Capital Power

Powered by purpose

2022
Integrated
Annual Report

To power a sustainable future for people and planet

Capital Power is an independent North American power producer creating innovative electricity solutions to electrify the world, reliably, affordably and sustainably.

About us

Alongside our purpose, we are guided by our vision, mission and values.

Our vision

Electrifying the world reliably and affordably while protecting the planet for future generations

Our mission

Implementing and operating innovative energy solutions

Our values

We manage our impact on the environment to leave a healthy planet

We value equity, diversity and inclusion, listen with open minds, and treat all people with respect

We are committed to the safety and wellbeing of our people

We act with integrity and take responsibility for our decisions and actions

We embrace innovation by fostering creativity and harnessing technology

About this report

Our Integrated Annual Report (IAR) aligns our financial and environmental, social and governance (ESG) reporting and provides our stakeholders with a comprehensive view of our priorities, performance and strategy for long-term success. Elements of the conventional management's discussion and analysis (MD&A), including the overview of our business and corporate structure, corporate strategy and outlook and targets for 2023, are integrated into the Introduction section beginning on pages 1-12 and Strategy and targets section beginning on page 13. The remainder of the former MD&A[1] has been incorporated within our IAR in the Business report section beginning on page 53.

This report provides an overview of our performance from January 1, 2022 through to December 31, 2022 and includes a summary of our management approach and highlights material topics within our business. It also includes a Global Reporting Initiative (GRI) content index and Sustainability Accounting Standards Board (SASB) index that addresses relevant metrics related to the Electric Utilities and Power Generators sector standards. All dollar figures are in Canadian funds.

In accordance with its terms of reference, the Audit Committee of our Board of Directors reviews the contents of the IAR and recommends its approval by the Board of Directors (the Board). The Board approved this IAR as of February 28, 2023.

We welcome your feedback on our report at info@capitalpower.com

KPMG assurance

Capital Power engaged KPMG LLP to provide independent, external limited assurance on select performance information contained within this report. The symbol ☑ throughout the report indicates metrics that have been assured for the 2022 year. KPMG's assurance statement can be found beginning on page 116.

Additional reports

Our Climate Change Disclosure Report is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This report provides additional details about Capital Power's climate change governance, strategy, risk management, metrics and targets. You can find our 2021 IAR on our corporate website.

Contents

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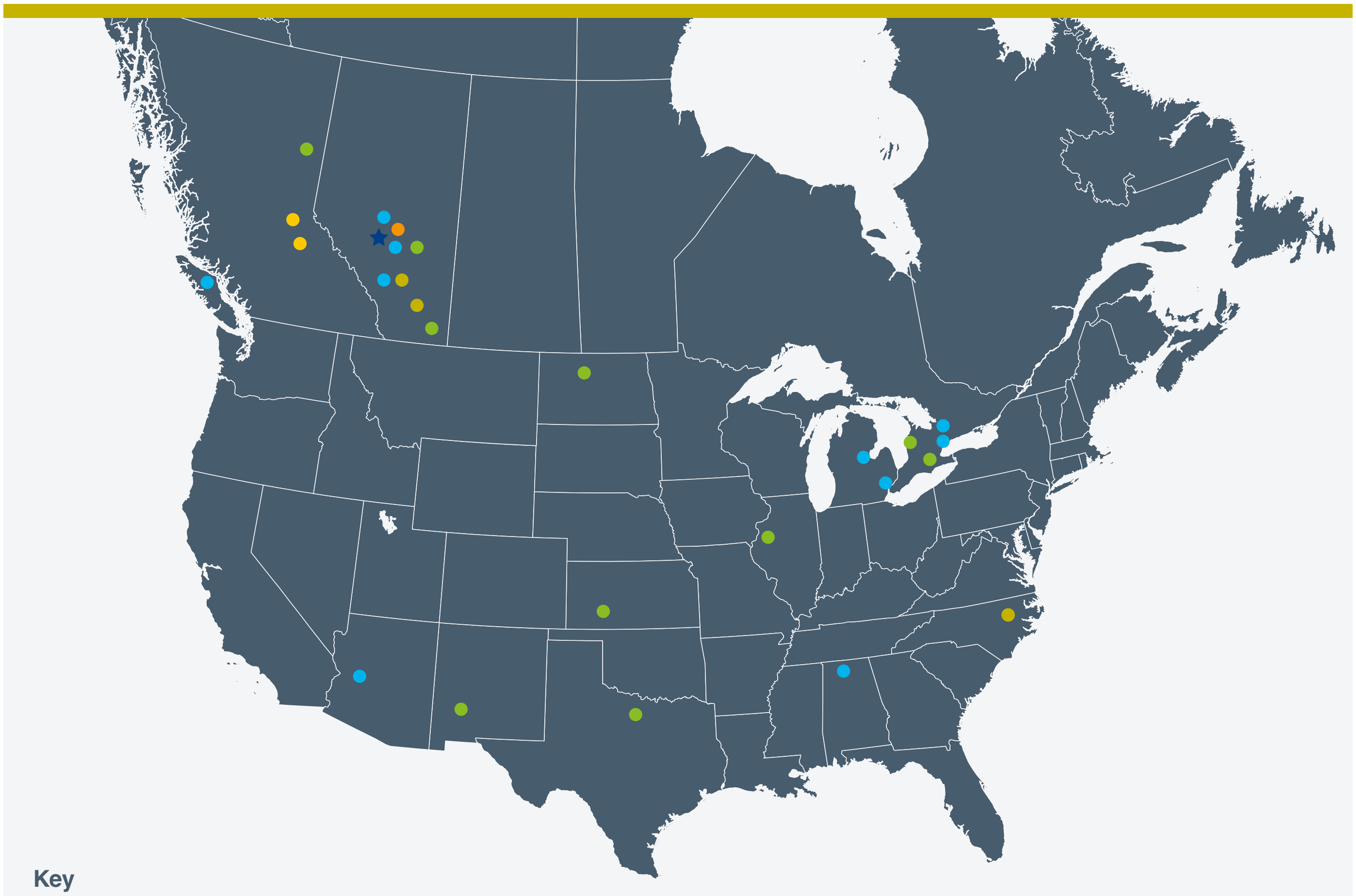
[1] The "Our strategy" (pages 14-17), "Performance targets for 2023" (pages 18-20), "Business report" (pages 53–111) and "Forward-looking information" (pages 112–114) sections of this Integrated Annual Report, shall be deemed to have superseded the document defined as the "2021 MD&A" incorporated by reference in the base shelf prospectus of the Company dated June 10, 2022.

Where we operate



Key

● Solar ● Wind ● Natural gas ● Waste heat ★ Natural gas / coal[1] ● Landfill gas

29
Facilities

7,500MW
Approximate generation capacity

20%
from renewables

Territorial acknowledgement

In the spirit of reconciliation, Capital Power respectfully acknowledges that we operate within the ancestral homelands, traditional and treaty territories of the Indigenous Peoples of Turtle Island, or North America.

Capital Power's head office is located within the traditional and contemporary home of many Indigenous Peoples of the Treaty 6 Region and Métis Nation of Alberta Region 4. We acknowledge the diverse Indigenous communities that are located in these areas and whose presence continues to enrich the community.

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[1] Representing Genesee Generating Station Units 1, 2 and 3. Off-coal in 2023.

2022 Highlights: Delivering strong results with purpose

>$500 million growth capital

Executing on our mid-life natural gas strategy

acquired 50% joint venture interest in Midland Cogeneration Venture (MCV) 1,633 MW natural gas combined-cycle cogeneration facility

Inaugural Green Financing Framework

Enabling the issuance of green bond and green loans

completed first-ever green hybrid subordinated notes offering in Canada of $350 million

23% Total shareholder return

14% annual average TSR since inception

exceeding our target of 10-12% over the long term

$1 billion[1]

Committed capital projects through 2024

significant progress on Genesee Repowering and renewable development

Net zero by 2045

Accelerating and enhancing key sustainability targets

on track to meet sustainability targets

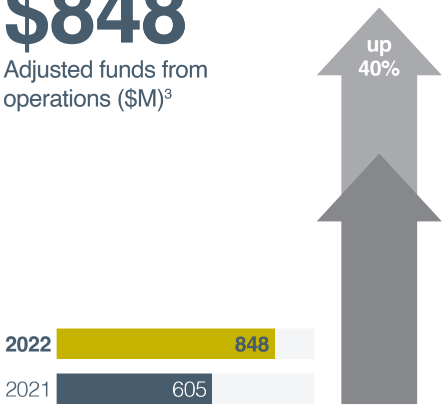
6% annual dividend growth

Extended through to 2025[2]

delivering 9 consecutive years of dividend growth

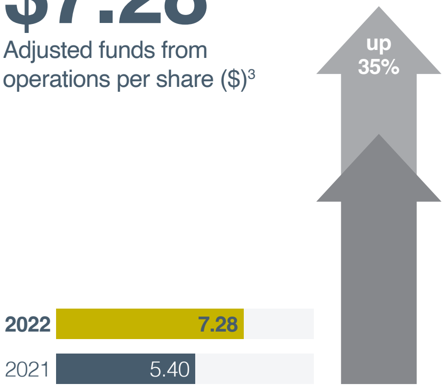
$848

Adjusted funds from operations ($M)[3]



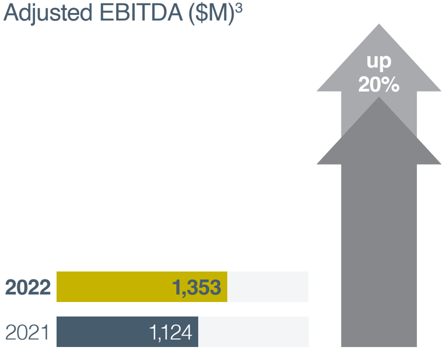
$7.28

Adjusted funds from operations per share ($)[3]



$1,353

Adjusted EBITDA ($M)[3]

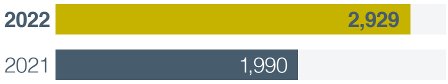


$935

Net cash flow from operating activities ($M)

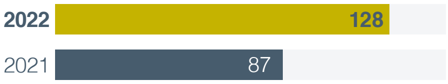
$2,929

Revenues and other income ($M)



$128

Net income ($M)



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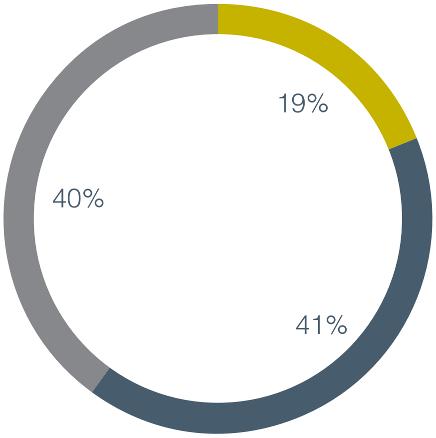
[1] Includes the battery energy storage system (BESS) project that is currently on hold while Capital Power explores alternate means of providing grid frequency support and AESO completes a review process that may result in an increase in MSSC beyond 466 MW.

[2] Subject to market conditions, economic outlook, cash flow forecast, and Board approval at the time.

[3] See Non-GAAP financial measures and ratios, page 56.

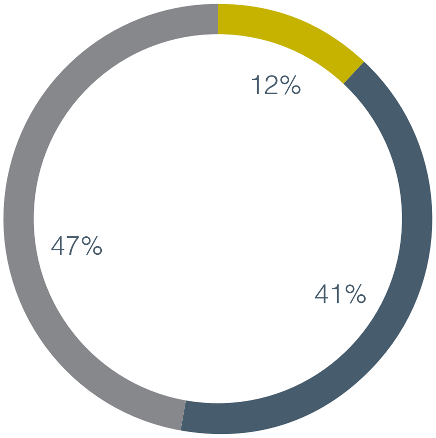
2022 Highlights: Delivering strong results with purpose

Adjusted EBITDA by fuel type[3]



🟨 Renewables
⬛ Natural gas
▨ Natural gas / coal*

Revenues and other income by fuel type[4]



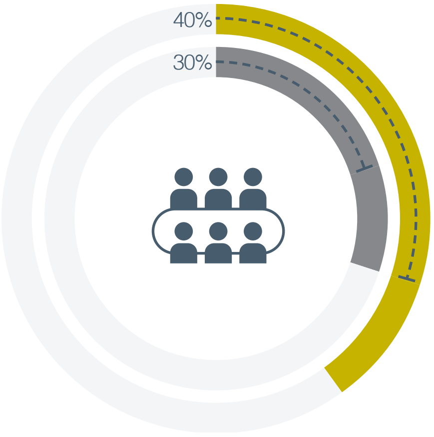
🟨 Renewables
⬛ Natural gas
▨ Natural gas / coal*

$5.4M

Community investment

40%

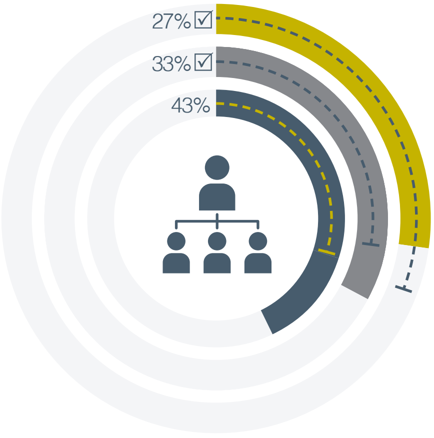
Women on the Board of Directors



		- - -⊣ Target
🟨	Women	30%
▨	Diverse beyond gender	20%

27%

Women in upper management



		- - -⊣ Target
🟨	Women in upper management[5]	10% growth
▨	Women new hires[6]	30%
⬛	Women on executive team	30%

95%

Employee retention

[3] See Non-GAAP financial measures and ratios, page 56.

[4] The allocation of revenues and other income by fuel type excludes the impacts of unrealized changes in fair value of commodity derivatives and emission credits.

[5] Based on 10% growth in women leaders by 2025.

[6] 30% new hires to be women across our entire organization.

* Off-coal in 2023

What we do

Powered by our commitment to creating a brighter world, we develop, acquire, own, operate and optimize industry leading, utility-scale generation facilities. We provide sustainable energy solutions with reliable outputs that are strategically marketed and traded, maximizing our financial value.

We also recognize our role in society and the communities in which we operate. We look to influence the wider energy debate, helping inform policy and regulations while also working closely with local leaders to ensure our activities have a positive impact on communities and limit our environmental impact.

→ **Read more on pages 41-46**

Our activities include:

Renewables

🟨 Wind	10
⬛ Solar	3
▨ Other	3

5,079GWh
contribution to 2022 output

15-353MW
Facility capacity range

19%
Contribution to 2022 adjusted EBITDA[1]

12%
Contribution to 2022 revenues and other income[2]

Locations

- Alberta
- Illinois
- North Dakota
- British Columbia
- Kansas
- New Mexico
- Ontario
- North Carolina
- Texas

$33M
increase in 2022 revenues and other income from renewables growth

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[1] See Non-GAAP financial measures and ratios, page 56.

[2] The allocation of revenues and other income by fuel type excludes the impacts of unrealized changes in fair value of commodity derivatives and emission credits.

What we do

Our activities include:

Thermal

🟨	Gas facilities	10
⬛	Natural gas / coal*	3

* Off-coal in 2023

Locations

- Alberta
- Ontario
- British Columbia
- Michigan
- Arizona
- Alabama

23,494GWh
contribution to 2022 output

92-1,633MW
Facility capacity range

81%
Contribution to 2022 adjusted EBITDA[1]

88%
Contribution to 2022 revenues and other income[2]

$15M[3]
Innovation spend 2022 ☑

Growth pipeline

4,700MW
approximate capacity and growing

920MW
Wind

2,500MW
Solar

700MW
Gas

2,300MWh[4]
Storage

Significant near-term pipeline opportunities:
Western Canada, Ontario, and MISO

→ Read more on pages 19

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[1] See Non-GAAP financial measures and ratios, page 56.

[2] The allocation of revenues and other income by fuel type excludes the impacts of unrealized changes in fair value of commodity derivatives and emission credits.

[3] Innovation in thermal and renewable power generation is the process of finding solutions that allow Capital Power to meet carbon reduction targets and will transform our fleet into integrated, autonomous and sustainable power generation facilities of the future.

[4] Approximately 580MW of capacity.

Our business model

Our purpose is to power a sustainable future for people and planet.

We power communities across North America with reliable, affordable and sustainable power, while creating careers that stimulate economic growth.

Our people are our most valuable resources, and their safety and wellbeing are our priority. Through innovation and technology, we manage our impact on the environment while providing long-term value for our shareholders. We passionately support our local communities and strive to be a neighbour of choice.

The resources and relationships we rely on to operate

To deliver affordable and reliable power to grids across North America, our facilities rely on a strong network of resources and relationships. This network is at the heart of our business, allowing us to meet growing energy demands throughout the energy transition and beyond.

Resources

- Our people
- Natural resources and materials
- Infrastructure and interconnections
- Financial capital and markets
- Reputation

Relationships

- Value chain and third-party providers
- Government, regulators and policy makers
- Financial partners and markets
- Communities

What we do

Every day, our skilled teams are working hard to keep facilities running smoothly, sell our power to markets, and build upon future growth opportunities – all supported by our sustainability-focused strategy.

Develop

- Anticipating energy needs through forecasting
- Market analysis and planning, understanding complexities in markets where we operate
- Capital allocation
- Develop, build and acquire new assets

Operate

- Operating our assets, safely and reliably, while managing and reducing emissions
- Enhancing asset performance and reducing emissions through innovation-based investment
- Investment in decarbonization technology

Optimize / market

- Asset optimization in physical and financial markets
- Management of fuel, greenhouse gas and power commodity exposure
- Direct commodity sales
- Analytics to support commodity risk management and trading decision making

Explore

- New asset opportunities
- Existing and emerging technologies

Towards our target of net zero by 2045

Our business model

What our operations create (output/impact)

We are creating reliable energy for our society, full and productive employment for our communities, and long-term growth for our stakeholders. As part of our commitment to reaching net zero by 2045, we're on track to meet our 2023 sustainability targets.

Energy

We harness technology, innovation and nature to provide sustainable, reliable power generation.

7,500MW

Approximate generation capacity

Jobs

We provide jobs at our offices and operations, contract hundreds during construction, and prioritize supporting local businesses and community members.

773

Employees

Emissions

We're reducing and abating our emissions through investment in renewables, carbon capture and storage.

15.9MT

CO_2e per year ☑

Revenue

Read more about our financial performance in the Business report, starting on page 53.

$2,929

Revenues and other income

The wider outcomes from what we do

The outcomes of our business are the internal and external impacts of our operations and activities. Through regular and thoughtful engagement, we deepen our understanding of what's important and seek opportunities to collaborate to develop sustainable growth.

People

We strive to make our people feel valued, empowered and motivated.

→ **Read more on page 35**

Community

We connect, listen and learn from a range of stakeholders.

→ **Read more on pages 42-43**

Supply chain

We are working with our suppliers to create jobs and economic growth throughout the construction process.

→ **Read more on page 33**

Environment

Our targets reflect our commitment to manage environmental impacts.

→ **Read more on page 20**

Board Chair and CEO letter

Delivering with purpose

Jill Gardiner
Board Chair

Brian Vaasjo
President and Chief Executive Officer

In 2022, Capital Power demonstrated excellence and momentum across all aspects of our business to achieve key growth, operational, financial, and sustainability priorities that position our Company to deliver on our purpose – *to power a sustainable future for people and planet* – and to support the overall reliability and affordability of electricity systems across Canada and the United States.

We have accelerated and enhanced our key sustainability target to net zero by 2045 (see page 20) – a reflection of our proactive pathway to decarbonization that seeks to transform power generation through implementing and exploring solutions that will help us responsibly decarbonize. We are focused on renewables, natural gas, carbon capture and storage (CCS), battery storage and direct air capture (DAC). Our employees are innovating how we do business to provide balanced electricity solutions that enhance our power systems through a variety of technologies depending on market needs.

Sustainable operations and decarbonization

Our fleet was maintained and operated to the highest standards thanks to the efforts, skills and dedication of our employees – resulting in fleetwide availability of 93%. The strong availability in 2022 is a result of proactively addressing maintenance issues and, when a forced outage did occur, being able to bring the units back online in a timely manner. Health and safety remains a priority across our business to ensure our employees and neighbors are safe. We are proud to receive the 2022 President’s Award of Excellence for Employee Safety from Electricity Canada in recognition of our top ranking in Total Recordable Injury Frequency (TRIF) performance (see page 40).

93%
Fleetwide availability

Our momentum in growing, contracting and optimizing our fleet of power generation assets was a highlight of 2022. For renewables, notable highlights from the year include the on-schedule completion of the Strathmore Solar and Clydesdale Solar projects, new renewable energy agreements for Whitla Wind and Clydesdale Solar with MEGlobal Canada and Shaw Communications respectively, and the ongoing development of our Halkirk 2 Wind project (see pages 27-28). Regarding our natural gas portfolio, significant progress was made on the construction of the repowered Genesee Units 1 and 2 (see page 24) – together with the 100% natural gas upgrade for Genesee Unit 3, we are on track to be off-coal in 2023.

Board Chair and CEO letter

We also completed the acquisition of the Midland Cogeneration Venture (MCV) with our partner Manulife Investment Management (see page 26). MCV is a strategically significant 1,633 MW cogeneration facility located in Michigan that diversifies our fleet geographically and, given its criticality to the grid and importance to local industry, has many opportunities for re-contracting after its current long-term contracts expire. Overall, we continued to foster a very robust growth and optimization pipeline that provides significant opportunities for further contracting and growth in 2023 and beyond.

Stable financial strategy

Our ability to fund the growth, optimization and innovation driving us to net zero by 2045 is established by our financial strategy. We continue to prioritize growth in our cash flows to support annual dividend increases and are well positioned to execute on our performance targets based on our committed growth capex and maintaining our investment grade credit rating. In 2022, we enhanced the alignment of our capital structure with our sustainability priorities by issuing the first hybrid green bond in Canada that raised $350M to fund eligible renewable projects as outlined in our inaugural Green Financing Framework (see page 30).

Sustainability in action

As we pursue our sustainability initiatives, we remain committed to transparent, accurate reporting and disclosure of our financial and sustainability performance. We support the overall standardization of industry-level reporting and evaluate reporting standards each year to reflect global best practices. On our path to net zero by 2045, we are accelerating several initiatives that elevate the overall sustainability of our business. We continue to work towards the implementation of our sustainable sourcing and water management (see pages 32-33) strategies. Our transformative Genesee CCS project continues to develop – in 2022, the project began a front-end engineering and design (FEED) study and received Board of Director's (Board) approval for a limited notice to proceed (see page 24). We have also added a new sustainability target for responsibly sourced natural gas – aiming for 5% of our Alberta natural gas purchases to be responsibly sourced in 2023 (see page 33).

> **"We remain committed to transparent, accurate reporting and disclosure of our financial and sustainability performance."**

Strengthening equity, diversity and inclusion

Cultivating a culture where diversity is celebrated, inclusion is the norm, and all people are treated equitably is our priority. We want our employees to feel like they truly belong and that they can be their authentic selves in the workplace. Our robust equity, diversity and inclusion (EDI) targets are enhancing our workplace not only through their outcomes, but through the conversations they inspire – we are enthused to see employees engaging in training, conversation, and our revamped EDI Council (see page 36). We are proud to lead from the top when it comes to our EDI targets, with 40% and 43% of our Board and Executive Team represented by women respectively, as well as 30% of our Board representing diversity beyond gender (see page 49).

Board Chair and CEO letter

Supporting our communities

We continued to prioritize our presence across the communities where we live and work. At Capital Power, we are proud to be a neighbour of choice and act with integrity to build real, lasting relationships with all stakeholders that we engage with (see page 43).

> **"As we walk the path of reconciliation, we are committed to open, honest and transparent engagement with Indigenous communities with the goal of achieving long-lasting relationships."**

(See page 46).

We have prioritized education within our organization to actively build awareness and understanding of the profoundly negative impacts historic and contemporary forces have had on Indigenous Peoples, as well as to expand our knowledge and celebrate the diversity, traditions and contributions of Indigenous Peoples that continue to enrich our society. In 2022, we recognized the National Day for Truth and Reconciliation as a holiday for Canadian employees and expanded our employee programming to offer learning circles focused on various aspects of Indigenous culture. We are also committed to seeking Indigenous participation in our Genesee CCS project (see page 25) and will secure an equity partnership with local Indigenous organizations related to the Halkirk 2 Wind project.

This year, we continued to passionately support local programs and organizations that help build sustainable communities. Overall, we invested $5.4M in our communities in 2022, focused on the impact areas of equity and culture, wellbeing, and climate action (see page 44). Headquartered in Edmonton, Alberta, we are a proud member of the downtown business community and honoured to give back to our neighbours struggling with homelessness and poverty through the Build with Boyle campaign. In November 2022, we contributed $2M to Boyle Street Community Services in support of their new *okimaw peyesew kamik* (King Thunderbird Centre), with our funding dedicated to the community kitchen and on-site housing infrastructure. We were also pleased to provide the final $1M donation needed to complete the replacement of the STARS Air Ambulance helicopter fleet. With operations and employees in Alberta and British Columbia, it is important that we support the essential work of STARS Air Ambulance so that they can continue to save lives across Western Canada.

$5.4M

invested in our communities in 2022

Looking ahead

Our achievements in 2022 reflect our increased velocity towards net zero by 2045 – we are taking action today to tackle climate change head on while ensuring our power systems remain sustainable, reliable and affordable for generations to come. As we continue to optimize our business in 2023, we remain committed to financial strength, stability and disciplined growth to fund a net zero future. Specifically, we are committed to:

- Our targeted returns on growth opportunities and existing assets to support an average annual Total Shareholder Return of 10% to 12%
- Our pursuit of high-quality investments that will provide the opportunity to place $600M of growth capital per year

6%[1]

Annual dividend increase guidance through to 2025 to be supported by strong, stable cash flows

Finally, we extend our gratitude to all our stakeholders for their ongoing support and collaboration, and to our Board for their guidance and leadership. We thank our employees for their dedication to powering a sustainable future for people and planet – it is thanks to you that we are recognized as one of Canada's Most Admired Corporate Cultures™ for 2022.

Sincerely,

Jill Gardiner
Board Chair

Brian Vaasjo
President and Chief Executive Officer

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[1] Subject to market conditions, economic outlook, cash flow forecast, and Board approval at the time.

01

Powered by a focused strategy

Our purpose drives our decisions and the actions we're taking today towards building net zero energy systems for tomorrow. It is embedded in our commitment to be an industry leader on sustainability and the transition to a low-carbon future.

Aligned with this commitment to our planet, our strategy provides a clear road map for dramatically reducing our carbon emissions, while allowing us to continue to deliver the reliable, affordable, and sustainable energy we need now and into the future.

Our strategy guides our path and allows us to anticipate change, adapt and succeed in this rapidly evolving environment.

→ See our strategy in action on page 16

Strategy and targets

Trends shaping our industry

The electricity sector has significantly reduced its emissions and is well positioned to play a major role in accelerating decarbonization, by providing reliable, affordable and sustainable sources of power for sectors whose emissions are harder to abate.

The increase of extreme weather events across the globe, coupled with the energy security crisis in Europe has brought the immediate need for reliable energy backstops and urgent and aggressive action to achieve net zero goals to the forefront.

The call for accelerated action highlights the vital importance of advancing decarbonization, circular economies and digital transformation.

Decarbonization

Government policies and incentives announced in Canada and the U.S. signal strong support for accelerated investment in developing low carbon energy sources and decarbonization solutions. Highlights from 2022 include:

- The Canadian government released its 2030 Emissions Reduction Plan providing a roadmap for Canada to reduce emissions by 40 – 45% from 2005 levels by 2030.
- Canada's Strategic Innovation Fund Net Zero Accelerator initiative leveraged $8 billion to support innovative projects in high emitting sectors, including consideration of our Genesee CCS project (see page 25), to drive emissions reduction in Canada.
- The Canadian government announced details of the proposed Canada Growth Fund (CGF) and proposed refundable investment tax credits (ITC) for clean technology and clean hydrogen in its Fall Economic Statement.
- The U.S. government passed the Inflation Reduction Act committing $369 billion in new energy security and climate change spending over the next 10 years.

Circular economy

Decarbonizing the economy will require rapid deployment of clean energy technologies. This system wide transition will increase the demand for materials, including scarce minerals such as lithium, cobalt and rare earth elements, within manufacturing processes.

The power sector will need to focus on sustainable sourcing, innovation in materials composition, optimizing operations, designing for second life, and recovering by-products and waste to de-risk linear business models and open new opportunities for value creation.

Digital transformation

Digitization in the power generation industry is underway and gathering momentum. Cloud technology, artificial intelligence and predictive analytics offer the ability to harness the power of historical data to adapt business models in pace with rapid change. It is expected that machine learning will provide a dynamic platform to strengthen decision making, increase efficiency and reliability, and reduce costs.

Our strategy

Achieving our accelerated goal of net zero by 2045 involves transitioning off-coal by the end of 2023, accelerating growth in renewable projects and making strategic investments to abate the emissions from our natural gas assets. We will accomplish this through purposeful investment in our people, evolution of our core technologies, and collaboration with stakeholders to decarbonize our fleet.

This resilient strategy positions us to remain competitive as we power a sustainable future for people and planet.

Our strategic objectives

Grow and optimize a balanced portfolio of core technologies	Our strategy for growth and responsible energy is driven by investments in wind, solar, energy storage and natural gas. These technologies allow us to achieve returns that support our growth and deliver long term value to shareholders.
Decarbonize our portfolio	Achieving our objectives will be guided by a hierarchy of emission reduction strategies, with abated natural gas playing an essential role and negative emission technologies supplementing emissions mitigation. To reduce our emissions profile, we're pursuing opportunities for CCS, providing a near-term path for emissions reduction from thermal generation. Investing in the development of hydrogen and other low carbon fuels will provide options for physical on-site decarbonization at our facilities post-2030 and where this is not technically or economically feasible, nature-based solutions and direct air capture are expected to offset emissions.
Empower and support our people and communities, and engage with our stakeholders	The brilliance of our people is at the core of our ability to achieve our goals and ensure our long-term success. Supporting the evolving physical and psychological needs of our diverse workforce enables them to meet our objectives in an impactful way that creates a robust culture that aligns with our strategy. We value the perspective we gain through the thoughtful, ongoing engagement we have with Indigenous communities and our stakeholders. These relationships deepen our understanding of what's important and highlights opportunities to collaborate.

Underpinned by

Maintain robust financial and sustainability performance	Our driver for financial performance is to deliver a strong and stable shareholder return. Our strategy is underpinned by sustainability and integrates ESG considerations into our financial management decisions. We believe that responsible power generation presents ample opportunities to meet our growth objectives and financial targets and ensure our competitiveness as we transition towards a net zero future.

Our strategy

Delivered through our goals

Goals	2022 Progress highlights
🟦 **Pursue strategically-located mid-life natural gas generation to ensure reliable and affordable energy**	• Completed the acquisition of MCV, a strategically significant 1,633 MW cogeneration facility located in Michigan • Solid track record of re-contracting natural gas assets • See Decarbonization and growth on page 24
🟦 🟨 **Develop and acquire wind, solar and energy storage assets**	• Continued development of Halkirk 2 Wind, adding 151 MW of renewable capacity • Our first Canadian solar facility, Strathmore Solar, began commercial operation • See Investment and innovation in low-carbon energy sources on page 27
🟦 🟨 **Identify and invest in technology that reduces the emissions from natural gas generation**	• Continued development of our Genesee CCS project • Progress made on the construction of the repowered Genesee 1 and 2 units • See Decarbonization and growth on page 24
🟦 🟨 **Relentless focus on optimizing our operations to continuously improve efficiency**	• Completed upgrades at Genesee 3 to maximize fuel flexibility in advance of moving to 100% natural gas in 2023 • Successfully completed several major cyber-security assessments in 2022 • See Managing risks and impacts on page 32
🟦 🟨 **Identify and pursue alternate commercial and financial structures that would increase returns from renewables in our portfolio, including considering opportunities for sustainability-linked finance**	• Enhanced the alignment of our capital structure and our sustainability priorities by issuing the first hybrid green bond • See Performance on page 30
🟦 🟨 🟩 **Mature integration of sustainability principles into our strategy and governance processes**	• Accelerated our net zero target to 2045 from 2050 • A percentage of short-term remuneration of management is based on social and environmental targets • See Corporate governance on page 48
🟩 **Maintain an unwavering commitment to health, safety and the environment**	• Achieved an HSE Performance Index of 1.10 • Moved to a 5-year rolling average for measuring all frequency-based lagging indicators • See Occupational health and safety on page 39
🟩 **Be a trusted and ethical business partner in the communities where we operate**	• Rolled out a new Energy Trading Code of Conduct • Recognized by Ethisphere® Institute as one of the World's Most Ethical Companies® • See Ethics and integrity on page 51
🟩 **Recognize, promote and encourage equity, diversity and inclusion in our workforce**	• Selected for The Globe & Mail's 2022 Women Lead Here list for the third year in a row • 56% of employees completed their identity profiles • See Equity, diversity and inclusion on page 36

Link to strategy:

🟦 Grow and optimize a balanced portfolio of core technologies	🟩 Empower and support our people, communities, and stakeholders
🟨 Decarbonize our portfolio	▌ Maintain a robust financial and sustainability strategy

Our pathway to net zero 2045

Capital Power's strategy focuses on the development and operation of our core technologies: wind, solar, natural gas and storage. Our pathway to net zero 2045 also includes the advancement of decarbonization technologies such as CCS, hydrogen and direct air capture (DAC).

Today–2024

- Complete repowering and off-coal
- Explore and deploy battery technology
- Complete CCS FEED study at Genesee and commence construction
- Invest in renewables, strategic natural gas
- Pair renewables with storage
- Explore DAC solutions
- CCU: C2CNT and beyond

2024–2030

- Complete Genesee CCS project
- Expand CCU
- Explore carbon mitigation technologies on existing fleet
- Add DAC to carbon compliance portfolio
- Consider alternative "baseload"

2030–2045

- Net zero via physical solutions on natural gas assets, DAC and offsets
- Invest in DAC facility
- Renewables plus storage as baseload

2045–2070

- Physical decarbonization
- Negative abatement solutions

Performance targets for 2023: enhancing shareholder value

Operational priorities for Capital Power in 2023 include progressing our sustainability targets through:

Strategic acquisition and development of renewable and natural gas assets

Continued progression on the repowering of Genesee 1 and 2

Advancement of CCS and carbon conversion technologies at the Genesee facility

Performance targets for 2023[1]

Operational excellence

Performance measure	2023 target
Facility availability average[2]	94%
Sustaining capital expenditures	$135 to $145M

Financial stability and strength

Performance measure	2023 target
Adjusted funds from operations[3,4]	$805 to $865M
Adjusted EBITDA[3,4]	$1,455 to $1,515M

Performance targets for 2023: enhancing shareholder value

Performance targets for 2023[1]

Disciplined growth

Performance measure	2023 target
Repowering of Genesee 1 and 2[5]	**Continued progress with anticipated in-service date in 2024**
Renewable projects[5]: Halkirk 2 Wind (Alberta)	**Continued progress with anticipated commercial operations in the fourth quarter 2024**
Bear Branch Solar (North Carolina)	**Capital Power re-evaluated the economics of the projects based on current construction cost information and the existing PPAs. The construction cost has increased significantly due to industry wide cost pressures making the projects uneconomic to proceed at this time. Management has been in discussion with the offtaker. It is highly probable that we are terminating the existing PPAs and anticipate re-bidding the projects into one of the upcoming requests for proposal.**
Hornet Solar (North Carolina)	
Hunter's Cove Solar (North Carolina)	
2023 growth target	**$600M** **of committed capital**

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[1] Performance targets for 2023 to be read in conjunction with the Forward-looking information section on page 112, which identifies the material factors and assumptions used to develop forward-looking information and their material-associated risk factors.

[2] Reflects planned outages for Genesee 1 and 2 repowering and major scheduled maintenance outages for Clover Bar Energy Center, York Energy, Decatur Energy and Midland Cogeneration Venture.

[3] The 2023 guidance was based on approximately 10,000 gigawatt hour (GWh) of the Alberta commercial power portfolio sold forward at a weighted average hedged price in the high-$70 per megawatt hour (MWh) range and approximately 50,000 terajoules (TJ) of the Alberta commercial natural gas requirements hedged at a weighted average price of < $2.00 per GJ. The remaining Alberta commercial power and natural gas volumes were valued based on an average forward Alberta pool price of $136 per MWh and AECO natural gas price of $4.60 per GJ, respectively. The Alberta portfolio position, contracted prices and forward Alberta pool and natural gas prices for 2023, 2024 and 2025 (all as of December 31, 2022) were:

Alberta commercial portfolio	**2023**	2024	2025
Power			
Hedged volume (GWh)	10,000	7,000	6,000
Weighted average hedged prices[a] ($/MWh)	High-$70s	Low-$70s	High-$60s
Forward Alberta pool prices ($/MWh)	$182	$100	$89
Natural gas			
Hedged volume (TJ)	50,000	60,000	50,000
Weighted average hedged prices[a,b] ($/GJ)	< $2.00	< $2.00	< $3.00
Forward Alberta natural gas prices ($/GJ)	$3.65	$3.68	$4.02

[a] Forecasted average contracted prices may differ significantly from future average realized prices as future realized prices are driven by a combination of previously contracted prices and settled prices. When long-term forward portfolio optimization hedges are transacted, they reflect the market's expectations for future period pricing.

[b] Net of gains as part of the Company's gas portfolio optimization activities, including sales of previously purchased length.

[4] Adjusted funds from operations and adjusted EBITDA are non-GAAP financial measures. See Non-GAAP financial measures and ratios on page 56.

[5] See the Liquidity and capital resources section in the Business report on page 78 for project budget amounts.

The 2023 targets and forecasts are based on numerous assumptions including power and natural gas price forecasts. They do not include the effects of potential future acquisitions or development activities, or potential market and operational impacts relating to unplanned facility outages including outages at facilities of other market participants, and the related impacts on market power prices.

Performance targets for 2023: enhancing shareholder value

At our Investor Day held in December 2022, management confirmed guidance for a 6% dividend increase. Each annual increase is premised on the assumptions listed under Forward-looking information and subject to approval by the Board of Capital Power at the time of increase.

See Liquidity and capital resources on page 78 for discussion of future cash requirements and expected sources of funding. It is expected that, outside of new growth opportunities, no additional common share equity will be required in 2023 to fund our current growth projects.

Sustainability targets 2023: getting to net zero 2045

We have a target to be net zero with a clear pathway to guide us. Below are key milestones we aim to reach as we progress.

	On track
Achieve net zero by 2045	✓
Construct all new natural gas generation units to be carbon capture and/or hydrogen ready	✓
Reduce Scope 1 CO_2 emissions at Genesee by 50% by 2030 from 2005 levels	✓
Reduce Scope 1 CO_2 emissions by 10% by 2030 from 2005 levels, based on our 2019 fleet	✓
Reduce Scope 1 CO_2 emission intensity by 65% by 2030 from 2005 levels	✓
Invest in CCUS technology to help us achieve net carbon by 2045	✓
Progress Genesee Carbon Conversion Centre	✓

→ See our Executive Team and leadership short-term and long-term linked sustainability targets in our Annual Information Form

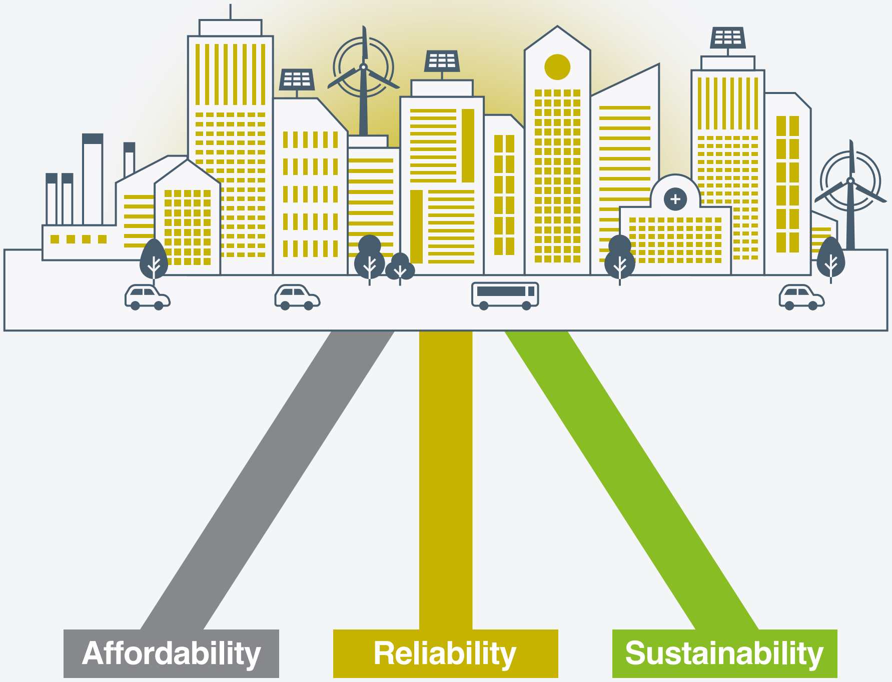
Consideration for Science Based Targets initiative

Capital Power actively supports the reduction of electricity system emission intensity to 0.1 tCO_2e/MWh by 2030 but is prevented from establishing a SBT at this time.

Science Based Targets initiative (SBTi), uses a sectoral decarbonization approach, requiring all companies in the power sector to converge to a shared 2040 net zero emission intensity target that will limit global warming below 1.5 degrees.

SBTi alignment requires commitment to an emission intensity of 0.1 tCO_2e/MWh by 2030, which is a desirable and achievable goal for entire electric systems but is not desirable and achievable when applied on a producer-by-producer basis because producers would be unable to provide the reliability supports necessary.

Capital Power actively supports the reduction of electricity system emission intensity to 0.1 tCO_2e/MWh by 2030 but is prevented from establishing a SBT at this time.



Risk overview

Our approach to risk management

Risk management is everyone's responsibility, from the Board to individual employees. Our Company-wide enterprise risk management (ERM) program is embedded in our strategic and long-term planning, operational planning and budgeting process, as well as in all aspects of our operations to identify, assess, respond to, report and monitor risks, including environmental and social risks. Our ERM program is based on the Committee of Sponsoring Organizations standard for risk management (COSO ERM – Integrated Framework) and is governed by our ERM Policy.

Risk management process

Biannual risk review

We assess company risks at least twice a year during strategic long-term and business planning and budgeting processes with Executive risk owners or their delegates to identify new or changing risks. Risks are evaluated using quantitative and qualitative methods to determine their severity and prioritize and design appropriate responses.

Risk profile is updated

Individual risk assessments are consolidated into a corporate risk register to show Capital Power's exposure to each over a given time period along with corresponding mitigating controls that allow risks to be monitored.

Executive and Board review

The Executive and Board receive a consolidated risk report with updates on changes in the risk profile and emerging risks being monitored. Results are also shared with the Internal Audit team to be used in the annual risk-based internal audit plan, which provides the Board and Management independent assurance that key risks are being managed effectively.

Company wide employee awareness

To ensure risk is understood and managed effectively, we make risk management a central part of our operations by embedding the results into systems and procedures and providing regular updates to our management teams.

Risk management framework

Top down ↓

Risk governance and oversight

Board

- The Board reviews Capital Power's risk profiles biannually.
- The Board reviews and approves the Company's risk appetite and tolerances and ERM Policy.

Risk management and oversight

- The President and CEO has ultimate accountability for managing the Company's risks and approves the ERM framework.

Risk management and oversight

Executive Committee

- Executive risk owners are accountable for the treatment of the risks which have been assigned to them as part of the risk assessment process. They are responsible for providing updates on risk management action plans under their control.

Bottom up ↑

Risk overview

Key risks

The following are the top 3 risks facing our Company in the next 1 to 3 years

Top risks:

1. Political
2. Power prices
3. Construction

Risk	Potential impact	Mitigations	Link to strategy
1. Political	Capital Power operates in a wide range of political jurisdictions and the result of changing political conditions can result in financial, reputational and operational impacts. Increases in political uncertainty in Alberta and the U.S. could have fallout impacting Capital Power across a wide range of issues. Canadian and U.S. government commitments to being global leaders in decarbonization also present opportunities for Capital Power to advance various clean energy projects in North America.	• Engaging with government, industry groups and other stakeholders on new and emerging policies • Predict and identify existing, new or changed laws or regulations or interpretations and prepare and advocate appropriate response or plans • Maintaining active relationships with all levels of government • Technological and geographic diversification • Participation in associations relevant to the electricity markets	🟦 🟨 🟩
2. Power prices	The risk is primarily driven by our merchant exposure to power prices in Alberta. Climate change is impacting global weather patterns, resulting in more prolonged and more pronounced periods of unseasonal temperatures. These extended periods of abnormal weather patterns, coupled with a number of other factors may result in power prices settling differently from our forecast. It is not possible to predict future power prices with certainty, and power price volatility could have material financial impacts to Capital Power.	• Hedging program • Risk Oversight Council • Commodity Risk Management Policy • Maintain a balance of contracted and non-contracted assets • Fuel type and geographic diversification • Forecasting tools to quickly assess scenarios • Commitment to asset optimization to improve merit curve position of thermal fleet	🟦 🟨 🟩
3. Construction	Successful project execution is highly dependent upon the weather, price escalations, inflation and the availability of skilled labour and key components or other scarce resources. As economies emerged from the effects of the global pandemic, supply chains are being re-examined, with nations looking to re-establish production capabilities at home, due to a growing focus on human rights violations worldwide. Supply chains have been under great pressure as demand has far outweighed supply. The changing labour demographic with an aging society has, in part, resulted in labour shortages and increased labour rates which could result in timing, duration and cost increases of projects in 2023. Capital Power may be at risk of material financial, reputational, and operational impacts if we are unable to complete construction projects on time and on budget.	• Governance and oversight by the Executive team • The Board may establish working committees to have oversight of large capital projects, if required • Sourcing due diligence, including implementation of our Sustainable Sourcing Strategy • Post-implementation reviews of projects for lessons learned to be applied to future projects • Labour management • Hedging program for foreign exchange impacts • Strong and comprehensive insurance policies	🟦 🟨 🟩

Link to strategy:

🟦 Grow and optimize a balanced portfolio of core technologies

🟨 Decarbonize our portfolio

🟩 Maintain a robust financial strategy

02

Powered by progress

We are committed to decarbonization, staying ahead of the curve and acting as an industry leader through our investment and innovation in low carbon energy sources, technology, performance management and risk mitigation.

→ Read about our progress on pages 24-28

Sustainable operations and decarbonization

Decarbonization and growth

Capital Power has accelerated its net zero target to 2045 from 2050 (see page 17 for our pathway to 2045). One of our major commitments is to reduce our carbon footprint by transitioning from coal to natural gas combined with CCS at our flagship Genesee Generating Station. When the projects are completed, emissions will be reduced by 6.4 M tonnes of CO_2 per year.

> **"Our Genesee CCS project demonstrates the leading-edge innovation and collaboration required to decarbonize thermal power generation. The application of this technology creates a responsible pathway to near-zero emitting thermal generation – allowing us to continue to provide reliable, affordable power while significantly reducing emissions."**
>
> **Steve Owens**
> Senior Vice President,
> Construction and Engineering

Capital Power continues its transformation of all three units at its flagship Genesee Generating Station from coal-fired power generation to natural gas. In 2022, upgrades at Genesee 3 were completed to maximize fuel flexibility in advance of moving to 100% natural gas in 2023. Genesee 1 and 2 continue to advance towards repowering to natural gas combined cycle (NGCC) technology with both units becoming dedicated NGCC units utilizing best-in-class technology. When complete, the Genesee repowering and conversion projects will immediately reduce our emissions at Genesee by 3.4M tonnes and position Genesee 1 and 2 as the most efficient thermal facility in Canada.

Building a low-carbon energy future through decarbonization technology

Advancing Genesee CCS

In 2022, we advanced the development and commercialization of our Genesee CCS project, which is anticipated to start capturing up to 3M tonnes of CO_2 per year as early as 2027 and would make the repowered Genesee 1 and 2 units a near-zero emitting source of reliable, firm capacity supporting Alberta's pathway to decarbonization. In June, we announced our collaboration with Mitsubishi Heavy Industries Group and Kiewit Energy Group to complete the FEED study, which is being conducted in parallel with the engineering work to advance our collaboration with Enbridge Inc. for the development of the Open Access Wabamun Carbon Hub near our Genesee facility.

3M TONNES

of CO_2 captured per year as early as 2027 with Genesee CCS

In December 2022, the project reached a major milestone receiving a limited notice to proceed (LNTP) from the Board. Proceeding with this LNTP allows Capital Power to move into the next stage of final due diligence, including commercial, finance and technical assessments in advance of a final investment decision expected in late 2023.

Decarbonization and growth

Throughout 2022, we continued to collaborate with government partners across Canada and the U.S. experts across our organization worked with government partners to transparently share data, experience and insights to accelerate the decarbonization opportunity in power generation, with a focus on the benefits of stable carbon pricing, CCS, renewables and battery storage to meet our collective net zero goals.

Genesee CCS financing

Capital Power has experienced significant engagement and support from the Alberta and Federal Governments in order to increase the economic viability of the project.

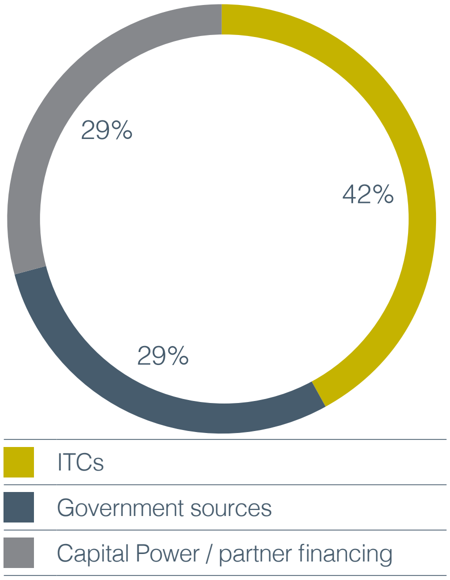
A key component of that support was the 50% refundable ITCs, which are expected to cover approximately 42% of the capital cost, based on 85% of project costs meeting the ITC qualification.

We have had extensive conversations with Innovation, Science and Economic Development Canada and applied to the Strategic Innovation Fund (SIF) Net Zero Accelerator process, receiving approval to move to the next round.

We have also been in very active discussions with the Canadian Infrastructure Bank (CIB) and expect these SIF and CIB government sources to cover half of the remaining project costs, or 29%. We expect the government funding to be committed at final notice to proceed. Capital Power and an Indigenous equity partner would fund the remaining capital requirement.

The last element of support we were seeking was an agreement on carbon price assurance, also referred to as a contract for differences. In the Fall Economic Statement, the Canadian Government indicated that the Canada Growth Fund would be established to provide contractual carbon assurances.

Expected CCS financing



Decarbonization and growth

Direct air capture

DAC is a promising technology that will support our decarbonization efforts by physically reducing emissions across our portfolio. DAC complements the other technologies in our portfolio and offers the potential to reduce emissions from our facilities that may otherwise have limited opportunities for decarbonization due to technical or economic limitations.

Genesee Carbon Conversion Centre (GC^3)

Capital Power is planning to build one of the world's largest commercial scale production facility of carbon nanotubes (CNTs) at our Genesee Generating Station. The project received Alberta Utilities Commission approval in 2021 and is also a recipient of Emissions Reduction Alberta funding through their Shovel-Ready Challenge. The project will be capable of production capacity of 2,500 tonnes of CNTs per year and may expand up to 7,500 tonnes per year, through subsequent phases of the project. GC^3 will deploy C2CNT technology – a carbon utilization solution that transforms emissions into high quality CNTs. Capital Power is a 40% equity owner in C2CNT LLC.

Shepard CCS

Shepard is an 881MW natural gas combined-cycle power facility, owned by Capital Power and ENMAX in a joint venture, and each has 50% interest. The facility was awarded approximately $3M from the Emissions Reduction Alberta to support its Carbon Capture Unit FEED study. In addition, Shepard has secured potential financial support from the SIF.

Supporting resilience through strategic natural gas acquisitions: Midland Cogeneration Venture

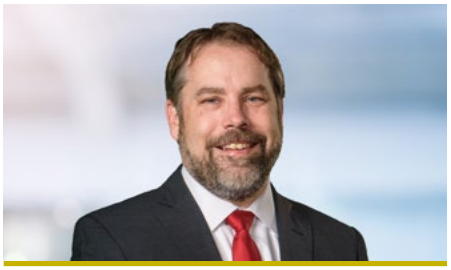
In September 2022, Capital Power and Manulife Investment Management partnered in a 50/50 joint venture to successfully acquire 100% of the interests in Midland Cogeneration Venture (MCV), a 1,633 MW NGCC cogeneration facility located in Michigan.

MCV, the largest gas-fired cogeneration facility in North America, is a critical asset to support grid reliability during the transition to renewables and is well-positioned for re-contracting beyond 2030. It currently operates under long-term contracts until 2030 and 2035 with high-quality counterparties. The site provides opportunities for additional turbines, batteries and other decarbonization solutions including carbon capture.

This acquisition is consistent with our strategy (see page 13) of acquiring strategically-positioned mid-life contracted natural gas assets, which we believe is a key pillar in ensuring grid reliability as we work towards net zero by 2045.

The acquisition provides immediate AFFO[1] accretion with the 5-year average accretion forecast to be US$0.30 per share, representing a 7.0% increase. Financial projections include an expected average adjusted EBITDA[1] of US$80M per year (ranging from US$104M in 2023 and declining to US$66M in 2027) and an average AFFO[1] of US$35M per year during the 5-year period from 2023 to 2027.

Capital Power will be responsible for operations, maintenance and asset management for MCV.



> **"Our gas strategy involves identifying assets like MCV that are critical resources in markets with strong fundamentals – assets that are well-positioned on the grid with a high likelihood of re-contracting. We optimize and add value to our natural gas assets through our engineering, operations and commercial expertise."**
>
> **Chris Kopecky**
> Senior Vice President and Chief Legal, Development and Commercial Officer

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[1] Adjusted funds from operations and adjusted EBITDA are non-GAAP financial measures. See Non-GAAP financial measures on page 56.

Investment and innovation in low-carbon energy sources

At year-end 2022, we had $274M in one renewable project under development.

Our strategy to develop, acquire and optimize renewable power generation assets is paying off. When this new renewable project is complete, it will add incremental power generation capacity of approximately 151 MW to our fleet.

2022 wind highlights

- Announced a 10-year renewable power purchase agreement with MEGlobal Canada ULC for 126 MW of capacity and associated environmental attributes from Whitla Wind Phases 2 and 3. Combined with our renewable energy agreement with Dow Chemical Canada ULC, the additional phases of the Whitla Wind facility, representing a total of 151 MW of capacity, are now contracted for 100% of the energy generated and approximately 86% of the environmental attributes for 10 years.
- Submitted regulatory amendments for updated plans for Halkirk 2 Wind, which will incorporate the most advanced turbine technology. When completed in 2024, it will provide an additional 151 MW of renewable power to the Alberta grid, pending permitting and regulatory approvals.

Innovation spotlight: leading-edge blade repair technology

This year, we completed a successful trial to bring innovative robot technology to blade repair and maintenance at our Port Dover and Nanticoke Wind facility in Ontario. This technology will significantly reduce downtime and increase safety by eliminating the need for people to work at heights.

Innovation in action

The carbon displacement from our PPA with MEGlobal at Whitla Wind is the equivalent of:

taking more than

461,000

cars off the road for a year;

recycling

>90M

bags of waste instead of dumping in landfills;

or the amount of greenhouse gases sequestered by

35M

tree seedlings grown for 10 years.

Investment and innovation in low-carbon energy sources

2022 solar highlights

- Strathmore Solar, our first Canadian solar facility, began commercial operation in March 2022. The 41 MW facility, located near the Town of Strathmore, Alberta, was completed on-schedule and is fully contracted with 100% of the renewable energy generated and associated renewable energy credits sold to TELUS Communications under a 25-year power purchase agreement.
- Clydesdale Solar (formerly Enchant Solar), began commercial operation in December 2022. The 75 MW facility, located in the Municipal District of Taber, Alberta, was completed on-schedule, with approximately 90% of the renewable energy generated and associated renewable energy credits sold to Shaw Communications and Labatt Breweries of Canada over a 15-year term.
- The economics of the Hunter's Cove Solar, Bear Branch Solar and Hornet Solar projects have been re-evaluated based on current construction cost information and the existing PPAs. The construction cost has increased significantly due to industry wide cost pressures making the projects uneconomic to proceed at this time. It is highly probable that we are terminating the existing PPAs and anticipate re-bidding the projects into one of the upcoming requests for proposal.

Emissions-free mowing

At Beaufort Solar, we have replaced our diesel-powered mowers with electric robotic mowers for an emissions-free alternative. At Strathmore Solar, we are working with a local ranch to let their sheep graze at our site – replacing the need for mowing.

Innovation in action

Leaving our sites in good condition for future generations is important to us. Our end-of-life plans for our North Carolina solar projects anticipate all site components to be recycled at the end of their 35-year design life, and all required access roads have been carefully planned with local communities to ensure they will continue to meet their needs after future decommissioning.

Performance

Emissions management

Scope 1:

The charts below illustrate Scope 1 emissions across our fleet on an absolute and intensity basis. Between 2019 and 2021 our emissions trended downward, driven by technology upgrades, decommissioning assets, and outages. In 2022, the increase in our emissions was a result of two major factors:

1) The addition of MCV to our fleet

We acquired a 50% ownership interest in MCV in 2022 and are reporting emissions based on the guidance in the GHG protocol:

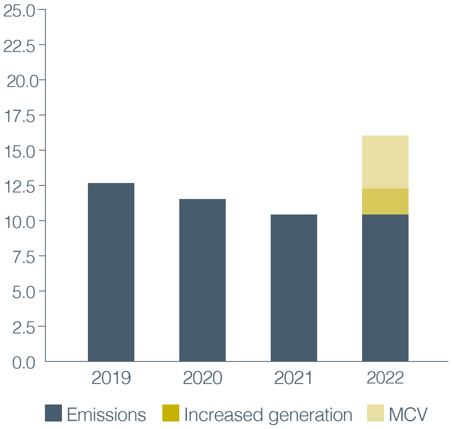
- The full year emissions from MCV have been added into our actual absolute emissions and emission intensity values for 2022, per the GHG protocol. However, the asset was only added to our portfolio in September 2022.
- We have updated our 2005 baseline and targets to account for the addition of MCV.
- Capital Power is using an operational reporting boundary for reporting our emissions, meaning we account for 100% of the emissions, but only have 50% ownership interest in the facility.

2) Generation from our existing facilities

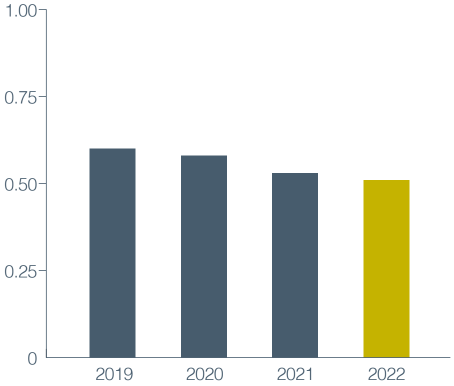
Our existing thermal facilities were dispatched more frequently for longer periods of time to serve market demand and ensure system reliability. For example, Ontario experienced tighter market conditions in 2022 due to other resource outages and nuclear refurbishments. Consequently, Goreway was dispatched more frequently (80% increase in generation year over year) to provide critical supply in support of reliability. In Alberta, generation at Genesee increased by 18%, compared to 2021 when there was a major outage at Genesee 2.

Scope 1 absolute emissions in 2022 were 15,908,540 tonnes CO_2e ☑. This represents an increase of approximately 53% from 2021, Midland accounts for 35% and increased generation from our existing facilities accounts for 18% of the total. Greenhouse gas intensity in 2022 was 0.508 tonnes CO_2e/MWh ☑, this represents a decrease of approximately 4% from 2021. The addition of Midland, higher gas usage at Genesee, and increased generation at our remaining natural gas facilities reduced the overall emission intensity of our fleet.

Greenhouse gas emissions – Scope 1 absolute (M tCO_2e)



Scope 1 emission intensity (tCO_2e/MWh)



During the diligence process for any new development or acquisition, Capital Power considers the asset's impact on our ability to meet sustainability targets. The MCV acquisition is consistent with our strategy of acquiring strategically positioned mid-life contracted natural gas assets, which we believe is a key pillar in ensuring grid reliability during the transition. Our transition pathway to net zero by 2045, prioritizes emission intensity and absolute emission reductions over time and we remain on track to meet our targets.

Scope 2:

Scope 2 emissions 2022: 46,553 tCO_2e. This represents an increase of approximately 4% from 2021 emissions, driven by increased power consumption. One hundred percent of Capital Power's Scope 2 emissions have been greened through a combination of Alberta's Technology Innovation and Emissions Reduction Regulation (TIER) compliance, renewable energy certificates (RECs) retirements and offsets retirements.

Scope 3:

Scope 3 emissions 2022: 3,133,661 tCO_2e. This reflects an increase of approximately 137% from 2021, primarily due to increased natural gas consumption from increased generation and increased capital and purchased goods spending. To mitigate the increase in our Scope 3 emissions we have committed that 5% of our Alberta natural gas purchases will be from responsibly sourced natural gas in 2023.

Performance

Financing a net zero energy future

In August 2022, we released our inaugural Green Financing Framework, enabling us to issue green bonds and green loans. These financing instruments will be utilized to allocate capital towards transformative clean energy projects that align with our sustainability targets and accelerate our efforts to decarbonize power generation as we work towards net zero by 2045.

Capital Power successfully priced its first hybrid offering and inaugural financing under the Green Financing Framework. The offering created strong investor demand, increased our investor base and resulted in interest cost savings for the Company.

> **"Establishing a Green Financing Framework exemplifies Capital Power's commitment to powering a sustainable future for people and planet. The development of wind and solar projects is a key pillar of our growth and decarbonization strategy."**
>
> **Sandra Haskins**
> SVP, Finance and Chief Financial Officer

Commodity trading and risk management

Our Commodity team's primary focus is to optimize the value of the company's power generating assets. Our portfolio optimization activities focus on ensuring that the inherent electricity, fuel and emissions-based commodity risks are actively managed to create an optimal risk-adjusted return for our shareholders. Our experienced team has a 24/7 trading presence and utilizes the latest technology and analytics to determine the best portfolio decisions from next-hour through to several years forward, transacting on exchanges or directly with our customers. In 2022, we maintained portfolio positions that balanced the stability of our cashflows while also allowing the portfolio to capture Alberta Electric System Operator (AESO) market upside.

Innovation in action

Our outage at Halkirk 1 Wind finished in **half** the original scheduled time and **without a safety incident**, due to our team's incredible flexibility, creativity, and use of analytics to optimize the outage. Thanks to diligence and foresight, Halkirk 1 stayed online when it was needed most, and was brought back online **ahead of schedule** as a result of meticulous planning, hard work, and collaboration with our great contractors.

Performance

Solid track record of re-contracting natural gas assets

Capital Power has a proven history of securing long-term power purchase agreements (PPAs) for our assets. Re-contracting our natural gas assets not only provides stable cash flow for our business, but also ensures these facilities will be ready to support grid reliability as renewable generation expands. Our natural gas contract extensions, announced this year, are shown opposite.

Securing long-term PPAs provides stable cash flows

Arlington Valley (600 MW, Arizona):

6-year tolling agreement extension through October 2031, with materially higher AFFO[1] over the extended term.

Island Generation (275 MW, British Columbia):

4.5-year Electricity Purchase Agreement (EPA) through October 2026 for Island Generation with BC Hydro. Representing about one-third of total power capacity generation for Vancouver Island, this EPA ensures we will be able to continue providing dependable contingency backup supply to BC Hydro.

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[1] Adjusted funds from operations and adjusted EBITDA are non-GAAP financial measures. See Non-GAAP financial measures on page 56.

Managing risks and impacts

2022 highlights

Achieved an

86%

cyber-security training completion rate

Upgraded, enhanced and optimized various critical

cyber-security defense infrastructure

Successfully completed several major cyber-security assessments in 2022, including a third party

maturity assessment

Cyber-security

Our Cyber Security Leadership Council (CSLC) oversees our cyber-security program, approving recommended actions and maintaining a cyber-security roadmap to ensure we are well positioned to respond to threats. CSLC representatives provide regular updates to the Board.

We conduct regular assessments and cyber penetration testing as well as social engineering cyber testing, leveraging such things as advanced phishing emails, to protect our core infrastructure and ensure our staff are prepared for and aware of the risks.

Protecting biodiversity

A key area where we engage closely with local communities and other partners is in support of biodiversity. This includes land reclamation and reforestation practices and research when opportunities exist. We consider biodiversity from business development to project planning and design, through construction and operations to remediation and final decommissioning, ensuring we minimize our impacts to wildlife and the land.

The Genesee Generating Station and Mine are the largest and most diverse land base we manage as part of our operations, and this is where most of our land reclamation and reforestation activities take place. We have provided land to the Northern Alberta Institute of Technology (NAIT) Centre for Boreal Research to conduct a five-year study on ways to reduce agricultural weed competition with trees when reclaiming mine land to forested area. A variety of strategies were tested, including planting desirable companion plants with trees, and the use of different mulches and herbicides. As part of this ongoing research, 35,000 trees were planted in the Genesee Mine area, including spruce, aspen and balsam poplar, as well as native plants such as goldenrod and fireweed.

In total, we have reclaimed 1,378 hectares at the Genesee Mine (40% of the total surface area), which now includes farmland and reforested and wetland areas. This previously mined area is now fully productive farmland and wildlife habitat.

Water management

We believe that responsible water management is imperative for the long term sustainability of Capital Power's thermal generation. We use water in our thermal generation facilities for cooling and steam production. Water is drawn and returned from various sources including sub-surface, ground, recycled, and municipal inputs. We recognize the inherent value of water and are committed to reduce our water footprint. We consider the direct and indirect impacts of the decisions and actions we take to conserve and protect this essential shared resource.

Achieving our water management objectives is an ongoing priority. Key objectives for 2022 were to assess water use intensity across the fleet, to evaluate opportunities to improve reporting, and to mature our water management program.

Innovation in action

We are pursuing our water management objectives by optimizing processes at our facilities. In 2022, we advanced an important optimization project at our Arlington Valley site in Arizona. This project will use innovative polymer technology to increase clarifier process efficiency by 70%, and is expected to result in reductions of 24,000 m^3 of water used and 600 tonnes of waste sludge produced each year.

Managing risks and impacts

Sustainable sourcing

Responsibly sourced natural gas (RSG)

Capital Power is working towards reducing emissions and increasing social considerations in our natural gas purchases. To progress this initiative, we have committed that 5% of our Alberta natural gas purchases will be from RSG in 2023.

We are exploring various certification standards, with the aim of decreasing the methane and emission intensity of our natural gas supply chain. Additionally, we have procured Equitable Origins 100 (EO 100) natural gas which is certified based on an independent assessment related to ESG factors.

"Experts and innovators across our business are seeking new and creative ways to deliver on our sustainability priorities, we're looking beyond our core operations and collaborating with natural gas suppliers to manage our impacts on the environment and enhance social considerations. Our responsibly sourced natural gas target is one such example of the initiatives we're taking to create positive change for people and planet."

Noreen Farrell
Director, Sustainability and Reporting

Sustainable Sourcing Policy

We want to strengthen our supply chain by creating mutually beneficial partnerships with our suppliers based on trust, ethics and a shared desire to create a positive impact on the environment and in the communities in which we operate. That's why, this year, we announced our new Sustainable Sourcing Policy. This Policy will form the foundation of our supplier relationships and establish clear expectations and commitments around emissions mitigation; responsible use of natural resources; promoting equity, diversity and inclusion; protecting human rights; and, supporting local communities.

By collaborating with our suppliers on these topics, we work to establish and report on sustainable sourcing targets with integrity and transparency and use our purchasing power to create positive impact.

"Powering a sustainable future for people and planet requires a holistic, intentional approach to how we manage our business – mindful of the environment we seek to protect and the wellbeing of the communities we serve. Our Sustainable Sourcing Policy elevates our approach to purchasing and contracting to ensure we are making responsible choices that benefit our planet, stakeholders and overall business."

Kate Chisholm
Senior Vice President, Chief Strategy and Sustainability Officer

Supporting communities

We are working with our suppliers to create jobs and economic growth throughout the construction process. For example, our U.S. projects will pay prevailing wages, utilize local apprenticeship programs, and incorporate domestic materials. Our portfolio combines climate solutions with well-paid jobs to support a just transition for local communities for years to come.

03

Powered by talent

Our people are the energy behind our transition to net zero. We are committed to bringing our purpose and values to life by providing an equitable, diverse and inclusive workplace that empowers our people to feel and perform their best. Our employee experience is focused on communication, connection and collaboration.

→ Read about our accomplishment in fostering a culture of caring on page 35

Our people

Employee experience

We believe a positive employee experience is built on a strong foundation of Equality, Diversity and Inclusion (EDI).

EDI priorities are established in our recruitment practices to ensure we are cultivating a diverse workforce (read about our recruitment goals on page 37).

To support the success of our employees throughout their careers, we offer competitive compensation and benefits, accessible learning and development, holistic health and wellbeing programs, a flexible hybrid workplace, and more. With these resources and a culture built on respect and inclusion, we strive to make our people feel valued, empowered, and motivated to power a sustainable future for people and planet.

In 2022, Capital Power enhanced key aspects of our employee experience:

Communication

- Introduced greater opportunity for employee engagement and feedback through listening forums like pulse surveys and EDI Council
- Greater focus given to examining internal and external communication to ensure messaging is inclusive, gender neutral, and free of unintended bias

Connection

- Expanded our new hire onboarding program that is mindful of the impact a positive employee experience can have over the first 12 months of employment
- Piloted empathetic leadership training for senior leaders that focuses on building connection, understanding, and adaptative communication skills

Collaboration

- Introduced diversity best practice to our recruiting process that invites participation in the interview panel from within and outside the hiring manager's team
- Introduced a diversity and inclusion scorecard to better evaluate our learning programs.

An award winning culture

Capital Power has been recognized as one of Canada's Most Admired Corporate Cultures for 2022 by Waterstone Human Capital. The award acknowledges our culture of caring developed through a robust employee experience and programs that cultivate a holistic approach to wellbeing, development and success. Capital Power is recognized as one of 50 winners from across Canada.

"Our culture sets the foundation for our high-performance teams who excel at being innovative, collaborative, results driven and resilient to elevate our business and deliver on our long-term strategy – positioning us to put our purpose, values and passion into action and power a sustainable future for people and planet."

Jacquie Pylypiuk,
Senior Vice President, People, Culture & Technology

Equity, diversity and inclusion

We believe a positive employee experience that values diversity and champions equity and inclusion is the cornerstone of a thriving workplace.

Our Equity, Diversity and Inclusion priorities are embedded into our recruitment practices, ensuring we're seeking people who will add to, and enhance, our culture.

Through our enterprise-wide EDI strategy, we are on a continuous journey to ensure our workplace is an inclusive space where every employee feels confident, represented and connected to programs and policies.

Our EDI Strategy is driving measurable action and leadership through:

- Engagement and awareness for all employees and leaders
- EDI council and implementation of Employee Resource Groups (ERGs)
- Talent attraction, development, and retention
- Establishment of baseline metrics and targets.

Engagement and awareness

We recognize cultural events and traditions that hold importance to our employees by sharing their stories and personal photos. This aligns with cultural observances, raising awareness and promoting a greater understanding and appreciation of our diverse backgrounds and perspectives.

National Day for Truth and Reconciliation

We are committed to actively participating in the reconciliation process with Indigenous communities, allowing for acknowledgement, mourning, forgiveness and healing. In 2022, we offered learning circle sessions to employees leading up to the National Day for Truth and Reconciliation. These learning circles were an important opportunity for us to learn and experience Indigenous culture, history, and traditions together. National Day for Truth and Reconciliation was declared a Capital Power holiday for Canadian employees to reflect and engage in events with their families and communities.

EDI Council and Employee Resource Groups

Our newly formed EDI Council, made up of 19 diverse employees, will support our organization in evolving our culture to create an inclusive environment that promotes equity in the workplace and leverages diversity to its fullest potential. The EDI Council will guide and assist the organization with the ongoing work of enhancing the employee experience and promoting internal programs that provide equity, inclusion and opportunity.

As outlined in our 2022 EDI Strategy, we're increasing opportunities for employee engagement and communication in our workplace through Employee Resource Groups (ERGs). These ERGs are communities of members typically created and led by employees who share common characteristics, such as gender, ethnicity, religious affiliation, lifestyle, or lived experience. We will launch our first Women's Employee Resource Group in early 2023.

"I joined Capital Power's EDI Council because my life's journey has taught me that there is so much power in diversity and strength in inclusion. I'm so proud that our company has authentically embraced EDI and fully supports the EDI Council's initiatives."

Pam Ackert,
Director, IS Shared Services
EDI Council Co-chair

Strengthening our workforce

Motivating future generations to consider our industry one university class at a time

Jill Connell, Manager Short Term Trading, is a guest speaker at the University of Calgary's Economics – Electricity Markets class. Using her energy background, she speaks on the Regulated Rate Option (RRO) and introduces undergrads to the power industry. Jill aims to reach more than 200 undergrads every year to create a "network effect" – students sharing the information with their peers and increasing the candidate pool of qualified applicants to our industry.

Engaging

200+

undergrads every year

> **"When I was in school, I was unaware of this industry and its career options. Speaking directly to students is a fresh approach to connecting with diverse talent for future employment opportunities. I want undergrads to be excited about their career options, specifically energy trading!"**
>
> **Jill Connell,**
> Manager, Short Term Trading

Talent attraction, development and retention

We're casting a wider net for talent in our recruitment process, ensuring a diverse pool of candidates that can deliver on our strategy.

Establishment of baseline metrics and targets

We are leveraging technology to provide employees with the option to self-identify on a number of criteria, including ethnicity, gender, sexual orientation and disability. This information allows us to understand our workforce better, tailor our programs and initiatives to suit their needs, and set more specific goals to further our EDI strategy. In 2022, 56% of employees have completed their identity profiles.

We are setting progressive goals to increase our diversity and create more opportunities for women to advance and thrive.

To hold ourselves accountable, the Executive Team and leadership short and long-term incentives are tied to sustainability measures, with specific targets for the growth of women leadership and an increase in broader workforce diversity.

Short-term goal (2023):

1. Strengthen the diversity of our workforce by increasing the gender diversity within the organization in the following ways:
   - 30% of all new hires to be women

Long-term goals (2023-2025):

1. Increase employee diversity by 9% across the organization
2. Increase the number of women at the leadership level by 10%

Progressing gender equality

By the numbers for 2022

40%

women on Board of Directors

26%

women at Capital Power ☑

33%

women new hires ☑

Women lead here

Capital Power is proud to have been selected for The Globe & Mail's 2022 Women Lead Here list, for the third year in a row. This report recognizes Canadian corporations who are leaders in executive gender diversity. Nearly five hundred of the largest public companies in Canada were evaluated, and 84 selected. Earning a spot on this list reflects the progress and dedication Capital Power has made toward creating gender equality at the leadership level, and making our work place a desirable place for ambitious women to work.

Diversity by the numbers

	Gender	
	Women (%) ☑	Men (%) ☑
Executive	43	57
Upper management	27	73
Professional	36	64
Administrative	97	3
Operations	8	92
Traders	13	87

Occupational health and safety

> **"We're committed to protecting the health and safety of everyone that works at our facilities and offices, those who come onto our sites, and the communities in which we operate. We're accountable to each other, look out for each other and protect each other at work and bring that health and safety mindset home to protect our friends, families, and communities."**
>
> **Bryan DeNeve,**
> Senior Vice President,
> Operations

Our safety mindset, Zero Means Everything, is a core value of our culture and operations. Our Health, Safety and Environment (HSE) Policy defines the framework under which our HSE Management System is developed and maintained.

Our Board and Executive Team, through an established HSE Committee, supports and enforces our HSE Management System to identify and appropriately reduce health and safety risks.

Leadership and commitment

Our HSE Committee provides oversight over our HSE Management System, that identifies and appropriately reduces health, safety, and environmental risks. The Committee's role includes monitoring, advising, and making recommendations to the Board.

Reporting and investigation

We work to report all workplace hazards, near miss events, and incidents. Our electronic reporting system allows us to formally track all incidents to closure. In 2022, 698 events were reported, compared to 517 in 2021. We track and analyze events for trends and take preventative actions when trends are identified.

In 2022, we increased our investigation requirements for first aid events that had the potential of having a more serious outcome. We believe that this increase in the quality of investigations is a proactive approach to identifying possible corrective actions and preventing similar or more serious events.

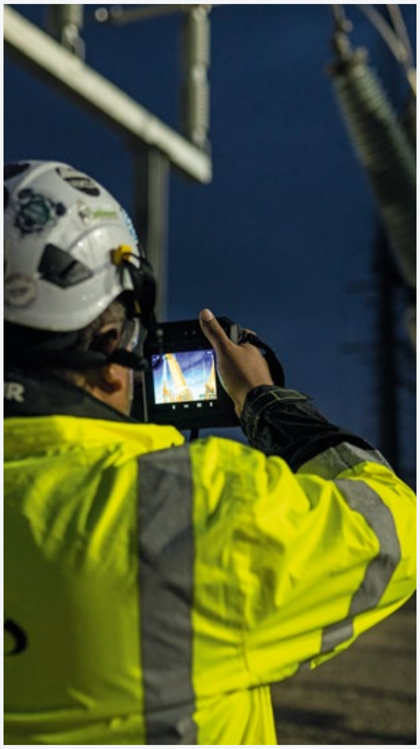
Using technology to ensure employee safety: lone worker monitoring

Capital Power recently partnered with a third-party vendor to deploy a digital lone worker monitoring safety solution across our fleet of renewable assets. This app alerts our Energy Management Operations Centre (EMOC) if those working alone don't check in on time.

In the past, when employees were working alone, they'd contact EMOC, let them know they've arrived, what they'd be doing and what time they would check in again. While this system worked, there was always the risk that if an issue occurred, the response time may not be fast enough.

Now, any time an employee works alone, they open the app and set the timer for a pre-determined check-in. This gives our employees the confidence to know if something happens there is a response coming – without question.

With this simple app, our employees are safer, aligning with our Zero Means Everything health and safety culture.



Occupational health and safety

High-quality leading indicators

Performance targets have historically been quantitative. As part of our continuous improvement process, we have added qualitative metrics to our leading key performance indicators. This will improve the quality of our data and provide a richer understanding of our HSE Management System's effectiveness.

Our HSE Performance Index reflects both our employee and contractor health and safety. Our leading indicators promote contractor-related activities such as the execution of field-level reviews of contractor work and contractor management training for Capital Power employees.

Our HSE Performance Index[1] measures our leading performance indicators. This is our 9th consecutive year of meeting or exceeding our target.

1.10

Achieved an HSE Performance Index[1] of 1.10, exceeding our target of 1.0

Continuously improving how we measure health and safety

In 2022, Capital Power reinforced the importance of a safety culture centered on learning and proactive prevention by taking the innovative step of measuring our HSE Performance Index solely on Leading Indicators. This aligns Capital Power's program with the most advanced health and safety practices by recognizing the vital role leading indicators play in preventing injuries. The change is also designed to promote health and safety reporting by decoupling incidents from performance measurement.

Refining how we track historical data

In 2022, Capital Power moved to a 5-year rolling average for measuring lagging indicators. In addition to providing a meaningful number of work hours, this gives us the ability to understand the trends and determine if they are moving in a direction that is favourable, unfavourable, or neutral. The objective will then be to either maintain favourable or neutral trends, or "bend the curve" on unfavourable trends.

2022 results remain favourable with a TRIF[1] ☑ of 0.57 which is below the 5-year rolling average of 0.68.

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[1] TRIF and HSE Performance Index do not include safety data from MCV.

04

Powered by collaboration

We engage with Indigenous communities and a wide variety of stakeholders – from investors, employees, and local communities, to regulators, business partners, customers and industry groups. Through regular and thoughtful engagement, we deepen our understanding of what's important and seek opportunities to collaborate to develop sustainable growth.

→ Read about how we're working toward reconciliation on page 46

Community engagement

Community and stakeholder engagement

To power a sustainable future for people and planet, we connect with, listen to and learn from a range of stakeholders. By engaging with the stakeholders who live near or have an interest in our operations, we build understanding and trust, laying the foundation for mutually beneficial relationships. We recognize the unique circumstances of individual communities and stakeholder groups.

Our community stakeholder engagement practice involves connecting with a broad range of external stakeholders, including direct public consultation and community relations activities. Engagement begins when a project is in its development phase and continues throughout a facility's life.

In 2022, we engaged stakeholders on 12 major projects involving development opportunities or decommissioning activities in Canada and the U.S.

Examples of stakeholder feedback in 2022:

Matter of interest	**Response**
Siting of power generation infrastructure (e.g., location of wind turbines, substation, collector lines)	We engage local communities during our planning processes and require regulatory approval before beginning construction.
Construction or decommissioning impacts (e.g., land erosion, noise, dust)	During construction, we employ dust and erosion mitigation processes. Where this is not possible, or issues occur, we work to repair or address situations. Work that involves noise most often occurs during daylight hours.
Jobs and contracting related to our operations and projects	We prioritize working locally by partnering with local companies and workers with the skills/services we need. We encourage our contractors to do the same.
Respectful use of land and environment	We engage stakeholders and regulators in project development and operational plans, including land use and aspects that may have an environmental impact (e.g. emissions, water use, solid waste).

Community and stakeholder engagement

Helping to meet Ontario's future energy needs

In December 2022, Capital Power announced three new projects in Ontario at our existing facilities. These projects are proposed as part of the Ontario's Independent Electricity System Operator's procurement process to address expected power generation shortfalls. We met with community members to share our plans which include two battery energy storage facilities and the expansion of an existing natural gas facility. Virtual community meetings were held to provide proposed project information and receive input from the community, which helps us learn and adjust proposed project plans to minimize concerns and impacts to the community.

Halkirk 2 Wind project

We continued to engage with stakeholders on our revised Halkirk 2 Wind project throughout 2022. We engaged with land owners, residents and Indigenous groups, refining our project based on community feedback. We expect to secure an equity partnership with local Indigenous organizations related to this project in 2023. To minimize impact, the number of turbines was reduced by a minimum of 53% and the permanent project footprint was reduced by 43% (pending final turbine selection). We submitted our amendment to the Alberta Utilities Commission (AUC) for the proposed changes and a time extension for the construction completion. We expect a decision from the AUC in mid-2023.

Decommissioning our North Carolina facilities

Demolition, salvage and reclamation work at our former Roxboro and Southport sites continued in 2022. Guided by our values of managing our environmental impact, we worked to recycle and reuse as much of the plant equipment and material as possible. Reclamation efforts included removing all demolition material, planting grass and contouring areas of the site for storm water management. Work at Roxboro was completed in the summer of 2022, while work at Southport continued throughout 2022.

Local sheep flock to Strathmore Solar site

We contracted a local sheep rancher for vegetation management services at our Strathmore Solar facility, which began operations in March 2022. Whispering Cedars Ranch began grazing up to 600 sheep over the 320-acre site, allowing us to sustainably manage the growth of grass and weeds below the facility's over 100,000 solar panels which reduces fire hazards. This opportunity offers local ranchers additional land for their animals to graze, grow and thrive. The site is now exploring partnering with a local beekeeper to host beehives at the facility beginning in 2023, which will further expand the biodiverse habitat.

Community investment

"As a developer and operator of power generation facilities, we recognize that the success of our projects comes hand-in-hand with establishing authentic, intentional relationships with our stakeholders – built on a foundation of openness, honesty and trust. We are committed to meaningfully listening to our stakeholders, understanding their concerns and taking action to find solutions, compromises or changes that support our collective success and wellbeing."

Tricia Johnston,
Director, Communications, Community Relations & Stakeholder Engagement

Drawing upon the research we conducted in 2021, we continued to build upon a community investment strategy with three main pillars:

Equity and culture

Providing resources and supporting change to increase equity for all and to celebrate our diverse cultures.

Wellbeing

Building healthy communities where everyone can thrive.

Climate action

Leading action education and implementation of technologies and practices to strengthen the resilience of our communities in the face of climate change.

In 2022, Capital Power contributed $5.4 million to community organizations.

Highlights include:

- Employees contributed over $173,000 through our Generosity matched giving program, resulting in more than $346,000 in donations to over 210 charities chosen by our employees
- 135 employees directed over $125,000 to over 130 community service organizations through our Empower Hours Program, which recognizes volunteer time with a grant to the employee's organization of choice. Together with their families, these employees reported over 14,000 volunteer hours
- New in 2022, to further our spirit of giving, we introduced Paid Volunteer Time, providing 8 hours of paid volunteer time each year for employees resulting in $43,000 of volunteer time in the community

$5.4M
to community organizations in 2022

550
organizations supported

7,800
volunteer hours from our employees

→ **Find more about our community investment on our website**

Community investment

Supporting equity in STEM education and careers

We are a proud member of Discovery Education's STEM Careers Coalition, a first-of-its kind national initiative. It provides content, including easy-to-use digital tools, to classrooms, students and partner schools to support students' career preparedness.

As a partner in the coalition, we're helping to:

Reach

4.3M

students with STEM-related educational resources to community organizations in 2022

Support

700

schools with access to STEM teaching and learning curricula and professional development

Supporting environmental heroes

We are a proud sponsor of the Alberta Emerald Awards, which celebrate and recognize environmental initiatives by businesses, youth and non-profit organizations. Since 1992, the Emerald Awards have showcased over 350 recipients and 850 finalists who are raising the bar in addressing local, regional and global environmental and climate issues.

Boyle Street Service Society: $2 million donation in 2022

As a proud downtown Edmonton neighbour, this donation helps to end homelessness in our head-office city by contributing to a legacy facility that will bring dignity, hope and wellness to our community.

STARS Air Ambulance: $1 million donation in 2022

A critical emergency response service that saves lives each and every day. Capital Power donated the first $1 million in 2020 kicking off their campaign to replace their aging helicopter fleet with 10 new H-145 helicopters and in 2022, we donated the last million required to complete their brand-new critical care fleet.

Indigenous communities and engagement

We continue to build upon our commitment to effectively engage Indigenous communities. In 2022, we published a company-wide Indigenous Relations Policy. The Policy acknowledges that historic and contemporary forces have had profoundly negative impacts on Indigenous Peoples. It states our commitment to being active participants in Canada's national reconciliation process with Indigenous Peoples and the importance of the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) within the context of existing Canadian and U.S. law.

We took steps toward our goal of engaging Indigenous communities and individuals around economic opportunities. We met with Indigenous owned businesses who can provide services to our existing operations, and we are taking steps to develop partnerships for future opportunities. We are working with communities to understand how to attract and hire local community members into our workforce and we recognize the importance of increasing our level of cultural and situational awareness. Starting at the leadership level, senior managers received cultural sensitivity training in 2022, and an online training program will be launched to employees in 2023.

Toward reconciliation:

Art Gallery of Alberta

Through Capital Power's support, the Art Gallery of Alberta provided free admission to guests on Indigenous days of recognition. For National Indigenous Peoples Day in June, various programs were offered for visitors to learn more about the arts, cultures and stories of Indigenous Peoples. On National Day for Truth and Reconciliation in September, members of the public were invited to visit Indigenous exhibits at the gallery to reflect on our truth and history as part of our commitment toward reconciliation.

Makoyoh'sokoi program

Capital Power is supporting the Makoyoh'sokoi program through the University of Calgary. The program was designed to address the Truth and Reconciliation Commission's Calls to Action, as well as disparities in Indigenous women's health, including high rates of diabetes, obesity and chronic disease. Focused on Indigenous women in Alberta and Saskatchewan, the program harnesses Indigenous cultural strengths and traditions and includes weekly exercise, exposure to a variety of fitness classes and types, nutrition and health education, and mind/body/spirit elements.

Indigenous education

Capital Power is proud to support the Indigenous Traditional Room at the TELUS World of Science in Edmonton. Opened in February 2022, the Indigenous Traditional Room is a dedicated space for Elders and Knowledge Keepers to provide teachings to students, members of the public, and Indigenous seniors' groups who visit the dynamic space for teachings and activities. The Indigenous Traditional Room aims to increase the profile of Indigenous ways of knowing through sharing circles, storytelling, and Indigenous teachings about our natural world.

Bear's Lair

In partnership with the Bear's Lair, we committed to bring Youth Entrepreneur Dream Camps to 4 Treaty Six Indigenous communities, in 2023. These camps will engage approximately 100 Indigenous youth, teach them about entrepreneurism and aim to educate, elevate and inspire.

> **"This is true ReconciliACTION – not talking about it – doing it and making life-changing impacts. It's an honour to have Capital Power join the Bear's Lair to feed the spirit of Indigenous business!"**
>
> **Geena Jackson,**
> Bear's Lair Executive Producer and Creator

05

Our business is rooted in our values, which form the foundation of our culture, and our commitment to the highest standards of ethics and integrity in everything we do. We demand high standards from ourselves and those we work with to drive performance, manage risk, and preserve trust with our customers, investors, communities and each other.

Powered by integrity

Governance and ethics

Corporate governance

Effective corporate governance is critical to both our long-term performance and maintaining stakeholder trust. Our governance practices are underpinned by the principles of accountability, transparency, and ethical decision making in the interest of all our stakeholders. The effectiveness of Capital Power's corporate governance starts with our Board.

Our Board brings a depth of knowledge, expertise and diversity of perspectives that contributes transformational leadership in the management of our business and affairs to grow total shareholder value responsibly and sustainably over the long-term. Capital Power believes that embracing diversity at the Board level is essential to leading by example in our commitment to fostering a diverse, equitable and inclusive culture.

Our Board adopts corporate governance policies and practices in its stewardship that set out expectations and accountabilities ensuring our business is conducted ethically and effectively. Sustainability is an integrated component of each aspect of the Board's oversight and decision-making. Our Board provides independent oversight of our business, including business management, strategic and corporate planning, and enterprise risk management. The Board is responsible for Board and CEO succession planning and remuneration, shareholder reporting, and approving major company decisions.

The Board conducts its work through three accountable governing committees: Audit Committee; People, Culture and Governance Committee; and Health, Safety and Environment Committee. All committee members are independent.

For more information on our Board and our corporate governance practices, please visit the Corporate Governance section of our website.

Tying leadership compensation to sustainability goals

In 2022, a percentage of short-term remuneration of Capital Power management was based on social and environmental targets, including employee safety, employee retention, strengthening the diversity of our workforce, and implementing sustainable sourcing and water management strategies. In addition, a percentage of performance share units, measured over three years ending in 2024, are linked to emission intensity reductions and growth in women leaders.

Board diversity

Our Board Diversity Policy, reviewed annually, sets out the following commitment to:

- Consider candidates on merit against objective criteria with due regard for the benefits of diversity and provide that extra weight is given to women candidates and candidates that bring diversity beyond gender in final nomination decisions;
- Establish representation goals on our Board that (i) women comprise no less than 40% of our Independent Directors, (ii) at least 20% of our Independent Directors be individuals who self-identify as visible minorities, Indigenous Peoples, persons with disabilities, or LGBTQ2S+, (iii) women comprise at least 30% of our Executive Team; and
- As part of the annual performance review of the Board, committees, and directors, the accountable governing committee considers the balance of skills, experience, independence, knowledge, and diversity of Capital Power and the Board.

As of December 31, 2022, our Board consisted of ten directors – six men and four women. Two directors have self-identified as a visible minority and one as LGBTQ2S+. Of the ten directors, nine are independent, including our Board Chair, Jill Gardiner.

In 2022, Capital Power announced the appointment of Gary Bosgoed to the Board of Directors.

> **“Gary’s combined experience as an entrepreneur and senior executive with extensive engineering, construction and project management expertise, along with his Indigenous and Alberta community leadership, will bring invaluable contributions to Capital Power.”**
>
> **Jill Gardiner**
> Board Chair

Board of Directors

Left to right:

① **Barry Perry**

② **Gary Bosgoed**

③ **Kelly Huntington**

④ **Doyle Beneby**

⑤ **Jill Gardiner**
Board Chair

⑥ **Brian Vaasjo**
President and Chief Executive Officer

⑦ **Katharine Stevenson**

⑧ **Robert Phillips**

⑨ **Jane Peverett**

⑩ **Keith Trent**

Executive Leadership Team

Left to right:

① **Jacquie Pylypiuk**
Senior Vice President, People, Culture and Technology

② **Bryan DeNeve**
Senior Vice President, Operations

③ **Chris Kopecky**
Senior Vice President and Chief Legal, Development and Commercial Officer

④ **Brian Vaasjo**
President and Chief Executive Officer

⑤ **Sandra Haskins**
Senior Vice President, Finance and Chief Financial Officer

⑥ **Kate Chisholm**
Senior Vice President, Chief Strategy and Sustainability Officer

⑦ **Steve Owens**
Senior Vice President, Construction and Engineering

Governance framework

Board of Directors

- Promotes a culture of integrity.
- Oversees Capital Power's management, strategy, long-term plan and enterprise risk management.
- Oversees sustainability matters (e.g. climate change).
- Oversees CEO succession planning.
- Consults regularly with shareholders.
- Receives management reports on and oversees matters relating to ethical conduct, human rights, equity, diversity and inclusion, and other sustainability matters.

Health, Safety and Environment Committee

Oversees matters related to the impact of our operations on the environment and on the health and safety of Capital Power employees, including:

- strategies, goals and policies,
- due diligence,
- performance monitoring, and
- key performance metrics.

People, Culture and Governance Committee

Oversees matters related to:

- corporate governance,
- board effectiveness,
- director and CEO succession planning,
- people Services and workplace culture,
- compensation targets and frameworks (including components linked to ESG targets),
- equity, diversity and inclusion, and
- talent management and succession planning.

Audit Committee

Oversees matters related to public disclosures:

- annual information form,
- financial statements,
- management's discussion and analysis,
- integrated Annual Report, particularly those provisions relating to financial reporting and third-party assurance, and
- sustainable finance frameworks, impact reports and second party opinions.

Chief Executive Officer

Responsible for all aspects of the business of the Company, including management's approach to climate-related risks and sustainability.

Chief Financial Officer (Senior Vice President, Finance and CFO)

Responsible for long-term financial strategy and planning, financial disclosure, insurance, credit risk, ERM and all financial functions. Oversees financial administration of our carbon taxes and offsets, sustainability-linked finance, and financial sustainability.

Chief Sustainability Officer (Senior Vice President, Chief Strategy and Sustainability Officer)

Responsible for strategic and sustainability planning and reporting, market forecasting and analytics, regulatory and government relations, environmental policy, stakeholder engagement, community investment, communications, ethics and compliance, and internal audit. The CSO ensures sustainability is embedded in the Company's strategy and decision-making.

Chief Legal Officer (Senior Vice President and Chief Legal, Development and Commercial Officer)

Responsible for legal compliance and legal affairs, including related ESG risks and opportunities. Leads investment in renewables and low-carbon generation. Oversees carbon offsets and environmental credit portfolio, marketing and executing long-term renewable contracts.

Senior Vice President, People, Culture and Technology

Responsible for people and information services, including strategic workforce planning, equity, diversity and inclusion initiatives, training and development, and cyber and asset security. Ensures future-focused workforce has the ability, agility and technological support to address sustainability matters.

Senior Vice President, Operations

Responsible for operations, health, safety, environment and supply chain. Optimizes fleet to reduce Scope 1 emissions, improve operational efficiencies and ensure environmental compliance. Leads emissions reporting and implementation of low-carbon innovations.

Senior Vice President, Construction and Engineering

Responsible for the safe, cost-effective and timely construction of all development projects. Responsible for environmental compliance during construction, and oversees engineering and design for decarbonization projects, including CCS and hydrogen firing. Oversees cyber and asset security.

Ethics and integrity

Our business is rooted in our values (see page 01), which form the foundation of our culture, and our commitment to the highest standards of ethics and integrity in everything we do. We demand high standards from ourselves and those we work with to drive performance, manage risk, and preserve trust with our customers, investors, communities and each other.

A key element to achieving our targets and limiting corporate liability and risk is a strong culture of compliance and ethics. Capital Power employs a formal and transparent Compliance and Ethics Program that not only incorporates requirements to comply with applicable laws and regulations in the jurisdictions where we operate but also considers compliance and ethical best practices.

At Capital Power, we act with honesty and integrity and take responsibility for our decisions and actions. We are committed to:

- Treating each other and our neighbours with respect
- Investigating all ethical complaints thoroughly and promptly
- Preventing retaliation of any kind against an employee who in good faith reports a violation or ethical concern.

Capital Power's enterprise-wide Ethics Policy applies to our Board and all employees, as well as consultants and contractors. It sets out guidelines, processes and procedures related to our expected standards of conduct and management.

We assess the effectiveness of our Ethics Policy through our employee engagement survey, pulse surveys and employee feedback. Results are reviewed with each business unit and questions and concerns are addressed by the Chief Compliance Officer. Identified and emerging risks are addressed by our Ethics and Compliance team, with adjustments made to training or the Compliance and Ethics Program as required.

Beginning with onboarding and biennially thereafter, all employees and Board directors must certify that they have received, read, understood, and will comply with our Ethics Policy. Employees and onsite contractors receive training on the Ethics Policy and Respectful Workplace Policy on a biennial basis, with the Chief Compliance Officer conducting in person training for those employees located at plant sites.

The Board is responsible for overseeing compliance with the laws that apply to our Company. The Board receives regular reports on compliance, including reports of ethical breaches, management's follow-up activities and strategies to mitigate risk.

Capital Power was proud to be recognized for the fourth straight year by the Ethisphere® Institute as one of the World's Most Ethical Companies® in 2022 – the only Canadian energy and utility sector company named to the list.

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Ethics and integrity

Reporting concerns

Employees can raise concerns related to ethical or unlawful violations internally through several different avenues or can report them confidentially to Capital Power's Integrity Helpline, which is available 24/7 for employees, contractors and external stakeholders and is managed by a third party. Callers can remain anonymous.

In 2022, we rolled out a Manager's Toolkit to help People Leaders manage employee concerns should a team member reach out with a potential ethics or respectful workplace issue.

Capital Power is committed to investigating all potential violations and dealing with each report fairly and reasonably. Anyone who violates our Ethics Policy or Respectful Workplace Policy may face disciplinary action, up to and including termination. Disciplinary action is applied on a case-by-case basis, with previous cases taken into consideration to ensure consistency.

We maintain a strict non-retaliation policy. Employees who engage in retaliation against a colleague who has raised a concern or question in good faith are subject to disciplinary action, up to and including termination.

> **"All people leaders are responsible for both behaving ethically every day and ensuring their direct reports do too, while maintaining an atmosphere of trust, fairness and integrity in which employees feel comfortable bringing up and working though ethical dilemmas."**
>
> **Leigh Mulholland**
> Chief Compliance Officer

Building a culture of compliance

Our Executive Team and senior leaders take an active role in implementing our Ethics and Compliance Program. In 2022, our annual Compliance and Ethics Week's theme was "Compliance and Ethics Are Integral to Everything We Do," and included daily video messages from Executive Team members and a panel discussion on a business ethics case study pertinent to the electric power sector that was streamed live across the organization.

Trading Code of Conduct

We are committed to maintaining a culture of ethical business practices, which includes our enterprise-wide Ethics Policy, and in 2022 we rolled out a new Energy Trading Code of Conduct ("Trading Code"). The Trading Code establishes a commitment to employing lawful and ethical trading practices in connection with the purchase and sale of electricity and natural gas, the execution of derivative transactions, and all other trade-related activities within the North American markets. The Trading Code also highlights Capital Power's expectations with regards to individual conduct in all jurisdictions in which Capital Power conducts trading activities.

The Ethics and Compliance team has rolled out training on the Trading Code to all employees engaged in trading activities, with an annual requirement for traders to certify that they understand and will comply with the Trading Code.

The implementation of the Trading Code is a testament to the Corporate Ethics and Compliance Program's ongoing commitment to evolving with the business and addressing specific industry risk.

Grid reliability and resiliency

As the North American power grid has evolved, the changing resource mix, cybersecurity and extreme weather challenge the system in a variety of ways. As an independent power producer, we recognize our role in supporting the reliability, resiliency and security of the grid by providing electricity that our customers depend on. To this end, Capital Power maintains a regulatory compliance program to ensure we meet compliance requirements with all Independent System Operator Market Rules and mandatory Reliability Standards in the regions we operate. Our Regulatory Compliance Program is integrated throughout the organization, thereby providing opportunities for Capital Power to proactively plan for emerging regulatory requirements which may impact on our organization.

Our program includes strengthening weather resilience and preparing for extreme weather, by actively monitoring and involvement in NERC's cold weather standard development via the North American Generator Forum.

06

Powered by performance

Business report

This business report, prepared as of February 28, 2023, should be read in conjunction with the audited consolidated financial statements of Capital Power Corporation and our subsidiaries for the years ended December 31, 2022 and December 31, 2021, the annual information form of Capital Power Corporation for the year ended December 31, 2022 and the remainder of the 2022 Integrated Annual Report, including both the sections preceding this business report and the cautionary statements regarding forward-looking information which begin on page 112.

In this business report, financial information for the years ended December 31, 2022, 2021 and 2020 is based on the audited consolidated financial statements of Capital Power which were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise specified.

Performance overview

We measure our operational and financial performance in relation to our corporate strategy and progress towards our sustainability objectives through financial and non-financial targets that are approved by the Board. The measurement categories include corporate measures and measures specific to certain groups within Capital Power. The corporate measures are company-wide and include adjusted EBITDA, adjusted funds from operations, and safety. The group-specific measures include facility operating margin and other operations measures, committed capital, construction and sustaining capital expenditures on budget and on schedule, and facility site safety.

→ **See Strategy and targets section beginning on page 13.**

Operational excellence

Our facility availability averaged 93% which primarily reflected planned outages at East Windsor, Genesee, Clover Bar Energy Centre, Goreway, Joffre, Decatur, Arlington Valley and Midland Cogen. Unplanned outages also occurred at Joffre, Genesee, and Clover Bar Energy Centre.

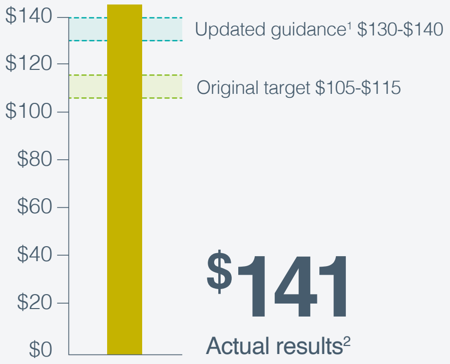
Sustaining capital expenditures were in-line with updated guidance.

Facility availability average

93%

Actual results
2022 target of 93% or greater

Sustaining capital expenditures ($M)

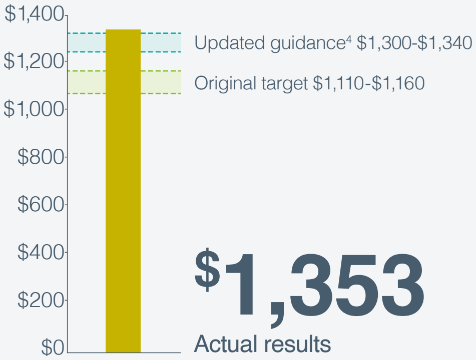


Financial stability and strength

Adjusted funds from operations and adjusted EBITDA exceeded updated guidance ranges driven by strong fleet-wide performance coupled with higher generation and realized power prices from our Alberta Commercial portfolio. Higher than expected settled Alberta power prices were mainly driven by periods of unseasonal temperatures, supply outages at various generating facilities and tielines, and increased export opportunities outside of Alberta.

Adjusted funds from operations[3] ($M)

Adjusted EBITDA[3] ($M)



[1] We provided updated guidance for 2022 upon the release of our third quarter results. This was based on our year-to-date results and sustaining capital expenditures incurred. At that time, long term service agreement costs were expected to be higher from increased generation. Further, updated guidance included higher spend on shutdown work during the fourth quarter of 2022 and sustaining capital expenditures for the Midland Cogen facility (see Significant events, page 62).

[2] Includes our share of joint venture sustaining capital expenditures of $8 million net of partner contributions of $5 million.

[3] Adjusted funds from operations and adjusted EBITDA are non-GAAP financial measures. See Non-GAAP financial measures and ratios, page 56.

[4] Upon release of our third quarter results and based on our year-to-date results and expectations for the remainder of the year at that time, we provided updated guidance for 2022.

Performance overview

Disciplined growth

Performance measure	2022 target	Status at December 31, 2022
Repowering of Genesee 1 and 2	**Continued progress with anticipated in-service date in late 2023 for the repowered Genesee Unit 1 and 2024 for Genesee Unit 2.**	Construction is underway and the anticipated in-service date for Unit 1 has been revised to 2024 while Unit 2 remains consistent with its original target. Capital Power remains committed to be off coal in 2023 (see Decarbonization and growth, page 24).
Renewable projects:	**Target completion dates on time and on budget for 2022 projects and progress on the development of 2024 projects to be on track with budget and completion dates:**	
Western Canada Contracted:		
Strathmore Solar (Alberta)	**Early 2022**	Our Alberta solar projects were completed on schedule (see Significant events, page 62).
Clydesdale Solar (Alberta) (formerly Enchant Solar)	**Fourth quarter of 2022**	
U.S Contracted:		
Bear Branch Solar (North Carolina)	**Fourth quarter of 2024**	Capital Power re-evaluated the economics of the projects based on current construction cost information and the existing PPAs. The construction cost has increased significantly due to industry wide cost pressures making the projects uneconomic to proceed at this time. Management has been in discussion with the offtaker. It is highly probable that we are terminating the existing PPAs and anticipate re-bidding the projects into one of the upcoming requests for proposal.
Hornet Solar (North Carolina)	**Fourth quarter of 2024**	
Hunter's Cove Solar (North Carolina)	**Fourth quarter of 2024**	
Other growth	$500 million of committed capital	Capital Power exceeded our target for committed capital with the acquisition of Midland Cogen (see Significant events, page 62).

Non-GAAP financial measures and ratios

Capital Power uses (i) earnings before net finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange gains or losses, finance expense and depreciation expense from our joint venture interests, gains or losses on disposals and unrealized changes in fair value of commodity derivatives and emission credits (adjusted EBITDA), (ii) adjusted funds from operations (AFFO), and (iii) normalized earnings attributable to common shareholders as financial performance measures.

Capital Power also uses AFFO per share and normalized earnings per share as performance measures. These measures are non-GAAP ratios determined by applying AFFO and normalized earnings attributable to common shareholders, respectively, to the weighted average number of common shares used in the calculation of basic and diluted earnings per share.

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

Adjusted EBITDA

Capital Power uses adjusted EBITDA to measure the operating performance of facilities and categories of facilities from period to period. Management believes that a measure of facility operating performance is more meaningful if results not related to facility operations such as impairments, foreign exchange gains or losses, gains or losses on disposals and other transactions, and unrealized changes in fair value of commodity derivatives and emission credits are excluded from the adjusted EBITDA measure.

Non-GAAP financial measures and ratios

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

	Year ended December 31		Three months ended							
(unaudited, $ millions)	**2022**	2021	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	Dec 2021	Sep 2021	Jun 2021	Mar 2021
Revenues and other income	**2,929**	1,990	**929**	**786**	**713**	**501**	672	377	387	554
Energy purchases and fuel, other raw materials and operating charges, staff costs and employee benefits expense, and other administrative expense	**(2,059)**	(1,108)	**(909)**	**(543)**	**(429)**	**(178)**	(506)	(162)	(176)	(264)
Remove unrealized changes in fair value of commodity derivatives and emission credits included within revenues and energy purchases and fuel	**429**	220	**247**	**136**	**28**	**18**	123	66	24	7
Adjusted EBITDA from joint ventures[1]	**54**	22	**36**	**4**	**7**	**7**	5	5	6	6
Adjusted EBITDA	**1,353**	1,124	**303**	**383**	**319**	**348**	294	286	241	303
Depreciation and amortization	**(553)**	(539)	**(139)**	**(133)**	**(139)**	**(142)**	(137)	(133)	(132)	(137)
Unrealized changes in fair value of commodity derivatives and emission credits	**(429)**	(220)	**(247)**	**(136)**	**(28)**	**(18)**	(123)	(66)	(24)	(7)
Impairment (losses) reversals	**–**	(58)	**–**	**–**	**–**	**–**	(52)	(8)	2	–
(Losses) gains on disposals and other transactions	**(37)**	36	**(33)**	**(3)**	**(1)**	**–**	6	31	(3)	2
Foreign exchange (loss) gain	**(15)**	(9)	**3**	**(12)**	**(7)**	**1**	(1)	(7)	(2)	1
Net finance expense	**(156)**	(174)	**(44)**	**(40)**	**(35)**	**(37)**	(44)	(43)	(46)	(41)
Other items[1,2]	**(22)**	(13)	**(17)**	**(4)**	**(1)**	**–**	(4)	(4)	(5)	–
Income tax (expense) recovery	**(13)**	(60)	**75**	**(24)**	**(31)**	**(33)**	(8)	(18)	(14)	(20)
Net income (loss)	**128**	87	**(99)**	**31**	**77**	**119**	(69)	38	17	101
Net income (loss) attributable to:										
Non-controlling interests	**(10)**	(11)	**(1)**	**(3)**	**(3)**	**(3)**	(4)	(2)	(3)	(2)
Shareholders of the Company	**138**	98	**(98)**	**34**	**80**	**122**	(65)	40	20	103
Net income (loss)	**128**	87	**(99)**	**31**	**77**	**119**	(69)	38	17	101

[1] Total income from joint ventures as per our consolidated statements of income (loss).

[2] Includes finance expense, depreciation expense and unrealized changes in fair value of derivative instruments from joint ventures.

Non-GAAP financial measures and ratios

Adjusted funds from operations and adjusted funds from operations per share

AFFO and AFFO per share are measures of our ability to generate cash from our operating activities to fund growth capital expenditures, the repayment of debt and the payment of common share dividends.

AFFO represents net cash flows from operating activities adjusted to:

- remove timing impacts of cash receipts and payments that may impact period-to-period comparability which include deductions for net finance expense and current income tax expense, the removal of deductions for interest paid and income taxes paid and removing changes in operating working capital,
- include our share of AFFO of joint venture interests and exclude distributions received from our joint venture interests which are calculated after the effect of non-operating activity joint venture debt payments,
- include cash from off-coal compensation that will be received annually,
- remove the tax equity financing project investors' shares of AFFO associated with assets under tax equity financing structures so only Capital Power's share is reflected in the overall metric,
- deduct sustaining capital expenditures and preferred share dividends,
- exclude the impact of fair value changes in certain unsettled derivative financial instruments that are charged or credited to our bank margin account held with a specific exchange counterparty,
- include net expected cash outflows for our share of LLR Proceeding invoices in the period each tranche is due to be paid by Capital Power, and
- exclude other typically non-recurring items affecting cash from operations that are not reflective of the long-term performance of the Company's underlying business.

Commencing with the Company's December 31, 2022 quarter-end, the Company refined its AFFO measure to better reflect the purpose of the measure and include in its adjustment to exclude other typically non-recurring items affecting cash from operations that are not reflective of the long-term performance of the Company's underlying business. Comparative AFFO figures have not been restated for this change.

Non-GAAP financial measures and ratios

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

(unaudited, $ millions except per share amounts and number of common shares)	Year ended December 31		Three months ended December 31	
	2022	2021	**2022**	2021
Net cash flows from operating activities per consolidated statements of cash flows	**935**	867	**42**	185
Add (deduct) items included in calculation of net cash flows from operating activities per consolidated statements of cash flows:				
Interest paid	**89**	111	**13**	13
Realized gains on settlement of hedged interest rate derivatives	**(27)**	(12)	**–**	–
Change in fair value of derivatives reflected as cash settlement	**213**	43	**153**	26
Distributions received from joint ventures	**(16)**	(11)	**(10)**	(3)
Miscellaneous financing charges paid[1]	**7**	5	**2**	1
Income taxes paid (recovered)	**37**	(7)	**13**	6
Change in non-cash operating working capital	**(179)**	(100)	**(28)**	5
	124	29	**143**	48
Net finance expense[2]	**(111)**	(121)	**(31)**	(28)
Current income tax expense[3]	**(40)**	(44)	**(1)**	(25)
Sustaining capital expenditures[4]	**(133)**	(120)	**(58)**	(21)
Preferred share dividends paid	**(37)**	(51)	**(8)**	(13)
Cash received for off-coal compensation	**50**	50	**–**	–
Remove tax equity interests' respective shares of adjusted funds from operations	**(7)**	(7)	**2**	–
Adjusted funds from operations from joint ventures	**36**	15	**20**	3
Other non-recurring items[5]	**31**	–	**31**	–
Line Loss Rule Proceeding[6]	**–**	(13)	**–**	–
Adjusted funds from operations	**848**	605	**140**	149
Weighted average number of common shares outstanding (millions)	**116.5**	112.1	**116.9**	116.0
Adjusted funds from operations per share ($)	**7.28**	5.40	**1.20**	1.28

[1] Included in other cash items on the consolidated statements of cash flows to reconcile net income to net cash flows from operating activities.

[2] Excludes unrealized changes on interest rate derivative contracts, amortization, accretion charges and non-cash implicit interest on tax equity investment structures.

[3] For the year and three months ended December 31, 2022, excludes current income tax recovery related to the Genesee 3 and Keephills 3 swap transaction of $21 million as these amounts are considered investing activities. For the year and three months ended December 31, 2021, excludes current income tax expense of $16 million and $2 million, respectively, related to the Genesee 3 and Keephills 3 swap transaction as these amounts are considered investing activities.

[4] Includes sustaining capital expenditures net of partner contributions of $5 million and $1 million for the year and three months ended December 31, 2022, respectively, compared with $10 million and $2 million for the year and three months ended December 31, 2021, respectively.

[5] Other non-recurring items include a write-down of $18 million to reflect lower net realizable value of inventory related to the end-of-life of our Genesee's coal operations and a provision for the termination fees related to the existing PPAs of the Bear Branch Solar, Hornet Solar and Hunter's Cove Solar projects (see Consolidated other expenses and non-controlling interests on page 74).

[6] Consistent with our definition of AFFO described above pertaining to the LLR Proceeding, AFFO for the year and three months ended December 31, 2021, is impacted only by our net obligations related to the 2006-2009 and 2010-2013 invoice tranches (see Contractual obligations, contingent liabilities, other legal matters and provisions, page 82).

Non-GAAP financial measures and ratios

Normalized earnings attributable to common shareholders and normalized earnings per share

Capital Power uses normalized earnings attributable to common shareholders and normalized earnings per share to measure performance by period on a comparable basis. Normalized earnings attributable to common shareholders and normalized earnings per share are based on net income (loss) attributable to shareholders of the Company according to GAAP and adjusted for items that are not reflective of performance in the period such as unrealized fair value changes, impairment charges, unusual tax adjustments, gains and losses on disposal of assets or unusual contracts, and foreign exchange gain or loss on the revaluation of U.S. dollar denominated debt. The adjustments, shown net of tax, consist of unrealized fair value changes on financial instruments that are not necessarily indicative of future actual realized gains or losses, non-recurring gains or losses, or gains or losses reflecting corporate structure decisions.

	Year ended December 31		Three months ended							
(unaudited, $ millions except per share amounts and number of common shares)	**2022**	2021	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	Dec 2021	Sep 2021	Jun 2021	Mar 2021
Basic earnings (loss) per share ($)	**0.85**	0.39	**(0.91)**	**0.21**	**0.59**	**0.96**	(0.67)	0.23	0.05	0.83
Net income (loss) attributable to shareholders of the Company per consolidated statements of income	**138**	98	**(98)**	**34**	**80**	**122**	(65)	40	20	103
Preferred share dividends including Part VI.1 tax	**(39)**	(54)	**(8)**	**(10)**	**(11)**	**(10)**	(13)	(13)	(14)	(14)
Earnings (loss) attributable to common shareholders	**99**	44	**(106)**	**24**	**69**	**112**	(78)	27	6	89
Unrealized changes in fair value of derivatives[1]	**310**	146	**188**	**110**	**14**	**(2)**	83	48	25	(10)
Genesee 2 forced outage[2]	**–**	(17)	**–**	**–**	**–**	**–**	(5)	(12)	–	–
Provision for contingency	**–**	–	**–**	**–**	**–**	**–**	–	(6)	6	–
Impairment losses (reversal)[2]	**–**	45	**–**	**–**	**–**	**–**	41	6	(2)	–
Reduction in applicable jurisdictional tax rates	**–**	–	**–**	**–**	**–**	**–**	10	–	–	(10)
Provision for Line Loss Rule Proceeding	**–**	(1)	**–**	**–**	**–**	**–**	–	–	–	(1)
Others[2]	**15**	4	**–**	**12**	**5**	**(2)**	4	–	–	–
Normalized earnings attributable to common shareholders	**424**	221	**82**	**146**	**88**	**108**	55	63	35	68
Weighted average number of common shares outstanding (millions)	**116.5**	112.1	**116.9**	**116.7**	**116.4**	**116.2**	116.0	115.5	109.7	106.8
Normalized earnings per share ($)	**3.64**	1.97	**0.70**	**1.25**	**0.76**	**0.93**	0.47	0.55	0.32	0.64

[1] Includes impacts of the derivatives held within our joint ventures and recorded within income (loss) from joint ventures on our consolidated statements of income.

[2] See Consolidated other expenses and non-controlling interests page 74 and Regulatory matters page 96.

Financial highlights

(unaudited, $ millions, except per share amounts)	Year ended December 31 **2022**	2021	2020
Revenues and other income	**2,929**	1,990	1,937
Adjusted EBITDA[1]	**1,353**	1,124	955
Net income	**128**	87	130
Net income attributable to shareholders of the Company	**138**	98	136
Normalized earnings attributable to common shareholders[1]	**424**	221	128
Basic earnings per share ($)	**0.85**	0.39	0.78
Diluted earnings per share ($)[2]	**0.84**	0.39	0.77
Normalized earnings per share ($)[1]	**3.64**	1.97	1.22
Net cash flows from operating activities	**935**	867	611
Adjusted funds from operations[1]	**848**	605	522
Adjusted funds from operations per share ($)[1]	**7.28**	5.40	4.96
Purchase of property, plant and equipment and other assets, net	**682**	622	318
Dividends per common share, declared ($)	**2.2550**	2.1200	1.9850
Dividends per Series 1 preferred share, declared ($)	**0.6553**	0.6553	0.7650
Dividends per Series 3 preferred share, declared ($)	**1.3633**	1.3633	1.3633
Dividends per Series 5 preferred share, declared ($)	**1.3095**	1.3095	1.3095
Dividends per Series 7 preferred share, declared ($)[3]	**N/A**	1.5000	1.5000
Dividends per Series 9 preferred share, declared ($)[4]	**1.0781**	1.4375	1.4375
Dividends per Series 11 preferred share, declared ($)	**1.4375**	1.4375	1.4375

	At December 31 **2022**	2021	2020
Loans and borrowings including current portion	**3,726**	3,360	3,552
Total assets	**10,135**	9,073	8,911

[1] The consolidated financial highlights, except for adjusted EBITDA, normalized earnings attributable to common shareholders, normalized earnings per share, AFFO and AFFO per share were prepared in accordance with GAAP. See Non-GAAP financial measures and ratios, page 56.

[2] Diluted earnings per share was calculated after giving effect to outstanding share purchase options.

[3] On December 31, 2021, Capital Power redeemed all of our 8 million issued and outstanding 6.00% cumulative rate reset preference shares, Series 7.

[4] On September 30, 2022, Capital Power redeemed all of our 6 million issued and outstanding 5.75% cumulative rate reset preference shares, Series 9 (see Significant events, page 62).

AFFO for 2022 was higher than in 2021 primarily due to:

- higher adjusted EBITDA results mainly attributable to the higher generation and realized power pricing on our Alberta commercial facilities, the acquisition of Midland Cogen in September 2022 (see Significant events, page 62), and strong fleet-wide performance;
- lower net finance expense due to higher capitalized interest resulting from continued progression on our Genesee repowering project and realized gains from the settlement of the Company's interest rate derivatives mainly during the third quarter of 2022. This was partially offset by increased interest from the issuance of Fixed-to-Fixed Subordinated Notes, Series 1 (Subordinated Notes) in the third quarter of 2022 and the private placement of senior notes in the fourth quarter of 2021;
- lower preferred share dividends paid due to the redemption of Series 9 (third quarter of 2022) and Series 7 (fourth quarter of 2021) preferred shares by the Company; and
- the impacts of the Company's obligation related to the second and third tranches of LLR Proceeding in the first half of 2021 compared to no LLR proceeding impacts in the current period.

Partially offsetting the above was higher sustaining capital expenditures in 2022 primarily due to higher LTSA costs from increased generation, increased spend on shutdown work and sustaining capital expenditures, and capital spend for the Midland Cogen facility in the fourth quarter of 2022, partially offset by higher costs, net of accrued insurance recoveries, incurred for the Genesee 2 unplanned outage in 2021.

See Consolidated net income and results of operations page 68 for further discussion of the key drivers of the changes in revenues and other income, adjusted EBITDA, net income and net income attributable to shareholders of the Company.

Financial highlights

The changes in basic and diluted earnings per share were driven by the same factors as net income which are discussed in Consolidated net income and results of operations and the changes from period to period in the weighted average number of common shares outstanding. The changes in normalized earnings per share and normalized earnings attributable to common shareholders were affected by the same drivers as basic earnings per share, but also the adjustments between income (loss) per share and normalized earnings per share described under Non-GAAP financial measures and ratios.

See Liquidity and capital resources on page 78 for discussion of the key drivers of the changes in net cash flows from operating activities.

The increase in purchases of property, plant and equipment and other assets is discussed in Liquidity and capital resources, see page 78.

Significant events

Clydesdale Solar begins commercial operations and executed a second 15-year renewable energy agreement

An additional 75 MW from Clydesdale Solar (formerly Enchant Solar), located in the Municipal District of Taber, Alberta, began commercial operations on December 13, 2022. The total project cost is expected to be $124 million compared to the original budget of $102 million due to supply chain pressures and increases in transportation costs (see Liquidity and capital resources, page 78).

Capital Power executed a 15-year renewable energy agreement with Shaw Communications for approximately 30 MW of the output and environmental attributes. Combined with a previously announced renewable energy agreement with Labatt Breweries of Canada, Clydesdale Solar is approximately 90% contracted over the next 15 years.

Advancement of carbon capture project at Genesee

On December 1, 2022, we announced that our Board of Directors approved a limited notice to proceed (LNTP) for the Genesee Carbon Capture and Sequestration (CCS) Project. The Genesee CCS Project is positioned for a final investment decision in late 2023 with commercial operations as early as 2027.

On June 27, 2022, we announced our collaboration with Mitsubishi Heavy Industries Group and Kiewit Energy Group on a front-end engineering and design (FEED) study for the Genesee CCS Project advancing the commercial application of CCS technology at our Genesee Generating Station (see Decarbonization and growth, page 24).

$2 million contribution to Boyle Street Community Services

On November 1, 2022, Capital Power announced a $2 million contribution to the Build with Boyle initiative to help fund Boyle Street Community Services' (Boyle Street) *okimaw peyesew kamik* facility in Edmonton (see Community engagement, page 41). The purpose-built facility will serve as a base for Boyle Street's lifechanging support services for the community's most vulnerable citizens. Capital Power's contribution is dedicated to funding the new facility's community kitchen and on-site housing needs.

Genesee 3 completes 100% natural gas capability upgrades

On November 12, 2022, Genesee 3 completed necessary modifications to operate as a 100% natural gas capable facility. Upon the closure of the Genesee Mine in late 2023, Genesee 3 will operate solely on natural gas (see Decarbonization and growth, page 24).

Genesee 2 approved for 20 MW of additional capacity

On October 1, 2022, 20 MW of additional capacity at Genesee 2 was approved by the AESO increasing its capacity to 450 MW. The additional capacity is a result of stator and low-pressure rotor replacements associated with the 2021 outage.

Preferred shares, Series 9, redemption

On September 30, 2022, Capital Power redeemed all of our 6 million issued and outstanding 5.75% Cumulative Minimum Rate Reset Preference Shares, Series 9 (Series 9 Shares) at a price of $25.00 per share for gross payments of $150 million. On September 30, 2022, Capital Power also paid the final declared quarterly dividend of $0.3594 per Series 9 Share.

Acquisition of Midland Cogeneration Venture

On September 23, 2022, Capital Power and Manulife Investment Management, on behalf of the Manulife Infrastructure Fund II and its affiliates completed the acquisition of 100% interest in MCV Holding Company LLC through its joint venture partnership, MCV Partners LLC. MCV Holding Company LLC owns 100% of Midland Cogen, a 1,633 MW natural gas combined-cycle cogeneration facility.

Capital Power's investment for our 50% ownership of MCV Partners LLC was $280 million (US$208 million) of cash consideration, including preliminary working capital and other closing adjustments of $29 million (US$22 million). Capital Power financed our share of the transaction using cash on hand and our existing credit facilities. Substantially all of the underlying assets and liabilities of Midland Cogen relate to the cogeneration facility and the project level debt. Capital Power is responsible for operations and maintenance and asset management for which it will receive an annual management fee.

Significant events

Located in Michigan, Midland Cogen, the largest gas-fired cogeneration facility in North America, is a critical asset to support grid reliability during the transition to renewables and is well-positioned, given anticipated market conditions, for re-contracting beyond 2030.

The acquisition supports Capital Power's strategy of acquiring mid-life contracted natural gas assets that are strategically positioned within their power markets. Acquisition highlights include:

- Capital Power's share of expected average adjusted EBITDA of US$80 million per year (ranging from US$104 million in 2023 and declining to US$66 million in 2027).
- based on the actual financing, the 5-year average accretion for Capital Power's AFFO is expected to be US$0.30 per share, reflecting a 7% increase, or an average AFFO of US$35 million per year during the years 2023-2027.
- power purchase agreement with Consumers Energy (rated Baa1/A-/A-) for 1,240 MW of capacity to 2030.
- steam and electricity purchase agreement with Corteva Agriscience (rated NA/A-/A) and Dow Silicones (rated Baa2/BBB/BBB+) to 2035.
- approximately 15% (243 MW) of uncontracted capacity is available to sell into the MISO Zone 7 market.
- located on 1,200 acres leased from Consumers Energy. Current layout and additional space allow for additional turbines, battery installation or a hybrid opportunity.

$350 million Green Hybrid Subordinated Notes offering

On September 9, 2022, Capital Power closed a $350 million offering of Fixed-to-Fixed Subordinated Notes, Series 1, due September 9, 2082. The Subordinated Notes have a fixed 7.95% interest rate, payable semi-annually, which resets on September 9, 2032, and on every fifth anniversary, thereafter, based on the five-year Government of Canada yield plus: (i) 5.34% for the period from, and including, September 9, 2032 to, but excluding, September 9, 2052; and (ii) 6.09% for the period from, and including, September 9, 2052 to, but excluding September 9, 2082.

In connection with this offering of the Series 1 Subordinated Notes, Capital Power issued 350,000 Series 2022-A Class A Preferred Shares to Computershare Trust Company of Canada, to be held in trust as treasury shares to satisfy Capital Power's obligations under the indenture governing the Subordinated Notes.

This is the first ever Green hybrid subordinated debt security in Canada and represents our first green offering under Capital Power's short form base prospectus dated June 10, 2022, as supplemented by a prospectus supplement dated August 18, 2022. We intend to allocate an amount equal to the net proceeds from the sale of the Subordinated Notes to finance or refinance new or existing green investments that meet the eligibility criteria as described in our Green Financing Framework.

Green Financing Framework

On August 15, 2022, we released our inaugural Green Financing Framework (Framework) under which Capital Power will issue green bonds and green loans (Green Financing). The Framework sets out the guidelines for Capital Power's Green Financing in accordance with the Green Bond Principles 2021 issued by the International Capital Markets Association (ICMA) and the Green Loan Principles 2021 issued by the Loan Market Association and Loan Syndications and Trading Association. The Framework has also been designed to align with the practices, actions, and disclosures recommended in the ICMA's Climate Transition Finance Handbook 2020 (see Performance, page 30).

Under the Framework, the net proceeds from a Green Financing will be allocated or used to finance or re-finance, in part or in full, new and/or existing green investments and expenditures that meet the Renewable Energy category, as defined in the Framework, and are aligned with the United Nations Sustainable Development Goals: affordable and clean energy; industry, innovation and infrastructure; and climate action.

Until the Green Financing issued under this Framework is fully allocated, Capital Power will report publicly on the use of the proceeds within one year of issuance and annually thereafter. Both the Allocation and Impact Reports will be posted on our website. An external verification of the Allocation Report will be provided by an independent external auditor on an annual basis until the complete allocation of proceeds.

Sustainalytics reviewed the Framework and provided a second-party opinion confirming that the Framework is credible and impactful and aligns with the Green Bond Principles 2021 and Green Loan Principles 2021. BMO Capital Markets advised Capital Power on the development of the Framework as lead structuring agent.

Significant events

Dividend increase

On July 29, 2022, our Board of Directors approved an increase of 6% in the annual dividend for holders of our common shares, from $2.19 per common share to $2.32 per common share. This increased common share dividend commenced with the third quarter 2022 quarterly dividend payment on October 31, 2022, to shareholders of record at the close of business on September 30, 2022.

Appointment to the Board of Directors

Effective June 1, 2022, Gary Bosgoed was appointed to our Board of Directors. With this appointment, Capital Power's Board of Directors consists of 10 directors, including 40% women and 30% with diversity beyond gender.

Executed 4.5-year contract renewal for Island Generation

On May 16, 2022, we announced the execution of a 4.5-year Electricity Purchase Agreement (EPA) through October 2026 for our Island Generation facility with BC Hydro. Regulatory approval for the EPA was granted in a decision issued by the British Columbia Utilities Commission on November 10, 2022. The terms of the 4.5-year EPA are consistent with our expectations when a $52 million impairment was recorded in 2021.

Executed 10-year contract for Whitla Wind

On March 18, 2022, we announced a 10-year renewable energy agreement with MEGlobal Canada ULC. The agreement commenced April 1, 2022 and covers the renewable energy for the balance of our Whitla Wind facility.

Strathmore Solar begins commercial operations

On March 17, 2022, Strathmore Solar, a 41 MW facility in Strathmore Alberta, began commercial operations. The project was completed on-schedule at a total cost of $59 million compared to the original projected total cost of $53 million (see Liquidity and capital resources, page 78). The facility is fully contracted with 100% of the renewable energy and associated renewable energy credits sold to TELUS Communications under a 25-year power purchase agreement.

Approval of normal course issuer bid

During the first quarter of 2022, the Toronto Stock Exchange approved Capital Power's normal course issuer bid to purchase and cancel up to 8 million of its outstanding common shares during the one-year period from February 28, 2022, to February 27, 2023.

Subsequent event

Executed 23-year clean electricity supply agreement for Halkirk 2 Wind

On February 3, 2023, we announced a 23-year clean electricity supply agreement with Public Services and Procurement Canada. The Agreement will provide approximately 250,000 MWh of clean electricity per year initially through Canada-sourced renewable energy credits until Capital Power's proposed Alberta-based Halkirk 2 Wind project is completed, which is expected to be operational by January 1, 2025 (subject to regulatory approval). The 151 MW Halkirk 2 Wind project will provide renewable energy for the remainder of the term – representing approximately 49% of the facility's output. As part of the transaction, Capital Power committed to securing an equity partnership with local Indigenous communities related to the proposed project.

Facilities and portfolio optimization

			Gross Capacity (MW)			
Facility category and facility	**Type of generating facility**	**Year commissioned**	**Facility**	**Capital Power interest**	**Revenues based on**	**Contract expiry**
Alberta commercial facilities						
Genesee 1	Coal and natural gas co-fired	1994	430	430	Merchant	–
Genesee 2	Coal and natural gas co-fired	1989	450	450	Merchant	–
Genesee 3	100% natural gas capable	2005	516	516	Merchant	–
Clover Bar Energy Centre 1, 2 and 3	Natural gas-fired simple cycle	2008 (Unit 1) 2009 (Units 2 and 3)	243	243	Merchant	–
Joffre	Natural gas-fired combined cycle cogeneration	2001	480	192	Merchant (mid-merit)	–
Shepard	Natural gas-fired combined cycle	2015	881	440	Merchant with tolling agreement for 50% of owned capacity	2035 (tolling agreement)
Halkirk Wind	Wind turbine	2012	150	150	Merchant with renewable energy credits (RECs) sold under fixed price agreement	2032 (RECs)
Clover Bar Landfill Gas	Landfill gas-fired	2005	2	2	Merchant with emission credits purchased by Capital Power from the City of Edmonton	–
Western Canada contracted facilities						
Island Generation	Natural gas-fired combined cycle	2002	275	275	Electricity purchase agreement (EPA[3]) with BC Hydro	2026
Quality Wind	Wind turbine	2012	142	142	EPA[3] with BC Hydro	2037
Savona[1]	Waste heat	2008	5	5	EPA[3] with BC Hydro	2028
150 Mile House[1]	Waste heat	2008	5	5	EPA[3] with BC Hydro	2028
Whitla Wind[2]	Wind turbine	2019 (Phase 1) 2021 (Phases 2 and 3)	353	353	Fixed price contract with the Alberta Electric System Operator for 202 MW PPA[3] with Dow Chemical Canada ULC for 25 MW VPPA[3] with ME Global Canada ULC for 126 MW	2039 2036 2032
Strathmore Solar	Solar	2022	41	41	PPA[3] with Telus Corporation covering energy and RECs	2047
Clydesdale Solar	Solar	2022	75	75	VPPA[3] with Labatt Breweries of Canada covering 38 MW of energy and RECs VPPA[3] with Shaw Communications covering 30 MW of energy and RECs	2037 2037
Ontario contracted facilities						
York Energy	Natural gas-fired simple cycle	2012	456	228	Energy supply contract with Independent Electric System Operator (IESO)	2032
East Windsor	Natural gas-fired cogeneration	2009	92	92	Energy supply contract with IESO	2029
Goreway	Natural gas-fired combined cycle	2009	875	875	Energy supply contract with IESO	2029
Kingsbridge 1	Wind turbine	2001 and 2006	40	40	Energy supply contracts with IESO	2026
Port Dover and Nanticoke Wind	Wind turbine	2013	105	105	Energy supply contract with IESO	2033

Facilities and portfolio optimization

Facility category and facility	Type of generating facility	Year commissioned	Gross Capacity (MW) Facility	Gross Capacity (MW) Capital Power interest	Revenues based on	Contract expiry
U.S. contracted facilities						
Decatur Energy, Alabama	Natural gas-fired combined cycle	2002	885	885	Tolling agreement with Tennessee Valley Authority	2032
Arlington Valley, Arizona	Natural gas-fired combined cycle	2002	600	600	Tolling agreement with Arizona Public Service Company and HRCO with an investment grade counterparty	2031
Beaufort Solar, North Carolina	Solar	2015	15	15	PPA[3] with Duke Energy Progress, LLC	2030
Bloom Wind, Kansas	Wind turbine	2017	178	178	Fixed price contract with Allianz Risk Transfer	2027
Macho Springs Wind, New Mexico	Wind turbine	2011	50	50	PPA[3] with Tucson Electric Power	2031
New Frontier Wind, North Dakota	Wind turbine	2018	99	99	Fixed price contract with Morgan Stanley Capital Group	2030
Cardinal Point Wind, Illinois	Wind turbine	2020	150	150	Fixed price contract with Morgan Stanley Capital Group	2032
Buckthorn Wind, Texas	Wind turbine	2018	101	101	Offtake arrangements with an investment grade U.S. financial institution	2031 and 2038
Midland Cogen, Michigan	Natural gas-fired combine cycle	1990	1,633	817	PPA[3] with Consumers Energy Steam and EPA[3] with Dow Silicones and Corteva Agriscience	2030 and 2035

[1] For operational reporting, Savona and 150 Mile House waste heat facilities are combined together as a single entity referred to as EnPower.

[2] For operational reporting, all phases of the Whitla Wind project are combined as a single facility referred to as Whitla Wind.

[3] Certain of our facilities derive revenues under power purchase agreements or arrangements (PPAs), virtual power purchase agreements (VPPAs) and energy purchase agreements or arrangements (EPAs).

Facilities and portfolio optimization

Facility category and facility	Type of generating facility	Year to be commissioned	Gross Capacity (MW)		Revenues based on	Contract expiry
			Facility	Capital Power interest		
Under construction or in advanced development						
Repowering of Genesee 1 and 2[4]	Natural gas-fired combined cycle	Unit 1 – 2024 Unit 2 – 2024	256 256	256 256	Merchant	–
Halkirk Wind Phase 2, Alberta	Wind	Q4 2024	151	151	Clean electricity supply agreement with Public Services and Procurement Canada for 49% of energy (see Subsequent event, page 64) Capital Power is in discussions for potential offtake contracts for the remainder of the facility's output.	2045

[4] The project also includes the construction of a 210 MW battery energy storage system (BESS) to allow the repowered units to operate up to their baseload capacity in accordance with the Alberta Electric System Operator (AESO) most severe single contingency (MSSC) limit. The BESS project is currently on hold while Capital Power explores alternate means of providing grid frequency support and AESO completes a review process that may result in an increase in MSSC beyond 466 MW.

Portfolio optimization

Capital Power's commodity portfolio is comprised of generation assets, customer positions and trading positions. All commodity risk management and optimization activities are centrally managed by Capital Power's commodity portfolio management group. Portfolio optimization includes activities undertaken to manage our exposure to commodity risk and enhance earnings. Overall commodity exposure within the portfolio is managed within limits established under our risk management policies.

Capital Power manages output from our commercial and contracted facilities with residual commodity exposure on a portfolio basis. Capital Power sells and/or buys physical and/or financial forward contracts that are non-unit specific, to reduce exposure to facility specific availabilities. Capital Power also takes positions in environmental commodity markets outside of Alberta to develop capability to support our growth strategy and to generate trading profits.

Consolidated net income and results of operations

The primary factors contributing to the change in consolidated net income for 2022 compared with 2021 are presented below followed by further discussion of these items.

(unaudited, $ millions)

Consolidated net income for the year ended December 31, 2021		**87**
Increase (decrease) in adjusted EBITDA:		
Alberta commercial facilities and portfolio optimization	165	
Western Canada contracted facilities	4	
Ontario contracted facilities	31	
U.S. contracted facilities	64	
Corporate	(35)	229
Change in unrealized net gains or losses related to the fair value of commodity derivatives and emission credits		(209)
Disposals and other transactions		(73)
Increase in depreciation and amortization expense		(14)
Decrease in impairments		58
Increase in foreign exchange loss		(6)
Increase in other items from joint ventures		(9)
Decrease in net finance expense		18
Decrease in income before tax		(6)
Decrease in income tax expense		47
Increase in net income		**41**
Consolidated net income for the year ended December 31, 2022		**128**

Consolidated net income and results of operations

Results by facility category and other

	Year ended December 31							
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	Electricity generation (GWh)[1]		**Facility availability** (%)[2]		**Revenues and other income** (unaudited, $ millions)		**Adjusted EBITDA** (unaudited, $ millions)[3]	
Total electricity generation, average facility availability and facility revenues	**28,573**	22,811	**93**	90	**3,506**	2,216		
Alberta commercial facilities								
Genesee 1	**3,255**	3,025	**94**	95	**550**	320		
Genesee 2	**3,379**	1,697	**97**	62	**560**	211		
Genesee 3	**3,521**	3,870	**88**	97	**563**	393		
Clover Bar Energy Centre 1, 2 and 3	**680**	460	**88**	93	**176**	76		
Joffre	**576**	685	**83**	92	**124**	104		
Shepard	**3,253**	2,635	**99**	87	**324**	195		
Halkirk Wind	**500**	505	**96**	97	**86**	66		
Clover Bar Landfill Gas	**7**	–	**79**	25	**2**	–		
Alberta commercial facilities	**15,171**	12,877	**93**	88	**2,385**	1,365		
Portfolio optimization	**N/A**	N/A	**N/A**	N/A	**(277)**	(15)		
	15,171	12,877	**93**	88	**2,108**	1,350	**770**	605
Western Canada contracted facilities								
Island Generation	**11**	582	**98**	95	**20**	36		
Quality Wind	**413**	441	**97**	97	**54**	54		
EnPower	**18**	24	**97**	95	**2**	2		
Whitla Wind[4]	**1,404**	876	**96**	97	**68**	41		
Strathmore Solar[5]	**65**	N/A	**100**	N/A	**5**	N/A		
Clydesdale Solar[6]	**6**	N/A	**100**	N/A	**1**	N/A		
	1,917	1,923	**97**	96	**150**	133	**105**	101
Ontario contracted facilities								
York Energy[7]	**27**	19	**99**	94	**N/A**	N/A		
East Windsor	**16**	11	**85**	97	**34**	31		
Goreway	**2,209**	1,229	**90**	95	**348**	236		
Kingsbridge 1	**108**	95	**98**	99	**9**	8		
Port Dover and Nanticoke Wind	**308**	275	**96**	96	**46**	41		
	2,668	1,629	**92**	95	**437**	316	**247**	216

Consolidated net income and results of operations

	Year ended December 31							
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
	Electricity generation (GWh)[1]		**Facility availability** (%)[2]		**Revenues and other income** (unaudited, $ millions)		**Adjusted EBITDA** (unaudited, $ millions)[3]	
U.S. contracted facilities								
Decatur Energy, Alabama	**2,771**	1,766	**92**	77	**111**	86		
Arlington Valley, Arizona	**2,727**	2,383	**93**	94	**280**	135		
Beaufort Solar, North Carolina	**28**	28	**99**	98	**2**	2		
Bloom Wind, Kansas	**685**	621	**94**	93	**33**	33		
Macho Springs Wind, New Mexico	**130**	124	**97**	98	**15**	14		
New Frontier Wind, North Dakota	**438**	414	**94**	96	**23**	22		
Cardinal Point Wind, Illinois	**619**	581	**96**	98	**58**	59		
Buckthorn Wind, Texas	**350**	348	**92**	95	**12**	33		
Midland Cogen, Michigan[8]	**1,069**	N/A	**91**	N/A	**N/A**	N/A		
Roxboro, North Carolina[9]	**N/A**	57	**N/A**	100	**N/A**	7		
Southport, North Carolina[9]	**N/A**	60	**N/A**	100	**N/A**	11		
	8,817	6,382	**93**	87	**534**	402	**274**	210
Corporate[10]					**131**	126	**(43)**	(8)
Unrealized changes in fair value of commodity derivatives and emission credits					**(431)**	(337)		
Consolidated revenues and other income and adjusted EBITDA					**2,929**	1,990	**1,353**	1,124

1 Gigawatt hours (GWh) of electricity generation reflects our share of facility output.

2 Facility availability represents the percentage of time in the period that the facility was available to generate power regardless of whether it was running, and therefore is reduced by planned and unplanned outages.

3 The financial results by facility category, except for adjusted EBITDA, were prepared in accordance with GAAP. See Non-GAAP financial measures and ratios, page 56.

4 Phases 2 and 3 of Whitla Wind were commissioned ahead of schedule on December 1, 2021. As a result, electricity from those phases was sold on a merchant or non-contracted basis for the month of December 2021.

5 Strathmore Solar was commissioned on March 17, 2022.

6 Clydesdale Solar was commissioned on December 13, 2022.

7 York Energy is accounted for under the equity method. Capital Power's share of the facility's net income is included in income from joint ventures on our consolidated statements of income. Capital Power's share of the facility's adjusted EBITDA is included in adjusted EBITDA above. The equivalent of Capital Power's share of the facility's revenue was $36 million for 2022, compared with $30 million for 2021. The facility's revenues are not included in the above results.

8 Midland Cogen was acquired September 23, 2022 (see Significant events, page 62) and is accounted for under the equity method. Capital Power's share of the facility's net income is included in income from joint ventures on our consolidated statements of income. Capital Power's share of the facility's adjusted EBITDA is included in adjusted EBITDA above. The equivalent of Capital Power's share of the facility's revenue was $121 million for 2022. The facility's revenues are not included in the above results.

9 The PPAs for the Southport and Roxboro facilities expired March 31, 2021, and the facilities also ceased operations. Decommissioning of the facilities commenced in the second quarter of 2021 and is ongoing.

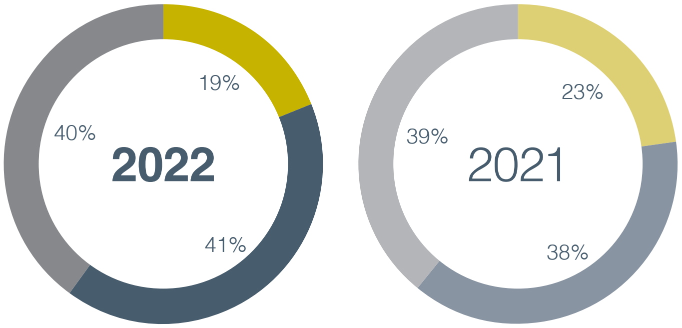
10 Corporate revenues were offset by interplant category eliminations.

Consolidated net income and results of operations

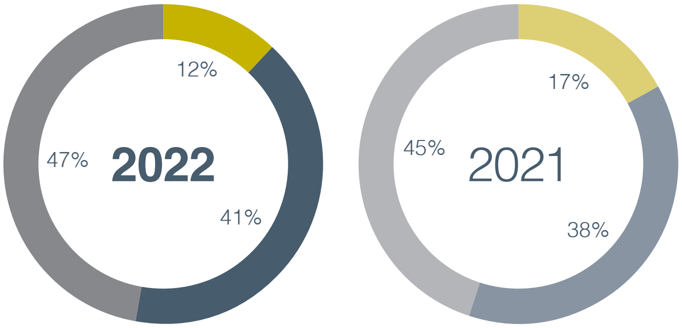
Adjusted EBITDA and revenues and other income by fuel type for the year ended December 31

Alberta commercial portfolio optimization amounts in adjusted EBITDA and revenues and other income are allocated to fuel source based on generation and off-coal compensation is reflected within natural gas / coal dual-fuel. The period-over-period increases in percentages from our natural gas and natural gas/coal dual-fuel facilities are largely driven by higher realized Alberta power prices in 2022 as compared to 2021. Also contributing to the increase was higher generation year-over-year driven by the acquisition of Midland Cogen and our existing thermal facilities being dispatched more frequently and for longer periods of time to support market demand and system reliability. Growth from our renewable facilities contributed an additional $33 million in revenue and other income and $22 million in adjusted EBITDA in 2022. As our renewable facilities are primarily contracted, periods of high power prices has an impact of increasing the contributions from our thermal facilities.

Adjusted EBITDA by fuel type



Revenues and other income by fuel type[1]



🟨 Renewables ■ Natural gas ■ Natural gas/Coal dual-fuel

1 The allocation of revenues and other income by fuel type excludes the impact of unrealized changes in fair value of commodity derivatives and emission credits.

Energy prices and hedged positions

		Year ended December 31	
Alberta commercial portfolio		**2022**	2021
Power			
Hedged position[1]	Percentage of baseload generation sold forward at beginning of period (%)	**72**	29
Spot power price average	$ per MWh	**162**	102
Realized power price[2]	$ per MWh	**95**	78
Natural Gas			
Hedged position[3]	Percentage of natural gas requirements purchased forward at beginning of period (%)	**100**	78
Spot natural gas price average (AECO)[4]	$ per GJ	**5.08**	3.50

1 Hedged position is for the Alberta baseload plants as well as a portion of Joffre and the uncontracted portion of Shepard.

2 Realized power price is the average aggregate price realized through selling power generation into the spot market, the Company's commercial contracted sales and portfolio optimization activities. When long-term forward portfolio optimization hedges are transacted, they reflect the market's expectations for future period pricing. Ultimately, spot pricing may vary from expected forward pricing due to a number of factors resulting in realized power prices in a given period that can differ materially from spot pricing.

3 Based on forecasted natural gas requirements from the Company's most recent forecast. Actual fuel requirements for Alberta facilities may differ significantly as a result of dispatch decisions.

4 AECO refers to the historical virtual trading hub located in Alberta and known as the NOVA Inventory Transfer system operated by TC Energy. Realized natural gas price is the average aggregate price realized through purchasing of natural gas from the spot market, the Company's commercial contracted purchases and portfolio optimization activities. For the current and comparative periods, this results in realized natural gas prices that are significantly lower than spot natural gas prices.

Consolidated net income and results of operations

Alberta commercial facilities and portfolio optimization

The Alberta spot price averaged $162 per MWh in 2022, significantly higher compared to the $102 per MWh in 2021. We saw increased demand for power in the Alberta market driven by unseasonable weather conditions at various times throughout the year. From a supply perspective, higher AECO prices and increased carbon compliance costs from $40 per tonne in 2021 to $50 per tonne in 2022 led to the pricing of natural gas units higher in the merit curve as variable costs increased year-over-year. Outages of various gas generating units and inter-ties during 2022, combined with increased export opportunities, also contributed to higher spot prices in the current year.

Generation was higher in 2022 than in 2021 primarily due to increased demand and the Company's offer strategy. The generator failure at Genesee 2 from July to December 2021 also contributed to the higher year-over-year generation and availability in 2022. Other larger outages for our Alberta commercial facilities were as follows:

- a longer planned outage in 2022 to convert Genesee 3 to 100% natural gas capable compared with minimal planned outage hours in 2021;
- a planned outage at Genesee 1 across the first two quarters of 2022 which was consistent in duration with the unplanned outages experienced across all of 2021;
- a planned outage at Shepard in the second quarter of 2021 compared with minimal outage hours in 2022;
- longer planned outages at Clover Bar Energy Center in 2022 compared with 2021, partially offset by shorter unplanned outages in 2022 compared with 2021; and
- longer planned and unplanned outages at Joffre in 2022 compared with 2021.

Revenue and other income and adjusted EBITDA were higher in 2022 compared with 2021 driven by higher prices captured by the portfolio and higher generation across the majority of the Company's Alberta commercial facilities in 2022. The favourable adjusted EBITDA variances were partially offset by higher fuel prices, as well as higher volumes burned given increased generation. Higher transmission costs were also incurred as a result of the higher generation and spot pool pricing in 2022. In addition, the higher generation combined with an increase to the carbon compliance pricing, have led to higher emissions costs in 2022 compared with 2021.

Western Canada contracted facilities

Generation from the commencement of operations for phases 2 and 3 of Whitla Wind on December 1, 2021, Strathmore Solar on March 17, 2022 and Clydesdale Solar on December 13, 2022 were mostly offset by minimal dispatch at Island Generation in 2022 compared with 2021. Availability in 2022 was consistent with 2021.

Revenues and other income and adjusted EBITDA were higher in 2022 compared with 2021 primarily due to the renewable facilities that commenced operations between December 2021 and through 2022, partially offset by lower revenues at Island Generation during the period where the previous EPA expired and the new EPA was being negotiated, as well as lower net revenues recognized as a result of classifying the new EPA as a finance lease (see Significant events, page 62). Adjusted EBITDA was further impacted by higher transmission costs at Whitla Wind due to the higher Alberta spot pool prices in 2022 compared with 2021.

Ontario contracted facilities

Generation, revenues and other income, and adjusted EBITDA for 2022 were higher than in 2021 primarily due to higher dispatch at Goreway, largely driven by nuclear refurbishments and gas facility outages, limiting power supply in the Ontario market, and extreme temperatures. Higher wind resourcing experienced at Port Dover and Nanticoke Wind and higher market and ancillary services revenues at East Windsor also contributed to higher revenues and other income and adjusted EBITDA in 2022 compared with 2021. Partially offsetting these impacts within adjusted EBITDA were higher outage costs due to a longer planned outage at Goreway in the second quarter of 2022 compared with the same period in 2021, which, when combined with a longer planned outage at East Windsor in the current year compared with 2021, contributed to the lower availability year-over-year. Partially offsetting the lower availability was a longer planned outage at York Energy in 2021 compared with 2022.

U.S. contracted facilities

Generation and availability in 2022 were higher than in 2021 primarily due to:

- Decatur Energy being dispatched for longer periods as less expensive generation options for the market did not materialize. In addition, the facility had shorter planned and unplanned outages in 2022 compared with 2021;
- The acquisition of Midland Cogen (see Significant events, page 62);
- Higher generation at Arlington Valley due to more frequent calls under the heat rate call option (HRCO);
- An increase to overall renewables generation;
- These favourable variances were partially offset by the retirement of the Southport and Roxboro facilities effective March 31, 2021.

Consolidated net income and results of operations

Revenues and other income in 2022 were higher than in 2021 primarily due to:

- Arlington Valley earning higher HRCO revenues driven by the impact of higher natural gas prices, primarily in December of 2022 as a result of cold temperatures combined with low gas storage inventory amongst other factors;
- Higher contracted variable revenues in 2022 at Decatur Energy as a result of higher generation and availability;
- Higher capacity revenues at Decatur Energy as a result of the extension to the tolling agreement that was previously announced in the third quarter of 2021 along with the increased capacity rating of the facility following the completion of upgrades in 2021;
- These favourable variances were partially offset by the retirement of the Southport and Roxboro facilities on March 31, 2021 and the settlement of litigation that resulted in an adjustment in the fourth quarter of 2022.

Adjusted EBITDA was higher in 2022 compared with 2021 primarily due to the revenues and other income variances above and acquisition of Midland Cogen (see Significant events, page 62), lower maintenance costs at Decatur due to shorter planned and unplanned outages in 2022, and the retirement of the Southport and Roxboro facilities who contributed a negative adjusted EBITDA in the first quarter of 2021. These favourable variances were partially offset by higher natural gas costs incurred at Arlington Valley, as noted above.

Corporate

Corporate results include (i) revenues for cost recoveries and other income related to coal compensation from the Province of Alberta, (ii) costs of support services such as treasury, finance, internal audit, legal, people services, corporate risk management, asset management, and environment, health and safety, and (iii) business development expenses. Note that cost recovery revenues are primarily intercompany revenues that are offset by interplant category transactions.

Net corporate revenues and other income were consistent in 2022 compared with 2021. Adjusted EBITDA for 2022 was lower than in 2021 primarily due to higher business development expenses including the continued advancement of our Genesee CCS project, increased share-based incentive expenses as a result of increased share price, additional contributions to community organizations (see Community investment, page 44) and the reversal of a contingent consideration provision in 2021 related to a previous acquisition that was no longer required.

Unrealized changes in fair value of commodity derivatives and emission credits

(unaudited, $ millions)	Year ended December 31			
	2022	2021	**2022**	2021
Unrealized changes in fair value of commodity derivatives and emission credits	**Revenues and other income**		**Income before tax**	
Unrealized losses on Alberta power derivatives	**(384)**	(80)	**(362)**	(83)
Unrealized losses on U.S. power derivatives	**(150)**	(213)	**(150)**	(213)
Unrealized gains (losses) on natural gas derivatives	**91**	(32)	**66**	84
Unrealized gains (losses) on emission derivatives	**12**	(12)	**12**	(12)
Unrealized gains on emission credits held for trading	**–**	–	**5**	4
	(431)	(337)	**(429)**	(220)

Revenues and other income and adjusted EBITDA relating to our Alberta commercial facilities and portfolio optimization and U.S. wind facilities include realized changes in the fair value of commodity derivatives and emission credits. Unrealized changes in the fair value of commodity derivatives and emission credits are excluded from revenues and other income relating to our Alberta commercial facilities and portfolio optimization and U.S. wind facilities and are also excluded from our adjusted EBITDA metric.

When a derivative instrument settles, the unrealized fair value changes recorded in prior periods for that instrument are reversed from this category. The gain or loss realized upon settlement is then reflected in adjusted EBITDA for the applicable facility category.

During the year ended December 31, 2022, the Company recognized unrealized losses of $362 million on Alberta power derivatives due to the impact of increasing forward prices on net forward sale contracts, offset partially by the reversal of prior period unrealized losses on positions that settled in the year. During the comparable period of 2021, the Company recognized unrealized losses of $83 million on Alberta power derivatives due to the impact of increasing forward prices on net forward sale contracts as well as the reversal of prior period unrealized gains on positions that settled in the year.

During the year ended December 31, 2022, the Company recognized unrealized losses of $150 million on U.S power derivatives due to the impact of increasing forward prices on net forward sale contracts associated with the Bloom Wind, New Frontier Wind, Cardinal Point Wind and Buckthorn Wind facilities. These were partially offset by the reversal of prior period unrealized losses on positions that settled in the year. During the comparable period of 2021, the Company recognized unrealized losses of $213 million on U.S power derivatives due to the impact of increasing forward prices on net forward sale contracts associated with the Bloom Wind, New Frontier

Consolidated net income and results of operations

Wind, Cardinal Point Wind and Buckthorn Wind facilities. These were partially offset by the reversal of prior period unrealized losses on positions that settled during 2021.

During the year ended December 31, 2022, the Company recognized unrealized gains on natural gas derivatives of $66 million, due to the impact of increasing forward natural gas prices on net forward purchase contracts. This was partially offset by the reversal of prior period unrealized gains on purchase contracts that settled during the year. During the comparable period of 2021, the Company recognized unrealized gains on natural gas derivatives of $84 million, due to the impact of increasing forward natural gas prices on net forward purchase contracts. This was partially offset by the reversal of prior period unrealized gains on purchase contracts that settled during the year.

During the year ended December 31, 2022, the Company recognized unrealized gains of $12 million on emission derivatives, due to both the reversal of prior period unrealized losses on positions that settled as well as the impact of increasing forward prices on forward purchase contracts. During the comparable period of 2021 the Company recognized unrealized losses of $12 million on emission derivatives, as a result of the impact of increasing forward prices on forward sale contracts as well as the reversal of prior period unrealized gains on positions that settled during the year.

During the year ended December 31, 2022, the Company recognized unrealized gains of $5 million on emission credits held for trading, due to the reversal of prior period unrealized losses on inventory sold. During the comparable periods of 2021, unrealized gains of $4 million on emission credits held for trading were the result of increasing market prices on portfolio holdings partially offset by the reversal of prior periods unrealized gains on emission credits sold.

Consolidated other expenses and non-controlling interests

	Year ended December 31	
(unaudited, $ millions)	**2022**	2021
Interest on borrowings less capitalized interest	**(131)**	(132)
Realized gains (losses) on settlement of interest rate derivatives	**10**	(6)
Other net finance expense – interest on off-coal compensation from the Province of Alberta, lease liability interest, sundry interest, guarantee and other fees	**(7)**	(1)
	(128)	(139)
Unrealized gains representing changes in the fair value of interest rate derivatives	**5**	9
Other finance expense – amortization and accretion charges, including accretion of deferred revenue pertaining to off-coal compensation from the Province of Alberta	**(33)**	(44)
Total net finance expense	**(156)**	(174)
Depreciation and amortization	**(553)**	(539)
Impairments, net of reversal	**–**	(58)
Foreign exchange loss	**(15)**	(9)
(Losses) gains on disposals and other transactions	**(37)**	36
Other items from joint ventures[1]	**(22)**	(13)
Income tax expense	**(13)**	(60)
Net loss attributable to non-controlling interests	**10**	11

[1] Includes finance expense, depreciation expense and unrealized changes in fair value of derivative instruments from joint ventures.

Net finance expense

Lower net finance expense for 2022 compared with 2021 largely reflects higher capitalized interest mainly due to the continued advancement of the Genesee repowering project. In addition, we realized higher gains from settlement of our interest rate derivatives and incurred lower accretion charges due to declining balances for the off-coal compensation. This was partially offset by higher interest on increased loans and borrowings outstanding mainly due to the issuance of Subordinated Notes (see Significant events, page 62) in the third quarter of 2022 and the private placement of senior notes issued in the fourth quarter of 2021.

Consolidated net income and results of operations

Depreciation and amortization

Depreciation and amortization for the year ended December 31, 2022 increased compared with the same period in the prior year primarily due to phases 2 and 3 of Whitla Wind (commenced commercial operations in December 2021), Strathmore Solar (commenced commercial operations in March 2022, see Significant events, page 62) and Genesee Mine depreciation, partially offset by the classification of Island Generation EPA as a finance lease during the second quarter of 2022 (see Significant events, page 62) and by Southport and Roxboro being fully depreciated as of the end of the first quarter of 2021.

Impairments, net of reversal

During the fourth quarter of 2021, the Company recognized a pre-tax impairment loss of $52 million related to its Island Generation facility (see Regulatory matters, page 96). Additionally in 2021, the Company and its partner on the Genesee 4 and 5 project reached a settlement concerning the costs of exiting the series of previously executed agreements and the Company recognized a pre-tax impairment loss of $6 million, net of a pre-tax impairment reversal of $2 million. This impairment reversal related to the assets that are now expected to be used as a part of Genesee repowering which had previously been impaired upon the discontinuation of the Genesee 4 and 5 project.

Foreign exchange loss

For the year ended December 31, 2022, foreign exchange loss reflects losses incurred on the revaluation of U.S. dollar denominated debt not hedged for accounting purposes.

During the year ended December 31, 2021, the exchange rate of the Canadian dollar relative to the U.S. dollar weakened from the time foreign currency sale contracts were entered to the time they were settled resulting in realized losses on the settlement of foreign currency sale contracts. Capital Power had no outstanding foreign currency non-hedge contracts at the end of 2021. Foreign exchange loss in the year also reflects losses incurred on the revaluation of U.S. dollar denominated debt not hedged for accounting purposes.

(Losses) gains on disposals and other transactions

As we progress towards being off coal in 2023, losses on disposals and other transactions for the year ended December 31, 2022 includes a write-down of $18 million to reflect lower net realizable value of the inventory related to our coal operations. In addition, it is highly probable that Capital Power will terminate the existing PPAs of our Bear Branch Solar, Hornet Solar, and Hunter's Cove Solar projects due to industry wide cost pressures impacting the solar development work space. We have recorded a provision for the termination fees in the fourth quarter of 2022 and anticipate re-bidding the projects into a future requests for proposal. Lastly, additional adjustments to Southport and Roxboro decommissioning costs were made during the period.

Gains on disposals and other transactions for year ended December 31, 2021 reflects net gain of $23 million for accrued insurance recoveries, related expensed costs and capitalized costs incurred to date to repair Genesee 2. In addition, a gain of $7 million on decommissioning costs was recorded in the second quarter of 2021 to reflect lower decommissioning costs than what was previously established as provisions. The year-to-date amount in 2021 further reflects other gains on disposal, largely related to land sales.

Other items from joint ventures

Other items from joint ventures includes Capital Power's share of finance expense, depreciation expense and unrealized changes in fair value of derivative instruments from our York Energy and Midland Cogen joint ventures, which are accounted for under the equity method. Other items from joint ventures increased by $9 million in 2022 compared with 2021 due to the acquisition of Midland Cogen joint venture (see Significant events, page 62).

Income tax expense

For the year ended December 31, 2022, income tax expense decreased compared with the prior year primarily due to changes in unrecognized tax benefits and due to lower amounts attributable to tax-equity interests.

Non-controlling interests

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

Comprehensive income

	Year ended December 31	
(unaudited, $ millions)	**2022**	2021
Net income	**128**	87
Other comprehensive (loss) income:		
Net unrealized losses on derivative instruments	**(508)**	(194)
Net realized losses on derivative instruments reclassified to net income	**328**	158
Unrealized foreign exchange gains on the translation of foreign operations	**81**	6
Actuarial gains related to the Company's defined benefit pension plan	**9**	3
Total other comprehensive loss, net of tax	**(90)**	(27)
Comprehensive income	**38**	60

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

Financial position

The significant changes in the consolidated statements of financial position from December 31, 2021 to December 31, 2022 were as follows:

	At December 31			
(unaudited, $ millions)	**2022**	2021	**Increase (decrease)**	**Primary reason for increase (decrease)**
Trade and other receivables[1]	**942**	474	468	Increased accrued receivables due to higher settled Alberta pool prices in December 2022 compared to December 2021, higher dispatch at Goreway, and higher heat rate call option revenue at Arlington Valley in December 2022.
Finance lease receivable (including current portion)	**41**	–	41	Island Generation's new EPA (see Significant events, page 62) is classified as a finance lease, resulting in the recognition of a finance lease receivable and some revenues being classified as finance lease income whereas the previous EPA was classified as an operating lease and presented within property, plant and equipment and depreciated.
Equity-accounted investments	**437**	145	292	Increase primarily due to the acquisition of Midland Cogen (see Significant events, page 62).
Property, plant and equipment	**6,360**	6,203	157	Increase due to capital additions for Genesee 1 and 2 repowering, Strathmore Solar and Clydesdale Solar partially offset by the derecognition of Island Generation's net assets due to new EPA being classified as a finance lease (see Significant events, page 62), the impact of increasing interest rates on decommissioning assets, foreign exchange impacts and depreciation.
Net derivative financial instruments liabilities	**741**	274	467	Increase due to the impact of increasing forward prices on forward sale contracts, partly offset by a reduction in interest rate swap liabilities resulting from increasing forward interest rates and the impact of increasing forward natural gas prices on net forward purchase contracts.
Trade and other payables	**1,249**	624	625	Increases in forward and spot natural gas prices resulted in higher trading margin account payables on net forward purchase contracts and higher natural gas accruals in December 2022. Higher accrued emission compliance obligations due to increased generation and carbon compliance pricing. In addition, increased capital accruals related to Genesee repowering project and higher commodity purchases that settled against higher Alberta pool prices in December 2022.
Loans and borrowings (including current portion)	**3,726**	3,360	366	Increase primarily due to issuance of Subordinated Notes (see Significant events, page 62) and foreign exchange impacts offset by repayments and allocation of income tax benefits to tax-equity investors associated with the Company's tax-equity structures.
Provisions (including current portion)	**397**	461	(64)	Decrease mainly due to revisions to existing decommissioning provisions driven by increases in interest rates partly offset by additional share-based incentive accrual as a result of increased share price and provision for termination fees of solar PPAs.

[1] Excludes current portion of finance lease receivable.

Liquidity and capital resources

(unaudited, $ millions, except per share amounts)	Year ended December 31		
Cash inflows (outflows)	**2022**	2021	Change
Operating activities	**935**	867	68
Investing activities	**(910)**	(565)	(345)
Financing activities	**(102)**	(275)	173

Operating activities

Cash flows from operating activities for the year ended December 31, 2022 increased compared with the same period in 2021 mainly due to:

- cash flow impacts of the increases in adjusted EBITDA described in Consolidated net income and results of operations, primarily attributable to higher generation and realized Alberta power pricing, the acquisition of Midland Cogen (see Significant events, page 62) and strong fleetwide performance;
- favorable changes in non-cash working capital mainly driven by higher margin account withdrawals resulting from the impact of increasing forward natural gas prices on forward purchase contracts partly offset by increases in trade receivables primarily attributable to higher settled Alberta pool prices in December and higher generation;
- lower interest paid due to higher realized gains on the settlement of the Company's non-hedge interest rate swaps in 2022 and lower refinanced senior notes in the fourth quarter of 2021; and
- the net settlement of tranches 2 and 3 of the LLR Proceeding invoices in 2021 with no comparable impacts in 2022.

Partially offsetting the above increases are higher current income taxes paid driven by increase in earnings before taxes year-over-year, and unfavourable fair value changes in certain unsettled derivative financial instruments that are charged or credited to the Company's bank margin account held with a specific exchange counterparty for December 2022 compared with the same period in 2021, most notably driven by the impact of increasing forward power prices on net forward sale contracts in 2022.

Liquidity and capital resources

Investing activities

Cash flows used in investing activities for the year ended December 31, 2022 increased compared with the same period in 2021 due to our acquisition of a joint venture interest in Midland Cogen (see Significant events, page 62) and higher cash capital expenditures, most notably increased spend on the repowering of Genesee 1 and 2 and Clydesdale Solar.

Capital expenditures and investments

		Year ended December 31				
	Pre-2021 actual	2021 actual	**2022 actual**	2023 estimated [1,2]	Actual or projected total[2]	Targeted completion
Repowering of Genesee 1 and 2[3]	–	238	**406**	392	1,277	Unit 1 and Unit 2 in 2024
Halkirk 2 Wind	–	–	**1**	37	274	Fourth quarter of 2024
Bear Branch Solar[4]	1	1	**1**	N/A	N/A	To be determined
Hornet Solar[4]	1	1	**1**	N/A	N/A	To be determined
Hunter's Cove Solar[4]	1	1	**1**	N/A	N/A	To be determined
Clydesdale Solar[5]	1	18	**102**	3	124	Completed in December 2022
Strathmore Solar[5]	2	49	**8**	–	59	Completed in March 2022
Whitla Wind phases 2 and 3	33	209	**13**	–	255	Completed in December 2021
Commercial initiatives[6]	154	28	**14**	9	208	
Development sites and projects	24	36	**2**	–		
Subtotal growth projects		581	**549**	441		
Sustaining – plant maintenance excluding Genesee mine		122	**138**			
Sustaining – Genesee mine maintenance and lands		8	**–**			
Total capital expenditures[7]		711	**687**			
Emission credits held for compliance		67	**97**			
Investment in C2CNT		13	**–**			
Capitalized interest		(10)	**(21)**			
Additions of property, plant and equipment and other assets		781	**763**			
Change in other non-cash investing working capital and non-current liabilities		(159)	**(81)**			
Purchase of property, plant and equipment and other assets, net		622	**682**			

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1 The Company's 2023 estimated capital expenditures include only expenditures for previously announced growth projects and exclude other potential new development projects.

2 Projected capital expenditures to be incurred over the life of the ongoing projects are based on management's estimates. Projected capital expenditures for development sites are not reflected beyond the current period until specific projects reach the advanced development stage.

3 Projected total costs include the 210 MW Genesee BESS to be constructed as part of the repowering project (see Decarbonization and growth, page 24). The BESS project is currently on hold while Capital Power explores alternate means of providing grid frequency support and AESO completes a review process that may result in an increase in MSSC beyond 466 MW.

4 It is highly probable that Capital Power will terminate the existing PPAs related to these projects due to industry wide cost pressures impacting the solar development work space. We have recorded a provision for the termination fees and anticipate re-bidding the projects into a future requests for proposal.

5 Projected total costs have increased from the previous amounts of $53 million for Strathmore Solar and $102 million for Clydesdale Solar due to supply chain pressures and significant increases in transportation costs.

6 Commercial initiatives include expected spending on various projects designed to either increase the capacity or efficiency of their respective facilities or to reduce emissions.

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

Liquidity and capital resources

Financing activities

Cash flows used in financing activities were lower in the year ended December 31, 2022 mainly due to:

- higher cash inflows from the Company's Subordinated Notes (see Significant events, page 62) issued during the third quarter of 2022 compared to the private placement issued in the fourth quarter of 2021;
- lower net repayments of loans and borrowings in the current year due to the repayment of U.S dollar bank loans in the second quarter of 2021; and
- lower redemption value of the Company's Series 9 Shares (see Significant events, page 62) compared to the redemption of the Company's Series 7 Shares in 2021.

This was partially offset by common and preferred share dividends paid in 2022. Common share dividends paid in 2022 were higher as the Company's Dividend Reinvestment Plan was suspended in the fourth quarter of 2021 and the issuance of common shares in the prior year.

Capital Power's credit facilities consisted of:

		At December 31, 2022			At December 31, 2021		
(unaudited, $ millions)	Maturity timing	**Total facilities**	**Credit facility utilization**	**Available**	Total facilities	Credit facility utilization	Available
Committed credit facilities	2027	**1,000**			1,000		
Letters of credit outstanding			**91**			30	
Bankers' acceptances outstanding			**59**			–	
Bank loans outstanding[1]			**281**			241	
		1,000	**431**	**569**	1,000	271	729
Bilateral demand credit facilities	N/A	**1,397**			773		
Letters of credit outstanding			**1,171**			465	
		1,397	**1,171**	**226**	773	465	308
Demand credit facilities	N/A	**25**	**–**	**25**	25	–	25
		2,422	**1,602**	**820**	1,798	736	1,062

[1] U.S. dollar denominated bank loans outstanding totaling US$207 million (December 31, 2021 – US$191 million).

At December 31, 2022, the committed credit facility utilization increased $160 million compared with the utilization at December 31, 2021 due to increased letters of credit and U.S. dollar bank loans outstanding most notably driven by the acquisition of Midland Cogen, the redemption of Series 9 Shares, partially offset by the issuance of Subordinated Notes in the third quarter of 2022 (see Significant events, page 62) and general corporate purposes. The available credit facilities provide adequate funding for ongoing development projects. During the third quarter of 2022, the $1 billion of committed credit facilities were extended 1 year to mature in July 2027.

Capital Power has a corporate credit rating of BBB- with a stable outlook from Standard & Poor's (S&P) which was affirmed in their latest report, published in April 2022. The BBB rating category assigned by S&P is the fourth highest rating of S&P's ten rating categories for long-term debt obligations. According to S&P, a BBB corporate credit rating exhibits adequate capacity to meet financial commitments, however, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Capital Power has a corporate credit rating of BBB (low) with a stable trend from DBRS Limited (DBRS), which was affirmed in their latest report, published in April 2022. The BBB rating category assigned by DBRS is the fourth highest rating of DBRS's ten rating categories for long-term debt obligations. According to DBRS, long-term debt rated BBB is of adequate credit quality and the capacity of the payment of financial obligations is considered acceptable but the entity is vulnerable to future events.

The above credit ratings from S&P and DBRS are investment grade credit ratings which enhance Capital Power's ability to re-finance existing debt as it matures and to access cost competitive capital for future growth.

Liquidity and capital resources

Capital Power's loan and credit agreements require certain financial covenants as described below:

Financial covenant	Required at the end of each fiscal quarter	Actual at December 31, 2022
Modified consolidated net tangible assets to consolidated net tangible assets ratio[1]	Not less than 0.75 to 1.0	**0.96**
Consolidated senior debt to consolidated capitalization ratio[1]	Not more than 0.65 to 1.0	**0.56**
Consolidated EBITDA to consolidated interest expense[1, 2]	Not less than 2.5 to 1.0	**8.73**

1 As defined in the relevant agreements.

2 Only in the event that Capital Power is assigned a rating of less than BBB- by S&P and less than BBB (low) by DBRS.

Future cash requirements

The following estimates of future cash requirements are subject to variable factors including those discussed in Forward-looking information. Capital Power's expected cash requirements for 2023 include:

(unaudited, $ millions)	2023 expected cash requirements
Repayment of debt payable[1]	73
Interest on loans and borrowings	159
Capital expenditures – sustaining	138
Capital expenditures – ongoing growth projects[2]	443
Capital expenditures – commercial initiatives	9
Common share dividends[3]	275
Preferred share dividends	31

1 Excludes repayment of credit facilities.

2 Includes repayments of deferred capital expenditures on the Genesee 1 and 2 repowering project.

3 Includes 6% annual dividend growth, subject to approval by the Board of Directors of Capital Power.

Capital Power uses a short-form base shelf prospectus to provide it with the ability, market conditions permitting, to obtain new debt and equity capital when required. Under the short-form base shelf prospectus, Capital Power may issue an unlimited number of common shares, preferred shares, subscription receipts exchangeable for common shares and/or other securities of Capital Power and/or debt securities, including up to $2 billion of medium-term notes by way of a prospectus supplement. This prospectus expires in July 2024.

If the Canadian and U.S. financial markets become unstable, Capital Power's ability to raise new capital, to meet our financial requirements, and to refinance indebtedness under existing credit facilities and debt agreements may be adversely affected. Capital Power has credit exposure relating to various agreements, particularly with respect to our PPA, energy supply contract, trading and supplier counterparties. While Capital Power continues to monitor our exposure to significant counterparties, there can be no assurance that all counterparties will be able to meet their commitments. See Risks and risk management page 84 for additional discussion on recent developments pertaining to these risks and Capital Power's risk mitigation strategies.

Off-statement of financial position arrangements

At December 31, 2022, Capital Power has $1,262 million of outstanding letters of credit for collateral support for trading operations, conditions of certain service agreements and to satisfy legislated reclamation requirements. If Capital Power were to terminate these off-statement of financial position arrangements, the penalties or obligations would not have a material impact on our financial condition, results of operations, liquidity, capital expenditures or resources.

Liquidity and capital resources

Capital resources

(unaudited, $ millions)	At December 31 2022	2021
Loans and borrowings	**3,726**	3,360
Lease liabilities[1]	**153**	143
Less cash and cash equivalents	**(307)**	(387)
Net debt	**3,572**	3,116
Share capital	**3,498**	3,631
Deficit and other reserves	**(1,044)**	(790)
Non-controlling interests	**6**	18
Total equity	**2,460**	2,859
Total capital	**6,032**	5,975

1 Includes the current portion presented within deferred revenue and other liabilities.

Contractual obligations, contingent liabilities, other legal matters and provisions

Based on available credit facilities (see Liquidity and capital resources, page 78), access to capital markets and expectations for future periods' financial results, Capital Power has adequate liquidity to meet our contractual obligations as follows:

	Payments due by period						
(unaudited, $ millions)	2023	2024	2025	2026	2027	Thereafter	Total
Loans and borrowings[1]	73	528	83	636	432	1,677	3,429
Interest on loans and borrowings	159	156	137	124	92	310	978
Trade and other payables[2]	1,215	–	–	–	–	–	1,215
Lease liabilities	16	16	25	14	13	201	285
Capital – growth projects[3]	414	489	40	40	70	–	1,053
Capital – commercial initiatives[4]	9	4	–	–	–	–	13
Decommissioning provisions[5]	78	4	9	–	–	504	595
Energy purchase and transportation contracts[6]	427	289	250	195	134	286	1,581
Operating and maintenance contracts	69	66	88	72	60	323	678
Environmental credits[7]	74	14	27	35	–	–	150
Commodity and other derivative liabilities net of financial assets	674	64	64	58	46	275	1,181
Total	3,208	1,630	723	1,174	847	3,576	11,158

1 Repayments of loans and borrowings exclude fair value differentials of $12 million related to debt assumed on previous asset acquisitions and $317 million related to repayments of tax-equity financing through non-cash tax-equity attributes.

2 Excluding accrued interest on loans and borrowings of $34 million.

3 Capital Power's obligations for capital – growth projects in future periods include the repowering of Genesee 1 and 2 with battery storage, and the various renewables projects listed in the Liquidity and capital resources section over the construction periods of those projects, as well as expected spend on other development sites and projects in 2023. These obligations exclude interest to fund construction of $56 million and refundable transmission system contribution payments.

4 Capital Power's obligations for capital – commercial initiatives in future periods include various projects designed to either increase the capacity or efficiency of their respective facilities or to reduce emissions.

5 Capital Power's decommissioning provisions reflect the undiscounted cash flows required to settle obligations for the retirement of its generation facilities and the Genesee Mine.

6 Energy purchase and transportation contracts include natural gas transportation contracts which are based on estimates that are subject to changes in regulated rates for transportation and natural gas purchase contracts. The estimates for natural gas purchase contracts are subject to changes in expected consumption levels and have expiry terms ranging from 2023 to 2037.

7 Future environmental credit purchases are presented net of future environmental credits sales.

Contractual obligations, contingent liabilities, other legal matters and provisions

Contingent liabilities

Capital Power and our subsidiaries are subject to various legal claims that arise in the normal course of business. Management believes that the aggregate contingent liability arising from these claims is immaterial and therefore no provision has been made.

Other legal matters

From 2017 through 2022, the Government of Alberta (GoA) withheld approximately $2.7 million per year from the Company's annual off-coal payment, on the basis of an alleged "implied term" of the Off-Coal Agreement. Capital Power believes there was no such implied term and has therefore sued the GoA for recovery of the withheld amount and specific performance for future payments.

In addition, the GoA amended its Linear Property Assessment Guidelines (the Guidelines) in 2017 to eliminate the anticipated cessation of coal emissions (and related business closures) from being considered in property tax assessments, which erroneously suggests that the off-coal payments were intended to compensate the Company for non-net book value related costs. In response, Capital Power and TransAlta jointly commenced litigation on the basis that the Guidelines discriminatorily applied only to three coal generators. The Court of King's Bench issued a decision on January 15, 2021 rejecting all of Capital Power and TransAlta's arguments and the Alberta Court of Appeal issued a decision on November 23, 2022 unanimously rejecting the joint appeal that was submitted. Capital Power has decided to not pursue leave to appeal to the Supreme Court of Canada (SCC). If TransAlta is granted leave to the SCC, Capital Power will remain a named appellant only for the purposes of the hearing.

Following the severe weather events during the February 9 to 20, 2021 period, Capital Power 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 contested the settlement, arguing a different reference price. Historically, these two prices have been similar, but diverged during scarcity events such as the February 2021 extreme weather. The two parties engaged in litigation in the U.S. District Court for the Northern District of Texas. The parties reached a confidential settlement in the fourth quarter of 2022 and the litigation has been dismissed.

Line Loss Rule Proceeding

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. 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. 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. On May 31, 2022, an Alberta Government bill was passed with the intent to dissolve the Balancing Pool. Capital Power continues to expect that it will ultimately realize the full amount of the gross receivables related to line losses upon resolution of the dispute before the Court whether it be from the Balancing Pool or the designated entity assuming its residual responsibilities as will be identified in forthcoming amendments to provincial regulation enacting the dissolution.

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.

Risks and risk management

Events within and outside of Capital Power bring both risk and opportunity and effective risk management is a critical factor in protecting shareholder value. The principles of risk management are embedded into all aspects of our operations to ensure risks are effectively managed across the organization. We view risk management as an ongoing process and continually look for ways to enhance our risk management programs and procedures.

Capital Power maintains strong risk governance and oversight practices with the Board of Directors and its committees' terms of reference outline risk oversight responsibilities. Our Board is responsible for understanding Capital Power's principal risks and determining whether the Company achieves a proper balance between risk and returns and that Management ensures that systems are in place to address the risks identified. The Company employs an ERM program to support the Board's governance requirements and the Company's overall risk monitoring and management.

Capital Power's ERM Program aligns with the Committee of Sponsoring Organizations' standard for enterprise risk management and is supported by our ERM policy framework. The ERM program is the mechanism used to identify, assess, categorize, respond to, report on, and monitor key risks. Risks are assigned to individual executive risk owners who are accountable for carrying out the risk management and response strategies, with the President and CEO having ultimate accountability for managing the Company's risks.

Our ERM program uses a systematic approach to perform risk assessments with subject matter experts across Capital Power, which are incorporated in two key annual corporate processes: (1) strategic and long-term planning and (2) operational planning and budgeting. A comprehensive analysis of the risk assessments performed during these two key corporate processes are reported to Capital Power's Board of Directors with material updates to risks as required. Results of the risk assessments are also shared with Capital Power's Internal Audit team to inform the annual risk-based internal audit plan. This audit plan seeks to provide Capital Power's Board of Directors and Management with independent assurance that key risks are being effectively managed and that the systems of internal controls are properly designed and working effectively.

In addition to the ERM program, Capital Power has risk management and compliance functions across the organization, including in the Finance, Legal, Operations and Planning departments.

Capital Power's principal risk factors could have an adverse impact on the Company's business operations and results, financial condition and strategy, ability to execute our growth strategy, or reputation. Capital Power's principal risk factors and the associated risk mitigation strategies are described below.

Climate change

Capital Power has prepared an assessment of climate-related risks and opportunities to conform with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). This involved assessing the risks and opportunities that may arise under different climate scenarios, including a more stringent policy pathway that maintains global warming below 2 degrees Celsius and achieves net zero by 2045. The resilience of our strategy was assessed under the various scenarios, and our responses to the risks and opportunities are included in our disclosures. This document can be accessed on the Company's website.

Climate change risk discussion is incorporated across this and other subsections of this Risks and risk management section including power price, fuel supply and price, supply chain, growth execution, political, regulatory, business resilience, disruptive technology, people, operation and maintenance of equipment, stakeholder activism, and reputation risks.

Climate change will continue to be a primary theme driving the industry in which Capital Power operates for the foreseeable future. Capital Power's portfolio of assets includes a diversity of fuel types, including thermal facilities in Canada and the U.S. Decarbonization trends therefore create risks, particularly around carbon price and policy which may result in higher compliance obligations and reduced margins for our thermal fleet. Carbon pricing is a central mechanism of climate policy in Canada, compared to the U.S. where it has been adopted in certain states and regions and will be priced in more indirectly or otherwise addressed through clean air regulation for the foreseeable future.

In addition to risk, decarbonization trends also create a significant opportunity for power generation, and Capital Power has initiated work to directly integrate these opportunities into Capital Power's annual business strategy and long-term planning process. The Company continues to monitor these trends and assess the resilience of our strategy in the short, medium, and long term under various scenarios.

Strategies employed for managing climate change risk:

- Technology focus of wind, solar and natural gas with the integration of energy storage and the advancement of decarbonization technologies.
- Monitoring physical emissions reductions from our facilities through carbon capture, utilization, and storage (CCUS) and hydrogen blending, and across our portfolio through direct air capture.
- Advancing our decarbonization efforts through the repowering of Genesee 1 and 2 including the addition of battery storage, our Genesee Performance Standard (GPS) program, natural gas conversion of Genesee 3, developing our pipeline of renewables opportunities, and advancing our proposed Genesee Carbon Conversion Centre and Genesee CCS projects.

Risks and risk management

- Regular engagement with government bodies to participate in the development of carbon and other environmental policy.
- Compliance cost management via an active presence in environmental commodity markets.
- Proactive pursuit of opportunities to enhance fleet reliability and efficiency through our ongoing Ops 2030 initiative and GPS program which concluded in 2022.
- Fleet-wide study to understand the potential effects of extreme weather will continue through 2023, reviewing each facilities preparedness along with a proactive pursuit of opportunities to harden our assets.
- Due diligence for all development projects, acquisitions and commercial decisions, considering technology selection, jurisdiction, siting, environmental risks and scenarios and sensitivity analysis for carbon price and policy.
- Actively monitoring the insurance market for material changes to insurance policies that may affect the Company's ability to seek coverage for high-risk assets.

Power price

Capital Power is impacted by the market price for power in the jurisdictions and markets where the Company has un-contracted generation exposure, with the largest exposure being in the Alberta power market. Market power prices are dependent on a number of factors, including electricity supply and demand, the Company's cost to generate electricity, which could include the cost of natural gas and applicable environmental and regulatory compliance costs, competitors' bidding strategies, power market structures, and weather conditions to name a few. It is not possible to predict future power prices with certainty, and power price volatility could have a material effect on Capital Power.

Capital Power manages price risk by using derivative instruments, including futures, forwards, options, and swaps, to manage its commodity price and financial market risks inherent in its electricity generation operations. These activities, although primarily intended to mitigate earnings volatility, expose Capital Power to other risks. For example, selling forward may result in losses if the assets from which that power is sold forward are unexpectedly unavailable. In addition, Capital Power enters commodity contracts to generate trading revenue, which can result in financial gains or losses. In the future, Capital Power could recognize financial losses on these contracts because of: i) volatility in the market values of the underlying commodity; or ii) entering into heat rate call options, power purchase agreements or tolling arrangements on thermal assets where the counterparty has the right to call power in exchange for fixed monthly premiums plus reimbursements for the fuel at an indexed price, variable operating and maintenance expenses and start charges. Asset unavailability can affect the long-term contracts in various ways. Generally, the contracts provide provisions for long-term outages and force majeure events.

Capital Power is also exposed to node-to-hub basis risk at many of its U.S. 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. This risk can be exacerbated by events such as transmission congestion and extreme weather.

Strategies employed for managing power price risk:

- Strong governance and oversight. Examples include:
  - Risk Oversight Council (consisting of senior management representatives appointed by the President and CEO) which establishes the structure, conduct and control of Capital Power's commodity exposure management program, both in physical and financial derivatives markets.
  - Maintain a commodity risk management program which provides the infrastructure to manage commodity and trading risks associated with the commodity business.
  - Take market risk positions within authorized limits approved by Capital Power's Executive Team and Board of Directors. The Company operates under specific policy limits, such as total commodity risk and stop-loss limits, and generally trades in electricity to reduce the Company's exposure to changes in electricity prices or to match physical or financial obligations.
  - The Executive Team has access to daily risk reports which provide key risk measures in relation to applicable limits and quarterly risk reports are reviewed by Capital Power's Audit Committee.
- Execute the Company's growth strategy and re-contract generation facilities under new or extended contracts to maintain a balance of contracted and non-contracted facilities.
- Invest in operational efficiencies to maintain the competitiveness of the Company's assets in the supply stack.
- Limit exposure to market price volatility by entering long-term power contracts. Examples include contracts-for-differences, back-to-back physical and financial contracts to lock in a margin, and long-term fixed price contracts with investment grade customers.
- Perform regular commodity portfolio stress testing to observe the effects of plausible scenarios considering historical price movements and certain hypothetical extreme events.

Risks and risk management

- Proactively forecast exposure to extreme price fluctuations, especially during higher-priced peak-hour periods. To do this, Capital Power relies on proprietary forecasting models that use historical load shape data provided by load settlement agents and local distribution companies.
- Continually evolving the sophistication of our risk management program and our strong expertise in the jurisdictions in which we operate.

Fuel supply and price

Capital Power requires energy from sources such as natural gas, coal, wind, and the sun to generate electricity. A disruption in the supply, a significant increase in the price of supply or the availability of these sources could have a material adverse strategic and financial impact on Capital Power.

The price of natural gas depends on supply and demand fundamentals for natural gas across North America and globally.

Within Alberta, Capital Power uses both physical products and derivative instruments to manage its natural gas price risk and for merchant trading activities. Capital Power could realize financial losses on these derivative instruments because of volatility in the market values of the underlying commodities and potential mismatch between purchased gas and gas required to be consumed at power plants. Forward buying may result in losses if the assets for which that gas is bought are unexpectedly unavailable.

Capital Power's natural gas-fired facilities outside of Alberta are also susceptible to the risks associated with the volatility of natural gas prices. Natural gas purchases for these facilities are made under variable price contracts and when a facility's heat rate (a measure of fuel efficiency) does not meet expectations, unit profitability is affected. Our risk exposure to variable natural gas pricing for Decatur Energy, Midland Cogen, East Windsor, Goreway, Island Generation, and York Energy is substantially or fully mitigated by their long-term PPAs. Arlington Valley's risk exposure to variable natural gas pricing is mitigated in the non-summer months under a heat rate call option, and in the summer months of June through September via its tolling agreement.

Capital Power depends on pipeline infrastructure owned and operated by external parties to deliver natural gas to its natural gas facilities. If the infrastructure is inadequate to supply natural gas, there may be a material adverse effect on Capital Power's ability to produce power from those facilities. Capital Power procures firm transportation agreements with pipeline companies to ensure the delivery of natural gas and has insurance coverage to mitigate, but not eliminate, this risk.

Capital Power plans to be completely off coal in 2023 through the repowering of Genesee 1 and 2 and the natural gas conversion of Genesee 3. The Company's exposure to coal will be eliminated in subsequent years. For 2023, coal for the Genesee units is supplied under long-term agreements where the price is based on a cost-of-service model with annual updates for inflation, interest rate, expected mined tonnage, and capital budget parameters and is therefore not subject to coal market price volatility. A shortage of coal supply resulting from significant disruption of the coal mine equipment and operation could negatively impact generation and revenues from these plants. Coal price also depends on the costs of complying with applicable environmental and regulatory requirements.

Capital Power's wind and solar power facilities are dependent on the availability and constancy of sufficient wind and solar resources to meet projected capacity factors or production target requirements in tax-equity financing arrangements. Fluctuations in wind speed, direction or duration, as well as hours of sunlight could have a material negative impact on revenues and cash allocations for these facilities in any year.

Strategies employed for managing fuel supply and price risk:

- The strategies described in power price risk above, such as the Risk Oversight Council, commodity risk management program, corporate governance over market positions and key risk measures and commodity portfolio stress testing also apply to fuel supply and price risk related to natural gas.
- Fuel-type diversification across our fleet.
- Establish long-term natural gas transportation agreements and storage capabilities, where available.
- Maintain coal stockpile inventories.
- Establish contracts with fuel cost, including carbon cost, flow-through provisions, where possible.
- Limit exposure to market price volatility by entering long-term natural gas hedges. Examples include contracts-for-differences, and back-to-back physical and financial contracts to lock in a margin.
- Actively participate on the Genesee Mine Joint Venture Committee and exercise contractual rights as required.
- Manage compliance costs via an active presence in environmental commodity markets.
- Ongoing asset optimization initiatives targeting efficiency and performance improvements.
- Thorough due diligence on wind and solar data prior to development or acquisition of facilities.
- Keep apprised of new technology that may increase generation by capturing more wind or sun.

Risks and risk management

Growth execution

While assessing development and acquisition opportunities, Capital Power may be required to incur significant expenditures, such as those related to preliminary engineering, permitting, legal and other expenses, before determining whether a project is feasible and economically viable. Competition on acquisition and development opportunities is significant, and there can be no assurance that Capital Power will pursue or win any opportunity assessed.

The risks associated with acquisitions of additional companies or assets in the power generation industry include the failure to identify material problems during due diligence, the overpayment for assets and the inability to arrange financing for an acquisition. Further, the integration and consolidation of acquisitions requires substantial human, financial and other resources. There can be no assurances that any future acquisitions will perform as expected or that the returns from such acquisitions will cover the cost of financing incurred to acquire them or the capital expenditures needed to develop them.

Capital Power must complete numerous tasks in developing and constructing a power generation facility. Tasks include obtaining government permits and approvals, site agreements, construction contracts, access to power grids, access from landowners, electrical transmission agreements, fuel supply and transportation agreements, equipment, and financing. There can be no assurance that Capital Power will be successful in completing such tasks on a timely basis or at all. The development and future operation of power generation facilities can be adversely affected by changes in government policy and regulation, environmental concerns, stakeholder activism, inflation, increases in capital costs, shipping delays, increases in interest rates, competition in the industry, labour and parts availability, labour disputes, increases in material costs, our ability to secure off-take agreements and other matters beyond the control of Capital Power. If a project is not completed or does not operate at anticipated performance levels, Capital Power may not be able to recover its investment.

Strategies employed for managing growth execution risk:

- Strong governance and oversight. Examples include:
  - Business development commercial opportunities are pursued in consultation with our Board of Directors and in accordance with the Company's corporate long-term plan and corporate strategy.
  - Internal policy in place to govern the process for how Capital Power develops business opportunities from the initial phase through to the integration of an asset into the Company. This process provides a framework for accountability and helps identify and mitigate risks associated with major projects.
  - Strong project management.
- Perform detailed project analyses, risk assessments and due diligence, including exploring opportunities to add operational value, prior to and during construction or acquisition.
- Hurdle rates are reviewed annually, at minimum.
- Perform post-implementation evaluation of all major projects to improve internal capabilities and processes and to leverage lessons learned for future projects. When necessary, corrective actions are taken to increase the likelihood of investment recovery.
- Establishing a development pipeline in target areas.
- Enter favourable long-term contracts for the projects' output, minimizing the time between commercial operation dates and contract signing, whenever possible.
- Establish and maintain constructive relationships with suppliers and stakeholders, including collaborative contracting for construction projects.

Supply chain

In the course of its day-to-day operations and in the construction of development projects, Capital Power procures goods and services from a range of suppliers with a local to international scope. Some of the goods procured are specialized parts used to operate our facilities and have naturally long lead times. 2022 saw the world's economies start up and begin to recover to pre-pandemic levels while production facilities struggled to clear backlogs. This has resulted in a shifting supply chain landscape where availability and extended lead times have become the normal course of business. Disruption, inflation, or price volatility within Capital Power's supply chain could delay construction of development projects, require significant additional expenditures, and/or disrupt operations. In addition, unsustainable practices within Capital Power's supply chain could put the long-term resilience of our supply chain at risk and have reputational impacts to the Company.

Risks and risk management

Strategies employed for managing supply chain risk:

See Operation and maintenance of equipment risk page 92 for strategies employed that also apply to managing the Company's supply chain exposure to specialized parts in the operation of its facilities.

- Maintain an inventory of critical spares.
- Project planning and key part orders being placed earlier to account for availability shortages.
- Establish and maintain constructive relationships with key suppliers.
- Maintain multiple sources for a good or service wherever possible.
- Having a Sustainable sourcing strategy. Key aspects include:
  - Sourcing from a diverse set of suppliers including local and indigenous sources where practical, which can reduce transportation costs and require less lead-time as well as improve the economic well-being in the communities we operate and where our employees live.
  - Establishing minimum standards related to human rights and environmental considerations, which can mitigate reputation risks and prioritize sustainable practices to ensure long-term supply chain resilience.
  - Verifying that prospective suppliers comply with sustainable best practices.
- Entering purchase commitments to lock in prices.
- Internal policy that requires Board reapproval for cost overruns exceeding a certain threshold.

Political

Capital Power is subject to risk associated with changing political conditions and with changes in federal, provincial, state, or local laws and regulations or common law and their interpretation by relevant authorities. In 2022, the Canadian federal government announced the new Clean Electricity Standard (CES) with goals of having the electricity sector achieve net-zero emissions of greenhouse gases by 2035. These ambitious targets could present opportunities for Capital Power's decarbonization efforts as we grow our renewables portfolio and advance on CCUS, hydrogen blending, and direct air capture technologies. Alternatively, more stringent policies and regulations over air emissions and water usage could have a negative financial impact on our thermal generating facilities. Capital Power operates in multiple jurisdictions with each governmental body (federal, provincial, and state) developing their own net-zero frameworks, of which, many have not aligned on timing nor method. With the mid-term elections in the United States in 2022 and Alberta provincial election in 2023, it is not possible to predict the speed or magnitude of changes in political sentiment and their resulting impact on the Company's business and operations.

Strategies employed for managing political risk:

- Predict and identify existing, new or changed laws or regulations, or changed interpretations of such, and prepare and advocate appropriate responses or plans.
- Support the timely development of appropriate transmission capability through active relationships with all levels of government.
- Participation in relevant associations developing electricity markets.
- Include change-in-law provisions in material contracts where possible.
- Maintain a mix of technologies and geographies across our fleet.

Regulatory

Capital Power is required to maintain numerous licenses, permits and governmental approvals for the development, construction and operation of its projects and participation in its markets. If Capital Power fails to satisfy the conditions of these instruments, there could be an adverse impact on the effectiveness and cost of those projects or operations, absent the incorporation of CCUS and direct air capture technologies.

Capital Power's thermal assets consume water to generate electricity and are emitters of various air pollutants in addition to carbon, including NO_x, SO_2, mercury, and particulate matter. Accordingly, Capital Power's operations are subject to extensive environmental laws, regulations and guidelines relating to the generation and transmission of electricity, pollution and protection of the environment, extreme weather, health and safety, air emissions, water usage, wastewater discharges, hazardous material handling and storage, treatment and disposal of waste and other materials, remediation of sites, land-use responsibility, and ISO market rules.

These regulations can impose a liability for costs to investigate or remediate contamination. Compliance with new regulatory requirements may require Capital Power to incur significant capital expenditures, additional operating expenses or cause operations at certain facilities to end prior to the end of their economic life; failure to comply with such regulations could result in fines, penalties or the curtailment of operations. Further, there can be no assurance that compliance with or changes to environmental regulations will not materially adversely impact Capital Power's business prospects, financial condition, or operations.

Risks and risk management

The Company is subject to requirements around minimizing the impact to wildlife at its wind facilities. Capital Power complies with all regulatory requirements which include completing pre-disturbance bird and bat studies and post-construction bird and bat monitoring programs. We could see a financial impact on our wind facilities, in certain jurisdictions, should they be curtailed to prevent wildlife loss or if more stringent policies and regulations are in place to protect wildlife.

The operations of the Company's wind assets are also required to follow appropriate sound level regulations and could be exposed to facility curtailment in the event of non-compliance. Capital Power complies with all applicable regulations, including completing applicable noise impact assessments.

Capital Power's ability to develop new projects is also affected by the availability of transmission and distribution systems. If restrictive transmission price regulation is imposed, transmission companies may not have sufficient incentive to invest in expansion of the transmission infrastructure. In addition, the Alberta power market has several existing transmission connections to neighbouring external markets. Any material expansion of those existing interconnections, or the creation of new interconnections could have a material adverse impact on Capital Power's business in Alberta. Capital Power cannot predict whether transmission facilities will be expanded in specific markets to accommodate competitive access to those markets.

See Regulatory matters page 96 for further discussion of current regulatory items.

Strategies employed for managing regulatory risk:

- Predict and identify existing, new or changed laws or regulations, or changed interpretations of such, and prepare and advocate appropriate responses or plans.
- Comply with all applicable laws, regulations and guidelines and monitor compliance.
- Perform environmental compliance audits and take corrective actions as necessary.
- Establish constructive relationships with relevant levels of government, agencies and stakeholders.
- Participate in all relevant consultation processes. Execute on-time permitting, license renewals and other activities associated with laws and regulations.
- Proactively identify environmental risks within operations, maintenance and construction activities and promote awareness throughout and at all levels of the Company.
- Water management plan enhanced in 2021, with progressive implementation planned over three years.
- Ensure that contractors align with Capital Power's environmental policies and procedures.
- Support the timely development of appropriate transmission capability through active relationships with regulators.
- Work with third parties to develop technologies to deter wildlife at wind facilities.
- Management actively monitors emission abatement technologies and assesses opportunities to expand the Company's portfolio of technologies that may have direct application in reducing emissions in natural gas generating assets.
- Maintain a mix of technologies and geographies across our fleet.

Business resilience

Capital Power's ability to maintain safe and reliable operations can be disrupted by extreme events such as pandemics, natural disasters, extreme weather conditions, physical terrorist attacks and major accidents or events including environmental incidents. Climate change could cause an increase in the frequency and severity of extreme weather events, which could adversely impact Capital Power's current and future assets. If the Company is unable to quickly adapt to such disruptions, our people, assets, reputation, and business operations could be at risk.

Strategies employed for managing business resilience risk:

- Establish and maintain emergency and other related contingency planning measures to enable the timely response to and recovery from extreme weather and other events.
- Monitoring of conditions in our various jurisdictions and the collective experience of managing through the pandemic to maintain workplace safety through remote work capabilities.
- Regular assessment of our facilities for physical risks, including impacts resulting from extreme weather or other climate-change risks and, where beneficial, undertake physical changes at our facilities to mitigate those risks.
- Regular communication with external governmental and industry groups to share threat intelligence, trend analysis, and best practices.
- Annual testing of plans through tabletop exercises and participation in large scale, multi-industry exercises.
- Establish and maintain a physical security management program that is based on industry guidelines and best practices.
- Periodic internal audits of our facilities to ensure that physical security measures are aligned with the Company's risk profile.
- Maintain appropriate insurance coverage.
- Maintain fuel-type and geographic diversity.

Risks and risk management

Disruptive technology

Evolving technologies in the power industry may impact the competitiveness of Capital Power's fleet and the success of our strategy (see Strategy and targets, page 13). Technological advancement may improve the competitiveness of alternative power technologies over time, resulting in their expanded deployment across power markets. Capital Power's facilities may face increased competition as these technologies are increasingly relied on to supply power and ancillary services in the markets we operate.

Climate change will drive significant innovation and transformation of the power sector, including energy production and consumption. Capital Power's focus on sustainability is a key component in ensuring that the Company's business model remains flexible and resilient as technology evolves.

Strategies employed for managing disruptive technology risk:

- Capital Power's Management and Board of Directors evaluate the Company's strategy on an ongoing basis, including anticipating disruptive technologies that may create risks to or complement the Company's strategy.
- Management monitors emerging technologies with regular assessments and evaluations of economics of competing technologies.
- Management actively monitors emission abatement technologies and assesses opportunities to expand the Company's portfolio of technologies that may have direct application in reducing emissions from natural gas generating assets.
- Management continuously evaluates opportunities to enhance competitiveness of existing assets through optimization and efficiency initiatives.

Cyber-security and systems

Capital Power's ability to carry out its normal business processes is dependent on the performance and security of the key information and operational technology systems that support its core operations. Cyber attacks on the Company or through our supply chain continue to be a risk and could result in the loss or misuse of sensitive information or damage to physical assets and have significant adverse impacts on the Company's operations. Failure of any key information or operational technology systems, during or after implementation, could result in significant lost revenues, increased costs or regulatory fines, and reputational damage.

Capital Power maintains a flexible work arrangement incorporating a hybrid model of working from home and in the office for non-plant staff. Having a hybrid workforce increases the number of access points thereby increasing the possibility of certain cyber threats, such as increased malicious network traffic and physical vulnerabilities. Capital Power continues to evolve the security of our systems, both physical and virtual, through measures such as secure remote access with multifactor authentication, remote patching and deployment of malware updates and a rigorous cyber-security training and awareness program.

Strategies employed for managing cyber-security and systems risk:

- The Cyber Security Leadership Council, comprised of senior leaders from various areas of the Company, meets regularly to monitor the effectiveness of the strategies above and to address new and evolving risks.
- Disaster recovery and backup plans to ensure critical systems and processes can be recovered in the event of a cyber attack.
- Automated and Artificial Intelligence backed monitoring of the Company's information and operational technology systems, logs, and security events.
- Regular communication with external governmental and industry groups to share threat intelligence, trend analysis, and best practices.
- Periodic external audits of the effectiveness of the Company's information and operational technology security systems and regular penetration tests.
- System safeguards to combat the ever-increasing sophistication in phishing attacks.
- Ongoing end user cyber-security training and awareness program.
- Compliance with North American Electric Reliability Corporation (NERC) Critical Infrastructure Protection standards, based on each respective asset's categorization and the applicable regulatory region's requirements.
- Minimize the customization of commercial software, monitor impacts on processes and internal controls and undertake remedial actions, if required.
- Ensure implementation projects are properly resourced with qualified and trained staff and contractors.
- Employ change management to ensure all enhancements are fully tested and approved, prior to production deployment.
- Regular internal and external tabletop/simulated exercises.
- Supply Chain Cyber Risk Mitigation Plan was fully implemented in 2022.

Risks and risk management

People

People are at the heart of our business and the Company places a strategic focus on attracting the right people and creating an experience where they remain engaged, motivated, and empowered. Capital Power's ability to maintain reliable operations of its facilities and to grow the business is dependent upon this and the ability of our workforce to function normally and remain healthy, both physically and mentally.

Capital Power is experiencing a demographic shift as a significant number of its employees are expected to retire over the next several years. Failure to secure sufficient qualified labour may negatively impact Capital Power's operations or construction and development projects or may increase expenses.

Capital Power's current collective bargaining agreements expire periodically. Although not a common occurrence in Capital Power's history, the renegotiation of the collective agreements bears the risk of labour disruption or significant increases in labour costs. Collective bargaining agreements expiring in the near-term or currently being negotiated include:

The Company's collective agreement with UNIFOR 829, which represents power engineers located at the Genesee power plant, expired December, 2022. All existing terms, conditions and wage rates in the expired collective agreement will continue in force and effect until a new collective agreement is reached. Negotiations related to a new collective agreement commenced in the fourth quarter of 2022 and are ongoing.

The Company's collective agreement with IBEW 1007, which represents employees directly engaged in the maintenance of electrical generation at the Genesee power plant, expires December, 2023.

PWU CUPE 1000 successfully organized workers at Goreway in December 2022 where the certification covers all hourly workers at Goreway including operations and maintenance staff. The collective agreement is currently in bargaining.

Strategies employed for managing people risk:

- Maintain strong people services programs and practices including flexible work arrangements, multi-faceted wellness programs, appropriate ethics and employee conduct policies and programs.
- Equity, diversity and inclusion strategy to ensure we are meeting the unique needs of our employees.
- Track employee engagement.
- Workforce and contingency planning.
- Maintain competitive compensation programs.
- Maintain succession plans for key positions.
- Maintain strong collective bargaining capability, programs, and practices.
- Career development plans and opportunities and talent management programs available to all employees.

The development, construction, ownership and operation of Capital Power's generation assets carry an inherent risk of liability related to public health, and worker health and safety due to exposure to high voltage electricity, high pressure steam, moving and rotating machinery, heavy equipment, driving, environmental hazards, and extreme weather, which can be exacerbated by climate change.

Strategies employed for managing health and safety risk:

- Maintain an organization-wide health and safety culture and system with regular measurements and compliance audits.
- Maintain facility specific safety programs and work procedures.
- Maintain a robust, hybrid work environment granting employees the flexibility of working remotely to limit the potential for spreading illness through the workplace.
- Ensure that contractors and other stakeholders align with Capital Power's health and safety policies and procedures.

Capital Power strives to right size the resources required to operate and grow in its markets and minimize the cost of those resources. Failure to do so could negatively impact culture, growth and earnings and place the Company at a competitive disadvantage.

Strategies employed for managing cost optimization and efficiency risk:

- Set performance targets and measure and report results compared with those targets. Measure performance against benchmarks.
- Develop and undertake efficiency initiatives and programs.
- Support internal resources by utilizing retention programs and assessing employee engagement with appropriate communication and follow-up.

Risks and risk management

Operation and maintenance of equipment

Failure of generation equipment, transmission lines, pipelines or other equipment could impede the Company's ability to maintain reliable operations of its facilities. It is possible that staffing levels at our facilities in the future could be limited by the availability of healthy staff and required external service providers due to future pandemics. Global supply chain issues could also impact the timely availability of parts and equipment.

The inability of Capital Power's generation facilities to generate the expected amount of electricity to be sold under contract or to the applicable market could have a significant adverse impact on the Company's revenues. In addition, counterparties to PPAs have remedies available to them if Capital Power fails to operate facilities in accordance with contract requirements, including the recovery of damages and termination of contractual arrangements. To the extent that facility equipment requires significant capital and other operation and maintenance expenditures to maintain efficiency, requires longer than forecast downtimes for maintenance and repair, experiences outages due to equipment failure or suffers disruptions of power generation for other reasons, Capital Power's cost of generating electricity will increase and its revenues may be negatively affected. As an adopter of new technology, Capital Power can be exposed to design flaws or other issues, the impacts of which may not be covered by warranties or insurance. The failure of Capital Power's facilities to operate at required capacity levels may result in the facilities having their contracted capacity reduced and, in certain cases, Capital Power having to make payments on account of reduced capacity to power purchasers.

The terms of the PPAs for owned facilities provide appropriate incentives to facility owners to keep the facilities well maintained and operational. They also provide force majeure protection for high-impact, low-probability events including major equipment failure.

Many of Capital Power's generation facilities operate under PPAs or other similar contracts which are subject to a number of risks. PPA contracts contain performance benchmarks that must be achieved and other obligations that must be complied with by Capital Power. Capital Power may incur charges in the event of unplanned outages or variations from the contract performance benchmarks. PPAs expire at various times and there can be no assurance that a subsequent PPA will be available or, if available, that it will be on terms, or at prices that permit the operation of the facility on a profitable basis.

Capital Power depends on transmission facilities owned and operated by external parties to deliver the wholesale power from its power generation facilities to its customers. If transmission is disrupted or if the transmission capacity infrastructure is inadequate, there may be a material adverse effect on Capital Power's ability to sell and deliver wholesale power.

Strategies employed for managing operation and maintenance of equipment risk:

See Business resilience page 89 for certain strategies that also apply to managing operation and maintenance of equipment risk.

- Establish long-term service agreements with original equipment manufacturers (OEMs) on key assets including access to replacement components to limit down time in the event of a unit failure.
- Ensure constructive relationships with OEMs.
- Maintain an inventory of strategic spare parts which can reduce downtime in the event of failure.
- Execute appropriate operating and maintenance standards, procedures and programs to ensure high reliability and availability of our facilities.
- Employ a root cause analysis program to ensure that problems are properly identified and addressed and that learnings are shared across the fleet.
- Complete Integrated Site Assurance Team audits and loss control visits on a rotational basis across the fleet.
- Ensure operations and sustainment projects are properly resourced with qualified and trained staff and contractors.
- Establish and maintain appropriate business interruption, property, and boiler and machinery insurance to reduce the impact of prolonged outages caused by insured events.
- Thorough due diligence on the adequacy of transmission capacity infrastructure for acquisitions.

Risks and risk management

Stakeholder activism

Effective community engagement is an important element in the development, construction, and operation of Capital Power's facilities. Accordingly, progress in the Company's development, construction and operational activities could be impeded by stakeholder intervention and/or activism. Changes in law and regulatory requirements may also adversely impact the market dynamics for Capital Power, the participation levels of counterparties that Capital Power relies on to support its portfolio optimization strategies and the costs associated with participating in these markets.

Strategies employed for managing stakeholder activism risk:

- Engage with communities in an open, honest and straightforward manner with a focus on building and operating mutually beneficial facilities.
- Follow our internal standards that provide a framework for accountability and best practices for Capital Power's stakeholder engagement processes, which include emphasis on accurate data management and providing all parties with copies of documentation and sharing information transparently.
- Continuous learning and process improvements with debriefs after completing significant engagement processes to leverage lessons learned for future projects.
- Participate in all relevant stakeholder consultation processes.
- Build and maintain strong relationships in the communities we operate through regular and ongoing community engagement and investment.
- Identify and assess potential stakeholder concerns when screening growth opportunities.
- Implementing our Indigenous Relations strategy. Key aspects include:
  - Indigenous Culture and Awareness training;
  - Hiring a Community and Indigenous Engagement Manager; and
  - Initiating equity partnership discussions with Indigenous communities.

Finance

Capital Power's ability to fund current and future capital requirements, along with its working capital needs is dependent upon access to financial markets. Uncertainty and volatility in the Canadian and U.S. financial markets may adversely affect Capital Power's ability to access and arrange financing under favourable terms and conditions. Our cost of capital will also depend upon prevailing market conditions, and in the case of our sustainability-linked credit facilities, whether our annual targets for Scope 1 CO_2 emissions intensity levels are met. Our ability to access capital will also depend upon the Company's business and ESG performance as indicated by the assigned corporate credit and ESG ratings. See Liquidity and capital resources page 78.

The ongoing volatility in financial markets driven by inflation and a rising interest rate environment as well as changing political climates in Canada and the U.S. could create additional uncertainty when accessing capital. If Capital Power is unable to access sufficient capital on acceptable terms, there could be an adverse effect on its business plan and financial condition. Additionally, Capital Power is exposed to changes in interest rates on its cash and cash equivalents, and floating rate current and non-current loans and borrowings. Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. 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, including the Company's financial exposure management policy. Additional strategies employed to manage finance risk are outlined below.

Strategies employed for managing credit rating risk:

- Maintain constructive relationships with credit rating agencies.
- Expand and enhance the level of disclosure of Capital Power's sustainability initiatives and targets.
- Develop flexible financial structuring to adapt if circumstances would cause a credit rating downgrade from investment grade.
- Manage overall debt levels within credit metric covenants.

When Capital Power uses financial instruments to sell or purchase power and/or gas forward, it may be required to post significant amounts of cash collateral or other credit support to its counterparties.

Strategies employed for managing liquidity and interest rate risk:

- Monitor cash and currency requirements on a regular basis by preparing short-term and long-term cash flow forecasts and by matching the maturity profiles of financial assets and liabilities to identify financing requirements.
- Laddered debt maturities to avoid large debt repayments in a single year.

Risks and risk management

- Maintain constructive relationships with banks, investment banks and other financial counterparties.
- Meet financing requirements through a combination of committed and demand revolving credit facilities, financings in public and private capital debt markets, and equity offerings.
- Balance the use of fixed rate and floating rate financing options.
- Utilize derivative and swap instruments to manage interest rate risk.
- Monitor Scope 1 CO_2 emission intensity levels on a regular basis.

Counterparty risk is the possibility of financial loss associated with the inability of counterparties to satisfy their contractual obligations to Capital Power, including payment and performance. Capital Power is also dependent upon its cogeneration hosts and suppliers of fuel to its plants. If a wholesale electricity market counterparty defaults, Capital Power may not be able to replace such counterparty to effectively manage short or long energy positions, resulting in reduced revenues or increased power costs. Furthermore, a prolonged deterioration in economic conditions could increase the foregoing risks.

Strategies employed for managing counterparty credit risk:

- Maintain a credit policy including limits for credit risk exposure levels.
- Enter arrangements largely with creditworthy counterparties.
- Monitor existing counterparties' credit ratings for changes on an ongoing basis and conduct periodic credit reviews.
- Use credit enhancements such as cash deposits, prepayments, parent company guarantees, bank letters of credit, master netting agreements, margin accounts and credit derivatives.
- Monitor and report credit risk exposures.

Tax

Capital Power's operations are complex, and the determination of income taxes involves income tax interpretations, regulations and legislation that are continually changing. Our tax filings are subject to audit by taxation authorities. Management believes that it has adequately provided for income taxes as required by International Financial Reporting Standards, based on all information currently available. It is not possible to predict, with complete accuracy, changes in the legislative environment or their impact on the Company's income tax status. Future changes in tax legislation may have an adverse impact on Capital Power, its shareholders, and the value of the Company's common shares.

Capital Power's tax filings are subject to audit by taxation authorities. While Capital Power maintains that its tax filings have been made in accordance with all such tax interpretations, regulations, and legislation, Capital Power cannot guarantee that it will not have disagreements with taxation authorities with respect to its tax filings.

The effective income tax rate can change depending on the mix of earnings from various jurisdictions, and on deductions and inclusions in determining taxable income that do not fluctuate with earnings.

Strategies employed for managing tax risk:

- Consult with all levels of government with respect to tax policy development and proposed legislation.
- Develop and maintain tax expertise and resources necessary, including third party advisors, in the application of tax legislation.
- Internal policy that guides the roles and responsibilities of our Tax Team.
- Comply with tax laws of jurisdictions that Capital Power operates in.

Foreign exchange

Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar affect Capital Power's capital and operating costs, revenues and cash flows and could have an adverse impact on Capital Power's financial performance. The U.S. facility operations and the foreign-sourced equipment required for capital projects are transacted in U.S. dollars. In addition, certain indebtedness is denominated in U.S. dollars.

Strategies employed for managing 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 Company enters economic hedges on capital costs denominated in U.S. dollars to mitigate exposure.

- Utilize foreign currency forward contracts.
- Utilize cross-currency interest rate swap contracts.
- Contract significant purchases or borrowings in Canadian dollars.
- Utilize U.S. dollar denominated borrowings and/or tax equity debt financing to finance U.S. developments.

Risks and risk management

Reputation

Investors and other stakeholders are increasingly focused on our exposure to the impacts of climate change as well as our progress towards our Sustainability targets and commitments. This creates public perception or cost of capital risks related to Capital Power's portfolio which includes thermal assets. The Company also considers reputation risk to be a consequence of all other risks that it faces. If a certain risk factor results in positive or negative consequences to the Company, its reputation may also be positively or negatively affected.

Strategies employed for managing reputation risk:

In part, the Company manages its reputation risk by employing appropriate risk management strategies for all identified risks. Additional strategies include:

- Fostering a highly ethical culture.
- Compliance with all regulations.
- Public ESG targets and transparent reporting on progress toward those targets.
- Leadership compensation linked to ESG performance.
- Integration of ESG criteria in investment decisions to ensure appropriate consideration of ESG risks.
- Commitment to transparent reporting and disclosure to assist in addressing concerns and risks with investors and other stakeholders.
- Maintain regular, timely and ongoing open and transparent reporting to our investors and stakeholders about our performance, operations, developments, purpose, values and goals.
- Ongoing monitoring of the Company's social media and media presence for content and tone to promptly identify and address any reputational concerns.

General economic conditions, business environment and other risks

In addition to all the risks previously described, the Company is subject to adverse changes in its markets, general economic conditions, inflation, recession, as well as business model disruption. The Company is exposed to risks associated with weather variability, legal and arbitration proceedings, and risks that are not fully covered by various insurance policies.

Fluctuations in general economic conditions and inflationary pressures could expose Capital Power to higher operations, maintenance and labour costs, as well as higher construction costs for development projects. Inflationary pressures may also lead to a higher interest rate environment that could result in the risk of fluctuations in the Company's share price. These additional costs would be offset by higher revenues from our off-take agreements where inflation escalation clauses exist. The Company includes inflation clauses in the long-term contracts for our facilities' output, whenever possible. The Company is exposed to financial loss should the inflation indices in the contracts for our facilities output not keep pace with the inflation indices in our long-term service agreements with OEM's. The Company remains focused on efficiencies and cost management of plant operation and maintenance, with prudent increases to headcount to support its growth. Impacts of a severe and prolonged economic downturn may include decreasing demand for power which may impact the Company's revenue as well as exposure to counterparty risks. Refer to Finance risk above for mitigations for counterparty credit risks.

The Company is dependent upon cash dividends, distributions or other transfers from its subsidiaries, including CPLP, in order to repay any debt the Company may incur, to make dividend payments to its shareholders and to meet its other obligations. The right of the Company, as a unitholder or shareholder of these entities, to realize on the assets of these entities in the event of their bankruptcy or insolvency, would be subordinate to the rights of their creditors and claimants preferred by statute. The terms of the credit facilities of the Company's subsidiaries prohibit them from making distributions if an event of default has occurred and is continuing or would reasonably be expected to result from the distribution. As of December 31, 2022, the Company loaned $2,665 million to the respective subsidiaries under subordinated debt agreements. The terms of these agreements allow interest to be deferred. If interest is deferred, then CPLP has covenanted not to make distributions on any of its outstanding common limited partnership units.

The Company relies on operational and financial partnerships to grow its fleet. Failure to negotiate favourable terms with financial partners, particularly tax equity partners, could have an impact on the Company's ability to successfully execute its growth strategy. Some of Capital Power's assets are operated through joint arrangements under which Capital Power is not the operator of the associated assets. There is a risk that the assets will not be operated in accordance with Capital Power's expectations or requirements which could result in financial loss to the Company. While contractual agreements help minimize risk, there can be no assurance that such operations will continue to be effective.

Capital Power relies on contracted cash flows to maintain its investment grade credit rating and provide a stable and growing dividend to its shareholders. The Company focuses its growth on strategically positioned contracted assets that have a high likelihood to be re-contracted. To further minimize the risk of its contracted assets becoming merchant facilities post existing contracts, the Company establishes and maintains constructive relationships with contract counterparties, engages in early contract renewal discussions where possible, and deploys asset optimization initiatives to increase the competitiveness of its assets.

Risks and risk management

In the normal course of Capital Power's operations, the Company may become involved in various legal proceedings including arbitration of the interpretation of any contract. The outcome with respect to outstanding, pending, or future proceedings cannot be predicted with certainty. However, the Company does not believe that the outcome of any claims or potential claims of which it is aware, which have not already been provided for, will have a material adverse effect on Capital Power's financial condition and results of operations (see Contractual obligations, contingent liabilities, other legal matters and provisions, page 82).

Capital Power's property, boiler and machinery, business interruption and liability insurance coverages are established and maintained to minimize financial exposures associated with extreme weather and other events. The insurance coverages are subject to deductibles, limits, and exclusions, and may not provide sufficient coverage for these and other insurable risks. There can be no assurance that such insurance will continue to be offered on an economically feasible basis or that all events that could give rise to a loss or liability are insurable.

The various risks noted within this Risks and risk management section may be compounded by the level of exposure to a given geographic area, regulatory environment, or technology. The Company continues to mitigate these risks through its development and acquisition activities. These activities have allowed the Company to reduce its proportionate exposure to Alberta, while expanding its footprint in Ontario and the United States. These activities have also resulted in an increase to the Company's proportionate investment in renewables and natural gas assets compared to coal assets as well as an increase in contracted cash flows. Diversifying the Company's portfolio can result in the Company entering new markets which can bring new uncertainties which the Company mitigates as described above under strategies employed for managing competition, acquisition, development, and construction risk.

There can be no assurance that any risk management steps taken by Capital Power with the objective of mitigating the foregoing risks will avoid future loss due to the occurrence of such risks.

Environmental matters

Capital Power recorded decommissioning provisions of $278 million at December 31, 2022 ($366 million at December 31, 2021) for our generation facilities and the Genesee Mine as it is obliged to remove the facilities at the end of their useful lives and restore the facility and mine sites to their original condition. Decommissioning provisions for the 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. The timing of reclamation activities could vary and the amount of decommissioning provisions could change depending on potential future changes in environmental regulations and the timing of any facility fuel conversions.

Capital Power has forward contracts to purchase environmental credits totaling $618 million and forward contracts to sell environmental credits totaling $567 million in future years. Included within these forward purchases and sales are net purchase amounts which will be used to comply with applicable environmental regulations and net sale amounts related to other emissions trading activities.

Regulatory matters

Canada

Environment and Climate Change Canada (ECCC) Draft Clean Electricity Standard (CES) Regulatory Frame (Proposed Frame)

ECCC released a CES Discussion Paper on March 15, 2022 describing the intended role for a CES as part of a broader suite of policies intended to achieve the Federal Government's objective of achieving a net-zero electricity system by 2035.

On July 26, 2022, ECCC released a Proposed Frame for the CES, setting out the key elements of the potential performance standard framework that ECCC was proposing based on feedback received on the Discussion Paper. The Proposed Frame recognizes the continued role that natural gas generation will have in supporting reliability and integrating renewables through the net-zero electricity supply by 2035 transition and beyond. It would subject new units – defined as those commissioned in 2025 or after – to the CES on January 1, 2035, while existing units would be subject to the CES at the end of their "prescribed life" or January 1, 2035. The definition of prescribed life will be developed as part of continued consultations. The Proposed Frame would allow natural gas units to continue to operate post-prescribed life subject to undefined caps on annual emissions and run-time, and would also subject cogeneration units to the CES in respect of net-to-grid generation.

Based on management's review of the Proposed Frame, Capital Power's entire Alberta natural gas generation fleet, including Genesee 1 and 2 repowering, would qualify as "existing" units, and every unit would only be subject to the CES at the end of its prescribed life or 2035. The Proposed Frame's acknowledgement of a long-term role for natural gas generation, including the provisions for post-prescribed life, within a net-zero framework is also notable. Capital Power continues to assess the potential impacts that the proposed elements of the Proposed Frame may have for Capital Power's existing facilities and prospective interests in its Canadian markets.

Capital Power understands that the ECCC is targeting the publication of the first draft regulations in the Canada Gazette, Part I in spring 2023, which will be a formal comment period in advance of its publication in the Canada Gazette, Part II. Capital Power will continue to actively participate in ECCC processes regarding the draft CES and regulations.

Regulatory matters

Federal Carbon Policy

On March 29, 2022, the Government of Canada released its inaugural Emissions Reduction Plan (ERP) as required under the Net Zero Emissions Accountability Act. The ERP outlined a range of measures the Federal Government is intending to pursue across all sectors to achieve Canada's 2030 emissions reduction commitments. The ERP included the Government's commitment to pursue a net-zero electricity system by 2035. It also included a commitment by the Government to explore measures to de-risk carbon policy, including potential carbon contracts for differences, to provide greater certainty for investments in decarbonizing technology. Such mechanisms could support the Company's consideration and assessment of the Genesee CCS Project and other initiatives.

On April 7, 2022, the Government of Canada tabled Budget 2022. Among the measures included with respect to supporting clean energy deployment, the Government of Canada proposed a refundable investment tax credit (ITC) for investment in CCUS projects. From 2022 – 2030, the proposed ITC rates would be set at 60% for investment in direct air capture projects, 50% for investment in all other CCUS projects, and 37.5% for investment in transportation, storage and use. The rates would be reduced by 50% for the period from 2031 – 2040. In August 2022, Federal Finance issued Draft Legislation with the proposed provisions and terms for implementing the CCUS ITC. The proposed ITC framework is directionally positive for the Genesee CCS Project, though other mechanisms of policy support continue to be required to address certain financing and policy-uncertainty risks and challenges faced by the Genesee CCS Project.

On November 3, 2022, the Government of Canada released its Fall Economic Statement, establishing the Canada Growth Fund to help to attract private capital to accelerate the deployment of key technologies, such as low-carbon hydrogen and CCUS among other objectives. The Canada Growth Fund will be a financial solution provider that will use a flexible suite of investment tools, including but not limited to concessional loans and contracts for difference. Such contracts provide a more predictable environment for decision making about long-term investments by reducing price and other risks. The Canada Growth Fund to be established is a positive signal for the Genesee CCS Project as it would provide carbon price assurance for the Genesee CCS Project.

Management continues to assess the potential impacts that the proposed elements of the updated CES and the ERP may have for Capital Power's existing facilities and prospective interests in its Canadian markets and intends to participate in forthcoming processes.

In 2022, the Federal Government assessed the provincial carbon pricing frameworks, including the Alberta's Technology, Innovation and Emission Reduction (TIER) framework and the Ontario Emission Performance Standards (EPS) program, against the Federal Output Based Pricing System (OBPS) backstop framework. On November 22, 2022, the Government of Canada announced that Alberta and Ontario will continue to implement their own pollution pricing systems for industrial emissions. TIER and the EPS will remain in place until at least 2026, at which time an interim assessment will be made to confirm provincial frameworks continue to meet benchmark criteria for the 2027-2030 period.

Alberta

Most severe single contingency (MSSC) limit

In November 2021, the AESO initiated consultation on the MSSC limit of 466 MW and whether this limit should remain at the current level or increase. The current limit impacts the Genesee repowering project as each combined cycle unit (680 MW) would exceed the current limit. In October 2022, the AESO issued an options paper on potential mitigation necessary to increase the MSSC and has indicated that it will be making a final decision on the limit by the end of 2023. The Company continues to participate in the AESO consultation process and is supportive of the AESO increasing the MSSC limit. The Company has announced plans to install battery storage in conjunction with the Genesee repowering project to alleviate any constraints the existing MSSC limit may present and is also investigating options of implementing other operational means of providing the necessary grid support to enable the Genesee repowering project to operate above the current limit.

TIER Regulation Amendments

In June 2022, Alberta Environment and Protected Area (AEPA) launched the formal review of the TIER Regulation. On November 22, 2022, the Government of Canada announced that Alberta's TIER framework for industrial emissions will remain in effect for the period 2023-2030. On December 15, 2022, AEPA released the TIER Amendment Regulation. As part of the TIER amendments, the electricity benchmark will decline by 2% per year starting on January 1, 2023 reaching 0.3108 tCO_2e/MWh in 2030. In addition, sequestration credits and capture recognition tonnes (CCUS credits) are established as new compliance instruments. Capture recognition credits enable large emitters and opt-in facilities to reduce sequestered emissions from total regulated emissions at carbon capture sites. Under the CCUS credits, facilities capturing CO_2 on site can claim the CCS reductions once captured. Sequestration credits enable recognition under the federal Clean Fuel Regulations. More details are expected about the CCUS credits once the Standards Handbook is updated. The TIER amendments also increase the emission performance credit and emission offset credit usage limit from the current 60% level to 90% 2026 forward but reduced the credit usage period from eight years to five years. Only new offsets with 2023 vintages and later expire after five years offset and emission credits with 2017-2022 vintages will continue to have eight years credit expiry. Management believes the package of amendments are positive and provide additional certainty regarding Alberta's carbon pricing framework.

Regulatory matters

Ontario

Market Renewal Program (MRP)

Ontario’s Independent Electric System Operator (IESO) is continuing work under its Market Renewal Program (MRP) which is a series of coordinated market reforms expected to result in a fundamental redesign of Ontario’s electricity market. The IESO’s stated goal for the MRP is to improve how electricity is priced, scheduled and procured to meet Ontario’s electricity system needs. The Company is actively participating in the MRP stakeholder process and collaborating with the IESO.

On September 21, 2020, the Ontario Minister of the Environment, Conservation and Parks (MECP) announced that the federal government has accepted Ontario’s Emissions Performance Standards (EPS) as an alternative to the federal carbon pricing regime. Following consultations that took place in 2021, the Government of Ontario (Ontario) released on October 22, 2021 the final amendments to its EPS framework. The amendments establish that the transition from the Federal Output-Based Pricing System to the EPS will be effective January 1, 2022 and that the performance standard for the electricity sector is 0.370 tCO_2e/MWh. The EPS does not include offsets as a compliance mechanism.

In August 2022, the MECP issued for consultation proposed changes to the EPS program for 2023-2030 to meet the benchmark set by the federal government. On December 13, 2022, MECP amended the EPS program to meet stricter benchmark criteria set by the federal government and extend the program to 2030. To meet the stricter federal benchmark for the 2023-2030 period, Ontario has increased the stringency of the EPS program by:

- aligning with the minimum carbon price of $65 for the 2023 compliance period, increasing by $15 per year to $170 for the 2030 compliance period; and
- strengthening the performance standard for generating electricity using fossil fuels from 0.370 tCO_2e/MWh to 0.310 tCO_2e/MWh effective 2023, and remaining constant at that level until 2030.

The EPS regulation came into effect on January 1, 2023. The contracts for Capital Power’s York Energy, East Windsor and Goreway facilities have provisions that trigger amendments as a result of changes in GHG cost, the effect of which will limit the impact of changes to carbon compliance costs.

IESO Potential Gas Phase-Out Impact Assessment

On October 7, 2021, the IESO issued a report assessing the impacts of potentially phasing out natural gas generation by 2030. The IESO concluded that doing so was not feasible and would lead to blackouts and significantly higher costs associated with replacement generation and additional transmission infrastructure. In response to the report, the IESO was directed to undertake two initiatives. First, the IESO is to evaluate a moratorium on new natural gas generating stations in Ontario and to consider whether alternative sources of electricity can meet Ontario’s objectives of affordability, reliability, and environmental stewardship. Second, the IESO is to develop an achievable pathway to phase out natural gas generation and ultimately achieve zero emissions in the electricity system, with consideration to a number of specific elements including the reliability of the electricity system; the cost to electricity ratepayers; the timeline on which this objective would be achievable; the possibility of maintaining existing generating facilities but replacing natural gas with green fuels such as hydrogen and renewable natural gas, or the development of utility-scale carbon capture and storage; and the role of technologies like pumped storage, battery storage combined with non-emitting resources, hydro, nuclear, and demand response to eliminate emissions in the electricity system.

On October 7, 2022, the IESO released its “Resource Eligibility Interim Report” which recommended that new capacity in upcoming procurements include a significant investment in battery storage, balanced by natural gas capacity and other forms of non-greenhouse gas emitting generation to ensure reliability and affordability. The IESO recommended procuring up to 1,500 MW of natural gas capacity to be added between 2025 and 2027 (in large part through upgrades and expansions at existing facilities), as well as approximately 2,500 MW of energy storage (including biofuels and renewable/storage hybrids). In conjunction with the report’s release, the Ministry of Energy issued a directive accepting the IESO’s recommendations and directing IESO to proceed with procuring a maximum of 1,500 MW of gas-fired generation, a minimum of 1,500 MW of energy storage, and an incremental 1,000 MW of non-emitting resources (including storage) through its Expedited Process, Same Technology Upgrades, and Long-Term Request for Proposals. Capital Power has a number of potential projects that it intends to advance as part of the IESO competitive procurement processes.

Regulatory matters

British Columbia

BC Hydro Integrated Resource Plan (IRP)

On October 25, 2021, the Government of British Columbia released "CleanBC: Roadmap to 2030" which identified a number of measures and initiatives that British Columbia would undertake as part of a plan and to achieve its 2030 emissions targets and net-zero emissions by 2050. Among other measures, the Government of British Columbia intends to increase the Clean Electricity Delivery Standard for the BC Hydro integrated grid to 100%, which it expects BC Hydro to meet in part by phasing out its remaining natural gas-fired facilities on the grid by 2030. On December 21, 2021, BC Hydro published their final IRP which affirmed that BC Hydro was not intending to renew the long-term EPA for Capital Power's Island Generation facility at Campbell River on Vancouver Island, which expired in April 2022. As a result, the Company recorded an impairment of the Island Generation cash generating unit (CGU) of $52 million during the fourth quarter of 2021.

In May 2022, BC Hydro and the Company executed a 4.5 year extension to the Island Generation contract through October 2026.

The British Columbia Utilities Commission (BCUC) has established a proceeding to consider BC Hydro's IRP. The Company is participating in the BCUC process in support of its view that longer term re-contracting of Island Generation is necessary to support reliability on Vancouver Island and on the BC Hydro system. The hearing phase of the proceeding is currently scheduled for late April/early May 2023.

United States

Inflation Reduction Act (IRA)

The IRA represents the most significant legislation to invest in clean energy and address climate change in the United States' history. Passed by Congress and signed into law in August of 2022, the IRA puts the United States on a projected path to reduce greenhouse gas emissions 40 percent below 2005 levels in the next decade. Of the IRA's $369 billion investment in addressing climate change, $270 billion will be delivered through tax incentives, putting Treasury and the Internal Revenue Service (IRS) at the forefront of Inflation Reduction Act implementation. On November 29, 2022, the Treasury Department announced initial guidance on the Inflation Reduction Act's labor standards that firms must meet to qualify for enhanced clean energy and climate tax incentives. To maximize many of the available clean energy tax incentives, firms need to pay workers a "prevailing wage" and employ a certain number of apprentices from registered apprenticeship programs. In the November guidance, the Treasury Department provided greater clarity for these provisions. It is expected that in the first half of 2023, the Treasury and IRS will issue more guidance on the IRA's provisions for (i) non-taxable entities to receive direct payment for renewable energy projects instead of a tax credit, (ii) bonus adder tax provisions for projects that use certain amounts of domestic content, and (iii) guidance on definitions of qualified "energy communities" for enhanced tax credits. In addition to working on this guidance, the Biden Administration is considering a notice of proposed rulemaking that would expand Section 48 of the tax code, which deals with the ITC. Management will need to carefully monitor the risks and opportunities implementation of these provisions provide to our existing commercial assets as well as the portfolio of solar projects undergoing due diligence and business development. Further, the increase in zero emission regulatory incentives may increase pressure on thermal based assets over time.

U.S. Clean Energy and Climate Change

In June of 2022, the U.S. Supreme Court ruled in West Virginia v. Environmental Protection Agency (EPA) that EPA exceeded its statutory authority under the Clean Air Act in promulgating the Obama-era Clean Power Plan. The majority held that EPA failed to demonstrate clear Congressional authorization to undertake generation shifting, as required by the Clean Power Plan, that would reshape the US electric grid.

The Clean Power Plan would have permitted compliance with CO_2 standards through either efficiency improvements on-site at power plants or through generation shifting to natural gas power plants or wind and solar facilities. President Biden criticized the Supreme Court's decision but stated that he "would take action" to address climate change, indicating that he was directing EPA and the Justice Department to take all legal options to reduce CO_2 emissions.

EPA Administrator Michael Regan also called the ruling a setback but underscored that EPA will move forward in exercising existing legal tools to address climate change. Accordingly, in September EPA opened a public docket to accept pre-proposal input on EPA's efforts to reduce emissions of greenhouse gases from new and existing fossil fuel-fired electric generating units. The goal of this non-rulemaking docket is to gather perspectives from a broad group of stakeholders in advance of proposed rulemakings in 2023. These proposed rulemakings will be important U.S. Government actions to mitigate the emission of GHGs to address the challenges of climate change and may impact emissions at our natural gas facilities and more broadly other communities with environmental justice concerns.

Management continues to monitor these developments closely as they progress as they could have significant impacts on Capital Power.

Use of judgments and estimates

In preparing our audited consolidated financial statements, management made judgments, estimates and assumptions that affect the application of our accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Critical judgments in applying accounting policies

The main judgments that were used in preparing Capital Power's audited consolidated financial statements relate to:

Judgment	Management applies judgment to evaluate	Resulting conclusions
Cash generating units	What constitutes a CGU based on 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.	CGUs were determined giving consideration to geographic proximity and shared risk exposure and risk management.
Asset impairment	Whether events or circumstances may indicate that an asset's carrying amount exceeds its recoverable amount.	No indicators were identified during 2022 that required impairment testing beyond annual testing of the East Windsor CGU which contains goodwill. In October 2021, the B.C. government released its CleanBC plan indicating it intends to phase out all natural gas generation by 2030. In December 2021, BC Hydro released its final IRP, which excluded Island Generation. These developments 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 the estimated recoverable amount resulting in a pre-tax impairment of $52 million recorded in 2021.
Whether an arrangement contains a lease and classification of leases	Whether a PPA or similar contract conveys the right to control the Company's property, plant and equipment in return for payment, and, if so, a lease exists. Whether substantially all the risks and rewards of ownership of property are transferred to determine if the lease is accounted for as a finance lease or, if not, the lease is accounted for as an operating lease.	Contracts that convey the right to control Capital Power's property, plant and equipment and, therefore, contain a lease: Operating leases with the Company as the lessor (substantially all the risks and rewards remain with Capital Power): • Island Generation EPA (through April 30, 2022) • Decatur Energy tolling agreement • Arlington Valley tolling agreement Finance lease with the Company as the lessor (substantially all the risks and rewards are transferred): • Island Generation EPA (effective May 2022) The Company has been determined to be the lessee for the following: • Beaufort Solar sale and leaseback agreement • Various office, equipment and land leases
Control of subsidiaries that are less than wholly-owned	Whether certain subsidiaries are controlled by the Company even though the subsidiaries are less than wholly-owned.	Since the Company has majority rights, the Genesee Mine and Macho Springs Wind facility are consolidated and have non-controlling interests.

Use of judgments and estimates

Judgment	Management applies judgment to evaluate	Resulting conclusions
Classification of joint arrangements	How joint arrangements structured through a separate vehicle should be classified; either as a joint venture or a joint operation.	York Energy and Midland Cogen are accounted for as joint ventures and accounted for under the equity method. The Company's obligations are limited to their respective capital contributions to the joint arrangements, and the Company's receipts of the economic benefits of the joint arrangements are primarily from the quarterly distributions and operating management fees. As a result, there is no indication that the Company has rights to the assets or obligations for the liabilities of the joint arrangements and the investments have been classified as a joint venture. Joffre and Shepard are accounted for as joint operations because each of the joint operators has rights to the assets and obligations for the liabilities of the arrangements and rights to the corresponding revenues and obligations for the corresponding expenses.
Operating segments	Whether the Company operates in one or multiple business segments, and if the Company operates in multiple segments, how the aggregation criteria are applied to reportable segments.	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.

Assumptions and estimation uncertainties

The following identifies key information about assumptions and estimation uncertainties that could have a significant risk of resulting in material adjustments:

Estimate	Impacts and assumptions subject to estimation uncertainty
Measurement of fair values	Carrying amounts for financial instruments • Amounts and timing of future cash flows • Future prices • Future generation forecasts • Future interest rate yield curves • Volatility
	Impairment of financial and non-financial assets and liabilities • Discount rates • Growth rates • Other cash flow assumptions including revenues, expenses and capital expenditures • Future generating capacity • Contract renewals and rates adjusted for inflation • Fuel mix at optimized levels

Use of judgments and estimates

Estimate	Impacts and assumptions subject to estimation uncertainty
	Decommissioning and other provisions • Discount rates • Amount and timing of asset retirement • Extent of site remediation required • Future cash flows based on amount and timing of settlement of obligation • Expected customer renewals for other provisions
Depreciation and amortization	Assets useful lives are based on the life characteristics of common assets.
Recognition of deferred tax assets and availability of future taxable income against which carry forward tax losses can be used	Deferred tax assets and income tax provisions are based on the likelihood that tax losses will be recovered from future taxable income.

Financial instruments

The classification, carrying amounts and fair values of financial instruments held at December 31, 2022 and 2021 were as follows:

		December 31, 2022		December 31, 2021	
(unaudited, $ millions)	**Fair value hierarchy level[1]**	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets:					
Amortized cost					
Cash and cash equivalents	**N/A**	**307**	**307**	387	387
Trade and other receivables[2]	**N/A**	**892**	**892**	419	419
Government grant receivable[3]	**Level 2**	**367**	**317**	404	395
Fair value through income or loss					
Derivative financial instruments assets – current and non-current	**See below**	**405**	**405**	313	313
Fair value through other comprehensive loss					
Derivative financial instruments assets – current and non-current	**See below**	**78**	**78**	17	17
Financial liabilities:					
Other financial liabilities					
Trade and other payables	**N/A**	**1,249**	**1,249**	624	624
Loans and borrowings[3]	**Level 2**	**3,726**	**3,590**	3,360	3,515
Fair value through income or loss					
Derivative financial instruments liabilities – current and non-current	**See below**	**944**	**944**	440	440
Fair value through other comprehensive loss					
Derivative financial instruments liabilities – current and non-current	**See below**	**280**	**280**	164	164

[1] Fair values for Level 1 financial assets and liabilities are based on unadjusted quoted prices in active markets for identical instruments while fair values for Level 2 financial assets and liabilities are generally based on indirectly observable prices. The determination of fair values for Level 3 financial assets and liabilities is prepared by appropriate subject matter experts and reviewed by our commodity risk group and by management.

[2] Excludes current portion of government grant receivable.

[3] Includes current portion.

Financial instruments

Risk management and hedging activities

Capital Power is exposed to changes in energy commodity prices, foreign currency exchange rates and interest rates. We use various risk management techniques, including derivative instruments such as forward contracts, fixed-for-floating swaps, and option contracts, to reduce this exposure. These derivative instruments are recorded at fair value on the Consolidated statements of financial position except for non-financial derivatives that are entered into and continue to be held for the purpose of receipt or delivery of a non-financial item in accordance with expected purchase, sale or usage requirements.

Unrealized changes in the fair value of financial and non-financial derivatives that do not qualify for hedge accounting and non-financial derivatives that do not qualify for the expected purchase, sale or usage requirements are recognized in net income as revenues, energy purchases and fuel, foreign exchange gain or loss or net finance expense. The corresponding unrealized changes in the fair value of the associated economically hedged exposures are not recognized in income. Accordingly, derivative instruments that are recorded at fair value can produce volatility in net income as a result of fluctuating forward commodity prices, foreign exchange rates and interest rates which are not offset by the unrealized fair value changes of the exposure being hedged on an economic basis. As a result, accounting gains or losses relating to changes in fair values of derivative instruments do not necessarily represent the underlying economics of the hedging transaction.

For example, Capital Power usually has more physical supply of power in Alberta from our facilities than has been contracted to physically sell. Capital Power utilizes financial sale contracts to reduce our exposure to changes in the price of power in Alberta. Economically, Capital Power benefits from higher Alberta power prices due to the net long position held since our expected physical supply is in excess of our physical and financial sale contracts. However, financial sale contracts that are not hedged for accounting purposes are recorded at fair value at each statement of financial position date and the offsetting anticipated future physical supply or economically hedged item is not. Accordingly, an increase in forward Alberta power prices can result in fair value losses for accounting purposes whereas on an economic basis, these losses are offset by unrecognized gains on the physical supply. The economic gains will be recognized in later periods when the power is produced and sold. The opposite is true for forward price decreases in Alberta power.

The derivative financial instruments assets and liabilities held at December 31, 2022 and 2021 and used for risk management purposes were measured at fair value and consisted of the following:

		At December 31, 2022				
(unaudited, $ millions)	**Fair value hierarchy level**	**Commodity cash flow hedges**	**Commodity non-hedges**	**Interest rate cash flow**	**Interest rate non-hedges**	**Total**
Derivative financial instruments assets	**Level 2**	**31**	**371**	**47**	**14**	**463**
	Level 3	**–**	**20**	**–**	**–**	**20**
		31	**391**	**47**	**14**	**483**
Derivative financial instruments liabilities	**Level 2**	**(262)**	**(468)**	**(18)**	**–**	**(748)**
	Level 3	**–**	**(476)**	**–**	**–**	**(476)**
		(262)	**(944)**	**(18)**	**–**	**(1,224)**
Net derivative financial instruments (liabilities) assets		**(231)**	**(553)**	**29**	**14**	**(741)**

		At December 31, 2021				
(unaudited, $ millions)	Fair value hierarchy level	Commodity cash flow hedges	Commodity non-hedges	Interest rate cash flow	Interest rate non-hedges	Total
Derivative financial instruments assets	Level 2	7	290	10	9	316
	Level 3	–	14	–	–	14
		7	304	10	9	330
Derivative financial instruments liabilities	Level 2	(93)	(241)	(71)	(1)	(406)
	Level 3	–	(198)	–	–	(198)
		(93)	(439)	(71)	(1)	(604)
Net derivative financial instruments (liabilities) assets		(86)	(135)	(61)	8	(274)

Financial instruments

Commodity, interest rate and foreign exchange derivatives designated as accounting hedges

Unrealized gains and losses for fair value changes on commodity, interest rate and foreign exchange derivatives that qualify for hedge accounting are recorded in other comprehensive income (loss) and, when realized, are reclassified to net income as revenues, energy purchases and fuel, finance expense or foreign exchange gains and losses as appropriate. When interest rate derivatives are used to hedge the interest rate on a future debt issuance, realized gains or losses are deferred within accumulated other comprehensive income (loss) and recognized within finance expense over the life of the debt, consistent with the interest expense on the hedged debt. When foreign exchange derivatives are used to hedge the risk of variability in cash flows resulting from foreign currency exchange rate fluctuations on future capital expenditures, realized gains and losses are deferred within accumulated other comprehensive income (loss) and then recorded in property, plant and equipment and amortized through depreciation and amortization over the estimated useful life of the hedged property, plant and equipment.

The change in fair values of commodity derivatives not designated as hedges is primarily due to changes in forward Alberta power and natural gas prices and their impact on the Alberta portfolio as well as the change in pricing on U.S. trading relating to the swap arrangements on our U.S. wind generation. Unrealized and realized gains and losses for fair value changes on commodity derivatives that do not qualify for hedge accounting are recorded in net income as revenues or energy purchases and fuel.

Unrealized and realized gains and losses on foreign exchange derivatives and interest rate derivatives that are not designated as hedges for accounting purposes are recorded in net income as foreign exchange gains or losses and net finance expense, respectively.

At December 31, 2022, management conducted an evaluation of the design and operation of Capital Power's disclosure controls and procedures to provide reasonable assurance that:

(i) material information relating to the Company is made known to management by others, particularly during the period in which the Company's annual filings are being prepared, and

(ii) information required to be disclosed by Capital Power in our annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

Disclosure controls and procedures and internal control over financial reporting

The evaluation took into consideration our Disclosure Policy and internal sub-certification process, and the functioning of our Disclosure Committee. In addition, the evaluation covered our processes, systems and capabilities relating to public disclosures and the identification and communication of material information. Based on that evaluation, Capital Power's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed and effective.

At December 31, 2022, management conducted an evaluation of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed and effective.

These evaluations were conducted in accordance with the Internal Control – Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission and the requirements of the Canadian Securities Administrators' National Instrument 52-109.

Summary of quarterly results

(GWh)	Three months ended							
Electricity generation	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	Dec 2021	Sep 2021	Jun 2021	Mar 2021
Total generation	**8,049**	**6,993**	**6,638**	**6,893**	6,103	6,103	4,975	5,630
Alberta commercial facilities								
Genesee 1	**869**	**863**	**733**	**790**	877	824	708	616
Genesee 2	**916**	**803**	**843**	**817**	259	156	701	581
Genesee 3	**543**	**988**	**1,010**	**980**	1,006	1,009	951	904
Clover Bar Energy Centre 1, 2 and 3	**278**	**218**	**72**	**112**	135	235	67	23
Joffre	**45**	**135**	**187**	**209**	136	166	180	203
Shepard	**829**	**824**	**814**	**786**	714	739	379	803
Halkirk Wind	**139**	**87**	**124**	**150**	145	98	111	151
Clover Bar Landfill Gas	**2**	**2**	**3**	**–**	–	–	–	–
	3,621	**3,920**	**3,786**	**3,844**	3,272	3,227	3,097	3,281
Western Canada contracted facilities								
Island Generation	**4**	**–**	**–**	**7**	16	424	114	28
Quality Wind	**124**	**93**	**70**	**126**	130	101	83	127
EnPower	**4**	**2**	**4**	**8**	6	–	7	11
Whitla Wind	**381**	**238**	**349**	**436**	307	156	178	235
Strathmore Solar[1]	**10**	**26**	**26**	**3**	N/A	N/A	N/A	N/A
Clydesdale Solar[2]	**6**	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
	529	**359**	**449**	**580**	459	681	382	401
Ontario contracted facilities								
York Energy	**5**	**8**	**6**	**8**	4	6	5	4
East Windsor	**4**	**6**	**3**	**3**	3	4	4	–
Goreway	**655**	**721**	**234**	**599**	383	453	159	234
Kingsbridge 1	**36**	**14**	**23**	**35**	32	13	20	30
Port Dover and Nanticoke Wind	**91**	**50**	**67**	**100**	81	47	66	81
	791	**799**	**333**	**745**	503	523	254	349
U.S. contracted facilities								
Decatur Energy, Alabama	**617**	**785**	**752**	**617**	789	381	240	356
Arlington Valley, Arizona	**907**	**685**	**659**	**476**	501	876	461	545
Beaufort Solar, North Carolina	**5**	**8**	**9**	**6**	6	8	8	6
Bloom Wind, Kansas	**171**	**126**	**208**	**180**	147	132	177	165
Macho Springs Wind, New Mexico	**31**	**17**	**48**	**34**	30	15	41	38
New Frontier Wind, North Dakota	**117**	**83**	**116**	**122**	126	92	93	103
Cardinal Point Wind, Illinois	**170**	**86**	**167**	**196**	177	93	141	170
Buckthorn Wind, Texas	**82**	**75**	**81**	**99**	93	75	81	99
Midland Cogen, Michigan[3]	**1,008**	**61**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Roxboro, North Carolina[4]	**N/A**	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	57
Southport, North Carolina[4]	**N/A**	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	60
	3,108	**1,915**	**2,070**	**1,724**	1,869	1,672	1,242	1,599

[1] Strathmore Solar was commissioned on March 17, 2022.

[2] Clydesdale Solar was commissioned on December 13, 2022.

[3] Midland Cogen was acquired on September 23, 2022 (see Significant events, page 62).

[4] The PPAs for the Southport and Roxboro facilities expired March 31, 2021, and the facilities also ceased operations.

Summary of quarterly results

(%)	Three months ended							
Facility availability	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	Dec 2021	Sep 2021	Jun 2021	Mar 2021
Total average facility availability	**90**	**96**	**92**	**95**	89	91	84	96
Alberta commercial facilities								
Genesee 1	**99**	**99**	**86**	**93**	100	94	92	92
Genesee 2	**99**	**93**	**100**	**95**	29	19	100	100
Genesee 3	**54**	**99**	**100**	**99**	100	99	95	95
Clover Bar Energy Centre 1, 2 and 3	**84**	**93**	**89**	**87**	83	97	94	99
Joffre	**53**	**81**	**96**	**100**	82	92	95	100
Shepard	**100**	**98**	**100**	**100**	99	100	50	100
Halkirk Wind	**96**	**94**	**98**	**97**	98	96	98	98
Clover Bar Landfill Gas	**82**	**69**	**74**	**92**	75	24	–	–
	84	**95**	**96**	**96**	84	83	87	97
Western Canada contracted facilities								
Island Generation	**91**	**100**	**100**	**100**	97	96	89	100
Quality Wind	**97**	**99**	**98**	**93**	97	96	98	97
EnPower	**99**	**92**	**99**	**99**	98	100	93	89
Whitla Wind	**96**	**92**	**97**	**98**	97	95	98	98
Strathmore Solar[1]	**100**	**100**	**100**	**100**	N/A	N/A	N/A	N/A
Clydesdale Solar[2]	**100**	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
	95	**96**	**99**	**98**	97	96	94	98
Ontario contracted facilities								
York Energy	**100**	**96**	**100**	**100**	89	87	100	100
East Windsor	**73**	**93**	**76**	**97**	88	100	100	99
Goreway	**99**	**100**	**59**	**100**	91	100	89	99
Kingsbridge 1	**98**	**96**	**99**	**98**	99	99	98	99
Port Dover and Nanticoke Wind	**96**	**90**	**99**	**99**	97	90	99	99
	97	**98**	**71**	**99**	91	97	93	99
U.S. contracted facilities								
Decatur Energy, Alabama	**76**	**98**	**100**	**94**	82	94	51	79
Arlington Valley, Arizona	**99**	**97**	**96**	**78**	99	100	78	99
Beaufort Solar, North Carolina	**99**	**100**	**99**	**100**	98	96	97	99
Bloom Wind, Kansas	**94**	**95**	**94**	**94**	90	90	98	95
Macho Springs Wind, New Mexico	**98**	**97**	**98**	**97**	98	97	98	98
New Frontier Wind, North Dakota	**92**	**94**	**95**	**96**	97	95	97	94
Cardinal Point Wind, Illinois	**96**	**96**	**98**	**95**	99	96	97	99
Buckthorn Wind, Texas	**93**	**92**	**90**	**92**	94	96	94	94
Midland Cogen, Michigan[3]	**92**	**86**	**N/A**	**N/A**	N/A	N/A	N/A	N/A
Roxboro, North Carolina[4]	**N/A**	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	100
Southport, North Carolina[4]	**N/A**	**N/A**	**N/A**	**N/A**	N/A	N/A	N/A	100
	89	**96**	**97**	**90**	91	96	72	90

1 Strathmore Solar was commissioned on March 17, 2022.

2 Clydesdale Solar was commissioned on December 13, 2022.

3 Midland Cogen was acquired on September 23, 2022 (see Significant events, page 62).

4 The PPAs for the Southport and Roxboro facilities expired March 31, 2021, and the facilities also ceased operations.

Summary of quarterly results

Financial results

	Three months ended							
(unaudited, $ millions)	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	Dec 2021	Sep 2021	Jun 2021	Mar 2021
Revenues and other income								
Alberta commercial facilities and portfolio optimization	**656**	**573**	**423**	**456**	380	313	314	343
Western Canada contracted facilities	**41**	**29**	**30**	**50**	43	28	25	37
Ontario contracted facilities	**118**	**126**	**89**	**104**	88	82	66	80
U.S. contracted facilities	**198**	**110**	**122**	**104**	97	101	86	118
Corporate[1]	**33**	**33**	**33**	**32**	32	32	32	30
Unrealized changes in fair value of commodity derivatives and emission credits	**(117)**	**(85)**	**16**	**(245)**	32	(179)	(136)	(54)
	929	**786**	**713**	**501**	672	377	387	554
Adjusted EBITDA[2]								
Alberta commercial facilities and portfolio optimization	**162**	**234**	**182**	**192**	172	132	136	165
Western Canada contracted facilities	**28**	**17**	**20**	**40**	34	20	18	29
Ontario contracted facilities[3]	**67**	**59**	**56**	**65**	57	53	49	57
U.S. contracted facilities[3]	**62**	**92**	**67**	**53**	35	85	35	55
Corporate	**(16)**	**(19)**	**(6)**	**(2)**	(4)	(4)	3	(3)
	303	**383**	**319**	**348**	294	286	241	303

[1] Revenues are offset by interplant category revenue eliminations.

[2] Adjusted EBITDA is a non-GAAP financial measure (see Non-GAAP financial measures and ratios, page 56).

[3] Ontario contracted facilities and U.S. contracted facilities include adjusted EBITDA from the York Energy and Midland Cogen (see Significant events, page 62) joint ventures, respectively.

Quarterly revenues, net income and cash flows from operating activities are affected by seasonal weather conditions, fluctuations in U.S. dollar exchange rates relative to the Canadian dollar, power and natural gas prices, planned and unplanned facility outages and items outside the normal course of operations. Net income (loss) is also affected by changes in the fair value of our power, natural gas, interest rate and foreign exchange derivative contracts.

Summary of quarterly results

Financial highlights

(unaudited, $ millions except per share amounts)	Three months ended Dec 2022	Sep 2022	Jun 2022	Mar 2022	Dec 2021	Sep 2021	Jun 2021	Mar 2021
Revenues and other income	**929**	**786**	**713**	**501**	672	377	387	554
Adjusted EBITDA[1, 2]	**303**	**383**	**319**	**348**	294	286	241	303
Net (loss) income	**(99)**	**31**	**77**	**119**	(69)	38	17	101
Net (loss) income attributable to shareholders of the Company	**(98)**	**34**	**80**	**122**	(65)	40	20	103
Basic (loss) earnings per share ($)	**(0.91)**	**0.21**	**0.59**	**0.96**	(0.67)	0.23	0.05	0.83
Diluted (loss) earnings per share ($)[3]	**(0.91)**	**0.20**	**0.59**	**0.96**	(0.67)	0.23	0.05	0.83
Normalized earnings per share ($)[1]	**0.70**	**1.25**	**0.76**	**0.93**	0.47	0.55	0.32	0.64
Net cash flows from operating activities	**42**	**370**	**108**	**415**	185	347	129	206
Adjusted funds from operations[1]	**140**	**328**	**180**	**200**	149	206	91	159
Adjusted funds from operations per share ($)[1]	**1.20**	**2.81**	**1.55**	**1.72**	1.28	1.78	0.83	1.49
Purchase of property, plant and equipment and other assets, net	**179**	**224**	**147**	**132**	198	176	151	97

[1] The consolidated financial highlights, except for adjusted EBITDA, normalized earnings per share, AFFO and AFFO per share were prepared in accordance with GAAP. See Non-GAAP financial measures and ratios, page 56.

[2] Includes adjusted EBITDA from the York Energy and Midland Cogen (see Significant events, page 62) joint ventures.

[3] Diluted (loss) earnings per share was calculated after giving effect to outstanding share purchase options.

(unaudited, $ millions except per share amounts) **Spot price averages**	Three months ended Dec 2022	Sep 2022	Jun 2022	Mar 2022	Dec 2021	Sep 2021	Jun 2021	Mar 2021
Alberta power ($ per MWh)	**214**	**221**	**122**	**90**	107	100	105	95
Alberta natural gas (AECO) ($ per GJ)	**4.91**	**4.02**	**6.86**	**4.54**	4.48	3.32	3.03	3.07
Capital Power's Alberta portfolio average realized power price ($ per MWh)	**111**	**101**	**85**	**84**	84	75	75	77

Summary of quarterly results

Factors impacting results for the fourth quarter of 2022

For the quarter ended December 31, 2022, the Company recorded favorable AFFO due to the acquisition of Midland Cogen (see Significant events, page 62) and higher adjusted EBITDA from our Ontario Contracted facilities mainly driven by more frequent dispatch at Goreway. These favourable impacts to AFFO were partially offset by unfavorable results from our emissions trading portfolio as a result of a change in strategy to optimize our offset credit inventory, lower adjusted EBITDA at Island Generation due to new EPA classification as a finance lease. In addition, we incurred higher sustaining capital expenditures during the quarter compared to the fourth quarter in 2021 (see Operational excellence, page 54), partially offset by lower current income tax expense due to changes in unrecognizable tax benefits, lower amounts attributable to tax-equity interests, and differences associated with applicable jurisdictional tax rates. Net loss attributable to shareholders of $98 million was recorded in fourth quarter ended December 31, 2022 compared to net loss attributable to shareholders of $65 million for the quarter ended December 31, 2021. In addition to the above mentioned factors, further contributions to the net loss included higher unrealized losses on commodity derivatives and emission credits in the fourth quarter of 2022 of $124 million most notably related to the impact of increasing forward power prices on Alberta net forward sale contracts partially offset by decreasing forward power prices on our U.S. net forward sale contracts, a provision for PPA termination fees on the Bear Branch Solar, Hornet Solar and Hunter's Cove Solar projects and a write-down of inventory related to end-of-life of coal operations at Genesee. In addition, during the fourth quarter of 2021, an impairment loss of $52 million related to the Island Generation facility was recorded with no impairment loss in the current period.

Factors impacting results for the previous quarters

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

Third quarter of 2022 – For the quarter ended September 30, 2022, Capital Power recorded net income attributable to shareholders of $34 million compared to net income attributable to shareholders of $40 million for the quarter ended September 30, 2021. Decreases in net income were due to higher unrealized losses on commodity derivatives and emission credits in the third quarter of 2022 of $70 million due to the impact of increasing forward power prices on Alberta and U.S. net forward sale contracts and higher unrealized gains on natural gas forward purchase contracts in the prior comparative period. In addition, $31 million of gains on disposals and other transactions was recorded during the three months ended September 30, 2021, including insurance recoveries, net of related expenses to repair Genesee 2 and a gain on decommissioning of the Southport and Roxboro facilities to reflect lower than expected decommissioning costs. These decreases were partially offset by higher adjusted EBITDA from our Alberta commercial facilities mainly attributable to the Genesee 2 generator failure in 2021, higher generation and higher realized power pricing on our Alberta commercial facilities during the 2022 period.

Second quarter of 2022 – For the quarter ended June 30, 2022, Capital Power recorded net income attributable to shareholders of $80 million compared to net income attributable to shareholders of $20 million for the quarter ended June 30, 2021. Increases in net income were due to: higher adjusted EBITDA from our Alberta commercial facilities mainly attributable to the higher generation and realized power pricing on our Alberta commercial facilities, more frequent dispatch and higher availability from our U.S. contracted thermal facilities and strong wind resources experienced at our U.S. wind facilities. Lower net finance expense in the second quarter of 2022 was largely due to lower interest on decreased loans and borrowings, higher capitalized interest from the continued advancement of the Genesee repowering project and higher unrealized gains on non-hedge interest rate swaps driven by larger impacts of increasing market interest rates in the second quarter of 2022 compared to 2021. These increases were partially offset by higher depreciation expense due to phases 2 and 3 of Whitla Wind (commenced commercial operations in December 2021), Strathmore Solar (commenced commercial operations in March 2022, see Significant events, page 62) and further shortened useful life of the Genesee Mine, partially offset by the classification of Island Generation EPA as a finance lease during the second quarter of 2022 (see Significant events, page 62). Further decreases to net income were due to higher unrealized foreign exchange losses from the revaluation of U.S. dollar denominated debt and higher income tax expense primarily due to higher consolidated net income before tax in the second quarter of 2022 coupled with a $10 million deferred income tax benefit in the prior period that was attributable to lower applicable jurisdictional tax rates, of which there is no comparable tax recovery recognized in 2022.

First quarter of 2022 – For the quarter ended March 31, 2022, Capital Power recorded net income attributable to shareholders of $122 million compared to net income attributable to shareholders of $103 million for the quarter ended March 31, 2021. Increases in net income were due largely to higher adjusted EBITDA from: our Alberta commercial facilities due to higher generation and higher realized Alberta power prices, higher dispatch at Goreway and wind resource availability at Port Dover and Nanticoke Wind and the commissioning of phases 2 and 3 of Whitla Wind in December 2021. Net finance expense was lower for the quarter ended March 31, 2022 largely due to lower interest on decreased loans and borrowings outstanding. Unrealized losses on commodity derivatives and emission credits were $11 million higher in the first quarter of 2022 due to the impact of increasing forward power prices on Alberta and U.S. net forward sale contracts partially offset by the impact of increasing forward natural gas prices on net forward purchase contracts. Further decreases to net income during the quarter were due to: lower adjusted EBITDA from U.S contracted facilities primarily driven by the impacts of the extreme weather event at Buckthorn Wind in February 2021; higher depreciation expense due to commencement of commercial operations of phases 2 and 3 of Whitla Wind; and higher income tax expense primarily due to higher consolidated net income before tax in the first quarter of 2022.

Summary of quarterly results

Fourth quarter of 2021 – For the quarter ended December 31, 2021, Capital Power recorded net loss attributable to shareholders of $65 million compared to net income attributable to shareholders of $3 million for the quarter ended December 31, 2020. Decreases in net income were driven by an impairment loss of $52 million related to the Island Generation facility in the fourth quarter of 2021 compared to the impairment recorded in the fourth quarter of 2020 related to the cancellation of the Genesee 1 and 2 dual-fuel project. Unrealized losses on commodity derivatives and emission credits in the fourth quarter of 2021 were $104 million higher than in the fourth quarter of 2020, most notably related to the impact of increasing forward power prices on Alberta and U.S. net forward sale contracts and the impact of decreasing forward natural gas prices on net forward purchase contracts during the fourth quarter of 2021. In addition, net income was reduced compared to the fourth quarter of 2020 by lower adjusted EBITDA from our U.S. contracted facilities, including the impact of the retirement of the Southport and Roxboro facilities, and higher depreciation expense due to accelerated depreciation of Genesee 1 and 2 coal assets and the Genesee Mine. Partially offsetting these operational variances were higher Alberta commercial adjusted EBITDA due largely to higher captured prices and the impacts of the Genesee 1 and 2 PPA expiry, and lower net finance expense.

Third quarter of 2021 – For the quarter ended September 30, 2021, Capital Power recorded net income attributable to shareholders of $40 million compared to net income attributable to shareholders of $108 million for the quarter ended September 30, 2020. Decreases in net income were due to: lower adjusted EBITDA from U.S. contracted facilities, including the impact of the retirement of the Southport and Roxboro facilities effective March 31, 2021, unrealized losses on commodity derivatives and emission credits that were $97 million higher than the unrealized gains in the third quarter of 2020 mainly due to the impact of increasing forward prices on Alberta and U.S. power net forward sale contracts, partially offset by the impact of increasing forward prices on natural gas net forward purchase contracts; and higher depreciation expense due to accelerated depreciation of Genesee 1 and 2 coal assets and the Genesee Mine. These decreases were partially offset by $31 million of gains on disposals and other transactions including insurance recoveries, net of related expenses to repair Genesee 2 and a gain on decommissioning of the Southport and Roxboro facilities to reflect lower than expected decommissioning costs. Lastly, income tax expense was lower in the third quarter of 2021 primarily due to lower consolidated income before tax.

Second quarter of 2021 – For the quarter ended June 30, 2021, Capital Power recorded net income attributable to shareholders of $20 million compared to net income attributable to shareholders of $23 million for the quarter ended June 30, 2020. Decreases in net income were due to: lower adjusted EBITDA from U.S. contracted facilities primarily due to the retirement of the Southport and Roxboro facilities effective March 31, 2021 and the impacts of the strengthening Canadian dollar; unrealized losses on commodity derivatives and emission credits that were $15 million higher than in the second quarter of 2020 mainly due to the impact of increasing forward prices on U.S. power forward sale contracts, partially offset by unrealized gains on natural gas net forward purchase contracts; higher depreciation expense due to accelerated depreciation of Genesee 1 and 2 coal assets and the Genesee Mine; and unrealized foreign exchange losses on outstanding foreign currency non-hedge sale contracts transacted during the second quarter of 2021. These decreases were largely offset by higher adjusted EBITDA from Alberta commercial facilities due to higher realized Alberta power prices and the dispatch of Genesee 1 and 2 being on a merchant basis and the accelerated recognition of off-coal compensation.

First quarter of 2021 – For the quarter ended March 31, 2021, Capital Power recorded net income attributable to shareholders of $103 million compared to net income attributable to shareholders of $2 million for the quarter ended March 31, 2020. Increases in net income were due largely to higher adjusted EBITDA from: Alberta commercial facilities due to higher realized Alberta power prices and the dispatch of Genesee 1 and 2 being on a merchant basis, the accelerated recognition of off-coal compensation, the acquisition of Buckthorn Wind in the second quarter of 2020 and the commissioning of Cardinal Point Wind late in the first quarter of 2020. Unrealized losses on commodity derivatives and emission credits were $11 million lower than in the first quarter of 2020 mainly due to the impact of increasing forward prices resulting in unrealized gains on commodity forward purchase contracts, partially offset by unrealized losses on U.S. power forward sale contracts. Further increases in net income during the quarter were due to: an unrealized foreign exchange gain resulting from the strengthening of the Canadian dollar on foreign currency sale contracts compared to a loss in the first quarter of 2020; gains on the interest rate non-hedge held within the York Energy joint venture due to increasing interest rates compared with losses in the first quarter of 2020; and reductions in impairment losses compared to the first quarter of 2020 related to the discontinuation of the Genesee 4 and 5 project. Partially offsetting these variances were higher emissions costs at Genesee, higher depreciation expense due to accelerated depreciation of Genesee 1 and 2 coal assets and the Genesee Mine, and the commissioning of Cardinal Point Wind and acquisition of Buckthorn Wind.

Share and partnership unit information

Quarterly common share trading information

Capital Power's common shares are listed on the Toronto Stock Exchange under the symbol CPX and began trading on June 26, 2009.

	Three months ended							
	Dec 2022	**Sep 2022**	**Jun 2022**	**Mar 2022**	Dec 2021	Sep 2021	Jun 2021	Mar 2021
Share price ($/common share)								
High	**50.28**	**51.90**	**46.51**	**41.98**	45.05	45.04	42.28	38.34
Low	**40.69**	**44.34**	**40.48**	**36.35**	37.95	39.99	36.22	33.31
Close	**46.33**	**46.90**	**45.01**	**40.71**	39.46	42.71	40.95	36.40
Volume of shares traded (millions)	**23.4**	**28.2**	**19.9**	**21.6**	15.8	13.4	21.3	22.9

Outstanding share and partnership unit data

At February 23, 2023, the Company had 116.890 million common shares, 5 million Cumulative Rate Reset Preference Shares (Series 1), 6 million Cumulative Rate Reset Preference Shares (Series 3), 8 million Cumulative Rate Reset Preference Shares (Series 5), 6 million Cumulative Minimum Rate Reset Preference Shares (Series 11), and one special limited voting share outstanding. Assuming full conversion of the outstanding and issuable share purchase options to common shares and ignoring exercise prices, the outstanding and issuable common shares at February 23, 2023 were 118.596 million. The outstanding special limited voting share is held by EPCOR.

Capital Power issued 350,000 Series 2022-A Class A Preferred Shares to the Computershare Trust Company of Canada, to be held in trust (see Significant events, page 62).

At February 23, 2023, CPLP had 198.113 million general partnership units outstanding and 737.362 million common limited partnership units outstanding. All of the outstanding general partnership units and the outstanding common limited partnership units are held by the Company.

Additional information

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

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Forward-looking information or statements included in this Integrated Annual Report are provided to inform our shareholders and potential investors about management's assessment of Capital Power's future plans and operations. This information may not be appropriate for other purposes.

Forward-looking information

Forward-looking information

Forward-looking information or statements included in this Integrated Annual Report are provided to inform our shareholders and potential investors about management's assessment of Capital Power's future plans and operations. This information may not be appropriate for other purposes. The forward-looking information in this Integrated Annual Report is generally identified by words such as will, anticipate, believe, plan, intend, target, and expect or similar words that suggest future outcomes.

Material forward-looking information in this Integrated Annual Report includes expectations regarding:

- our priorities and long-term strategies, including our corporate, sustainability and renewables strategies;
- our company-wide targets specific to climate-related performance, including reduction of emissions and emissions intensity and our road map towards net zero by 2045, pathway to decarbonization, repowering of Genesee 1 and 2 with addition of battery storage and conversion of Genesee 3, completion of the Genesee Carbon Conversion Centre and commercial application of carbon conversion, capture and storage technologies;
- our efforts to create a more equitable workplace and our goals for diversity of our workforce;
- our efforts to implement our Indigenous Relations strategy, including potential partnerships with Indigenous communities;
- our goals for long-term Total Shareholder Return, annual capital growth and future dividend growth;
- our 2023 performance targets, including for facility availability, sustaining capital expenditures, AFFO and adjusted EBITDA;
- future revenues, expenses, earnings, adjusted EBITDA and AFFO;
- our plans to add renewables generation to our fleet;
- expectations around timing and costs associated with our upgrades, projects and repowering plans at our Genesee facility, including being off-coal in 2023;
- the future pricing of electricity and market fundamentals in existing and target markets;
- our future cash requirements including interest and principal repayments, capital expenditures, dividends and distributions;
- our sources of funding, adequacy and availability of committed bank credit facilities and future borrowings;
- future growth and emerging opportunities in our target markets including the focus on certain technologies;
- expectations pertaining to the use of proceeds from the offering of Subordinated Notes and future Green Financings pursuant to our Green Financing Framework (see Significant events, page 62);
- expectations pertaining to the integration and the financial impacts of the acquisition of Midland Cogen (see Significant events, page 62), including the impacts to AFFO, AFFO per share and adjusted EBITDA, positioning for potential re-contracting following contract expiries in 2030 and 2035, and future site development opportunities;
- the timing of, funding of, generation capacity of, costs for technologies selected for, environmental benefits or commercial arrangements regarding existing, planned and potential development projects and acquisitions (including phase 2 of Halkirk Wind, the repowering of Genesee 1 and 2 (including being hydrogen ready, carbon conversion ready, and battery storage), the Genesee CCS Project and potential projects the Company intends to advance as part of the IESO competitive procurement process);
- expectations of re-bidding the Bear Branch Solar, Hornet Solar, Hunter's Cove Solar projects into future request for proposals;
- facility availability and planned outages;
- capital expenditures for facility maintenance and other (sustaining capital, future growth projects, commercial initiatives);
- expectation regarding the timing of collective bargaining, or the timing, effect or implementation of collective agreements;
- discussion of our risks and strategies and plans for risk management and mitigation;
- market and regulation designs and the impact thereof on our core markets;
- matters related to the LLR Proceeding recovery of payments from appropriate parties and potential impacts to the Company arising from the foregoing; and
- the impact of climate change.

Forward-looking information

These statements are based on certain assumptions and analyses made by Capital Power considering its experience and perception of historical and future trends, current conditions, expected future developments, and other factors it believes are appropriate including its review of purchased businesses and assets. The material factors and assumptions used to develop these forward-looking statements relate to:

- electricity and other energy and carbon prices;
- performance;
- business prospects (including potential re-contracting of facilities) and opportunities including expected growth and capital projects;
- status and impact of policy, legislation and regulations;
- effective tax rates;
- the development and performance of technology;
- foreign exchange rates;
- matters relating to the LLR Proceeding, including the recovery and timing thereof from appropriate parties; and
- other matters discussed under the Performance targets for 2023: enhancing shareholder value section, page 18.

Whether actual results, performance or achievements will conform to our expectations and predictions is subject to several known and unknown risks and uncertainties which could cause actual results and experience to differ materially from our expectations. Such material risks and uncertainties are:

- changes in electricity, natural gas and carbon prices in markets in which we operate and the use of derivatives;
- regulatory and political environments including changes to environmental, climate, financial reporting, market structure and tax legislation;
- disruptions, or price volatility within our supply chains;
- generation facility availability, wind capacity factor and performance including maintenance expenditures;
- ability to fund current and future capital and working capital needs;
- acquisitions and developments including timing and costs of regulatory approvals and construction;
- changes in the availability of fuel;
- ability to realize the anticipated benefits of acquisitions;
- limitations inherent in our review of acquired assets;
- changes in general economic and competitive conditions, including inflation and recession;
- changes in the performance and cost of technologies and the development of new technologies, new energy efficient products, services and programs; and
- risks and uncertainties discussed under the Risks and risk management section see page 84.

Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Capital Power does not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in our expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

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KPMG have been engaged by the management of Capital Power to undertake a limited assurance engagement, in respect of the year ended December 31, 2022, on certain quantitative performance information disclosed in Capital Power's 2022 Integrated Annual Report.

Assurance

Assurance

Independent practitioner’s limited assurance report

Independent Practitioner’s Limited Assurance Report

To management of Capital Power Corporation (“Capital Power”):

We have been engaged by the management of Capital Power to undertake a limited assurance engagement, in respect of the year ended December 31, 2022, on certain quantitative performance information disclosed in Capital Power’s 2022 Integrated Annual Report (the “Report”) as described below.

Subject Matter Information and Applicable Criteria

The scope of our limited assurance engagement, as agreed with management, and indicated with the symbol ☑ within the Report, comprises the following performance information (the “Subject Matter Information”):

- Scope 1 Greenhouse gas (GHG) intensity (tCO$_2$e / MWh)
- Total Scope 1 GHG emissions (tCO$_2$e)
- Innovation spend (million $)
- Total recordable injury frequency (work-related injury / 200,000 hours worked) for Corporate/Operations
- % of women by employee category
- % of women new hires

The Subject Matter Information, contained within the Report, have been determined by management on the basis of Capital Power’s assessment of the material issues contributing to Capital Power’s Environmental, Social and Governance (“ESG”) performance and most relevant to their stakeholders.

Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

There are no mandatory requirements for the preparation or publication of ESG performance metrics. As such, Capital Power applies the World Resources Institute/World Business Council for Sustainable Development’s Greenhouse Gas Protocol Corporate Accounting and Reporting Standard (the ‘GHG Protocol’) and its own internal reporting guidelines and definitions for ESG reporting (collectively the ‘applicable criteria’). The internal reporting guidelines and definitions can be found in the GRI Content Index and relevant footnotes in the Report.

Management’s responsibilities

Management is responsible for:

- The preparation and presentation of the Subject Matter Information in accordance with the applicable criteria, current as at the date of our report;
- Determining the appropriateness of the use of the applicable criteria;
- Determining Capital Power’s objectives in respect of ESG performance and reporting, including the identification of stakeholders and material issues; and,
- For establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Practitioner’s responsibilities

Our responsibility is to express a limited assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with International Standard on Assurance Engagements (“ISAE”) 3000 (Revised) *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements*, issued by the International Auditing and Assurance Standards Board. ISAE 3000 and ISAE 3410 require that we plan and perform this engagement to conclude whether a matter(s) has come to our attention that causes us to believe that the Subject Matter Information is materially misstated.

Independence, quality control and competence

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies *International Standard on Quality Control 1* and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement was conducted by a multidisciplinary team which included professionals with suitable skills and experience in both assurance and in the applicable subject matters.

Assurance approach

We planned and performed our work to obtain all the evidence, information and explanations we considered necessary in order to form our conclusion as set out below. Our procedures included:

- Inquiries of management to gain an understanding of Capital Power’s processes for determining the material issues for Capital Power’s key stakeholder groups;

Independent practitioner's limited assurance report

- Inquiries with relevant staff at the corporate and facility level to understand the data collection and reporting processes for the Subject Matter Information;
- Assessment of the suitability and application of the criteria in respect of the Subject Matter Information
- Where relevant, performing walkthroughs of data collection and reporting processes for the Subject Matter Information;
- Comparing a sample of the reported data for the Subject Matter Information to underlying data sources;
- Inquiries of management regarding key assumptions and, where relevant, the re-performance of calculations on a sample basis;
- Completion of virtual and in-person site visits to a sample of Capital Power's facilities, including walkthrough of data collection and reporting processes, interviews with senior management and relevant staff; and,
- Reviewing the presentation of the Subject Matter Information in the Report to determine whether it is consistent with our overall knowledge of, and experience with, the ESG performance of Capital Power.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than, those applied in a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

We believe the evidence we obtained is sufficient and appropriate to provide a basis for our conclusion.

Inherent limitations

Non-financial information, such as that contained in the Report, is subject to more inherent limitations than financial information, given the characteristics of significant elements of the subject matter information and the availability and relative precision of methods used for determining both qualitative and quantitative information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. The nature and methods used to determine such information, as well as the measurement criteria, may change over time. It is important to read Capital Power's internal reporting guidelines and definitions which can be found in the GRI Content Index and relevant footnotes in the Report

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Subject Matter Information, as described above and disclosed in the Capital Power 2022 Integrated Annual Report, has not been prepared and presented, in all material respects, in accordance with the applicable criteria, as at and for the year-ended December 31, 2022.

KPMG LLP

Chartered Professional Accountants

February 28, 2023

Edmonton, Canada

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Consolidated financial statements

Consolidated financial statements

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 28, 2023. 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
February 28, 2023

Sandra Haskins
Senior Vice President, Finance and Chief Financial Officer

Independent auditor's report

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INDEPENDENT AUDITOR'S 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, 2022 and December 31, 2021
- 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, 2022 and December 31, 2021, 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 "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's 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.

Independent auditor's report

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, 2022. 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 auditor's 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 30 to the financial statements. The Entity has recorded derivative financial instrument assets of $20 million and liabilities of $476 million within level 3 of the fair value hierarchy at December 31, 2022. 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 the contracts 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.

Independent auditor’s report

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 the contracts 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 auditor's report thereon, included in a document likely to be entitled “2022 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 “2022 Integrated Annual Report” as at the date of this auditor’s 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 auditor’s 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.

Independent auditor’s report

Auditor’s 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 auditor’s 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 auditor’s 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 auditor’s 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.

Independent auditor's report

KPMG

- 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 auditor's 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 auditor's 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 auditor's report is Robert Borrelli.

Edmonton, Canada
February 28, 2023

Consolidated statements of income

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

Years ended December 31	2022	2021
Revenues	$ 2,712	$ 1,757
Other income (note 6)	217	233
Energy purchases and fuel	(1,578)	(667)
Gross margin	1,351	1,323
Other raw materials and operating charges	(154)	(151)
Staff costs and employee benefits expense (note 7)	(184)	(176)
Depreciation and amortization (note 7)	(553)	(539)
Impairments, net of reversal (note 20)	–	(58)
Other administrative expense	(143)	(114)
Foreign exchange loss	(15)	(9)
Operating income	302	276
(Losses) gains on disposals and other transactions (note 5)	(37)	36
Net finance expense (note 8)	(156)	(174)
Income from joint ventures (note 33)	32	9
Income before tax	141	147
Income tax expense (note 9)	(13)	(60)
Net income	$ 128	$ 87
Attributable to:		
Non controlling interests	$ (10)	$ (11)
Shareholders of the Company	$ 138	$ 98
Earnings per share (attributable to common shareholders of the Company):		
Basic (note 10)	$ 0.85	$ 0.39
Diluted (note 10)	$ 0.84	$ 0.39

See accompanying notes to the consolidated financial statements.

Consolidated statements of comprehensive income

(In millions of Canadian dollars)

Years ended December 31		**2022**		2021
Net income	**$**	**128**	$	87
Other comprehensive loss				
Items that will not be reclassified to net income:				
Actuarial gains on defined benefits plans[1]		**9**		3
		9		3
Items that are or may be reclassified subsequently to net income:				
Cash flow hedges:				
Unrealized losses on derivative instruments[2]		**(508)**		(194)
Reclassification of losses on derivative instruments to income for the year[3]		**328**		158
Net investment in foreign subsidiaries:				
Unrealized gains on foreign currency translation[4]		**81**		6
		(99)		(30)
Total other comprehensive loss, net of tax		**(90)**		(27)
Total comprehensive income	**$**	**38**	$	60
Attributable to:				
Non-controlling interests	**$**	**(10)**	$	(11)
Shareholders of the Company	**$**	**48**	$	71

[1] For the years ended December 31, 2022 and December 31, 2021, net of income tax expenses of $3 and $1, respectively.

[2] For the years ended December 31, 2022 and December 31, 2021, net of income tax recoveries of $154 and $61, respectively.

[3] For the years ended December 31, 2022 and December 31, 2021, net of reclassifications of income tax recoveries of $99 and $49, respectively.

[4] For the years ended December 31, 2022 and December 31, 2021, net of income tax expenses of nil.

See accompanying notes to the consolidated financial statements.

Consolidated statements of financial position

(In millions of Canadian dollars)

At December 31	**2022**	2021
Assets		
Current assets:		
Cash and cash equivalents (note 11)	**$ 307**	$ 387
Trade and other receivables (note 12)	**949**	474
Inventories (note 13)	**242**	217
Derivative financial instruments assets (note 14)	**188**	108
	1,686	1,186
Non-current assets:		
Other assets	**49**	47
Derivative financial instruments assets (note 14)	**295**	222
Finance lease receivable (note 15)	**34**	–
Government grant receivable (note 16)	**310**	349
Deferred tax assets (note 17)	**20**	17
Equity-accounted investments (note 33)	**437**	145
Right-of-use assets (note 18)	**127**	120
Intangible assets and goodwill (note 19)	**817**	784
Property, plant and equipment (note 20)	**6,360**	6,203
Total assets	**$ 10,135**	$ 9,073

See accompanying notes to the consolidated financial statements.

Consolidated statements of financial position

(In millions of Canadian dollars)

At December 31	2022	2021
Liabilities and equity		
Current liabilities:		
Trade and other payables (note 21)	**$ 1,249**	$ 624
Derivative financial instruments liabilities (note 14)	**600**	252
Loans and borrowings (note 22)	**133**	126
Deferred revenue and other liabilities (note 24)	**158**	153
Provisions (note 25)	**72**	50
	2,212	1,205
Non-current liabilities:		
Derivative financial instruments liabilities (note 14)	**624**	352
Loans and borrowings (note 22)	**3,593**	3,234
Lease liabilities (note 18)	**146**	137
Deferred revenue and other liabilities (note 24)	**245**	291
Deferred tax liabilities (note 17)	**530**	584
Provisions (note 25)	**325**	411
	5,463	5,009
Equity:		
Equity attributable to shareholders of the Company		
Share capital (note 26)	**3,498**	3,631
Deficit	**(835)**	(671)
Other reserves	**(209)**	(119)
Deficit and other reserves	**(1,044)**	(790)
	2,454	2,841
Non-controlling interests	**6**	18
Total equity	**2,460**	2,859
Total liabilities and equity	**$ 10,135**	$ 9,073

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

Barry Perry

Jill Gardiner
Director and Chair of the Board

Barry Perry
Director and Chair of the Audit Committee

Consolidated statements of changes in equity

(In millions of Canadian dollars)

	Share capital (note 26)	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, 2022	$ 3,631	$ (84)	$ (28)	$ (17)	$ 10	$ (671)	$ 2,841	$ 18	$ 2,859
Net income	–	–	–	–	–	138	138	(10)	128
Other comprehensive (loss) income:									
Defined benefit plan actuarial gain	–	–	–	12	–	–	12	–	12
Cash flow derivative hedge losses	–	(662)	–	–	–	–	(662)	–	(662)
Reclassification of derivative hedge losses to net income	–	427	–	–	–	–	427	–	427
Unrealized gains on foreign currency translation	–	–	81	–	–	–	81	–	81
Tax on items recognized directly in equity	–	55	–	(3)	–	–	52	–	52
Other comprehensive (loss) income	$ –	$ (180)	$ 81	$ 9	$ –	$ –	$ (90)	$ –	$ (90)
Total comprehensive (loss) income	–	(180)	81	9	–	138	48	(10)	38
Distributions to non-controlling interests	–	–	–	–	–	–	–	(2)	(2)
Common share dividends (note 26)	–	–	–	–	–	(263)	(263)	–	(263)
Preferred share dividends (note 26)	–	–	–	–	–	(37)	(37)	–	(37)
Tax on preferred share dividends	–	–	–	–	–	(2)	(2)	–	(2)
Preferred share redemption (note 26)	(150)	–	–	–	–	–	(150)	–	(150)
Share-based payments	–	–	–	–	1	–	1	–	1
Share options exercised	17	–	–	–	(1)	–	16	–	16
Equity at December 31, 2022	$ 3,498	$ (264)	$ 53	$ (8)	$ 10	$ (835)	$ 2,454	$ 6	$ 2,460

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[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 26)	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 derivative hedge 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 26)	–	–	–	–	–	(241)	(241)	–	(241)
Preferred share dividends (note 26)	–	–	–	–	–	(51)	(51)	–	(51)
Tax on preferred share dividends	–	–	–	–	–	(3)	(3)	–	(3)
Preferred share redemption (note 26)	(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 cash flows

(In millions of Canadian dollars)

Years ended December 31	**2022**	2021
Cash flows from operating activities:		
Net income	**$ 128**	$ 87
Non-cash adjustments to reconcile net income to net cash flows from operating activities:		
Impairments, net of reversal (note 20)	**–**	58
Depreciation and amortization (note 7)	**553**	539
Net finance expense (note 8)	**156**	174
Fair value changes on commodity derivative instruments and emission credits held for trading	**429**	220
Foreign exchange losses	**15**	9
Income tax expense (note 9)	**13**	60
Income from joint ventures (note 33)	**(32)**	(9)
Recognition of government grant deferred revenue	**(126)**	(126)
Tax equity attributes (note 6)	**(83)**	(88)
Other items	**39**	9
Change in fair value of derivative instruments reflected as cash settlement	**(213)**	(43)
Distributions received from joint ventures (note 33)	**16**	11
Interest paid	**(89)**	(111)
Income taxes (paid) recovered	**(37)**	7
Other cash items	**(13)**	(30)
Change in non-cash operating working capital (note 27)	**179**	100
Net cash flows from operating activities	**935**	867
Cash flows used in investing activities:		
Purchase of property, plant and equipment and other assets, net[1]	**(682)**	(622)
Acquisition of equity-accounted investment (note 4)	**(273)**	–
Government grant received	**50**	50
Other cash flows (used in) from investing activities	**(5)**	7
Net cash flows used in investing activities	**(910)**	(565)
Cash flows used in financing activities:		
Proceeds from issue of loans and borrowings (note 22)	**447**	236
Repayment of loans and borrowings	**(71)**	(341)
Issue costs on loans and borrowings	**(4)**	(8)
Repayment of lease liabilities	**(6)**	(6)
Issue of share capital (note 26)	**–**	288
Share issue costs (note 26)	**–**	(12)
Proceeds from exercise of share options	**16**	21
Redemption of preferred shares (note 26)	**(150)**	(200)
Dividends paid (note 26)	**(296)**	(219)
Capitalized interest paid	**(21)**	(10)
Distributions to non-controlling interests	**(2)**	–
Income taxes paid on preferred share dividends	**(15)**	(21)
Other cash flows used in financing activities	**–**	(3)
Net cash flows used in financing activities	**(102)**	(275)
Foreign exchange loss on cash held in a foreign currency	**(3)**	(7)
Net (decrease) increase in cash and cash equivalents	**(80)**	20
Cash and cash equivalents, beginning of year	**387**	367
Cash and cash equivalents, end of year	**$ 307**	$ 387

[1] Reflects total additions for the year ended December 31, 2022, reduced by $81 million for changes in non-cash investing working capital and other non-current liabilities (2021 – reduced by $159 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. Material 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 28, 2023.

(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. (2021 – 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.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(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 ventures

When the Company has joint control 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 joint ventures are 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 ventures' total comprehensive income or loss after the date of acquisition. Distributions received from joint ventures reduce the carrying amount of the investment. The accounting policies of joint ventures 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 16). 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.

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. When multiple promises exist in a single customer contract, management exercises judgement to identify whether these promises are distinct performance obligations or a series of distinct goods that are substantially the same and that have the same pattern of transfer to the customer. This determination of performance obligations affects whether the transaction price is recognized over time or at a point in time. 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 36.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(g) Revenue recognition, continued:

Contracts with customers by operational groupings

Operational grouping	Description
Alberta Commercial	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 are excluded from the scope of IFRS 15.
Western Canada Contracted	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. REC sales from a portion of Whitla Wind are within the scope of IFRS 15 and are described in the contracts with customers table below. The following are excluded from 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. • Certain contracts to sell renewable generation and environmental attributes from the renewable facilities are accounted for under IFRS 9.
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 power purchase agreements or arrangements (PPAs) 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. 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.

Contracts with customers

Revenue type	Description
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.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(g) Revenue recognition, continued:

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 fulfil the contracts with its customers.

At December 31, 2022 and 2021, 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 24).

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.

(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.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(i) Non-derivative financial instruments, continued:

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(m). 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.

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.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(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.

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.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(j) Derivative instruments and hedging activities, continued:

Hedge accounting, continued

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 modeling techniques commonly used by market participants to estimate fair value. Fair values determined using valuation models require the use of assumptions concerning the amounts and timing of future cash flows. Fair value amounts reflect management's best estimates using external readily observable market data such as future prices, interest rate yield curves, foreign exchange rates, discount rates for time value, and volatility where available. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

(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.

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 50 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.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(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 19 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 35 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) Impairment of assets:

Non-financial assets

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into a cash-generating unit (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.

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.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(m) Impairment of assets, continued:

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, 2022. Credit risk management procedures, including risk mitigation practices, are as described in note 31.

(n) 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.

Notes to the consolidated financial statements

2. Material accounting policies, continued:

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

Notes to the consolidated financial statements

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 18.

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 33.

Operating segments

As noted in note 36, 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.

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Notes to the consolidated financial statements

3. Use of judgments and estimates, continued:

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.

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:

- Notes 14 and 30 – Financial instruments;
- Note 20 – Property, Plant and Equipment; and
- Note 25 – 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 2022 and 2021, 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.

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 17.

Notes to the consolidated financial statements

4. Acquisition of Midland Cogeneration Venture:

On September 23, 2022, Capital Power and Manulife Investment Management, on behalf of the Manulife Infrastructure Fund II and its affiliates, each acquired 50% interest in MCV Holding Company LLC through its joint venture partnership, MCV Partners LLC. MCV Holding Company LLC owns 100% of Midland Cogeneration Venture Limited Partnership (Midland Cogen), a 1,633 MW natural gas combined-cycle cogeneration facility located in Michigan, USA.

The Company has assessed MCV Partners LLC as a joint venture as all relevant operating, investing and financing activities of MCV Partners LLC are shared jointly between Capital Power and its joint venture partner. Accordingly, Capital Power's investment in MCV Partners LLC is accounted for under the equity method (note 33).

Capital Power's investment for its 50% ownership of MCV Partners LLC was $280 million (US$208 million) of cash consideration, including working capital and other closing adjustments of $29 million (US$22 million). The Company previously entered into foreign exchange cash flow hedges of US$150 million pertaining to the hedged portion of U.S. dollar denominated funds used to acquire the equity-accounted investment. The hedges settled during the third quarter of 2022 for a gain of $7 million, which was recorded as part of the equity accounted investment balance on the consolidated statements of financial position. Capital Power is responsible for operations and maintenance and asset management for which it will receive an annual management fee.

Substantially all of the underlying assets and liabilities of Midland Cogen relate to the cogeneration facility and the project level debt (note 33).

5. (Losses) gains on disposals and other transactions:

Year ended December 31		**2022**		2021
Net (losses) gains related to decommissioning of facilities[1]	**$**	**(24)**	$	7
Termination fees[2]		**(13)**		–
Insurance recoveries net of related expenses[3]		**–**		23
Other gains on disposals		**–**		6
Total (losses) gains on disposals and other transactions	**$**	**(37)**	$	36

1 During the fourth quarter of 2022, inventory write-downs of $18 million related to parts and other consumables inventory at the Genesee facility that were specific to coal-fired generation activities and $6 million in adjustments to reflect higher Southport and Roxboro decommissioning costs were recorded. In 2021, net gains reflect adjustments to decommissioning costs of the Southport and Roxboro facilities that the Company previously established as provisions net of inventory write-downs (note 13).

2 During the fourth quarter of 2022, a provision of $13 million (US$10 million) was recorded for the termination fees related to existing PPAs of the Bear Branch Solar, Hornet Solar and Hunter's Cove Solar projects due to challenges with cost pressures (note 34 (a)).

3 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. The recoveries were received in the first quarter of 2022.

6. Other income:

Year ended December 31		**2022**		2021
Contributions and grants	**$**	**4**	$	7
Government compensation (note 16)		**126**		126
Production tax credits		**70**		61
Other Tax Equity Investment tax attributes		**13**		27
Other		**4**		12
Other income	**$**	**217**	$	233

Notes to the consolidated financial statements

7. Expenses:

Year ended December 31		2022		2021
Included in staff costs and employee benefits expense				
Share-based payments (note 29)	**$**	**25**		16
Post-employment defined contribution plan expense		**7**		8
Post-employment defined benefit plan expense		**3**		3
		35		27
Included in depreciation and amortization				
Depreciation of property, plant and equipment (note 20)		**462**		445
Amortization of intangible assets (note 19)		**82**		80
Depreciation of right-of-use assets (note 18)		**9**		9
Other		**–**		5
	$	**553**	$	539

8. Net finance expense:

Year ended December 31		2022		2021
Interest expense				
Interest on loans and borrowings	**$**	**153**	$	142
Capitalized interest		**(21)**		(10)
Total interest expense		**132**		132
Other finance expense				
Accretion on decommissioning provisions (note 25)		**7**		5
Interest on lease liabilities		**8**		8
Accretion on deferred government grant revenue		**23**		36
Interest on long-term government grant receivable		**(12)**		(13)
Other		**(2)**		6
Net finance expense	**$**	**156**	$	174

Notes to the consolidated financial statements

9. Income tax expense:

Year ended December 31	2022	2021
Current income tax		
Current income tax expense	**$ 48**	$ 60
Recognition of previously unrecognized tax benefits	**(26)**	–
Adjustments for prior periods	**(2)**	–
Total current income tax expense	**20**	60
Deferred income tax		
Origination and reversal of temporary differences	**(6)**	23
Recognition of previously unrecognized tax benefits	**(4)**	(21)
Change in write-downs of deferred tax assets	**3**	(2)
Total deferred income tax recovery	**(7)**	–
Income tax expense	**$ 13**	$ 60

Reconciliation of effective income tax rate

Year ended December 31	2022	2021
Income before tax	**$ 141**	$ 147
Income tax at the statutory rate of 23%	**32**	34
Increase (decrease) resulting from:		
Amounts attributable to non-controlling interests and tax-equity interests	**6**	21
Change in unrecognized tax benefits	**(26)**	(2)
Non-deductible amounts	**7**	7
Statutory and other rate differences	**(6)**	(2)
Other	**–**	2
Income tax expense	**$ 13**	$ 60

Notes to the consolidated financial statements

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		**2022**		2021
Income for the period attributable to shareholders	**$**	**138**	$	98
Preferred share dividends[1]		**(39)**		(54)
Earnings available to common shareholders	**$**	**99**	$	44
Weighted average number of common shares		**116,537,927**		112,054,541
Basic earnings per share	**$**	**0.85**	$	0.39
Weighted average number of common shares		**116,537,927**		112,054,541
Effect of dilutive share purchase options		**683,931**		752,885
Diluted weighted average number of common shares		**117,221,858**		112,807,426
Diluted earnings per share	**$**	**0.84**	$	0.39

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

11. Cash and cash equivalents:

At December 31		**2022**		2021
Cash on deposit	**$**	**297**	$	218
Cash equivalents		**10**		169
	$	**307**	$	387

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 (2021 – $17 million).

12. Trade and other receivables:

At December 31		**2022**		2021
Accrued revenues	**$**	**765**	$	308
Trade receivables		**70**		62
Net trade receivables		**835**		370
Government grant receivable (note 16)		**57**		55
Income taxes recoverable		**11**		7
Prepayments		**39**		42
Finance lease receivable (note 15)		**7**		–
	$	**949**	$	474

Details of the aging of trade receivables and analysis of the movement on the allowance for doubtful accounts are provided in note 31.

Notes to the consolidated financial statements

13. Inventories:

At December 31	2022	2021
Parts and other consumables	$ 125	$ 144
Emission credits	93	51
Fuel	24	22
	$ 242	$ 217

Inventories expensed upon usage for the year ended December 31, 2022 of $139 million (2021 – $115 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 $18 million recognized in the year ended December 31, 2022 related to the end of Genesee's coal operations and decommissioning of Southport and Roxboro (2021 – $10 million recognized (including $8 million (US$7 million)) – see note 5. There were no reversals of previous write-downs recognized and no inventories pledged as security for liabilities in the year ended December 31, 2022 (2021 – nil).

14. Derivative financial instruments and hedge accounting:

Derivative instruments assets and liabilities are primarily used for risk management purposes as described in note 31 and consist of the following:

	December 31, 2022				
	Energy and emission allowances		Interest rate		
	cash flow hedges	non-hedges	cash flow hedges	non-hedges	Total
Derivative instruments assets:					
Current	$ 27	$ 144	$ 3	$ 14	$ 188
Non-current	4	247	44	–	295
Derivative instruments liabilities:					
Current	(226)	(371)	(3)	–	(600)
Non-current	(36)	(573)	(15)	–	(624)
Net fair value	$ (231)	$ (553)	$ 29	$ 14	$ (741)
Net notional buys (sells) (millions):					
Megawatt hours of electricity	(7)	(31)			
Gigajoules of natural gas purchased[1]		73			
Gigajoules of natural gas basis swaps[1]		76			
Metric tonnes of emission allowances		2			
Number of renewable energy credits		(12)			
Interest rate swaps			$ 1,191	$ 230	
Range of remaining contract terms in years	0.1 to 4.0	0.1 to 24.1	1.4 to 4.1	0.4 to 0.9	

[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.

14. Derivative financial instruments and hedge accounting, continued:

	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[2]		129			
Gigajoules of natural gas basis swaps[2]		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	

[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.

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 modeling 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, 2022 and 2021, the Company classified financial instruments under Level 2 and Level 3 of the fair value hierarchy described in note 3.

Notes to the consolidated financial statements

14. Derivative financial instruments and hedge accounting, continued:

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

	2022		2021	
	Unrealized (losses) gains	**Realized (losses) gains**	Unrealized (losses) gains	Realized (losses) gains
Energy cash flow hedges	**$ (337)**	**$ (428)**	$ (88)	$ (201)
Energy and emission allowances non-hedges	**(434)**	**(211)**	(224)	6
Interest rate cash flow hedges[3]	**102**	**1**	25	(6)
Interest rate non-hedges[3]	**5**	**9**	9	–
Foreign exchange cash flow hedges	**–**	**–**	15	–
Foreign exchange non-hedges	**–**	**(1)**	–	(2)

[3] Includes the settlement of interest rate cash flow hedges of US$335 million in August 2022 for a gain of $35 million of which $27 million was deferred within accumulated other comprehensive income to be reclassified to net income in future periods within the associated net finance expense pertaining to the hedged note offering. The remaining gain of $8 million was previously recognized directly in net finance expense as it relates to the period prior to the hedge designation (2021 – US$180 million settlement in June 2021 for a gain of $14 million of which $12 million was deferred within accumulated other comprehensive income).

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, 2022 and 2021:

	2022	2021
Revenues	**$ (1,573)**	$ (840)
Energy purchases and fuel	**500**	421
Foreign exchange loss	**(1)**	(2)
Net finance expense	**15**	3

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, 2022, the amount realized within net finance expense pertaining to the ineffective portion of hedging derivatives was nil (2021 – $2 million of gains).

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	**2022**
Within one year	**$ (312)**
Between one and five years	**11**
After five years	**29**
	$ (272)

Notes to the consolidated financial statements

15. Finance lease receivable

In May 2022, Capital Power executed a 4.5-year energy purchase agreement (EPA) for its Island Generation facility with BC Hydro, effective May 2022 through to October 2026. The new EPA is classified as a finance lease, whereas the previous EPA which expired in April 2022 was classified as an operating lease. Accordingly, during the second quarter of 2022, Capital Power derecognized Island Generation's net assets that were previously presented within property, plant and equipment on the consolidated statements of financial position and recognized a corresponding finance lease receivable, with the current portion included within trade and other receivables. The new EPA was approved by the British Columbia Utilities Commission during the fourth quarter of 2022.

Finance income of $9 million was recognized in revenues for the year ended December 31, 2022.

The following table sets out the maturity analysis of the lease receivable, showing the minimum undiscounted lease payments to be received:

At December 31		**2022**
Amounts receivable under finance lease:		
Less than one year	**$**	**19**
Between one and five years		**50**
Total undiscounted lease receivable		**69**
Unearned finance income		**(28)**
Net investment in lease		**41**
Less: current portion[1]		**(7)**
	$	**34**

[1] Included within trade and other receivables.

16. 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. This was subsequently updated to reflect the Company's plan to be off-coal in 2023 which further shortened the useful lives of its coal-fired assets and adjustment to 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 2022. 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 2022. 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 main 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. The Company well exceeded the total required investment with its investment in all three phases of Whitla Wind and continues to make capital investments in Alberta with the repowering of Genesee 1 and 2 and other renewable projects under construction (see note 34(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.

Notes to the consolidated financial statements

17. Deferred tax:

Movement of deferred tax balances

	At January 1, 2022	Recognized in net income	Recognized directly in other comprehensive income	Recognized directly in equity	At December 31, 2022	Deferred tax assets	Deferred tax liabilities
Losses carried forward	$ 58	$ 3	$ –	$ –	$ 61	$ 61	$ –
Property, plant and equipment	(764)	(15)	–	–	(779)	–	(779)
Intangible assets	(58)	9	–	–	(49)	33	(82)
Deferred partnership losses (income)	7	(70)	–	–	(63)	–	(63)
Derivative financial instruments	75	109	54	–	238	368	(130)
Share issue costs and deferred financing charges	4	–	–	(1)	3	3	–
Equity-accounted investments	–	(4)	–	–	(4)	4	(8)
Deferred revenue and other liabilities	90	(24)	–	–	66	66	–
Right-of-use assets	(27)	(1)	–	–	(28)	–	(28)
Finance lease receivable	–	(9)	–	–	(9)	–	(9)
Government grant receivable	(95)	9	–	–	(86)	–	(86)
Decommissioning provisions	88	(21)	–	–	67	67	–
Goodwill	7	–	–	–	7	7	–
Prepaid reclamation amounts	(14)	2	–	–	(12)	–	(12)
Other provisions	16	5	(3)	–	18	18	–
Other assets[1]	5	8	–	–	13	13	–
Other liabilities[2]	5	4	–	–	9	10	(1)
Lease liabilities	36	2	–	–	38	38	–
Deferred tax (liabilities) assets	$ (567)	$ 7	$ 51	$ (1)	$ (510)	$ 688	$ (1,198)
Set-off of tax					–	(668)	668
Net deferred tax (liabilities) assets					$ (510)	$ 20	$ (530)

[1] Includes inventories, trade and other receivables, and other assets.

[2] Includes trade and other payables and loans and borrowings.

Notes to the consolidated financial statements

17. Deferred tax, continued:

Movement of deferred tax balances, continued:

	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	–
Other assets[3]	6	(1)	–	–	–	5	5	–
Other liabilities[4]	9	(4)	–	–	–	5	6	(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)

[3] Includes inventories, trade and other receivables, and other assets.

[4] Includes trade and other payables and loans and borrowings.

Unrecognized deferred tax assets

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

At December 31	**2022**	2021
Non-capital losses	**$ 50**	$ 59
Deductible temporary differences with no expiry	**42**	60
	$ 92	$ 119

Tax losses carried forward

	2022		2021	
	Tax losses	**Expiry dates**	Tax losses	Expiry dates
Unrecognized tax losses carried forward	**$ 50**	**2031–2042**	$ 59	2031–2041

At December 31, 2022, the Company has non-capital losses carried forward of $316 million (2021 – $325 million), of which $311 million (US$229 million) (2021 – $304 million (US$240 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.

Notes to the consolidated financial statements

18. Leases:

Lessee – right-of-use assets

	Land	Offices	Equipment	Total
At January 1, 2021	$ 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
Additions	**11**	**–**	**–**	**11**
Depreciation	**(3)**	**(3)**	**(3)**	**(9)**
Foreign currency translation adjustments	**2**	**–**	**3**	**5**
At December 31, 2022	**$ 83**	**$ 18**	**$ 26**	**$ 127**

Lessee – lease liabilities

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

Year ended December 31	**2022**	2021
Income from rental and sub-leasing	**$ 1**	$ 1
Interest on lease liabilities	**(8)**	(8)
Variable lease payments not included in the measurement of lease liabilities	**(5)**	(6)

At December 31, 2022, expenses related to short-term and low-value leases was $1 million (2021 – $1 million).

Lessor – facilities under operating leases

The Decatur Energy and Arlington Valley power generation facilities are accounted for as assets under operating leases. The Island Generation EPA was accounted for as assets under operating leases through to the end of April 2022 (note 7).

At December 31, 2022, the cost of such property, plant and equipment was $935 million (December 31, 2021 – $1,041 million including Island Generation of $170 million), less accumulated depreciation of $206 million (December 31, 2021 – $273 million including Island Generation of $123 million).

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

At December 31	**2022**
2023	**$ 119**
2024	**113**
2025	**112**
2026	**127**
2027	**133**
Thereafter	**590**
Total	**$ 1,194**

19. Intangible assets and goodwill:

	Intangible work in progress	PPAs	Contract rights	Other rights	Emission credits	Software	Goodwill	Total
Cost								
At January 1, 2021	$ 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
Additions	**44**	**–**	**–**	**2**	**98**	**–**	**–**	**144**
Additions into service	**(12)**	**–**	**2**	**6**	**–**	**4**	**–**	**–**
Retirements and other disposals	**–**	**–**	**–**	**–**	**(41)**	**(16)**	**–**	**(57)**
Other	**6**	**6**	**3**	**4**	**(2)**	**–**	**–**	**17**
At December 31, 2022	**$ 41**	**$ 605**	**$ 87**	**$ 170**	**$ 182**	**$ 55**	**$ 35**	**$ 1,175**
Accumulated amortization								
At January 1, 2021	$ –	$ (126)	$ (19)	$ (22)	$ –	$ (40)	$ –	$ (207)
Amortization (note 7)	–	(66)	(4)	(5)	–	(5)	–	(80)
At December 31, 2021	$ –	$ (192)	$ (23)	$ (27)	$ –	$ (45)	$ –	$ (287)
Amortization (note 7)	**–**	**(67)**	**(4)**	**(5)**	**–**	**(6)**	**–**	**(82)**
Retirements and other disposals	**–**	**–**	**–**	**–**	**–**	**16**	**–**	**16**
Other	**–**	**(5)**	**–**	**–**	**–**	**–**	**–**	**(5)**
At December 31, 2022	**$ –**	**$ (264)**	**$ (27)**	**$ (32)**	**$ –**	**$ (35)**	**$ –**	**$ (358)**
Net book value								
At January 1, 2021	$ 20	$ 473	$ 47	$ 115	$ 67	$ 16	$ 35	$ 773
At December 31, 2021	$ 3	$ 407	$ 59	$ 131	$ 127	$ 22	$ 35	$ 784
At December 31, 2022	$ **41**	$ **341**	$ **60**	$ **138**	$ **182**	$ **20**	$ **35**	$ **817**

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.

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 falls within range of the estimated recoverable amount for both the 2022 and 2021 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, 2022 and 2021.

Restrictions on assets

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

Notes to the consolidated financial statements

20. Property, plant and equipment:

	Construction work in progress	Land	Plant and equipment	Total
Cost				
At January 1, 2021	$ 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 25)	–	–	(46)	(46)
Foreign currency translation adjustments	(11)	–	(4)	(15)
Other	5	–	(12)	(7)
At December 31, 2021	$ 396	$ 147	$ 7,846	$ 8,389
Additions	**640**	**–**	**35**	**675**
Additions into service	**(312)**	**–**	**312**	**–**
Retirements and other disposals	**–**	**–**	**(36)**	**(36)**
Reclassified to finance lease receivable (note 15)	**–**	**–**	**(167)**	**(167)**
Revisions to decommissioning costs (note 25)	**–**	**–**	**(119)**	**(119)**
Foreign currency translation adjustments	**1**	**–**	**134**	**135**
Other	**(6)**	**–**	**2**	**(4)**
At December 31, 2022	**$ 719**	**$ 147**	**$ 8,007**	**$ 8,873**
Accumulated depreciation				
At January 1, 2021	$ –	$ –	$(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)	$(2,186)
Depreciation (note 7)	–	–	**(462)**	**(462)**
Retirements and other disposals	**–**	**–**	**35**	**35**
Reclassified to finance lease receivable (note 15)	**–**	**–**	**124**	**124**
Foreign currency translation adjustments	**–**	**–**	**(24)**	**(24)**
At December 31, 2022	**$ –**	**$ –**	**$(2,513)**	**$(2,513)**
Net book value				
At January 1, 2021	$ 168	$ 150	$ 5,780	$ 6,098
At December 31, 2021	$ 396	$ 147	$ 5,660	$ 6,203
At December 31, 2022	**$ 719**	**$ 147**	**$ 5,494**	**$ 6,360**

Notes to the consolidated financial statements

20. Property, plant and equipment, continued:

Island Generation impairment

During the fourth quarter of 2021, the BC 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. BC Hydro also 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.

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 in the fourth quarter of 2021 (note 19).

In May 2022, Capital Power executed a 4.5-year EPA for Island Generation and the terms of the EPA were consistent with the key assumptions used when the Company recorded the impairment in 2021. Accordingly, no additional impairments or reversals were required.

Other impairments

During the year ended December 31, 2021, the Company recognized other impairments of property plant and equipment of $6 million, pertaining to the Genesee 4 and 5 project where a settlement was reached concerning the costs of exiting the series of previously executed agreements and the Company recognized an impairment, net of reversal, of $6 million on the Company's consolidated statements of income related to the assets acquired upon settlement.

There were no other indicators to test non-financial assets for impairment during 2022 and 2021.

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 4.8% (2021 – 4.13%) for projects financed using general borrowings. For the years ended December 31, 2022 and 2021, 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 22.

21. Trade and other payables:

At December 31	**2022**	2021
Operating accruals[1]	**$ 1,025**	$ 436
Trade payables	**117**	69
Dividends payable	**68**	64
Accrued interest	**34**	24
Taxes payable	**5**	31
	$ 1,249	$ 624

[1] 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, 2022, the brokerage margin is in a liability position of $219 million (2021 – liability of $93 million).

Notes to the consolidated financial statements

22. Loans and borrowings:

	Effective interest rate	**December 31, 2022**	December 31, 2021
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%	**203**	190
Issued by CPC, at 4.96% due in 2034	5.02%	**50**	50
		688	675
CPLP unsecured senior notes, payable semi-annually			
US$65, at 5.61% due in 2026	5.67%	**88**	82
		88	82
Subordinated green hybrid notes, payable semi-annually			
Issued by CPC, at 7.95%, due in 2082	8.08%	**350**	–
		350	–
CPLP non-recourse financing, payable quarterly			
Goreway Power Station, $564 at floating rates, due in 2027	6.21%	**426**	476
East Windsor Cogeneration Project, at 6.28%, due in 2029	6.23%	**94**	106
Macho Springs, US$50 at 6.90%, due in 2031	7.00%	**43**	45
		563	627
Tax-equity financing, payable quarterly[1]			
Bloom Wind, US$66		**89**	98
New Frontier Wind, US$46		**63**	69
Cardinal Point Wind, US$95		**129**	150
Buckthorn Wind, US$54		**73**	75
Committed credit facilities			
CPLP, at floating rates, due in 2027	6.40%	**59**	–
CPLP US$207, at floating rates, due in 2027[2]	8.15%	**281**	241
		694	633
Total debt payable		**3,758**	3,392
Less: current portion		**133**	126
		3,625	3,266
Less: deferred debt issue costs		**32**	32
		$ 3,593	$ 3,234

[1] 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%.

[2] At December 31, 2021, CPLP US$191, at floating rates, due in 2026 with an effective interest rate of 3.69%.

Notes to the consolidated financial statements

22. Loans and borrowings, continued:

$350 million Green Hybrid Subordinated Notes offering

On September 9, 2022, the Company closed a $350 million offering of Fixed-to-Fixed Subordinated Notes, Series 1, due September 9, 2082. The Series 1 Subordinated Notes have a fixed 7.95% interest rate, payable semi-annually, which resets on September 9, 2032, and on every fifth anniversary thereafter, based on the five-year Government of Canada yield plus: (i) 5.34% for the period from, and including, September 9, 2032 to, but excluding, September 9, 2052; and (ii) 6.09% for the period from, and including, September 9, 2052 to, but excluding, September 9, 2082.

The Series 1 Subordinated Notes are subject to optional redemption by the Company from June 9, 2032 to September 9, 2032 and on any interest payment date or any interest reset date, as applicable. The Company may also redeem the Series 1 Subordinated Notes in certain other circumstances. Following the occurrence of certain bankruptcy or insolvency events in respect of the Company, subject to certain exceptions, the Series 2022-A Class A Preferred Shares will be delivered to the holders of the Series 1 Subordinated Notes to satisfy the Company's obligations under the indenture governing the Series 1 Subordinated Notes (note 26). Upon delivery of the Series 2022-A Class A Preferred Shares, the Series 1 Subordinated Notes will be immediately and automatically surrendered and cancelled and all rights of any holders of the Series 1 Subordinated Notes will automatically cease. The fair value of Series 2022-A Class A Preferred Shares was assessed as nominal at inception.

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 $132 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 $60 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 $519 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.

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 5-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. During 2022, the credit facilities were further extended to July 2027. At December 31, 2022, the Company had Canadian loans of $59 million (2021 – nil), U.S. loans of $281 million (US$207 million) (2021 – $241 million (US$191 million)) and letters of credit of $91 million (2021 – $30 million) outstanding under these facilities as described in note 35.

Bilateral unsecured demand credit facilities are available to Capital Power and include $1,397 million for the issuance of letters of credit and a further $25 million in general facilities. The general facilities are undrawn at December 31, 2022 and 2021 while letters of credit of $1,171 million (2021 – $465 million) have been issued as described in note 35.

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 0.2% to 1.5%, 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 1.2% to 2.5%, depending on the Company's credit rating.

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Notes to the consolidated financial statements

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

	2022	2021
Loans and borrowings[1]		
At January 1	$ 3,360	$ 3,552
Changes from financing cash flows:		
Proceeds from issue of loans and borrowings (note 22)	447	236
Repayments	(71)	(341)
Deferred debt issue costs	(4)	(8)
Total changes from financing cash flows	372	(113)
Additions through business acquisition	–	(8)
Effect of changes in foreign exchange rates	49	(15)
Non-cash repayments on tax-equity financing	(83)	(88)
Implicit interest on tax-equity financing	26	29
Other non-cash items	2	3
Total other changes	(6)	(79)
At December 31	$ 3,726	$ 3,360

[1] Includes deferred debt issue costs.

	2022	2021
Lease liabilities[2]		
At January 1	$ 143	$ 149
Changes from financing cash flows:		
Repayments	(6)	(6)
Total changes from financing cash flows	(6)	(6)
Additions	11	4
Other adjustments	–	(3)
Effects of changes in foreign exchange rates	5	(1)
Total other changes	16	–
At December 31	$ 153	$ 143

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

Notes to the consolidated financial statements

24. Deferred revenue and other liabilities:

At December 31	2022	2021
Deferred government grant revenue (note 16)	$ 117	$ 219
Deferred payments on capital project costs	196	126
Contract liabilities[1]	41	42
Other deferred revenue and liabilities	49	57
	403	444
Less current portions:		
Deferred government grant revenue	117	117
Lease liabilities	7	6
Contract liabilities[1]	7	6
Deferred payments on capital project costs	11	–
Other deferred revenue and liabilities	16	24
Total current deferred revenue and other liabilities	158	153
	$ 245	$ 291

[1] At December 31, 2022 $41 million (2021 – $39 million) was recognized as revenues in relation to outstanding contract liabilities settled during the year.

25. Provisions:

	Decommissioning	Employee benefits[1]	Other	Total
At January 1, 2022	$ 366	$ 92	$ 3	$ 461
Additional liabilities incurred	41	38	14	93
Liabilities settled	(22)	(28)	–	(50)
Foreign currency translation adjustments	5	–	–	5
Revisions to decommissioning costs (note 20)	(119)	–	–	(119)
Accretion (note 8)	7	–	–	7
At December 31, 2022	$ 278	$ 102	$ 17	$ 397
Non-current	273	51	1	325
Current	5	51	16	72
	$ 278	$ 102	$ 17	$ 397

[1] Included in the employee benefits provision is $39 million pertaining to the share-based payment obligations described in note 29, of which $10 million is vested at December 31, 2022 (2021 – $24 million total share-based payment obligation, $7 million vested).

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, 2022, the Company's estimate of the undiscounted cash flow required to settle its decommissioning obligations is approximately $595 million (2021 – $556 million), calculated using an inflation rate of 2% (2021 – 2%). The expected timing for settlement of the obligations is between 2023 and 2058, which reflects ongoing reclamation of areas of the Genesee Mine, repowering Genesee 1 and 2 to be off-coal in 2023 and the anticipated useful lives of the different power generation facilities.

The payments to settle the obligations are expected to occur between 2024 and 2058 for the power generation facilities 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 3.26% to 4.60%. 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.

Notes to the consolidated financial statements

26. Share capital:

Authorized shares

	Number of shares authorized[1]
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 11 and 12	6 million
Special limited voting share	one

[1] On September 9, 2022, in connection with the Company's offering of the Series 1 Subordinated Notes, Capital Power issued 350,000 Series 2022-A Class A Preferred Shares to Computershare Trust Company of Canada, to be held in trust as treasury shares to satisfy Capital Power's obligations under the indenture governing the Series 1 Subordinated Notes (note 22). Dividends are not payable on the 2022-A Class A Preferred Shares, nor shall any dividends accumulate or accrue prior to delivery to the holders of Series 1 Subordinated Notes following the occurrence of certain bankruptcy or insolvency events in respect of Capital Power. Thereafter, dividends on the Series 2022-A Class A Preferred Shares are payable on the 9th day of March and September in each year, if, as and when declared by the Board of Directors.

Issued and fully paid shares

	Common shares		Preference shares	
	Number of shares	Amount	Number of shares	Amount
At January 1, 2021	106,180,990	$ 2,512	39,000,000	$ 953
Shares issued[2]	7,480,750	288	–	–
Share issue costs[2]	–	(12)	–	–
Deferred taxes on share issue costs (note 17)	–	3	–	–
Share purchase options exercised (note 29)	888,580	23	–	–
Preferred share redemption[4]	–	–	(8,000,000)	(200)
Dividend reinvestment plan[3]	1,643,361	64	–	–
At December 31, 2021	116,193,681	$ 2,878	31,000,000	$ 753
Share purchase options exercised (note 29)	**692,968**	**17**	**–**	**–**
Preferred share redemption[5]	**–**	**–**	**(6,000,000)**	**(150)**
At December 31, 2022	**116,886,649**	**$ 2,895**	**25,000,000**	**$ 603**

[2] 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.

[3] 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.

[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.

[5] On September 30, 2022, the Company redeemed all of its 6 million issued and outstanding 5.75% cumulative rate reset preference shares, Series 9 at a price of $25.00 per share for an aggregate total of $150 million.

Notes to the consolidated financial statements

26. 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 3 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[6]	Dividend rate reset[7]	Redemption and Conversion option date[8,9]	Right to convert into[9]
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 in 2021.	Redeemed on December 31, 2021	No longer applicable
Series 9	$1.438	Dividend rate reset will not be applied as Series 9 Shares were redeemed in 2022.	Redeemed on September 30, 2022	No longer applicable
Series 11	$1.438	Dividend rate will be reset on June 30, 2024.	June 30, 2024	Series 12

[6] 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% (effective until Series 9 shares were redeemed on September 30, 2022) 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.

[7] Dividend rate reset terms – Dividend rates on Series 1, Series 3, Series 5 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%, and 4.15% (provided that, in any event, such rate shall not be less than 5.75% for Series 11 shares), respectively, as and when declared by the Board of Directors of Capital Power.

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

[9] Conversion option date – Holders of Series 1, Series 3, Series 5, 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, and Series 12, respectively, subject to certain conditions.

Conversion terms – Holders of Series 2, Series 4, Series 6, 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%, and 4.15% respectively, as and when declared by the Board of Directors of Capital Power.

26. 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, 2022 and 2021 are summarized as follows:

	Dividends declared				Dividends paid			
	2022		2021		**2022**		2021	
	Per share	**Total**	Per share	Total	**Per share**	**Total**	Per share	Total
Common[10,11]	**$ 2.2550**	**$ 263**	$ 2.1200	$ 241	**$ 2.2225**	**$ 259**	$ 2.0850	$ 232
Preference:								
Series 1	**0.6553**	**3**	0.6553	3	**0.6553**	**3**	0.6553	3
Series 3	**1.3633**	**8**	1.3633	8	**1.3633**	**8**	1.3633	8
Series 5	**1.3095**	**11**	1.3095	10	**1.3095**	**11**	1.3095	10
Series 7[12]	**–**	**–**	1.5000	12	**–**	**–**	1.5000	12
Series 9[13]	**1.0781**	**6**	1.4375	9	**1.0781**	**6**	1.4375	9
Series 11	**1.4375**	**9**	1.4375	9	**1.4375**	**9**	1.4375	9

[10] On July 29, 2022, the Company's Board of Directors approved an increase of 6% in the annual dividend for holders of its common shares to $2.32 per common share effective for the third quarter of 2022.

[11] For the year ended December 31, 2022, all dividends paid on common shares were paid in cash (2021 – $168 million paid in cash and $64 million paid through the Company's dividend re-investment plan as common shares issued).

[12] The quarterly dividend for the fourth quarter of 2021 was the final quarterly dividend on the Series 7 Shares.

[13] The quarterly dividend for the third quarter of 2022 was the final quarterly dividend on the Series 9 Shares and, as the redemption date is also the dividend payment date, the redemption price did not include the quarterly dividend for the third quarter of 2022. Instead, the quarterly dividend for the third quarter of 2022 was paid on the redemption date separately to shareholders of record as of September 19, 2022.

27. Change in non-cash operating working capital:

Year ended December 31	**2022**	2021
Trade and other receivables	**$ (465)**	$ (1)
Inventories	**(8)**	1
Trade and other payables	**655**	86
Deferred revenue and other liabilities	**(7)**	16
Provisions	**4**	(2)
	$ 179	$ 100

28. Related party balances and transactions:

Nature of transactions

As described in note 33, 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	**2022**	2021
Short-term employee benefits	**$ 7**	$ 8
Share-based payments	**7**	5
	$ 14	$ 13

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

Notes to the consolidated financial statements

29. 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. Granted options may be exercised within 7 years of the grant date.

The following illustrates share purchase options activity during the years ended December 31, 2022 and 2021:

	2022		2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, at January 1	**2,136,627**	**$ 26.87**	2,697,842	$ 25.15
Granted	**311,581**	**40.48**	340,832	34.23
Exercised[1]	**(692,968)**	**23.53**	(888,580)	24.45
Forfeited	**(40,804)**	**32.37**	(13,467)	28.41
Expired	**(3,727)**	**32.66**	–	–
Options outstanding, at December 31	**1,710,709**	**$ 30.56**	2,136,627	$ 26.87
Vested options outstanding, at December 31	**1,097,294**	**$ 27.42**	1,374,743	$ 24.48

[1] The weighted average share price at the date of exercise was $47.03 (2021 – $38.27).

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

	Share purchase options issued in:	
	2022	2021
Share price at grant date	**$ 40.48**	$ 34.23
Weighted average fair values at grant date	**$ 3.42**	$ 2.47
Expected volatility	**17.60%**	17.40%
Expected option life	**4.5 years**	4.5 years
Expected dividend yield	**5.410%**	5.989%
Risk-free interest rate	**1.22%**	0.36%
Exercise price	**$ 40.48**	$ 34.23
Expiry date	**March 11, 2029**	March 9, 2028

During the year ended December 31, 2022, the Company recorded compensation expense of $1 million related to share purchase options in staff costs and employee benefits expense (year ended December 31, 2021 – $1 million).

The weighted average remaining contractual life of the Company's outstanding share purchase options at December 31, 2022 is 3.72 years (2021 – 3.72 years). The exercise prices of share purchase options outstanding at December 31, 2022 range from $17.33 to $40.48 (2021 – $17.33 to $34.23).

Notes to the consolidated financial statements

29. 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 two objectives: the Company's share price performance relative to a group of peer organizations, as determined by comparing total shareholder return, weighted at 80%; and, certain ESG metrics focusing on diversity and emission reduction metrics, weighted at 20%.

	2022	2021
PSUs outstanding, at January 1	**308,733**	333,090
Granted[2]	**104,027**	114,194
Released[3]	**(98,504)**	(165,708)
Dividends reinvested	**20,636**	56,089
Forfeited	**(6,586)**	(28,932)
PSUs outstanding, at December 31	**328,306**	308,733

[2] The fair value of the PSUs at the grant date was $39.39 (2021 – $36.06).

[3] The weighted average share price at the date of release was $39.15 (2021 – $34.98).

During the year ended December 31, 2022, the Company recorded a compensation expense of $15 million (2021 – $8 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.

	2022	2021
RSUs outstanding, at January 1	**286,430**	295,650
Granted[4]	**82,919**	95,098
Released[5]	**(89,857)**	(106,611)
Dividends reinvested	**14,403**	15,967
Forfeited	**(10,967)**	(13,674)
RSUs outstanding, at December 31	**282,928**	286,430

[4] The fair value of the RSUs at the grant date was $39.39 (2021 – $36.06).

[5] The weighted average share price at the date of release was $39.16 (2021 – $34.57).

During the year ended December 31, 2022, the Company recorded a compensation expense of $5 million (2021 – $4 million) related to the outstanding RSUs in staff costs and employee benefits expense.

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, 2022, the Company recorded a compensation expense of $4 million (2021 – $3 million) related to the outstanding DSUs in staff costs and employee benefits expense.

Notes to the consolidated financial statements

30. 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, 2022		December 31, 2021	
	Fair value hierarchy level	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Financial assets[1]					
Government grant receivable (note 16)	**Level 2**	**$ 367**	**$ 317**	$ 404	$ 395
Financial liabilities[1]					
Loans and borrowings (note 22)	**Level 2**	**$ 3,726**	**$ 3,590**	$ 3,360	$ 3,515

[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, 2022			
	Level 1	**Level 2**	**Level 3**	**Level 4**
Derivative financial instruments assets	**$ –**	**$ 463**	**$ 20**	**$ 483**
Derivative financial instruments liabilities	**–**	**(748)**	**(476)**	**(1,224)**

	December 31, 2021			
	Level 1	Level 2	Level 3	Level 4
Derivative financial instruments assets	$ –	$ 316	$ 14	$ 330
Derivative financial instruments liabilities	–	(406)	(198)	(604)

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 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 4 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.

Notes to the consolidated financial statements

30. Financial instruments, continued:

Fair value hierarchy, continued:

Valuation techniques used in determination of fair values within Level 3, continued

The Company has a 10-year renewable energy agreement for Whitla Wind, two 15-year fixed price contracts for Clydesdale Solar (formerly Enchant Solar) and a 25-year fixed price contract for Strathmore Solar, expiring in 2032, 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 contracts 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, 2022 and December 31, 2021, 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	**2022**	2021
REC pricing (per certificate) – Solar	**$3.56 to $171.77**	$2.96 to $352.48
REC pricing (per certificate) – Wind	**$2.21 to $6.55**	$2.07 to $4.18
Forward power pricing (per MWh) – Solar	**$38.09 to $334.68**	$35.32 to $113.86
Forward power pricing (per MWh) – Wind	**$26.66 to $234.28**	$25.25 to $88.42
Average monthly generation (MWh) – Strathmore Solar	**7,124**	7,123
Average monthly generation (MWh) – Clydesdale Solar	**12,054**	6,905
Average monthly generation (MWh) – Whitla Wind	**41,479**	N/A
Average monthly generation (MWh) – Bloom Wind	**59,198**	59,067
Average monthly generation (MWh) – Buckthorn Wind	**17,703**	17,702

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	**2022**	2021
REC pricing – Solar	**$ 1**	$ –
REC pricing – Wind	**3**	1
Forward power pricing – Solar	**24**	16
Forward power pricing – Wind	**85**	31
Generation – Solar	**8**	1
Generation – Wind	**24**	14

Notes to the consolidated financial statements

30. 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:

	2022	2021
At January 1[2]	**$ (184)**	$ 35
Unrealized and realized losses included in net income[3]	**(278)**	(211)
Settlements[4]	**33**	(6)
Transfers[5]	**(4)**	–
Foreign exchange losses	**(23)**	(2)
At December 31	**$ (456)**	$ (184)
Total unrealized and realized losses for the period included in net income[3]	**$ (278)**	$ (211)

[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, 2022 and 2021.

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, 2022 and 2021. 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.

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.

Notes to the consolidated financial statements

30. Financial instruments, continued:

Offsetting of financial assets and liabilities, continued:

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	Collateral received[7]	Net amount
At December 31, 2022						
Commodity trading assets	**$ 1,371**	**$ (418)**	**$ 953**	**$ (143)**	**$ (1)**	**$ 809**
At December 31, 2021						
Commodity trading assets	$ 669	$ (208)	$ 461	$ (74)	$ (1)	$ 386

[6] The net amounts of commodity trading assets presented in the statement of financial position include current derivative instruments assets of $171 million, non-current derivative instruments assets of $251 million and trade and other receivables of $531 million (December 31, 2021: current derivative instruments assets of $99 million, non-current derivative instruments assets of $212 million and trade and other receivables of $150 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	Collateral pledged	Net amount
At December 31, 2022						
Commodity trading liabilities	**$ 2,060**	**$ (418)**	**$ 1,642**	**$ (153)**	**$ (467)**	**$ 1,022**
At December 31, 2021						
Commodity trading liabilities	$ 877	$ (208)	$ 669	$ (79)	$ (161)	$ 429

[8] The net amounts of commodity trading liabilities presented in the statement of financial position include current derivative instruments liabilities of $597 million, non-current derivative instruments liabilities of $609 million and trade and other payables of $436 million (December 31, 2021: current derivative instruments liabilities of $221 million, non-current derivative instruments liabilities of $311 million and trade and other payables of $137 million).

Notes to the consolidated financial statements

31. 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.

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.

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.

Notes to the consolidated financial statements

31. Risk management, continued:

Market risk, continued:

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.

In 2022, 36% of Capital Power's operating income comes 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 operating income comes from Alberta generation facilities. In 2022, approximately 14% of the Company's operating income 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 2023, the portion of operating income from Alberta facilities under long-term contracts is approximately 32%, and at December 31, 2022, the balance of the Company's Alberta commercial baseload generation not under long-term contract was 10,000 GWh sold forward for 2023. 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.

During 2022, power and natural gas prices have increased. 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, 2022, the Company has economically hedged 50,000 TJ of its expected natural gas burn for 2023, and as a result does not anticipate significant fuel price risk in 2023.

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, 2022, 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.

Notes to the consolidated financial statements

31. Risk management, continued:

Market risk, continued:

Commodity price 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 2023, at December 31, 2022, 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, 2022, the VaR of the Company's commodity trading and assets portfolios for 2023 as a result of unfavourable market price changes is $128 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 2022 was related to the acquisition of Midland Cogeneration venture and capital costs for the Clydesdale Solar project. The Company entered into cash flow hedges, which have settled by the end of 2022, to mitigate the foreign exchange exposure on those transactions. At December 31, 2022, the Company held no foreign exchange derivatives.

Notes to the consolidated financial statements

31. Risk management, continued:

Foreign exchange risk, continued:

At December 31, 2022, 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 $1 million (2021 – decreased or increased by $5 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.

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, 2022, the proportion of fixed rate loans and borrowings was approximately 80% of total loans and borrowings outstanding (2021 - 79%). The Company uses derivative instruments to manage interest rate risk. At December 31, 2022, 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 91% (2021 – 93%) at December 31, 2022.

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, 2022, a 100 basis point decrease or increase to interest rates would increase or decrease full year net income attributable to common shareholders by $3 million (2021 – $2 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	**2022**	2021
Cash and cash equivalents (note 11)	**$ 307**	$ 387
Trade and other receivables (note 12)[1]	**949**	474
Derivative financial instruments assets (note 14)[1]	**483**	330
Finance lease receivable (note 15)	**34**	–
Government grant receivable (note 16)	**310**	349
	$ 2,083	$ 1,540

[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 $723 million (2021 - $388 million) for wholesale counterparties and $709 million (2021 - $416 million) for generation and other counterparties at December 31, 2022.

Notes to the consolidated financial statements

31. Risk management, continued:

Credit risk, continued:

Maximum credit risk exposure, continued:

The Company is not permitted to sell or re-pledge collateral in the absence of default of the collateral providers. At December 31, 2022, the Company also held other forms of credit enhancement in the forms of letters of credit of $36 million (2021 - $7 million), parental guarantees of $3,094 million (2021 – $2,655 million) and property registrations of $9 million (2021 – $23 million) related to the financial assets noted above. At December 31, 2022 and 2021, 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.

Notes to the consolidated financial statements

31. 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.

The aging of trade and other receivables at December 31, 2022 was:

	Gross trade and other receivables	Allowance for doubtful accounts	Net trade and other receivables
Current[2]	**$ 948**	**$ 2**	**$ 946**
Outstanding greater than 30 days	**3**	**–**	**3**
	$ 951	**$ 2**	**$ 949**

[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, 2022, the Company held $14 million (2021 – $13 million) in customer deposits for the purpose of mitigating the credit risk associated with accounts receivable from customers. At December 31, 2022, the Company recorded an allowance of $2 million (2021 – $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 has reduced liquidity risk, with the Company being able to complete a subordinated hybrid note offering which funded on September 9, 2022 (see note 22). Additionally, the Company also continues to have available committed credit facilities to draw upon as described below.

At December 31, 2022, the Company had undrawn bank credit facilities and operating lines of credit and demand facilities, totaling $820 million (2021 – $1,062 million), of which $569 million is committed to 2027 (2021 – $729 million committed to 2026).

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, 2022, Capital Power has a Canadian short-form base shelf prospectus, which expires in July 2024. Under the short-form base shelf prospectus, Capital Power may issue an unlimited number of common shares, preferred shares, and subscription receipts exchangeable for common shares and/or other securities of the Company and/or debt securities, including up to $2 billion of medium-term notes by way of a prospectus supplement.

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Notes to the consolidated financial statements

31. 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, 2022:

		Due between					
Types of financial assets	Due within 1 year	1 and 2 years	2 and 3 years	3 and 4 years	4 and 5 years	Due after more than 5 years	Total contractual cash flows
Non-derivative financial liabilities:							
Loans and borrowings[3] (note 22)	$ 73	$ 528	$ 83	$ 636	$ 432	$ 1,677	$ 3,429
Interest payments on loans and borrowings	159	156	137	124	92	310	978
Trade and other payables[4] (note 21)	1,215	–	–	–	–	–	1,215
Lease liabilities (note 18)	16	16	25	14	13	201	285
Derivative financial liabilities (net of financial assets):							
Commodity and other derivatives	674	64	64	58	46	275	1,181
Total	$ 2,137	$ 764	$ 309	$ 832	$ 583	$ 2,463	$ 7,088

[3] Repayments of loans and borrowings exclude fair value differentials of $12 million related to debt assumed on previous asset acquisitions and $317 million related to repayments of tax-equity financing through non-cash tax-equity attributes.

[4] Excluding accrued interest on loans and borrowings of $34 million.

Notes to the consolidated financial statements

32. 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	**2022**	2021
Loans and borrowings (note 22)	**$ 3,726**	$ 3,360
Lease liabilities[1] (note 18)	**153**	143
Cash and cash equivalents (note 11)	**(307)**	(387)
Net debt	**3,572**	3,116
Share capital (note 26)	**3,498**	3,631
Deficit and other reserves	**(1,044)**	(790)
Non-controlling interests	**6**	18
Total equity	**2,460**	2,859
	$ 6,032	$ 5,975

[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.

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, 2022 and 2021, 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.

Notes to the consolidated financial statements

33. Interests in joint arrangements and associates:

Joint operations

The Company holds interests in the following joint operations at December 31, 2022:

	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 ventures

The Company holds interests in the following joint ventures at December 31, 2022:

	Place of business	% of ownership interest
York Energy Centre L.P. (York Energy)[3]	Canada	50%
MCV Partners LLC[4]	United States	50%

[3] 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.

[4] Midland Cogeneration Venture LP (Midland Cogen) is a 1,633 MW natural gas combined cycle cogeneration facility located in Michigan, USA. Capital Power holds a 50% interest in MCV Partners and the other 50% is held by an external party. MCV Partners LLC owns 100% of MCV Holding Company LLC which owns 100% of Midland Cogen.

The Company's investments in York Energy and MCV Partners LLC, have been determined to be joint ventures and accounted for under the equity method. The Company's obligations are limited to their respective capital contributions to the joint arrangements, and the Company's receipts of the economic benefits of the joint arrangements are primarily from the quarterly distributions and operating management fees. As a result, there is no indication that the Company has rights to the assets or obligations for the liabilities of the joint arrangements and the investments have been classified as joint ventures.

Notes to the consolidated financial statements

33. Interests in joint arrangements and associates, continued:

Equity-accounted investments, continued:

Joint ventures, continued:

The summarized financial information of York Energy and MCV Partners LLC is as follows:

	York Energy		MCV Partners LLC
Statements of Financial Position	**2022**	2021	**2022**
Cash and cash equivalents	**$ 10**	$ 5	$ **73**
Other current assets	**13**	12	**128**
Non-current assets	**206**	210	**1,151**
Other financial current liabilities	**(14)**	(20)	**(108)**
Trade and other payables	**(4)**	(6)	**(71)**
Financial non-current liabilities	**(171)**	(199)	**(592)**
Other non-current liabilities	**(2)**	(3)	**(4)**
Net assets	**$ 38**	$ (1)	$ **577**

	York Energy		MCV Partners LLC
Statements of Income and Comprehensive Income	**2022**	2021	**2022**
Revenues	**$ 72**	$ 60	**$ 242**
Energy purchases and fuel	**(13)**	(9)	**(147)**
Other raw materials and operating charges	**(4)**	(4)	**(10)**
Staff costs and employee benefits	**–**	–	**(5)**
Other administrative expense	**(2)**	(2)	**(14)**
Depreciation and amortization	**(7)**	(8)	**(26)**
Finance income (expense)	**10**	3	**(10)**
Net income	**56**	40	**30**
Other comprehensive loss that are or may be reclassified to net income	**–**	–	**(1)**
Total comprehensive income	**$ 56**	$ 40	**$ 29**

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

	York Energy		MCV Partners LLC
	2022	2021	**2022**
Equity-accounted investment, at January 1	**$ 117**	$ 118	**$ –**
Acquisition of equity accounted investment	**–**	–	**273**
Proportionate share of comprehensive income (50%)	**28**	20	**15**
Distributions received – operating	**(8)**	(11)	**(8)**
Amortization of the Company's fair value of net assets acquired	**(11)**	(10)	**–**
Foreign exchange gain	**–**	–	**1**
Equity-accounted investment, at December 31	**$ 126**	$ 117	**$ 281**

Notes to the consolidated financial statements

33. Interests in joint arrangements and associates:

Equity-accounted investments, continued:

Joint ventures, continued:

York Energy and MCV Partners LLC are parties to a number of long-term transportation contracts and operating and maintenance contracts. The Company's share of York Energy and MCV Partners LLC's approximate future payments to the contracts are as follows:

	York Energy	MCV Partners LLC	**Total**
Within one year	$ 8	$ 78	**$ 86**
Between one and five years	37	168	**205**
After five years	25	113	**138**
	$ 70	$ 359	**$ 429**

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, 2022, the equity-investment in its associate C2CNT is $30 million (US$23 million) (2021 – $28 million (US$23 million)) and no income or operating cash flow has been earned in the year.

34. Commitments and contingencies:

(a) The Company is committed to the following growth projects at December 31, 2022:

Projects	Capacity (MW)	Expected capital cost	Expected completion date	Location
Repowering of Genesee 1 and 2	512[1]	$1,277	2024[1]	Alberta
Renewable Projects:				
Halkirk 2 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 the construction cost of a 210 MW battery energy storage system (BESS) as part of the repowering project, to support the most severe single contingency constraint (MSSC) of Genesee 1 and 2. Genesee 1 and 2 would become a dedicated natural gas combined cycle (NGCC) unit by 2024. The BESS project is currently on hold while Capital Power explores alternate means of providing grid frequency support and the Alberta Electric System Operator (AESO) completes a review process that may result in an increase in MSSC beyond 466 MW.

[2] As part of the clean electricity supply agreement with Public Services and Procurement Canada (see note 38), Capital Power committed to securing an equity partnership with local Indigenous communities related to the proposed project. The equity partner's economic interest will be determined based on the Indigenous participation requirements set out in the agreement.

(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[3]	Operating and maintenance contracts	Environmental credits[4]
Within one year	$ 427	$ 69	$ 74
Between one and five years	868	286	76
After five years	286	323	–
	$ 1,581	$ 678	$ 150

[3] Based on gross settlement amounts.

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

34. Commitments and contingencies, continued:

(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, 2022. 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.

(d) 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.

35. Guarantees:

The Company, through its subsidiary CPLP, has issued letters of credit of $1,262 million (2021 – $495 million) to meet the credit requirements of energy market participants, to meet conditions of certain service agreements, and to satisfy legislated reclamation requirements.

36. 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, Texas and Michigan), 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, 2022				Year ended December 31, 2021			
	Canada	**U.S.**	**Inter-area eliminations**	**Total**	Canada	U.S.	Inter-area eliminations	Total
Revenues – external[1]	**$ 2,450**	**$ 262**	**$ –**	**$ 2,712**	$ 1,765	$ (8)	$ –	$ 1,757
Revenues – inter-area	**(111)**	**149**	**(38)**	**–**	23	–	(23)	–
Other income	**134**	**83**	**–**	**217**	145	88	–	233
Total revenues and other income	**$ 2,473**	**$ 494**	**$ (38)**	**$ 2,929**	$ 1,933	$ 80	$ (23)	$ 1,990

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

Notes to the consolidated financial statements

36. Segment information, continued:

	At December 31, 2022			At December 31, 2021		
	Canada	U.S.	Total	Canada	U.S	Total
Property, plant and equipment	$ 4,737	$ 1,623	$ 6,360	$ 4,603	$ 1,600	$ 6,203
Right-of-use assets	63	64	127	56	64	120
Intangible assets and goodwill	687	130	817	645	139	784
Finance lease receivable[2] (note 15)	41	–	41	–	–	–
Other assets	49	–	49	47	–	47
	$ 5,577	$ 1,817	$ 7,394	$ 5,351	$ 1,803	$ 7,154

[2] Includes current portion.

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, 2022						
	Alberta Commercial	Western Canada Contracted	Ontario Contracted	U.S. Contracted	Total from contracts with customers	Other sources	Total
Energy revenues	$ 2,930	$ 160	$ 427	$ 314	$ 3,831	$ (1,164)	$ 2,667
Emission credit revenues	25	6	–	3	34	11	45
Total revenues[3]	$ 2,955	$ 166	$ 427	$ 317	$ 3,865	$ (1,153)	$ 2,712

	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[3]	$ 1,680	$ 97	$ 307	$ 196	$ 2,280	$ (523)	$ 1,757

[3] Included within trade and other receivables, at December 31, 2022, were amounts related to contracts with customers of $737 million (2021 – $298 million).

37. Comparative figures:

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

38. Subsequent event:

Executed 23-year clean electricity supply agreement for Halkirk 2 Wind

On February 3, 2023, we announced a 23-year clean electricity supply agreement with Public Services and Procurement Canada. The Agreement will provide approximately 250,000 MWh of clean electricity per year initially through Canada-sourced renewable energy credits until Capital Power's proposed Alberta-based Halkirk 2 Wind project is completed, which is expected to be operational by January 1, 2025 (subject to regulatory approval). The 151 MW Halkirk 2 Wind project will provide renewable energy for the remainder of the term – representing approximately 49% of the facility's output.

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Our Global Reporting Initiative (GRI) content index and Sustainability Accounting Standards Board (SASB) index address the relevant metrics related to the Electric Utilities and Power Generators sector standards.

Appendix

Appendix

GRI 2: General disclosures 2022

Disclosure number	Disclosure title	2022 response
The organization and its reporting practices		
2-1	Organizational details	Capital Power Corporation 2022 Annual Information Form > Corporate Structure, page 14 2022 Integrated Annual Report > Introduction > Where we operate, page 03
2-2	Entities included in the organization's sustainability reporting	For all GRI Standards and material topics included, we report only on assets that we operate and provide year-over-year trending where possible. Data from each plant represents the entire plant, not only our financial share of the operation, including York Energy Centre and MCV (50/50 joint venture). Energy production and emissions data from Joffre and Shepard Energy Centre, units we hold an ownership interest in, are not included because we do not hold the operating permits. For MCV, acquired partway through 2022: emissions and other environmental data is reported for the entire reporting period in alignment with the GHG Protocol; MCV is excluded from health and safety data, but will be included in the 2023 reporting period; and MCV is excluded from employee data, as MCV employees are employed by the JV entity. 2022 Integrated Annual Report > Business report > Notes to the consolidated financial statements, page 132
2-3	Reporting period, frequency and contact point	Our report is published annually, covering the reporting period January 1 – December 31 The report was published on March 1, 2023 Organization details: Capital Power 1200 – 10423 101 St. N.W. Edmonton, AB T5H 0E9 info@capitalpower.com www.capitalpower.com
2-4	Restatements of information	No restatements are required
2-5	External assurance	2022 Integrated Annual Report > Assurance, page 115 2023 Management Proxy Circular > Governance > Audit Committee, page 37
Activities and workers		
2-6	Activities, value chain and other business relationships	2022 Integrated Annual Report > What we do, page 06 2022 Integrated Annual Report > Our business model, page 08 2022 Integrated Annual Report > Managing risks and impacts, page 32 2022 Integrated Annual Report > Business report > Significant events, page 62 2022 Annual Information Form > Business of Capital Power, page 25

GRI 2: General disclosures 2022

Disclosure number **Disclosure title** **2022 response**

Activities and workers

2-7 Employees

Total employees

	Women	Men	Total
Canada	201	490	691
United States	11	71	82
Total	212	561	**773**

Employees by contract type and gender

	Women	Men	Total
Permanent	196	521	717
Temporary	15	23	38
Non-guaranteed hours	1	17	18
Full-time	194	543	737
Part-time	18	18	36

Employees by contract type and region

	Canada	United States	Total
Permanent	640	77	717
Temporary	37	1	38
Non-guaranteed hours	14	4	18
Full-time	661	76	737
Part-time	30	6	36

Data was gathered as of December 31, 2022 using our Workday System. It includes all permanent employees, temporary and temporary extended employees, casual employees and employees on maternity/parental leave. It excludes pensioners, Board members and employees on long-term disability (LTD), as of December 31, 2022. Casual employees are included in the part-time temporary category.

Data was collected for employees only, by gender, full time/part time, and casual/permanent/temporary. It excludes contingent workers.

There were no significant fluctuations of headcount.

2-8 Workers who are not employees

157

Data was gathered as of December 31, 2022 using our Workday System. It includes all contingent workers (excluded from employee headcounts). It excludes any MCV employees.

The most common type of worker who is not an employee are temporary full-time contractors hired through staffing agencies for the purposes of projects and shutdowns. Fluctuations therefore occur based on the timing of projects and shutdowns.

Governance

2-9 Governance structure and composition

2022 Integrated Annual Report > Governance and ethics > Board diversity, page 49

2022 Integrated Annual Report > Governance and ethics > Governance Framework, page 50

Website > Corporate Governance

More comprehensive analysis of the Company's approach to corporate governance matters will be included in the 2023 Management Proxy Circular. The 2023 Proxy relates to the 2023 AGM and will be published in March. In it, we discuss compensation and activities in 2022; however, the slate of directors nominated are for the 2023 AGM.

GRI 2: General disclosures 2022

Disclosure number	Disclosure title	2022 response
Governance		
2-10	Nomination and selection of the highest governance body	2023 Management Proxy Circular > About our nominated directors, page 50 2023 Management Proxy Circular > Recruitment, assessment and tenure, page 31 2023 Management Proxy Circular > Diversity, page 33 2023 Management Proxy Circular > Shareholder proposals, page 36
2-11	Chair of the highest governing body	Our Board Chair, Jill Gardiner, is not an executive officer.
2-12	Role of the highest governance body in overseeing the management of impacts	2023 Management Proxy Circular > ESG oversight, page 22
2-13	Delegation of responsibility for managing impacts	2023 Management Proxy Circular > Roles and responsibilities, page 28
2-14	Role of the highest governance body in sustainability reporting	The Audit Committee is responsible for reviewing public disclosure documents, including sustainability reporting in the IAR, and recommends them to the Board for approval. 2022 Climate Change Disclosure Report > Governance and risk management > Board oversight, page 08
2-15	Conflicts of interest	2023 Management Proxy Circular > Material interests, conflicts of interest and related-party transactions, page 34 2022 Annual Information Form > Directors and officers > Conflicts of interest, page 87
2-16	Communication of critical concerns	Capital Power maintains frequent dialogue with the Board. With respect to critical concerns, the Board meets at least quarterly through regularly scheduled meetings to discuss issues, and/or as appropriate, based on the nature of the issue. The Audit Committee receives quarterly reports and the HSE Committee meets three times per year, and at each meeting they receive HSE Quarterly Status and Environmental Regulatory Update reports as well as verbal operations reports. We do not disclose what is discussed in Board meetings due to confidentiality constraints. Critical concerns are taken to the Board and discussed. Actions are taken or policies are updated, as needed.
2-17	Collective knowledge of the highest governance body	We endeavour to provide education and update contextual information as required to ensure that our directors have the most up-to-date knowledge to inform their decisions, including quarterly updates and reports from executives and committees. Our directors receive materials well in advance of each Board meeting that include background information about items to be considered at the meeting. Directors are encouraged to attend externally hosted education conferences and seminars and Capital Power will contribute toward the cost. 2022 Integrated Annual Report > Governance and ethics > Corporate governance, page 48 2023 Management Proxy Circular > Director education, page 21
2-18	Evaluation of the performance of the highest governance body	2023 Management Proxy Circular > Assessing performance, page 60
2-19	Remuneration policies	2022 Integrated Annual Report > Governance and ethics > Tying leadership compensation to sustainability goals, page 48 2023 Management Proxy Circular > Compensation discussion and analysis, page 42
2-20	Process to determine remuneration	2023 Management Proxy Circular > Compensation discussion and analysis, page 42 Shareholders vote, on an advisory basis, on our approach to executive compensation, which is included in the 2023 Management Proxy Circular. The vote at the 2022 AGM was 90.95% for and 9.05% against.

GRI 2: General disclosures 2022

<table>
<tr><th>Disclosure number</th><th>Disclosure title</th><th>2022 response</th></tr>
<tr><td colspan="3">Governance</td></tr>
<tr><td>2-21</td><td>Annual total compensation ratio</td><td>Annual total compensation ratio: 25.1:1
Percentage increase in annual total compensation ratio: 0:1
Notes:
– Includes all employees reported under disclosure 2-7.
– Compensation for all applicable employees is valued as a full-time equivalent.
– Compensation types include salary, target STIP (if applicable), and target LTIP (if applicable).
– The title of the highest-paid individual is Chief Executive Officer.</td></tr>
<tr><td colspan="3">Strategy, policies and practices</td></tr>
<tr><td>2-22</td><td>Statement on sustainable development</td><td>2022 Integrated Annual Report > Introduction > Board Chair and CEO letter, page 10</td></tr>
<tr><td>2-23</td><td>Policy commitments</td><td>When any Canadian statutory decision maker, court or tribunal applies the Precautionary Principle in making its determination, we consider this principle in the conduct of our activities in like circumstances. The Precautionary Principle says that when an activity raises threats to human health or the environment, precautionary measures should be taken even if some cause and effect relationships are not fully established scientifically.
At Capital Power, we act with integrity and take responsibility for our decisions and actions. The foundations of this culture are our Ethics and Respectful Workplace Policies.
Our Indigenous Relations Policy outlines our commitment to work with Indigenous communities in a manner that is respectful and honours the diversity and rights of each community and culture.
Our Sustainable Sourcing Policy outlines our firm stance against the use of forced or compulsory labor and any form of slavery and human trafficking, as well as child labor, in our upstream supply chains or any part of our operations.
<table>
<tr><th>Policy</th><th>Approved</th><th>Approval date</th><th>Review period</th></tr>
<tr><td>Ethics</td><td>Board</td><td>2009</td><td>Annually, or more frequently when circumstances dictate</td></tr>
<tr><td>Respectful workplace</td><td>Board</td><td>2018</td><td>Annually, or more frequently if an incident occurs or changes in law dictate</td></tr>
<tr><td>Indigenous relations</td><td>Executive team</td><td>2022</td><td>Biennially</td></tr>
<tr><td>Sustainable sourcing</td><td>Board</td><td>2022</td><td>Annually</td></tr>
</table>
Policy commitments are available on our public website and are incorporated into contractual agreements with external parties. Any changes made to these policies are communicated to all employees and agents through internal newsletters and meetings.</td></tr>
<tr><td>2-24</td><td>Embedding policy commitments</td><td>Our policy commitments apply to our Board and all Capital Power employees, as well as consultants and contractors. Compliance with these policies is a material condition of ongoing employment and relationship with Capital Power. All Capital Power managers are responsible for incorporating the implementation of these policies into their operations and procedures.
Capital Power manages supplier policy compliance assessment in advance of procurement, during the execution of the work and upon completion. Capital Power’s approach uses policy, third-party administered screening questionnaires, criteria relevant to the specific work set out in procurement documents, and standardized terms and conditions setting out Capital Power expectations.
2022 Integrated Annual Report > Governance and ethics > Ethics and integrity, page 51</td></tr>
<tr><td>2-25</td><td>Processes to remediate negative impacts</td><td>Website > Ethics policy, I. Reporting, page 10
Website > Ethics policy, II. Investigation process, page 11-14</td></tr>
</table>

GRI 2: General disclosures 2022

Disclosure number	Disclosure title	2022 response
Strategy, policies and practices		
2-26	Mechanisms for seeking advice and raising concerns	2022 Integrated Annual Report > Governance and ethics > Ethics and integrity > page 51 Website > Ethics
2-27	Compliance with laws and regulations	There were no significant instances of non-compliance with laws and/or regulations in 2022. No significant fines or non-monetary sanctions for non-compliance with laws and/or regulations were levied in 2022. Capital Power reviews several data points to assess the materiality of a noncompliance event, including impact to business operations, reputational implications, prior events of a similar nature, any referrals to enforcement agencies, and/or penalties/fines assessed and associated dollar amount. Note: This excludes MCV, which will be included in 2023.
2-28	Membership associations	Capital Power maintains organizational-level memberships in the following associations: • Powering Past Coal Alliance • International Emissions Trading Association • Business Council for Sustainable Energy • Business Renewables Center • American Clean Power Association • Western Power Trading Forum • Mid-Atlantic Renewable Energy Coalition • Clean Grid Alliance • Ontario Chamber of Commerce Energy Council • Clean Energy BC • Solar Energy Industries Association • Canadian Renewable Energy Association • American Council on Renewable Energy • Alberta Chamber of Resources • Catalyst • Boston College Center for Corporate Citizenship • Construction Owners Association of Alberta • Independent Power Producers Society of Alberta • Association of Power Producers of Ontario • Canadian Electricity Association • Canadian American Business Council • Edmonton Chamber of Commerce • The Conference Board of Canada • Advanced Power Alliance • Canadian Business for Social Responsibility (CBSR)/EXCEL Partnership • Business Ethics Leadership Alliance • Edmonton Integrity Network • Canadian Council for Aboriginal Business
Stakeholder engagement		
2-29	Approach to stakeholder engagement	2022 Integrated Annual Report > Community and stakeholder engagement > page 42 2023 Management Proxy Circular > Shareholder engagement, page 36
2-30	Collective bargaining agreements	31% of Capital Power employees are covered by collective bargaining agreements. Capital power does not solely use collective agreements to determine working conditions and terms of employment. Capital Power looks at market data which would include unionized and non-unionized companies to determine working conditions and terms of employment.

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response
Disclosures on material topics		
3-1	Process to determine material topics	Our material topics were identified during our 2018 ESG materiality assessment. For a description of our 2018 ESG materiality assessment, please see our 2020 Integrated Annual Report, page 12. We plan to conduct our next ESG materiality assessment in 2023.
3-2	List of material topics	Climate change and carbon footprint Innovation Sustainable sourcing Water management There are no changes to our material topics from the previous reporting year.
GRI 201: Economic performance (2016)		
3-3	Management of material topics	Discussion around economic performance can be found throughout the 2022 Integrated Annual Report > Business report, beginning on page 53.
201-1	Direct economic value generated and distributed	Economic value generated and distributed: Direct economic value generated: – Revenues and other income: $2,929M Economic value distributed: – Staff costs and employee benefits expense: $184M Payments to providers of capital: – Interest paid: $110M – Dividends paid: $296M – Income taxes paid: $52M Other operating costs: $1,875M Community investments: $5.4M 2022 Integrated Annual Report > Business report > Statements of changes in equity > page 129 Segmented revenues split between the U.S. and Canada are included within the geographic segment disclosures in note 36 of the financial statements on page 182.
201-2	Financial implications and other risks and opportunities due to climate change	2022 Integrated Annual Report > Business report > Risks and risk management > Climate change > page 84

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response
GRI 201: Economic performance (2016)		
201-3	Defined benefit plan obligations and other retirement plans	Capital Power employees hired prior to July 1, 2009, participate in the Local Authorities Pension Plan (LAPP), a multi-employer, contributory pension plan for employees of municipalities, hospitals and other public entities in Alberta, governed by the Public Sector Pension Plans Act (Alberta). No liability accrues to participating employers like Capital Power, as the plan is governed by the LAPP Corporation who manage liabilities through contributions collected from employers and plan participants. Employees hired after July 1, 2009, participate in a defined contribution arrangement, a registered pension plan for Canadian employees and a 401(k) for American employees, which do not amass liabilities by design. Certain Canadian employees are eligible to participate in the Supplemental Retirement Plan (SRP), a non-registered plan which provides pension benefits in excess of the maximum limits prescribed by the Income Tax Act (Canada). The plan is funded through general revenues of Capital Power on a pay-as-you-go basis. The defined benefits component of the SRP has an estimated liability of $43M as of December 31, 2022. This retirement plan is governed by the PCG Committee of the Board. Percentage of salary contributed by employee or employer: • LAPP – Employer contributes 9.39% up to the yearly maximum pensionable earnings (YMPE) and 13.84% above the YMPE. Employee contributes 8.39% up to the YMPE and 12.84% over the YMPE. • Defined Contribution Pension Plan (DC) – Employee/Employer each contribute 5% (in cases of <5 years of service), 6.5% (for 5–10 years of service), 8% (>10 years of service). • 401(k) (U.S. employees only) – Employee voluntary deferral, up to 7% employer match. • Savings Plan (eligible employees only) – Employee voluntary deferral, up to 5% employer match. Level of participation in retirement plans: • LAPP/DC – 100% – Mandatory participation (Canada) • 401(k) – 100% voluntary participation rate (U.S.) • Savings Plan – 86% voluntary participation rate (Canada)
201-4	Financial assistance received from government	2022 Integrated Annual Report > Business Report > note 6 (Other income), page 144 2022 Integrated Annual Report > Business Report > note 16 (Government compensation), page 151
GRI 204: Procurement practices (2016)		
3-3	Management of material topics	Capital Power manages the procurement of goods and services both locally at each of its facilities and centrally through head office oversight. Factors that most often impact procurement decisions include overall value, cost, experience, familiarity, skill, lead time, supplier location, reputation, and environmental and social performance. In 2022, shortages and extended lead times frequently were top concerns identified within our supply chain by suppliers and other stakeholders. These factors tended to be prioritized throughout the year in procurement decisions. In some situations, for example select plant maintenance services, these factors favoured local service suppliers because of their familiarity with the site and contact with local labour pools. In other situations, for example parts supply, these factors often favoured larger multinational parts suppliers with larger parts inventories to draw upon. In all cases, risk of shortages and extended lead times highlighted the importance of maintaining strong supplier relationships and better understanding the source of the good or service Capital Power was procuring. 2022 Integrated Annual Report > Sustainable operations and decarbonization > Sustainable sourcing policy, page 33
204-1	Proportion of spending on local suppliers	Capital Power's Sustainable Sourcing Policy defines local suppliers as those that are headquartered in, and/or wholly or partially owned and controlled by one or more individuals that have a substantial connection to, communities in which we operate. Of Capital Power's top twenty suppliers by spend, four met the criteria for local suppliers including our largest supplier by spend.

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response
GRI 302: Energy (2016)		
3-3	Management of material topics	The environmental program is monitored on a regular basis by the HSE Committee, including compliance with regulatory requirements and the use of internal environmental specialists and independent, external environmental experts. The Company continues to invest in environmental infrastructure related to energy and to ensure that environmental requirements are met, or while implementing procedures to reduce the impact of operations on the environment. All plants are subject to an internal review process which includes an environmental component. Internal audit has developed an Integrated Site Assurance Team (ISAT) program whereby all plants are subject to a multi-disciplinary assurance review on a rotating schedule, which includes a health, safety and environment component. The environmental focus of these audits is the plant's permits and regulatory compliance and/or a management system approach to assessing environmental risk management. In addition, Capital Power's Health, Safety and Environment corporate group is subject to an internal audit every three years where it takes a risk-based approach to determine the scope of the audit. The results of internal audit engagements are distributed to management, who provide responses to each finding, including committed dates for actionable items. Internal audit follows up with management on actionable items until they are completed and reports the status of findings quarterly to the HSE Committee of the Board. External compliance verifications have been initiated on the majority of Canadian thermal facilities around greenhouse gas (GHG) compliance. These verifications look at energy input. Verifications that have covered energy use have found no discrepancies to date. In 2022, Capital Power obtained limited assurance on Scope 1 GHGs disclosed in this report based on absolute emissions and emissions intensity from a third-party independent verifier. The internal reviews performed in 2022 did not result in significant findings that required changes to management approach.
302-1	Energy consumption within the organization	See tables below

2022 Coal Consumption (GJ)	2022 Natural Gas Consumption (GJ)	Total Non Renewable Energy Consumption
85,325,590	155,615,349	**240,940,939**

Non-Renewable Energy Consumption by Country

Country	2022 Coal Consumption (GJ)	2022 Natural Gas Consumption (GJ)
Canada	85,325,590	41,336,778
U.S.A	0	114,278,571
Total	**85,325,590**	**155,615,349**

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 302: Energy (2016)

302-1 (continued) — Energy consumption within the organization

Non-renewable Energy Consumption by Facility

Country	Prov./State	Facility	Type of Facility	2022 Coal Consumption (GJ)	2022 Natural Gas Consumption (GJ)
Canada	Alberta	Halkirk	Wind	0	0
Canada	Alberta	Whitla 1	Wind	0	0
Canada	Alberta	Whitla 2	Wind	0	0
Canada	Alberta	Strathmore	Solar	0	0
Canada	Alberta	Clydesdale	Solar	0	0
Canada	British Columbia	Quality Wind	Wind	0	0
Canada	British Columbia	Island Generation	Natural gas	0	95,703
Canada	Alberta	Genesee 1 and 2	Coal/Natural gas	60,190,829	6,787,864
Canada	Alberta	Genesee 3	Coal/Natural gas	25,134,761	8,483,473
Canada	Alberta	Genesee Mine	Mining	0	0
Canada	Alberta	Clover Bar	Natural gas	0	6,687,175
Canada	Alberta	Clover Bar LFG	Landfill gas	0	0
Canada	Ontario	East Windsor	Natural gas	0	173,806
Canada	Ontario	York Energy Centre	Natural gas	0	703,789
Canada	Ontario	Goreway	Natural gas	0	18,404,969
Canada	Ontario	Kingsbridge	Wind	0	0
Canada	Ontario	Port Albert	Wind	0	0
Canada	Ontario	Port Dover and Nanticoke	Wind	0	0
U.S.A.	Alabama	Decatur Energy Center	Natural gas	0	21,847,763
U.S.A.	Arizona	Arlington	Natural gas	0	20,939,859
U.S.A.	Michigan	Midland	Natural gas	0	71,490,948
U.S.A.	New Mexico	Macho Springs	Wind	0	0
U.S.A.	North Carolina	Beaufort Solar	Solar	0	0
U.S.A.	Kansas	Bloom	Wind	0	0
U.S.A.	North Dakota	New Frontier	Wind	0	0
U.S.A.	Illinois	Cardinal Point	Wind	0	0
U.S.A.	Texas	Buckthorn	Wind	0	0
Total				**85,325,590**	**155,615,349**

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 302: Energy (2016)

302-1 (continued) Energy consumption within the organization

2022 Biomass Consumption (GJ)	2022 Natural Gas Consumption (GJ)	2022 TDF Consumption (GJ)	2022 Total Generation from Waste Heat (GJ)	Total Renewable Energy Consumption
0	352,952	0	**0**	**352,952**

Renewable Energy Consumption by Country

Country	2022 Biomass Consumption (GJ)	2022 Landfill Gas Consumption (GJ)	2022 TDF Consumption (GJ)
Canada	0	352952	0
U.S.A	0	0	0
Total	**0**	**352952**	**0**

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 302: Energy (2016)

302-1 (continued) Energy consumption within the organization

Renewable Energy Consumption by Facility

Country	Prov./State	Facility	Type of Facility	2022 Biomass Consumption (GJ)	2022 Landfill Gas Consumption (GJ)	2022 TDF Consumption (GJ)
CANADA	ALBERTA	Halkirk	Wind	0	0	0
CANADA	ALBERTA	Whitla 1	Wind	0	0	0
CANADA	ALBERTA	Whitla 2	Wind	0	0	0
CANADA	ALBERTA	Strathmore	Solar	0	0	0
CANADA	ALBERTA	Clydesdale	Solar	0	0	0
CANADA	BRITISH COLUMBIA	Quality Wind	Wind	0	0	0
CANADA	BRITISH COLUMBIA	Island Generation	Natural gas	0	0	0
CANADA	ALBERTA	Genesee 1 & 2	Coal/ Natural gas	0	0	0
CANADA	ALBERTA	Genesee 3	Coal/ Natural gas	0	0	0
CANADA	ALBERTA	Genesee Mine	Mining	0	0	0
CANADA	ALBERTA	Clover Bar	Natural gas	0	0	0
CANADA	ALBERTA	Clover Bar LFG	Landfill gas	0	352,952	0
CANADA	ONTARIO	East Windsor	Natural gas	0	0	0
CANADA	ONTARIO	York Energy Centre	Natural gas	0	0	0
CANADA	ONTARIO	Goreway	Natural gas	0	0	0
CANADA	ONTARIO	Kingsbridge	Wind	0	0	0
CANADA	ONTARIO	Port Albert	Wind	0	0	0
CANADA	ONTARIO	Port Dover & Nanticoke	Wind	0	0	0
U.S.A.	ALABAMA	Decatur Energy Center	Natural gas	0	0	0
U.S.A.	ARIZONA	Arlington	Natural gas	0	0	0
U.S.A.	MICHIGAN	Midland	Natural gas	0	0	0
U.S.A.	NEW MEXICO	Macho Springs	Wind	0	0	0
U.S.A.	NORTH CAROLINA	Beaufort Solar	Solar	0	0	0
U.S.A.	KANSAS	Bloom	Wind	0	0	0
U.S.A.	NORTH DAKOTA	New Frontier	Wind	0	0	0
U.S.A.	ILLINOIS	Cardinal Point	Wind	0	0	0
U.S.A.	TEXAS	Buckthorn	Wind	0	0	0
Total				**0**	**352,952**	**0**

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response
302-1 (continued)	Energy consumption within the organization	

2022 Consumption	GJ
Electricity	**4,686,082**
Heating	**NA**
Cooling	**NA**
Steam	**NA**

** conversion: 1 MWh = 3.6 GJ

2022 Sold	GJ
Electricity	**104,074,700**
Heating	**NA**
Cooling	**NA**
Steam	**5,683,853.56**

** conversion: 1 MWh = 3.6 GJ

Total Energy Consumption (GJ)	245,831,062

Notes:
Conversion of fuel to GJ based on higher heating value of fuel
Conversion of MWh to GJ based on 1 MWh = 3.6 GJ (steam enthalpy)
Net MWh generation (sold electricity) is net “revenue-quality” MWh, unless otherwise noted
Electricity consumption is based on unit parasitic load (gross generation minus net generation)
Higher heating value based on fuel analysis or published values

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response
GRI 302: Energy (2016)		
302-2	Energy consumption outside the organization	Capital Power does not track this indicator. However, we do track and report scope 3 emissions for relevant categories.
302-3	Energy intensity	**Energy intensity** 7.88 Notes: Organization metric (denominator) is Net MWh Fuel inputs are included in the ratio (GJ) Only energy consumption within the organization is used to calculate the energy intensity
302-4	Reduction of energy consumption	2022 Integrated Annual Report > Sustainable operations and decarbonization > Emissions management, page 29
302-5	Reduction in energy requirements of products and services	2022 Integrated Annual Report > Sustainable operations and decarbonization > Sustainable sourcing policy > page 33
GRI 303: Water and Effluents (2018)		
3-3	Management of material topics	Capital Power's Regulatory and Environmental Policy (R&EP) group, in consultation with government relations, is responsible for early identification of emerging regulatory issues as well as proposed and forthcoming regulatory changes, including water-related issues. They work proactively with internal stakeholders at Capital Power to ensure that the corporate growth strategy is executed within the constraints imposed by current and expected environmental policies in Canada and the U.S. The R&EP group: • Provides details about Canadian and U.S. environmental policy initiatives to internal stakeholders; • Leads an internal multi-disciplinary team to develop Capital Power's positions about environmental policies, including water; • Coordinates the analysis of potential environmental regulations and policies on Capital Power's existing assets, new projects and acquisitions; • Represents and advocates Capital Power's environmental policy positions with industry committees, governments and other stakeholders; and • Coordinates regular communication of environmental policy issues and positions. The R&EP group reports regularly to the Executive Team. All plants are subject to an internal review process which includes an environmental component, focusing on either a plant's permits and regulatory compliance or a management system approach to reviewing environmental risk management. The internal reviews performed in 2022 did not result in significant findings that required changes to management approach. 2022 Integrated Annual Report > Sustainable operations and decarbonization > Water management, page 32
303-1	Interactions with water as a shared resource	Capital Power plans to incorporate asset-by-asset targets as part of its water management strategy. These targets will be set based on materiality, which includes water stress in the areas that we operate. Standards for the quality and quantity of effluent discharges are determined by applicable regional regulatory agencies. In all cases, our approvals include regulatory requirements which involve studies, limits, monitoring and reporting. We comply with all conditions in our operating water approvals and participate in watershed alliances and regional biomonitoring programs for some of our facilities. Capital Power sits on the Alberta Water Council (AWC) Board (a multi-stakeholder partnership to engage industry, NGOs and governments to achieve the outcomes of the Water for Life strategy) as industry vice president, and is a member of the Canadian Electricity Association (CEA), which advocates for the electricity industry positions to the federal government, including protection of fisheries. 2022 Integrated Annual Report > Sustainable operations and decarbonization > Water management, page 32
303-2	Management of water discharge-related impacts	The minimum standards for the quality of effluent discharges are determined by applicable regional regulatory agencies in the form of operating water approvals, permits and licenses. In addition to meeting the regulatory thresholds, we continue to explore and utilize best management approaches for clean water for operational efficiencies.

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response
GRI 303: Water and Effluents (2018)		
303-3	Water withdrawal	58, 310 ML Notes: Total includes: surface waters, groundwater, seawater, produced waters and third-party waters. All waters discharged were considered to be <1,000 mg/L Total Dissolved Solids. Additional contextual information relating to the provided data is outlined in the sites' operating permits, approvals or licenses issued by the regional regulator or from local water quality objectives. We assume water consumed is equal to water withdrawal minus water discharge.
303-4	Water discharge	36,748 ML Notes: Total includes: surface waters, groundwater, seawater, produced waters and third-party waters. All waters discharged were considered to be <1,000 mg/L Total Dissolved Solids. Operating approvals, permits and/or licenses identify any discharge consents or priority substances to be treated specific to each operational site.
303-5	Water consumption	21,562 ML Notes: Total includes: surface waters, groundwater, seawater, produced waters and third-party waters. Operating approvals, permits and/or licenses identify any discharge consents or priority substances to be treated specific to each operational site.
GRI 305: Emissions (2016)		
3-3	Management of material topics	Responsibilities around energy management are outlined in our HSE Policy, Investment Policy, and Enterprise Risk Policy. 2022 Integrated Annual Report > Sustainable operations and decarbonization > Emissions management, page 29 2022 Climate Change Disclosure Report > Governance and risk management > Management oversight, page 09 2023 Management Proxy > Governance at Capital Power, page 22

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 305: Emissions (2016)

305-1 Direct (Scope 1) GHG emissions

Gross Direct GHG Emissions (tonnes CO_2e)	**15,908,540.28**

GHG by Facility

Country	Prov./State	Facility	Type of Facility	GHG excluding Biomass & LFG CO_2e (tonnes/yr)	GHG including Biomass & LFG (tonnes/yr)
Canada	Alberta	Halkirk	Wind	0	0
Canada	Alberta	Whitla 1	Wind	0	0
Canada	Alberta	Whitla 2	Wind	0	0
Canada	Alberta	Strathmore	Solar	0	0
Canada	Alberta	Clydesdale	Solar	0	0
Canada	British Columbia	Quality Wind	Wind	0	0
Canada	British Columbia	Island Generation	Natural gas	4,915	4,915
Canada	Alberta	Genesee 1 and 2	Coal/Natural gas	5,960,019	5,960,019
Canada	Alberta	Genesee 3	Coal/Natural gas	2,782,447	2,782,447
Canada	Alberta	Genesee Mine	Mining	46,753	46,753
Canada	Alberta	Clover Bar	Natural gas	339,166	339,166
Canada	Alberta	Clover Bar LFG	Landfill gas	107	10,613
Canada	Ontario	East Windsor	Natural gas	8,907	8,907
Canada	Ontario	York Energy Centre	Natural gas	35,680	35,680
Canada	Ontario	Goreway	Natural gas	933,693	933,693
Canada	Ontario	Kingsbridge	Wind	0	0
Canada	Ontario	Port Albert	Wind	0	0
Canada	Ontario	Port Dover and Nanticoke	Wind	0	0
U.S.A.	Alabama	Decatur Energy Center	Natural gas	1,103,116	1,103,116
U.S.A.	Arizona	Arlington	Natural gas	1,079,269	1,079,269
U.S.A.	Michigan	Midland	Natural gas	3,614,469	3,614,469
U.S.A.	New Mexico	Macho Springs	Wind	0	0
U.S.A.	North Carolina	Beaufort Solar	Solar	0	0
U.S.A.	Kansas	Bloom	Wind	0	0
U.S.A.	North Dakota	New Frontier	Wind	0	0
U.S.A.	Illinois	Cardinal Point	Wind	0	0
U.S.A.	Texas	Buckthorn	Wind	0	0
Total				**☑ 15,908,540**	**15,919,047**

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 305: Emissions (2016)

305-1 (continued)	Direct (Scope 1) GHG emissions	GHG by Country

Country	**GHG excluding Biomass & LFG CO_2 (tonnes/yr)**	**GHG including Biomass & LFG (tonnes/yr)**
Canadian totals	10,111,685	10,122,192
US Totals	5,796,855	5,796,855
Total	**15,908,540**	**15,919,047**

GHG by Fuel Type

Emission	**GHG excluding Biomass & LFG CO_2 (tonnes/yr)**	**GHG including Biomass & LFG (tonnes/yr)**
Coal/Natural gas	7,415,297	7,415,297
Gas	8,446,383	8,446,383
Renewables	107	10,613
Total	**15,861,787**	**15,872,294**
Biogenic GHG Emissions (tonnes CO_2e)		**10,506.39**

Notes:
Gases included in gross direct GHG emission calculation include CO_2, CH4, N2O and SF6.
Global warming potential rates used are from IPCC Guidelines (AR4 & AR5) for Greenhouse Gas Inventories.
We use a combination of mass balance and emission factors in the calculation of CO_2 emissions.
Quantification requirements are dictated by the operational jurisdiction.
Information that was not available for December due to timing of the report was estimated.
This information represents our generation associated with our operating approvals regardless of our financial interest in the facility.
Data from owned capacity at facilities where we do not hold the operating permits is not included in this report.
Organization-specific metric (the denominator) chosen to calculate the ratio: Net MWh.
GHG by Fuel Type excludes the Genesee Mine as it is not part of generation.

305-2	Energy indirect (Scope 2) GHG emissions	46,553 (tonnes CO_2e)
305-3	Other indirect (Scope 3) GHG emissions	3,133,661 (tonnes CO_2e)

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 305: Emissions (2016)

305-4 GHG emissions intensity

GHG Intensity (tonnes CO_2e/MWh)	0.508

*This intensity includes GHG emissions related to MWh production only and excludes steam production at East Windsor.

*This intensity includes emissions from generation only. It does not include Genesee mine emissions (does not generate electricity).

GHG by Facility

Country	Prov./State	Facility	Type of Facility	GHG Intensity (tonnes CO_2e/MWh)
Canada	Alberta	Halkirk	Wind	0.000
Canada	Alberta	Whitla 1	Wind	0.000
Canada	Alberta	Whitla 2	Wind	0.000
Canada	Alberta	Strathmore	Solar	0.000
Canada	Alberta	Clydesdale	Solar	0.000
Canada	British Columbia	Quality Wind	Wind	0.000
Canada	British Columbia	Island Generation	Natural gas	0.433
Canada	Alberta	Genesee 1 and 2	Coal/Natural gas	0.898
Canada	Alberta	Genesee 3	Coal/Natural gas	0.790
Canada	Alberta	Genesee Mine	Mining	0.000
Canada	Alberta	Clover Bar	Natural gas	0.499
Canada	Alberta	Clover Bar LFG	Landfill gas	0.012
Canada	Ontario	East Windsor	Natural gas	0.561
Canada	Ontario	York Energy Centre	Natural gas	0.636
Canada	Ontario	Goreway	Natural gas	0.423
Canada	Ontario	Kingsbridge	Wind	0.000
Canada	Ontario	Port Albert	Wind	0.000
Canada	Ontario	Port Dover and Nanticoke	Wind	0.000
U.S.A.	Alabama	Decatur Energy Center	Natural gas	0.398
U.S.A.	Arizona	Arlington	Natural gas	0.395
U.S.A.	Michigan	Midland	Natural gas	0.481
U.S.A.	New Mexico	Macho Springs	Wind	0.000
U.S.A.	North Carolina	Beaufort Solar	Solar	0.000
U.S.A.	Kansas	Bloom	Wind	0.000
U.S.A.	North Dakota	New Frontier	Wind	0.000
U.S.A.	Illinois	Cardinal Point	Wind	0.000
U.S.A.	Texas	Buckthorn	Wind	0.000
Total				☑ **0.508**

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 305: Emissions (2016)

305-4 (continued) | GHG emissions intensity

GHG Intensity by Country

Country	GHG Intensity (tonnes CO_2e/MWh)
Canadian totals	0.631
US Totals	0.380
Total	☑ **0.508**

GHG by Fuel Type

Emission	GHG including Biomass & LFG (tonnes/yr)
Coal/Natural gas	0.863
Gas	0.481
Renewables	0.000
Total	☑ **0.508**

Notes:

This intensity includes GHG emissions related to MWh production only and excludes emissions related to the Genesee Mine.

Organization-specific metric (the denominator) chosen to calculate the ratio: Net MWh.

Types of GHG emissions included in the intensity ratio: Scope 1.

Gases included: CO_2, CH_4, N_2O, HFCs, SF_6.

Capital Power follows the recommendations in the GHG Protocol, for the timing of recalculations for structural changes. When the significant structural change of adding MCV occurred in 2022, base year emissions were recalculated and the full year emissions from MCV were added to our actual emission and emission intensity values.

305-5 | Reduction of GHG emissions

GHG emission reductions (tonnes CO_2e)	968,718.20

Notes:

Reduction initiatives include Genesee Performance Standard and co-firing with natural gas.

Denominator used is Net Generation (sold MWh).

Gases included: CO_2, CH_4, N_2O.

Base year for calculation: 2016.

Reductions are for direct (Scope 1) emissions.

Reduction calculations compared the 2016 (base year) GHG intensity and the 2022 GHG intensity and the reduction in intensity was applied to the 2022 generation. It is assumed that any reduction in intensity is due to efficiency improvements and co-firing with natural gas. 2016 was selected as a baseline year for this metric because this was the year preceding the reduction initiatives related to the Genesee Performance Standard.

305-6 | Emissions of ozone-depleting substances (ODS) | We had no ODS emissions in 2022.

305-7 | Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions

Parameter	2022 Emissions	Units
NOx	17,895	tonnes
SO_2	17,926	tonnes
Particulate Matter (PM)	1,094	tonnes
Mercury	26	kg

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 305: Emissions (2016)

305-7 (continued)	Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions

Emissions by Facility

Country	Prov./State	Facility	Type of Facility	NOx (tonnes/yr)	SO_2 (tonnes/yr)	Total PM (tonnes/yr)	Hg (kg/yr)
Canada	Alberta	Halkirk	Wind	0	0	0	0
Canada	Alberta	Whitla 1	Wind	0	0	0	0
Canada	Alberta	Whitla 2	Wind	0	0	0	0
Canada	Alberta	Strathmore	Solar	0	0	0	0
Canada	Alberta	Clydesdale	Solar	0	0	0	0
Canada	British Columbia	Quality Wind	Wind	0	0	0	0
Canada	British Columbia	Island Generation	Natural gas	2	0	0	0
Canada	Alberta	Genesee 1 and 2	Coal/Natural gas	12,661	15,643	816	19
Canada	Alberta	Genesee 3	Coal/Natural gas	2,063	2,252	259	7
Canada	Alberta	Genesee Mine	Mining	0	0	0	0
Canada	Alberta	Clover Bar	Natural gas	187	2	1	0
Canada	Alberta	Clover Bar LFG	Landfill gas	15	1	1	0
Canada	Ontario	East Windsor	Natural gas	5	0	0	0
Canada	Ontario	York Energy Centre	Natural gas	17	0	0	0
Canada	Ontario	Goreway	Natural gas	140	5	2	0
Canada	Ontario	Kingsbridge	Wind	0	0	0	0
Canada	Ontario	Port Albert	Wind	0	0	0	0
Canada	Ontario	Port Dover and Nanticoke	Wind	0	0	0	0
U.S.A.	Alabama	Decatur Energy Center	Natural gas	0	0	0	0
U.S.A.	Arizona	Arlington	Natural gas	75	6	14	0
U.S.A.	Michigan	Midland	Natural gas	2,729	18	0	0
U.S.A.	New Mexico	Macho Springs	Wind	0	0	0	0
U.S.A.	North Carolina	Beaufort Solar	Solar	0	0	0	0
U.S.A.	Kansas	Bloom	Wind	0	0	0	0
U.S.A.	North Dakota	New Frontier	Wind	0	0	0	0
U.S.A.	Illinois	Cardinal Point	Wind	0	0	0	0
U.S.A.	Texas	Buckthorn	Wind	0	0	0	0
Total				**17,895**	**17,926**	**1,094**	**26**

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response

GRI 305: Emissions (2016)

305-7 (continued)

Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions

Emissions by Country

Country	NOx (tonnes/yr)	SO_2 (tonnes/yr)	Total PM (tonnes/yr)	Hg (kg/yr)
Canadian totals	15,091	17,903	1,080	26
US Totals	2,804	23	14	0
Total	**17,895**	**17,926**	**1,094**	**26**

Emission by Fuel Type

Emission	Nox (tonnes)	SO_2 (tonnes)	PM (tonnes)	Hg (kg)
Coal/Natural gas	14724	17895	1076	23
Gas	3155	30	17	0
Renewables	15	1	1	0
Total	**17,895**	**17,926**	**1,094**	**23**

Notes:

The majority of these emissions are calculated using direct measurement (Continuous Emissions Monitoring Systems).

Some parameters are calculated using source emission testing or mass balance.

Where emission factors are utilized, the source of the emission factors is typically source testing or EPA-published emission factors.

Calculation methodologies are dictated by jurisdiction.

GRI 308: Supplier Environmental Assessments (2016)

3-3

Management of material topics

Capital Power manages supplier environmental assessment in advance of procurement, during the execution of the work and upon completion. Capital Power's approach uses policy, third-party administered environmental questionnaires, work specific procurement criteria/processes, standardized terms and conditions, standardized environmental standards, and active site management.

2022 Integrated Annual Report > Sustainable operations and decarbonization > Sustainable sourcing policy, page 33

Other key policies related to supplier environmental performance include Capital Power's Health, Safety, and Environment Policy.

Generally, the primary focus of supplier environmental assessments are the services performed by suppliers at Capital Power sites. Active environmental assessment of supplier activities off-site is limited at present.

Actions taken in 2022 to improve information available for environmental assessment included engaging with a third party service provider to obtain environmental assessment information for our supplier base. Suppliers have been informed that Capital Power is now actively collecting and reviewing this information.

Environmental criteria now available include, among others, the status of supplier corporate environmental performance criteria, water usage tracking, toxic/hazardous material tracking, waste disposal practices, greenhouse gas emission tracking, and environmental compliance records.

Capital Power generally prioritizes environmental assessment of suppliers performing activities that pose a higher environmental risk and/or potential impact. These situations arise most often when the work relates directly to environmental regulations applying to Capital Power and permits obtained by Capital Power.

Prior to selecting suppliers, assessments generally take the form of two-way engagement between the supplier and Capital Power by way of written clarifications and/or discussion.

Post selection assessments may be mandated based on performance or may arise in the case of complaints received from stakeholders or following incidents that from time to time occur. In both the latter cases, investigations are undertaken.

GRI 3: Material topics 2022

Disclosure number	Disclosure title	2022 response
308-1 and 308-2	New suppliers that were screened using environmental criteria, and negative environmental impacts in the supply chain and actions taken	Starting in 2022, for the first time at scale, all new suppliers performing work at an operating facilities and constructions sites are asked to provide responses to an online questionnaire through our third-party contractor management service provider pertaining to the suppliers' environmental maturity, performance, and procedures. Suppliers not performing physical work on site are not included. Responses to the questionnaire are optional at this time and results are primarily used in aggregate by Capital Power to evaluate supply chain environmental maturity and for baselining. Capital Power did not use this information to assess individual supplier performance in 2022.
GRI 414: Supplier Social Assessments (2016)		
3-3	Management of material topics	Capital Power manages supplier social assessment in advance of procurement, during the execution of the work and upon completion. Capital Power's approach uses policy, third-party administered social screening questionnaires, social criteria relevant to the specific work set out in procurement documents, and standardized terms and conditions setting out Capital Power expectations. 2022 Integrated Annual Report > Sustainable operations and decarbonization, Sustainable sourcing policy, page 33 Other key related policies include Capital Power's Ethics Policy. Actions taken in 2022 to improve information available for social assessment included engaging with a third party service provider to obtain social assessment information for our supplier base. Suppliers have been informed that Capital Power is now actively collecting and reviewing this information. Capital Power also separately completed the cataloging of supplier ownership diversity for its supply chain. Social criteria now available for procurement decision making includes among others whether suppliers have procedures in place to eliminate gender bias, the presence of diversity, equity, and inclusion policies, stance on forces labour, the presence/absence of social responsibility screening criteria in the suppliers' supply chains, and whether the ownership of the supplier is controlled by an owner within specified diversity categories. Negative supplier performance related to social criteria may be reported anonymously through Capital Power's ethics hotline for investigation.
414-1, 414-2	New suppliers that were screened using social criteria, and negative social impacts in the supply chain and actions taken	Starting in 2022, for the first time at scale, all new suppliers performing work at an operating facilities and constructions sites are asked to provide responses to an online questionnaire through our third-party contractor management service provider pertaining to the suppliers' social maturity, performance, and procedures. Suppliers not performing physical work on site are not included. Responses to the questionnaire are optional at this time and results are primarily used in aggregate by Capital Power to evaluate supply chain environmental maturity and to establish a baseline. Capital Power did not use this information to evaluate individual supplier performance in 2022.

SASB Index

<table>
<thead>
<tr><th>SASB disclosure</th><th>Category</th><th>Unit of measure</th><th>SASB disclosure reference</th><th>2022 Response</th></tr>
</thead>
<tbody>
<tr><td colspan="5">Greenhouse gas emissions and energy resource planning</td></tr>
<tr><td>Gross global Scope 1 emissions</td><td>Quantitative</td><td>Metric tons (t) CO_2-e</td><td>IF-EU-110a.1</td><td>15,908,540</td></tr>
<tr><td>Percentage of gross global Scope 1 emissions covered under emissions-limiting regulations</td><td>Quantitative</td><td>Percentage (%)</td><td>IF-EU-110a.1</td><td>64%</td></tr>
<tr><td>Percentage of gross global Scope 1 emissions covered under emissions-reporting regulations</td><td>Quantitative</td><td>Percentage (%)</td><td>IF-EU-110a.1</td><td>100%</td></tr>
<tr><td>Greenhouse gas (GHG) emissions associated with power deliveries</td><td>Quantitative</td><td>Metric tons (t) CO_2-e</td><td>IF-EU-110a.2</td><td>See GRI 305-1</td></tr>
<tr><td>Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets</td><td>Discussion and analysis</td><td>n/a</td><td>IF-EU-110a.3</td><td>Responsibilities around energy management are outlined in our HSE Policy, Investment Policy, Climate Change Disclosure Report, Enterprise Risk Policy and Management Proxy.

See GRI 302-1 and GRI 305-1

2022 Integrated Annual Report > Sustainable operations and decarbonization > Emissions management, page 29
2022 Climate Change Disclosure Report > Governance and risk management > Management oversight, page 09
Website > HSE Policy
2023 Management Proxy Circular</td></tr>
<tr><td>(1) Number of customers served in markets subject to renewable portfolio standards (RPS) and (2) percentage fulfillment of RPS target by market.</td><td>Quantitative</td><td>Number, Percentage (%)</td><td>IF-EU-110a.4</td><td>8,349,000
39.9%</td></tr>
<tr><td colspan="5">Air quality</td></tr>
<tr><td>Air emissions of the following pollutants: (1) NO (excluding N2O), (2) SOx, (3) particulate matter (PM10), (4) lead (Pb), and (5) mercury (Hg); percentage of each in or near areas of dense population</td><td>Quantitative</td><td>Metric tons (t), Percentage (%)</td><td>IF-EU-120a.1</td><td>
<table>
<tr><th></th><th>NOx (tonnes/yr)</th><th>SO_2 (tonnes/yr)</th><th>Total PM (tonnes/yr)</th><th>Hg (kg/yr)</th></tr>
<tr><td></td><td>17895</td><td>17926</td><td>1094</td><td>26</td></tr>
<tr><td>% Near areas of dense population</td><td>18%</td><td>0%</td><td>2%</td><td>0%</td></tr>
</table>
</td></tr>
<tr><td colspan="5">Water management</td></tr>
<tr><td>(1) Total water withdrawn, (2) total water consumed, percentage of each in regions with High or Extremely High Baseline Water Stress</td><td>Quantitative</td><td>Thousand cubic meters (m^3), Percentage (%)</td><td>IF-EU-140a.1</td><td>See GRI 303-3 and GRI 303-5

According to the WWF water risk filter, the only facility in a region with High or Extremely High Baseline Water Stress is our Arlington Valley facility. Arlington withdrew 2,796 ML (4.8% of total water withdrawals) of water in 2022.</td></tr>
<tr><td>Number of incidents of non-compliance associated with water quantity and/or quality permits, standards, and regulations</td><td>Quantitative</td><td>Number</td><td>IF-EU-140a.2</td><td>There were no fines in 2022.</td></tr>
</tbody>
</table>

SASB Index

<table>
<tr><th>SASB disclosure</th><th>Category</th><th>Unit of measure</th><th>SASB disclosure reference</th><th>2022 Response</th></tr>
<tr><td>Description of water management risks and discussion of strategies and practices to mitigate those risks</td><td>Discussion and analysis</td><td>n/a</td><td>IF-EU-140a.3</td><td>See GRI 303-1</td></tr>
<tr><td colspan="5">Coal ash management</td></tr>
<tr><td>Amount of coal combustion residuals (CCR) generated, percentage recycled</td><td>Quantitative</td><td>Metric tons (t), Percentage (%)</td><td>IF-EU-150a.1</td><td><table><tr><th></th><th>tonnes</th><th>%</th></tr><tr><td>Ash Disposed</td><td>763,160</td><td>72%</td></tr><tr><td>Ash Recycled (sold)</td><td>290,780</td><td>28%</td></tr></table></td></tr>
<tr><td>Total number of coal combustion residual (CCR) impoundments, broken down by hazard potential classification and structural integrity assessment</td><td>Quantitative</td><td>Number</td><td>IF-EU-150a.2</td><td>Not applicable – Capital Power does not have any impoundments that meet the definition for this topic.</td></tr>
<tr><td colspan="5">Energy affordability</td></tr>
<tr><td>Average retail electric rate for (1) residential, (2) commercial, and (3) industrial customers</td><td>Quantitative</td><td>Rate</td><td>IF-EU-240a.1</td><td>Not applicable – Capital Power does not have any residential customers.</td></tr>
<tr><td>Typical monthly electric bill for residential customers for (1) 500 kWh and (2) 1,000 kWh of electricity delivered per month</td><td>Quantitative</td><td>Reporting currency</td><td>IF-EU-240a.2</td><td>Not applicable – Capital Power does not have any residential customers.</td></tr>
<tr><td>Number of residential customer electric disconnections for non-payment, percentage reconnected within 30 days</td><td>Quantitative</td><td>Number, Percentage (%)</td><td>IF-EU-240a.3</td><td>Not applicable – Capital Power does not have any residential customers.</td></tr>
<tr><td>Discussion of impact of external factors on customer affordability of electricity, including the economic conditions of the service territory</td><td>Discussion and analysis</td><td>n/a</td><td>IF-EU-240a.4</td><td>Not applicable – Capital Power does not sell to a material number of direct customers.</td></tr>
<tr><td colspan="5">Workforce health and safety</td></tr>
<tr><td>(1) Total recordable incident rate (TRIR), (2) fatality rate, and (3) near miss frequency rate (NMFR)</td><td>Quantitative</td><td>Rate</td><td>IF-EU-320a.1</td><td>TRIF: 2022 Integrated Annual Report > Our people, page 34
Fatality rate: 0
NMFR: 9.08
Notes: All rates include all contractors in operations and Capital Power employees. They do not include construction projects. The average hours of health, safety and emergency response training for full-time employees is 27 hours. We do not currently track health, safety and emergency response training hours for contract employees.</td></tr>
<tr><td colspan="5">End-use efficiency and demand</td></tr>
<tr><td>Percentage of electric utility revenues from rate structures that (1) are decoupled and (2) contain a lost revenue adjustment mechanism (LRAM)</td><td>Quantitative</td><td>Percentage</td><td>IF-EU-420a.1</td><td>Not applicable – Capital Power does not sell to a material number of direct customers.</td></tr>
</table>

SASB Index

SASB disclosure	Category	Unit of measure	SASB disclosure reference	2022 Response
Percentage of electric load served by smart grid technology	Quantitative	Percentage (%) by megawatt hours (MWh)	IF-EU-420a.2	Not applicable – Capital Power does not sell to a material number of direct customers.
Customer electricity savings from efficiency measures, by market	Quantitative	Megawatt hours (MWh)	IF-EU-420a.3	Not applicable – Capital Power does not sell to a material number of direct customers.
Nuclear safety and emergency management				
Total number of nuclear power units, broken down by U.S. Nuclear Regulatory Commission (NRC) Action Matrix Column	Quantitative	Number	IF-EU-540a.1	Not applicable – Capital Power does not own or operate any nuclear power units.
Description of efforts to manage nuclear safety and emergency preparedness	Discussion and analysis	n/a	IF-EU-540a.2	Not applicable – Capital Power does not own or operate any nuclear power units.
Grid resilience				
Number of incidents of non-compliance with physical and/or cybersecurity standards or regulations	Quantitative	Number	IF-EU-550a.1	Capital Power has not experienced any financial losses related to technology failure, cyber-attacks or security breaches.
(1) System Average Interruption Duration Index (SAIDI), (2) System Average Interruption Frequency Index (SAIFI), and (3) Customer Average Interruption Duration Index (CAIDI), inclusive of major event days	Quantitative	Minutes, number	IF-EU-550a.2	SAIDI, SAIFI, and CAIDI are not applicable to Capital Power's business, as Capital Power does not sell to a material number of direct customers. Capital Power's fleetwide availability in 2022 was 93%.
Activity metrics				
Number of: (1) residential, (2) commercial, and (3) industrial customers served	Quantitative	Number	IF-EU-000.A	Not applicable – Capital Power does not sell to a material number of direct customers.
Total electricity delivered to: (1) residential, (2) commercial, (3) industrial, (4) all other retail customers, and (5) wholesale customers	Quantitative	Megawatt hours (MWh)	IF-EU-000.B	2022 ESG Performance, page 209
Length of transmission and distribution lines	Quantitative	Kilometers (km)	IF-EU-000.C	Not applicable – Capital Power does not own or operate any transmission or distribution lines.
Total electricity generated, percentage by major energy source, percentage in regulated markets	Quantitative	Megawatt hours (MWh), Percentage (%)	IF-EU-000.D	2022 ESG Performance, page 209
Total wholesale electricity purchased	Quantitative	Megawatt hours (MWh)	IF-EU-000.E	71,782

2022 ESG performance

The following table provides year-over-year company-wide data for metrics aligned to our priority areas.

	2022	2021	2020	2019		
	Indicated Unit	Indicated Unit	Indicated Unit	Indicated Unit	GRI Disclosure	SASB Disclosure
Operations (Total electricity generated, percentage by major energy source, percentage in regulated markets (megawatt hours (MWh), percentage (%)))						
Net thermal energy generation						
Net production – energy source and generation percentage % (coal)	**8,596,359** **27.5%**	7,692,081 39.5%	9,166,000 46.3%	9,312,000 44.6%	2-6	IF-EU-000.D
Net production – energy source and generation percentage % (natural gas)	**17,543,646** **56.2%**	7,370,195 37.8%	5,728,000 28.9%	8,349,000 39.9%	2-6	IF-EU-000.D
Net renewable generation						
Net production – energy source and generation percentage % (hydro)	**0** **0.0%**	0 0.0%	0 0.0%	0 0.0%	2-6	IF-EU-000.D
Net production – energy source and generation percentage % (solar)	**100,909** **0.3%**	28,205 0.1%	27,000 0.1%	29,000 0.0%	2-6	IF-EU-000.D
Net production – energy source and generation percentage % (biomass)	**0** **0.0%**	55,815 0.3%	356,000 1.8%	374,000 1.8%	2-6	IF-EU-000.D
Net production – energy source and generation percentage % (wind)	**4,957,868** **15.9%**	4,280,126 22.0%	4,230,000 21.4%	2,510,000 12.0%	2-6	IF-EU-000.D
Net production – energy source and generation percentage % (tire-derived fuel)	**0** **0.0%**	44,053 0.2%	287,000 1.4%	325,000 1.6%	2-6	IF-EU-000.D
Net production – energy source and generation percentage % (landfill gas)	**9,032** **0.0%**	2,785 0.0%	3,000 0.0%	0 0.0%	2-6	IF-EU-000.D
Environment						
Energy consumption – natural gas (GJ)	**155,615,349**	61,686,853	49,741,778	70,856,887	302-1	
Energy consumption – coal (GJ)	**85,325,590**	76,736,277	91,150,792	91,302,358	302-1	
Energy consumption – bio-mass (GJ)	**0**	1,186,685	6,704,422	6,693,264	302-1	
Energy consumption – landfill gas (GJ)	**352,952**	382,253	422,202	147,934	302-1	
Energy consumption – tire-derived fuel (GJ)	**0**	955,255	5,548,704	5,865,793	302-1	
Energy intensity (GJ/MWh)	**7.88**	7.44	7.99	8.37	305-4	
Greenhouse gas emissions – Scope 1 absolute (tCO$_2$e)	**15,908,540**	10,430,443	11,527,603	12,650,545	305-1	IF-EU-110a.1 IF-EU-110a.2
Greenhouse gas emissions – intensity (tCO$_2$e/MWh)[1]	**0.51**	0.53	0.58	0.60	305-4	
Reduction of GHG emissions (tCO$_2$e) in relation to the base year (2016)	**968,718**	847,576	601,018	886,159	305-5	
Air emissions – NOx (tonnes)	**17,895**	13,079	16,216	15,552	305-7	IF-EU-120a.1
Air emissions – SO2 (tonnes)	**17,926**	15,500	20,565	19,981	305-7	IF-EU-120a.1
Air emissions – particulate matter (tonnes)	**1,094**	603	895	1,477	305-7	IF-EU-120a.1
Air emissions – mercury (kg)	**26**	22	23	20	305-7	IF-EU-120a.1
Water withdrawal (megalitres)	**58,310**	44,214	47,594	51,975	303-3	IF-EU-140a.1
Water discharge (megalitres)	**36,748**	31,457	37,123	36,003	303-4	IF-EU-140a.1
Water consumed (megalitres)	**21,562**	12,757	10,471	15,556	303-5	IF-EU-140a.1
Number of incidents of non-compliance associated with water quantity and/or quality permits, standards and regulations	**0**	0	0	0	2-27	IF-EU-140a.1

[1] Refer to page 29 for more information about the increase in our emissions from the acquisition of MCV and our thermal facilities being dispatched more frequently.

2022 ESG performance

	2022 Indicated Unit	2021 Indicated Unit	2020 Indicated Unit	2019 Indicated Unit	GRI Disclosure	SASB Disclosure
Economic						
Revenues and other income ($M)	**2,929**	1,990	1,937	1,963	201-1	
Adjusted funds from operations ($M)	**848**	605	522	555	201-1	
Net cash flows from operating activities ($M)	**935**	867	611	720	201-1	
Dividends declared per common share ($/share)	**2.26**	2.12	1.99	1.86	201-1	
Community investments ($M)	**5.4**	1.80	1.50	1.30	201-1	
Corporate Governance						
Board diversity – gender (%)	**40**	44	44	44	2-9	
Total compensation ratio – CEO/employees (ratio)	**25.1:1**	26.1:1	23.5:1	20.6:1	102-38	
Supply Chain						
Procurement – spending on local suppliers (%)	**68**	55	68	60	204-1	
People						
Total number of employees (number)	**773**	797	827	825	102-8	
Permanent employees (numbers)	**717**	797	786	794	102-8	
Employee diversity – overall (% women)	**26**	27	25	24	405-1	
Employee diversity – executive (% women)	**43**	43	43	33	405-1	
Employees covered by collective bargaining agreements (%)	**31**	29	30	30	2-30	

10-year operational and financial highlights

(millions of dollars except per share and operational amounts) (unaudited)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Operational										
Number of facilities at year-end[1]	**29**	26	28	26	25	24	18	18	15	14
Electricity generation[1] (GWh)	**28,573**	22,811	23,806	24,527	20,229	17,194	15,328	14,567	12,376	16,130
Facility availability	**93%**	90%	95%	94%	95%	96%	94%	95%	95%	93%
Financial position (at December 31)										
Total assets[8]	**$10,135**	$9,073	$8,911	$8,582	$7,569	$6,819	$6,062	$5,393	$5,420	$5,219
Loans and borrowings including current portion	**$3,726**	$3,360	$3,552	$3,413	$2,647	$2,146	$1,508	$1,615	$1,586	$1,527
Income and cash flow										
Revenues and other income[2,8]	**$2,929**	$1,990	$1,937	$1,963	$1,417	$1,168	$1,214	$1,241	$1,218	$1,393
Adjusted EBITDA[3,7,8]	**$1,353**	$1,124	$955	$1,029	$736	$614	$509	$483	$387	$483
Net income[8]	**$128**	$87	$130	$119	$258	$125	$102	$86	$50	$228
Net income attributable to shareholders[8]	**$138**	$98	$136	$125	$265	$135	$111	$90	$46	$175
Normalized earnings attributable to common shareholders[3,8]	**$424**	$221	$128	$140	$115	$104	$117	$111	$59	$127
Basic earnings per share[8]	**$0.85**	$0.39	$0.78	$0.73	$2.17	$0.98	$0.91	$0.70	$0.28	$2.13
Diluted earnings per share[4,8]	**$0.84**	$0.39	$0.77	$0.72	$2.16	$0.98	$0.91	$0.70	$0.28	$2.08
Normalized earnings per share[3,8]	**$3.64**	$1.97	$1.22	$1.34	$1.12	$1.03	$1.22	$1.15	$0.72	$1.74
Funds from operations[3,5,6]	**N/A**	N/A	N/A	N/A	N/A	N/A	$384	$400	$362	$426
Net cash flows from operating activities	**$935**	$867	$611	$720	$450	$372	$375	$419	$391	$499
Adjusted funds from operations[3,6,9]	**$848**	$605	$522	$555	$397	$361	$291	$324	N/A	N/A
Adjusted funds from operations per share[3,6,9]	**$7.28**	$5.40	$4.96	$5.32	$3.85	$3.58	$3.02	3.36	N/A	N/A
Dividends										
Dividends declared per common share	**$2.26**	$2.12	$1.99	$1.86	$1.73	$1.62	$1.51	$1.41	$1.31	$1.26
Common share information (TSX:CPX)										
High	**$51.90**	$45.05	$38.88	$35.09	$29.79	$26.51	$24.49	$27.12	$28.71	$23.53
Low	**$36.65**	$33.31	$20.23	$26.22	$22.15	$23.15	$16.37	$15.41	$20.51	$19.76
Close	**$46.33**	$39.46	$34.98	$34.39	$26.59	$24.49	$23.23	$17.77	$26.00	$21.30
TSX volume (millions)	**93.1**	73.3	103.1	77.1	65.4	62.8	73.2	79.8	58.3	42.8

[1] The PPAs for the Southport and Roxboro facilities expired March 31, 2021, and the facilities also ceased operations.

[2] Revenues for 2012 have been restated to correspond to 2013 basis of presentation. Revenues for 2014 and 2015 have been restated to the 2016 basis of presentation. Revenues for 2013 and prior have not been restated for this latter change.

[3] The consolidated financial highlights, except for adjusted EBITDA, normalized earnings attributable to common shareholders, normalized earnings per share, funds from operations, adjusted funds from operations (AFFO) and adjusted funds from operations per share were prepared in accordance with GAAP. See Non-GAAP financial measures and ratios in the Integrated Annual Report.

[4] Diluted earnings per share was calculated after giving effect to outstanding share purchase options and the exchange of common limited partnership units of CPLP held by EPCOR for common shares of Capital Power on a one-for-one basis.

[5] The 2012 and 2013 funds from operations amounts were revised consistent with the change in the measure due to the reclassification of Part VI.1 tax from operating activities to financing activities.

[6] Commencing in 2017, the Company uses AFFO as a measure of the Company's ability to generate cash from its current operating activities to fund growth capital expenditures, debt repayments and common share dividends to the Company's shareholders. In 2018, the Company made several adjustments to its AFFO measure to better reflect the purpose of the measure, see adjusted funds from operations and adjusted funds from operations per share section in the Non-GAAP financial measures and ratios section of the Integrated Annual Report for further details around the calculation of AFFO. Comparative AFFO figures have been restated to reflect the above refinements to the AFFO metric.

[7] Adjusted EBITDA figures for 2012 to 2018 have been restated to correspond to the 2019 basis of presentation.

[8] The comparative periods' amounts for 2017 and 2018 have been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16 in 2019. Comparative period amounts prior to 2017 have not been restated.

[9] Commencing with the Company's December 31, 2022 quarter-end, the Company refined its adjusted funds from operations measure to exclude other typically non-recurring items affecting cash from operations that are not reflective of the long-term performance of the Company's underlying business. Comparative AFFO figures have not been restated for this change.

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KPMG LLP, Edmonton, Alberta

Stock Exchange and Index Membership

Toronto Stock Exchange (TSX)
Member of the following indices:

- S&P/TSX Composite
- S&P/TSX Canadian Dividend Aristocrats
- S&P/TSX Capped Utilities
- S&P/TSX SmallCap

Stock trading symbols (TSX)

Common shares: CPX

Preferred shares:
Series 1 – CPX.PR.A
Series 3 – CPX.PR.C
Series 5 – CPX.PR.E
Series 11 – CPX.PR.K

Common Shares
(as of December 31, 2022)

Total outstanding shares: 116,886,649

Market capitalization: $5.4 billion

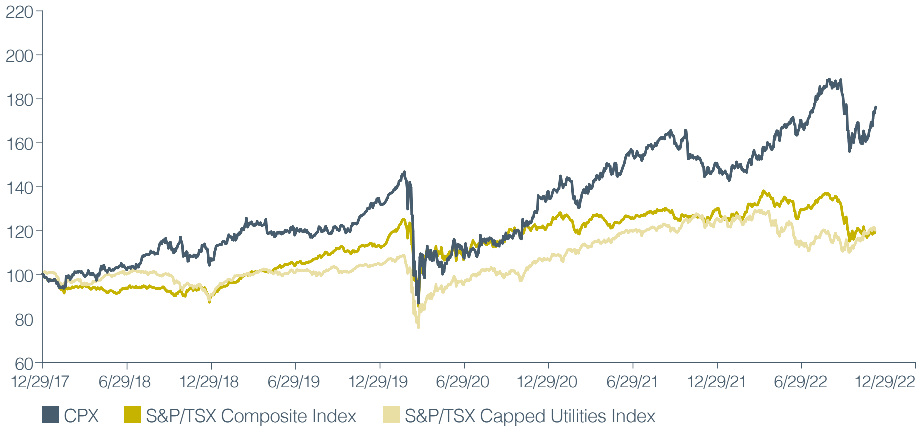
2023 Expected Common Share Dividend Dates

	Ex-Dividend Date	Record Date	Payment Date
Quarter 1	March 30	March 31	April 28
Quarter 2	June 29	June 30	July 31
Quarter 3	September 28	September 29	October 31
Quarter 4	December 28	December 29	January 31, 2024

2023 Expected Preferred Shares Dividend Dates

	Ex-Dividend Date	Record Date	Payment Date
Quarter 1	March 17	March 20	March 31
Quarter 2	June 16	June 19	June 30
Quarter 3	September 15	September 18	September 29
Quarter 4	December 13	December 14	December 29

5-year Relative Price Performance for Common Shares (CPX)



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