summarized financial information of York Energy is as follows:

Statements of Financial Position	2021	2020
Cash and cash equivalents	**$ 5**	$ 9
Other current assets	**12**	9
Non-current assets[3]	**210**	214
Other financial current liabilities	**(20)**	(19)
Trade and other payables	**(6)**	(3)
Financial non-current liabilities	**(199)**	(226)
Other non-current liabilities	**(3)**	(3)
Net assets	**$ (1)**	$ (19)

[3] York Energy has restricted cash of $12 million (2020 – $10 million) included in non-current assets above which represents security for a standby line of credit with a third party.

Statements of Income and Comprehensive Income	2021	2020
Revenues	**$ 60**	$ 61
Energy purchases and fuel	**(9)**	(8)
Other raw materials and operating charges	**(4)**	(3)
Other administrative expense	**(2)**	(2)
Depreciation and amortization	**(8)**	(9)
Finance income (expense)	**3**	(24)
Net income and comprehensive income	**$ 40**	$ 15

A reconciliation of the Company's recorded equity investment in York Energy is as follows:

	2021	2020
Equity-accounted investment in York Energy, at January 1	**$ 118**	$ 132
Proportionate share of comprehensive income (50%)	**20**	8
Distributions received – operating	**(11)**	(11)
Amortization of the Company's fair value of net assets acquired	**(10)**	(11)
Equity-accounted investment in York Energy, at December 31	**$ 117**	$ 118

York Energy is party to a number of long-term transportation contracts and an operating and maintenance contract. The Company's share of approximate future payments for transportation contracts is $8 million in 2022, $19 million from 2023 to 2026 and $12 million after five years. The Company's share of approximate future payments for the operating and maintenance contract is $1 million from 2022 to 2026 and $9 million thereafter.

Associate

In 2021, the Company's equity interest in C2CNT, a technology company developing a proprietary solution to transform carbon into carbon nanotubes, increased from 25% to 40% with the other 60% held by an external party. The Company is presumed to have significant influence over C2CNT based on its investment exceeding 20% and this is supported by the voting rights associated with the Company's interest in C2CNT. Accordingly, the Company's investment in C2CNT has been determined to be an investment in an associate and is accounted for under the equity method.

At December 31, 2021, the equity-investment in its associate C2CNT is $28 million (US$23 million) (2020 – $16 million (US$13 million)) and no income or operating cash flow has been earned in the year.

33. Commitments and contingencies:

(a) The Company is committed to the following growth projects at December 31, 2021:

Projects	Capacity (MW)	Expected capital cost	Expected completion date	Location
Repowering of Genesee 1 and 2	512[1]	$1,192	2023 – 2024[1]	Alberta
Renewable Projects:				
Strathmore Solar	40.5	$57	Early 2022	Alberta
Enchant Solar	75	$119	Fourth quarter of 2022	Alberta
Bear Branch Solar	35	$60 (US$46)	Fourth quarter of 2024	North Carolina
Hornet Solar	75	$118 (US$90)	Fourth quarter of 2024	North Carolina
Hunter's Cove Solar	50	$82 (US$62)	Fourth quarter of 2024	North Carolina
Halkirk Wind 2	151	$274	Fourth quarter of 2024	Alberta

[1] The repowering will provide an additional 512 MW of gross capacity giving a total gross capacity of 1,372 MW for the two repowered units. In addition, included in the expected capital cost is 210 MW of battery storage to be constructed as part of the repowering project, to support the most severe single contingency constraint of Genesee 1 and 2. Genesee 1 would become a dedicated natural gas combined cycle (NGCC) unit in 2023 and Genesee 2 would become a dedicated NGCC unit by 2024.

(b) The Company is party to a number of long-term energy purchase and transportation contracts, operating and maintenance contracts and contracts to purchase environmental credits. 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.

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

	Energy purchase and transportation contracts[2]	Operating and maintenance contracts	Environmental credits[3]
Within one year	$ 224	$ 64	$ 11
Between one and five years	663	277	26
After five years	550	370	–
	$ 1,437	$ 711	$ 37

[2] Based on gross settlement amounts.

[3] Future environmental credit purchases are presented net of future environmental credit sales.

(c) Capital Power participated in the Line Loss Rule (LLR) Proceeding 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 addressed the replacement of the non-compliant LLR as well as the resulting adjustment of line loss charges and credits for the years 2006 up to and including 2016.

As a result of the LLR Proceeding, Capital Power incurred additional charges related to historical periods and, as such, has recorded net expenses of $19 million pertaining to the Company's net obligation including $20 million recorded in prior years and a decrease of $1 million recorded during 2021 to reflect final tranche 3 invoices received during this period. The invoicing process resulted in gross billings to Capital Power of which those amounts not attributable to Capital Power were largely recovered from the appropriate parties, with the exception of those related to the Sundance C PPA from the Balancing Pool.

The Balancing Pool is disputing its liability to make payment for the LLR adjustment invoices related to the Sundance C PPA, which amounts to a net potential exposure to Capital Power of approximately $25 million recorded within other assets at December 31, 2021. The Company believes the various agreements governing the termination and transfer of the Sundance C PPA and related transmission agreements with the AESO had the effect of transferring all past liabilities for the Sundance C PPA to the Balancing Pool. Capital Power has therefore filed a statement of claim at the Alberta Court of Queen's Bench on January 11, 2021 against the Balancing Pool, the Province of Alberta and the AESO in which it is seeking, among other relief, recovery from the Balancing Pool and the Province of Alberta of all amounts Capital Power was compelled to pay to the AESO on account of the LLR adjustment invoices relating to the Sundance C PPA as well as interest and legal costs, including the portion invoiced to the Balancing Pool but not received by the Company pertaining to all tranches of invoices. This process remains ongoing. Capital Power expects to ultimately realize the full amount of the gross receivables related to the line losses upon resolution of the dispute before the Court.

33. Commitments and contingencies, continued:

(d) Following the severe weather events during the February 9 to 20, 2021 period, the Company settled the offtake and commodity swaps for Buckthorn Wind for the noted time period based on the pricing dictated in the respective agreements. However, Buckthorn Wind's counterparty is contesting the settlement, arguing that settlement should have been based upon a different reference price. Historically these two prices have been similar, but as a result of the February 2021 extreme weather, the Company became aware of a divergence in these prices during scarcity events. Both parties have invoked dispute-resolution procedures and the Company has initiated litigation. Based on the contract terms of the offtake and commodity swaps, the Company considers the probability of ultimate settlement using the reference price advocated by the counterparty as being unlikely. In the event that the dispute is resolved unfavorably to the Company, the net exposure to the Company's revenues would be a reduction of up to approximately $19 million (US$15 million).

(e) The Company and its subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability of the Company arising from these claims is immaterial and therefore no provision has been made.

34. Guarantees:

The Company, through its subsidiary CPLP, has issued letters of credit of $495 million (2020 – $268 million) to meet the credit requirements of energy market participants, to meet conditions of certain service agreements, and to satisfy legislated reclamation requirements.

35. Segment information:

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

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

	Year ended December 31, 2021				Year ended December 31, 2020			
	Canada	**U.S.**	**Inter-area eliminations**	**Total**	Canada	U.S.	Inter-area eliminations	Total
Revenues – external[1]	**$ 1,765**	**$ (8)**	**$ –**	**$ 1,757**	$ 1,473	$ 318	$ –	$ 1,791
Revenues – inter-area	**23**	**–**	**(23)**	**–**	5	1	(6)	–
Other income	**145**	**88**	**–**	**233**	58	88	–	146
Total revenues and other income	**$ 1,933**	**$ 80**	**$ (23)**	**$ 1,990**	$ 1,536	$ 407	$ (6)	$ 1,937

[1] Revenues from external sources include realized and unrealized gains and losses from derivative financial instruments.

	At December 31, 2021			At December 31, 2020		
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Property, plant and equipment	**$ 4,603**	**$ 1,600**	**$ 6,203**	$ 4,417	$ 1,681	$ 6,098
Right-of-use assets	**56**	**64**	**120**	60	69	129
Intangible assets and goodwill	**645**	**139**	**784**	637	136	773
Other assets	**47**	**–**	**47**	37	–	37
	$ 5,351	**$ 1,803**	**$ 7,154**	$ 5,151	$ 1,886	$ 7,037

35. Segment information, continued:

The Company's revenues and other income from contracts with customers are disaggregated by major type of revenues and operational groupings of revenues:

	Year ended December 31, 2021						
	Alberta commercial	**Western Canada contracted**	**Ontario contracted**	**U.S. contracted**	**Total from contracts with customers**	**Other sources**	**Total**
Energy revenues	**$ 1,656**	**$ 91**	**$ 307**	**$ 193**	**$ 2,247**	**$ (520)**	**$ 1,727**
Emission credit revenues	**24**	**6**	**–**	**3**	**33**	**(3)**	**30**
Total revenues[2]	**$ 1,680**	**$ 97**	**$ 307**	**$ 196**	**$ 2,280**	**$ (523)**	**$ 1,757**

	Year ended December 31, 2020						
	Alberta commercial	Western Canada contracted	Ontario contracted	U.S. contracted	Total from contracts with customers	Other sources	Total
Energy revenues	$ 573	$ 91	$ 289	$ 205	$ 1,158	$ 597	$ 1,755
Emission credit revenues	27	9	–	10	46	(10)	36
Total revenues[2]	$ 600	$ 100	$ 289	$ 215	$ 1,204	$ 587	$ 1,791

[2] Included within trade and other receivables, at December 31, 2021, were amounts related to contracts with customers of $298 million (2020 – $132 million).

36. Comparative figures:

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