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Capital Power reports second quarter results and announces a 6% common share dividend increase

Company exceeds its $600 million annual growth target with projects in Ontario and North Carolina

EDMONTON, Alberta – August 2, 2023 – Capital Power Corporation (TSX: CPX) today released financial results for the quarter ended June 30, 2023.

Financial highlights

- Generated adjusted funds from operations (AFFO) of $151 million and net cash flows from operating activities of $11 million
- Generated adjusted EBITDA of $327 million and net income of $85 million
- 2023 financial guidance for adjusted EBITDA and AFFO are expected to be above midpoint of annual guidance ranges
- Increased annual common share dividend by 6% to $2.46 per year representing the 10th consecutive annual increase
- Reinstated the Company's dividend reinvestment plan effective for the third quarter 2023 dividend

Strategic highlights

- Executed three long-term contracts and two contract extensions with the Ontario Independent Electric System Operator (IESO) for one natural gas plant expansion, two battery energy storage system (BESS) projects, and two natural gas upgrades at our Ontario natural gas facilities
- Executed a 25-year fixed price renewable power purchase agreement with Duke Energy Progress for 100% of the output from the Maple Leaf Solar project in North Carolina
- Secured our first order for approximately one gigawatt of responsibly produced solar modules from First Solar that will be used in solar development projects from our renewable development pipeline
- Provided updated costs and schedule for the Genesee Repowering project and cancelled the Genesee BESS project, which is no longer required. As a result of the updated schedule, we expect to continue blending natural gas with coal to align with the commissioning of the repowered units in 2024, ensuring reliability and capacity of the grid.

"As the need for energy only grows, we delivered on our balanced approach and executed on our proven midlife natural gas strategy and buildout of renewables, exceeding our annual $600 million growth target for 2023," said Avik Dey, President and CEO of Capital Power. "This includes successful natural gas expansion and battery energy storage project bids in the Ontario IESOs Expedited Long-Term request for proposals as well as securing two new uprates with contract extensions at our Goreway and York Energy facilities."

"Our growth in renewables continues with the execution of a 25-year contract for our Maple Leaf Solar project in North Carolina," stated Mr. Dey. "We have partnered with First Solar for one gigawatt (GWDC) of responsibly produced ultra-low carbon solar technology, to support our solar development pipeline in the United States totaling nearly 2.4 GWDC and ensure the use of U.S. made products will qualify our projects for domestic content under the Inflation Reduction Act (IRA)."

"Consistent with our dividend growth guidance of 6% per year to 2025, I am pleased to announce the Board of Directors has approved a 6% per common share dividend increase effective for the third quarter 2023 dividend payment. This marks a decade of consecutive annual dividend increases with a compound annual growth rate of nearly 7%," added Mr. Dey.

"While second quarter financial results were generally below management's expectations as ill-timed outages at Genesee during periods of high Alberta power prices in June dampened results in the second quarter, we expect to see strong fleetwide performance through the balance of the year," said Sandra Haskins, Senior Vice President, Finance and CFO of Capital Power.

"The modest impacts of the delay in commissioning for Genesee repowering will be more than offset across the Alberta commercial portfolio," stated Ms. Haskins. "Based on our current financial forecast, we expect to be above the midpoints of our annual guidance ranges for adjusted EBITDA and AFFO."

Operational and Financial Highlights[1]

(unaudited, $ millions, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Electricity generation (Gigawatt hours)	7,857	6,638	15,274	13,531
Generation facility availability	95%	92%	94%	93%
Revenues and other income	881	713	2,148	1,214
Adjusted EBITDA [2]	327	319	728	667
Net income [3]	85	77	370	196
Net income attributable to shareholders of the Company	87	80	373	202
Basic earnings per share ($)	0.68	0.59	3.06	1.56
Diluted earnings per share ($)	0.67	0.59	3.05	1.55
Net cash flows from operating activities	11	108	360	523
Adjusted funds from operations [2]	151	180	361	380
Adjusted funds from operations per share ($) [2]	1.29	1.55	3.09	3.27
Purchase of property, plant and equipment and other assets, net	131	147	217	279
Dividends per common share, declared ($)	0.5800	0.5475	1.1600	1.0950

1 The operational and financial highlights in this press release should be read in conjunction with the Management's Discussion and Analysis and the unaudited condensed interim financial statements for the six months ended June 30, 2023.

2 Earnings before net finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange gains or losses, finance expense and depreciation expense from joint venture interests, gains or losses on disposals and unrealized changes in fair value of commodity derivatives and emissions credits (adjusted EBITDA) and adjusted funds from operations (AFFO) are used as non-GAAP financial measures by the Company. The Company also uses AFFO per share which is a non-GAAP ratio. These measures and ratios do not have standardized meanings under GAAP and are, therefore, unlikely to be comparable to similar measures used by other enterprises. See Non-GAAP Financial Measures and Ratios.

3 Includes depreciation and amortization for the three months ended June 30, 2023 and 2022 of $143 million and $139 million, respectively, and for the six months ended June 30, 2023 and 2022 of $284 million and $281 million, respectively. Forecasted depreciation and amortization for the remainder of 2023 is $148 million and $145 million for the third and fourth quarters, respectively, which mostly reflects higher Genesee Mine depreciation.

Significant Events

Updates to Genesee Repowering project schedule and costs and Battery Energy Storage System project no longer required

On June 29, 2023, the Company announced modifications to the commissioning timelines for the repowered units as a result of construction delays on the Repowering Project. Simple cycle commissioning of Unit 1 is expected to commence in December 2023, approximately 60 days later than initially anticipated. Simple cycle commissioning for Unit 2 is expected to be further delayed and will begin in March 2024. Combined cycle commissioning is expected to begin in April 2024 (Unit 1) and June 2024 (Unit 2). The total capital costs for the Repowering Project have increased to $1.35 billion as a result of cost escalations and increased labour costs.

Subsequently, the Alberta Electric System Operator (AESO) completed its review process and provided conditional approval to Capital Power's alternate solution to utilize unique operational characteristics of the repowered units to meet the Most Severe Single Contingency (MSSC) limit of 466 MW. The 210 MW Genesee BESS which was added to the repowering project to meet the MSSC limit will not be needed. As a result, the Company is cancelling that portion of the project.

Maple Leaf Solar project awarded 25-year contract

On June 29, 2023, the Company announced it executed a 25-year, fixed price renewable power purchase agreement (PPA) for 100% of the output from its Maple Leaf Solar project (Maple Leaf) with Duke Energy Progress (DEP) as part of the 2022 Duke Energy Solar Procurement Program. Maple Leaf is a 73 MWac (92 MWdc) solar development project in Selma, North Carolina. The construction of Maple Leaf is planned to begin in 2025 at a total cost of approximately US$165 million with an expected commercial operations date in the fourth quarter of 2026, pending completion of the Duke interconnection upgrades. Local zoning approvals were obtained in May 2023 and detailed design and permitting are underway.

Contracts executed for Natural Gas and Batteries from Ontario IESO’s bids

Capital Power’s active participation in the Ontario Independent Electric System Operator’s (IESO) expedited call for new power generation and capacity in high priority areas to help address the IESO’s forecasted shortfall, resulted in five successful bids.

On June 29, 2023, the Company announced that it has:

- Executed two long-term contracts for the East Windsor Expansion (81 MW summer and 100 MW winter contracted capacities) and the York BESS project as part of the IESO’s Expedited Long-Term RFP process. Both projects are expected to begin commercial operations in 2025. Capital Power holds 100% interest in the York Energy BESS project.
- Been selected as a successful proponent for the Goreway BESS project as part of Category 2 of the Ontario IESO’s Expedited Long-Term request for proposals. The contract was subsequently executed in July 2023 and the project is expected to enter service in 2025.

Growth Projects

Project	Contracted Capacity	Term	Status
East Windsor Expansion	81 to 100 MW	to 2040 (approximately 15 years)	Contract Executed
York Energy BESS	114 MW	to 2047 (approximately 22 years)	Contract Executed
Goreway BESS	48 MW	to 2047 (approximately 22 years)	Contract Executed

Capital Power also executed a 3-year contract extension for the York Energy Centre associated with its successful bid in the Same Technology Upgrade Solicitation. The upgrade will increase York Energy’s contracted capacity from 394 MW to 431 MW. The contract extension applies to the new contracted capacity of 431 MW (from the commercial operation date of the upgrades expected in 2025) and extends the current contract from 2032 to 2035.

In addition, on April 25, 2023, Capital Power and the Ontario IESO executed a 6-year contract extension for

Goreway associated with its successful efficiency upgrade bid of approximately 40 MW in IESO's competitive capacity procurement process. The efficiency upgrade will increase Goreway's current combined contracted capacity from 840 MW to 880 MW. The IESO contract extension applies to the new combined contracted capacity of 880 MW and extends the current Clean Energy Supply Contract from 2029 to 2035. The upgrade is expected to be completed in 2025.

Commercial Initiatives

	Contracted Capacity				
Project	**Existing**	**New**	**Total**	**Contract Expiry**	**Status**
Goreway upgrade	840 MW	40 MW	880 MW	2035	Contract Executed
York Energy upgrade[1]	393 MW	38 MW	431 MW	2035	Contract Executed

[1] 50% interest in joint venture

Avik Dey appointed as President and Chief Executive Officer, Brian Vaasjo to Retire

On April 19, 2023, the Company's Board of Directors (the Board) announced that it unanimously selected Avik Dey to be the next President and Chief Executive Officer and become a member of the Board of Directors, effective May 8, 2023. The appointment follows the planned retirement of Brian Vaasjo who will support Mr. Dey in an advisory role for six months to ensure a seamless transition.

Retirement announced for Kate Chisholm, Senior Vice President and Chief Strategy and Sustainability Officer

On April 13, 2023, the Company announced internally that Kate Chisholm, our Senior Vice President and Chief Strategy and Sustainability Officer has advised of her intention to retire effective July 4, 2023. Kate has been an integral part of the Executive Team with outstanding service and valuable contributions since the inception of Capital Power. Kate's replacement will occur in due course.

Approval of normal course issuer bid

During the first quarter of 2023, the Toronto Stock Exchange approved Capital Power's normal course issuer bid to purchase and cancel up to 5.8 million of its outstanding common shares during the one-year period from March 3, 2023 to March 2, 2024.

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 Alberta-based Halkirk 2 Wind project is completed, which is expected to be operational by January 1, 2025. 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. On July 27, 2023, the Alberta Utilities Commission approved the Halkirk 2 Wind project and included conditions that Capital Power will review and incorporate as part of our final project design.

Subsequent Events

Board of Directors changes

On August 1, 2023, the Company announced the appointment of Carolyn Graham to Capital Power's Board of Directors effective August 2, 2023. The appointment follows the retirement of Katharine Stevenson from the Board. With this appointment and retirement, the Board consists of 10 directors, with 44% of the independent directors being women; and 33% of the independent directors representing diverse groups beyond gender.

Reinstatement of Dividend Reinvestment Plan

On August 1, 2023, the Company reinstated its Dividend Reinvestment Plan (the Plan), which was previously suspended during the fourth quarter of 2021. Eligible shareholders may elect to participate in the Plan commencing with the Company's third quarter 2023 cash dividend. The reinstated Plan will provide eligible shareholders with an alternative to receiving their quarterly cash dividends. Under the Plan, eligible shareholders may elect to efficiently and cost-effectively accumulate additional shares in the Company by reinvesting their quarterly cash dividends on the applicable dividend payment date in new shares issued from treasury. The new shares will be issued at a discount of 1% to the average closing price on the Toronto Stock Exchange for the ten trading days immediately preceding the applicable Dividend Payment Date. Participation in the Plan is optional. Those shareholders who do not enroll in the Plan will still be entitled to receive their quarterly cash dividends. Shareholders that were enrolled in the Plan upon suspension, and remain enrolled with the Plan administrator, will automatically resume participation in the Plan.

Dividend increase

On August 1, 2023, the Company's Board of Directors approved an increase of 6% in the annual dividend for holders of its common shares, from $2.32 per common share to $2.46 per common share. This increased common share dividend will commence with the third quarter 2023 quarterly dividend payment on October 31, 2023 to shareholders of record at the close of business on September 30, 2023.

Secured 1 GW supply of responsibly produced, ultra-low carbon First Solar modules

On July 5, 2023, the Company announced it has secured its first order for approximately 1 gigawatt (GWDC) of responsibly produced, ultra-low carbon thin film solar modules. The Series 6 Plus modules, which will be delivered between 2026 and 2028, will support Capital Power's growing development portfolio and qualify our projects for domestic content under IRA.

Analyst conference call and webcast

Capital Power will be hosting a conference call and live webcast with analysts on August 2, 2023 at 9:00 am (MT) to discuss the second quarter financial results. The conference call dial-in number is:

(800) 319-4610 (toll-free from Canada and USA)

Interested parties may also access the live webcast on the Company's website at www.capitalpower.com with an archive of the webcast available following the conclusion of the analyst conference call.

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), and (ii) AFFO as financial performance measures.

Capital Power also uses AFFO per share as a performance measure. This measure is a non-GAAP ratio determined by applying AFFO 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. A reconciliation of adjusted EBITDA to net income (loss) is as follows:

(unaudited, $ millions)	Three months ended							
	Jun 2023	**Mar 2023**	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	**Dec 2021**	**Sep 2021**
Revenues and other income	881	1,267	929	786	713	501	672	377
Energy purchases and fuel, other raw materials and operating charges, staff costs and employee benefits expense, and other administrative expense	(614)	(723)	(909)	(543)	(429)	(178)	(506)	(162)
Remove unrealized changes in fair value of commodity derivatives and emission credits included within revenues and energy purchases and fuel	23	(179)	247	136	28	18	123	66
Adjusted EBITDA from joint ventures [1]	37	36	36	4	7	7	5	5
Adjusted EBITDA	**327**	**401**	**303**	**383**	**319**	**348**	**294**	**286**
Depreciation and amortization	(143)	(141)	(139)	(133)	(139)	(142)	(137)	(133)
Unrealized changes in fair value of commodity derivatives and emission credits	(23)	179	(247)	(136)	(28)	(18)	(123)	(66)
Foreign exchange gains (losses)	4	1	3	(12)	(7)	1	(1)	(7)
Net finance expense	(34)	(48)	(44)	(40)	(35)	(37)	(44)	(43)
(Losses) gains on acquisition and disposal transactions	(3)	-	(33)	(3)	(1)	-	6	31
Impairment (losses) reversals	-	-	-	-	-	-	(52)	(8)
Other items [1,2]	(19)	(21)	(17)	(4)	(1)	-	(4)	(4)
Income tax (expense) recovery	(24)	(86)	75	(24)	(31)	(33)	(8)	(18)
Net income (loss)	**85**	**285**	**(99)**	**31**	**77**	**119**	**(69)**	**38**
Net income (loss) attributable to:								
Non-controlling interests	(2)	(1)	(1)	(3)	(3)	(3)	(4)	(2)
Shareholders of the Company	87	286	(98)	34	80	122	(65)	40
Net income (loss)	**85**	**285**	**(99)**	**31**	**77**	**119**	**(69)**	**38**

[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.

Adjusted funds from operations and adjusted funds from operations per share

AFFO and AFFO per share are measures of the Company's ability to generate cash from its 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 the Company's share of the AFFO of its joint venture interests and exclude distributions received from the Company's 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 the Company'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 the Company's bank margin account held with a specific exchange counterparty, 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. No comparative AFFO figures have impacted or restated for this change.

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

(unaudited, $ millions)	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Net cash flows from operating activities per condensed interim consolidated statements of cash flows	**11**	**108**	**360**	**523**
Add (deduct) items included in calculation of net cash flows from operating activities per condensed interim consolidated statements of cash flows:				
Interest paid	13	16	63	54
Change in fair value of derivatives reflected as cash settlement	30	52	(81)	45
Realized gain on settlement of interest rate derivatives	(10)	-	(10)	-
Distributions received from joint ventures	(9)	(2)	(18)	(2)
Miscellaneous financing charges paid [1]	2	2	4	4
Income taxes paid	11	5	25	17
Change in non-cash operating working capital	192	75	195	(105)
	229	148	178	13
Net finance expense [2]	(31)	(29)	(66)	(60)
Current income tax expense	(30)	(9)	(81)	(24)
Sustaining capital expenditures [3]	(41)	(30)	(56)	(55)
Preferred share dividends paid	(8)	(10)	(15)	(20)
Remove tax equity interests' respective shares of adjusted funds from operations	(2)	(4)	(4)	(8)
Adjusted funds from operations from joint ventures	23	6	45	11
Adjusted funds from operations	**151**	**180**	**361**	**380**
Weighted average number of common shares outstanding (millions)	**116.9**	**116.4**	**116.9**	**116.3**
Adjusted funds from operations per share ($)	**1.29**	**1.55**	**3.09**	**3.27**

1 Included in other cash items on the condensed interim 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 Includes sustaining capital expenditures net of partner contributions of $1 million and $4 million for the three and six months ended June 30, 2023, respectively, compared with $1 million and $2 million for the three and six months ended June 30, 2022, respectively.

Forward-looking Information

Forward-looking information or statements included in this press release are provided to inform the Company's 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 press release 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 press release includes disclosures regarding (i) status of the Company's 2023 AFFO and adjusted EBITDA guidance, (ii) forecasted 2023 depreciation, (iii) our plans to transition off-coal, (iv) the impacts of the IRA on our projects, and (v) the timing of, funding of, generation capacity of, costs of technologies selected for, environmental benefits or commercial and partnership 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 carbon capture and storage (CCS) project, the uprate at Goreway and York Energy, Goreway BESS, York Energy BESS, East Windsor expansion, and the Maple Leaf Solar project.

These statements are based on certain assumptions and analyses made by the Company considering its experience and perception of historical 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: (i) electricity, other energy and carbon prices, (ii) performance, (iii) business prospects (including potential re-contracting of facilities) and opportunities including expected growth and capital projects, (iv) status of and impact of policy, legislation and regulations and (v) effective tax rates.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results and experience to differ materially from the Company's expectations. Such material risks and uncertainties are: (i) changes in electricity, natural gas and carbon prices in markets in which the Company operates and the use of derivatives, (ii) regulatory and political environments including changes to environmental, climate, financial reporting, market structure and tax legislation, (iii) generation facility availability, wind capacity factor and performance including maintenance expenditures, (iv) ability to fund current and future capital and working capital needs, (v) acquisitions and developments including timing and costs of regulatory approvals and construction, (vi) changes in the availability of fuel, (vii) ability to realize the anticipated benefits of acquisitions, (viii) limitations inherent in the Company's review of acquired assets, (ix) changes in general economic and competitive conditions and (x) changes in the performance and cost of technologies and the development of new technologies, new energy efficient products, services and programs. See Risks and Risk Management in the Company's Integrated Annual Report for the year ended December 31, 2022, prepared as of February 28, 2023, for further discussion of these and other risks.

Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the specified approval date. The Company 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 the Company's expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

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.

About Capital Power

Capital Power is a growth-oriented North American wholesale power producer with a strategic focus on sustainable energy headquartered in Edmonton, Alberta. We build, own, and operate high-quality, utility-scale generation facilities that include renewables and thermal. We have also made significant investments in carbon capture and utilization to reduce carbon impacts. Capital Power owns approximately 7,500 megawatts (MW) of power generation capacity at 29 facilities across North America. Projects in advanced development include approximately 224 MW of renewable generation capacity in Alberta and North Carolina, 512 MW of incremental natural gas combined cycle capacity from the repowering of Genesee 1 and 2 in Alberta, and approximately 350 MW of natural gas and battery energy storage systems in Ontario.

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CAPITAL POWER CORPORATION

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A), prepared as of August 1, 2023, should be read in conjunction with the unaudited condensed interim consolidated financial statements of Capital Power Corporation and its subsidiaries for the six months ended June 30, 2023, the audited consolidated financial statements and the Introduction, Strategy & Targets and Business Report sections of the Integrated Annual Report of Capital Power Corporation for the year ended December 31, 2022 (the 2022 Integrated Annual Report), the Annual Information Form of Capital Power Corporation for the year ended December 31, 2022 and dated March 1, 2023, and the cautionary statements regarding Forward-Looking Information which begin on page 10.

In this MD&A, any reference to the Company or Capital Power, except where otherwise noted or the context otherwise indicates, means Capital Power Corporation together with its subsidiaries.

In this MD&A, financial information for the six months ended June 30, 2023 and June 30, 2022 is based on the unaudited condensed interim consolidated financial statements of the Company for such periods which were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are presented in Canadian dollars unless otherwise specified. In accordance with its terms of reference, the Audit Committee of the Company's Board of Directors reviews the contents of the MD&A and recommends its approval by the Board of Directors. The Board of Directors approved this MD&A as of August 1, 2023.

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FORWARD-LOOKING INFORMATION

Forward-looking information or statements included in this MD&A 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 MD&A 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 MD&A includes expectations regarding:

- our 2023 performance targets including for facility availability, sustaining capital expenditures, adjusted funds from operations (AFFO) and adjusted EBITDA;
- our plans to transition off-coal, advancement of the Genesee Carbon Conversion Centre and commercial application of carbon conversion, capture and storage technologies;
- future revenues, expenses, earnings, adjusted EBITDA and AFFO;
- the future pricing of electricity and market fundamentals in existing and target markets;
- future dividend growth;
- the Company's future cash requirements including interest and principal repayments, capital expenditures, dividends and distributions;
- the Company's sources of funding, adequacy and availability of committed bank credit facilities and future borrowings;
- the timing of, funding of, generation capacity of, costs of technologies selected for, environmental benefits or commercial and partnership 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 and carbon conversion ready)), the Genesee carbon capture and storage (CCS) project, the upgrade at Goreway and York Energy, Goreway Battery Energy Storage System (BESS), York Energy BESS, East Windsor expansion, and the Maple Leaf Solar project;
- future growth and emerging opportunities in our target markets;
- potential opportunities and partnerships with Indigenous communities;
- facility availability and planned outages;
- capital expenditures for facility maintenance and other (sustaining capital, future growth projects, commercial initiatives);
- market and regulation designs and proposals, regulatory updates, and the Inflation Reduction Act (IRA) and the impact thereof on the Company's core markets; and
- the impact of climate change.

These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical 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 of and impact of policy, legislation and regulations;
- effective tax rates;
- the development and performance of technology;
- foreign exchange rates; and
- other matters discussed under the Performance Overview, Outlook and Risks and Risk Management sections.

Whether actual results, performance or achievements will conform to our expectations and predictions is subject to a number of 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 the Company's 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 the Company's review of acquired assets;
- changes in general economic and competitive conditions, including inflation;
- 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 Risks and Risk Management in our 2022 Integrated Annual Report for further discussion of these and other risks.

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.

OVERVIEW OF BUSINESS AND CORPORATE STRUCTURE

Capital Power is a growth-oriented North American wholesale power producer with a strategic focus on sustainable energy headquartered in Edmonton, Alberta. We build, own, and operate high-quality, utility-scale generation facilities that include renewables and thermal. We have also made significant investments in carbon capture and utilization to reduce carbon impacts. Capital Power owns approximately 7,500 megawatts (MW) of power generation capacity at 29 facilities across North America. Projects in advanced development include approximately 224 MW of renewable generation capacity in Alberta and North Carolina, 512 MW of incremental natural gas combined cycle capacity from the repowering of Genesee 1 and 2 in Alberta, and approximately 350 MW of natural gas and battery energy storage systems in Ontario.

The Company's power generation operations and assets are owned by Capital Power L.P. (CPLP), Capital Power L.P. Holdings Inc., and Capital Power (US Holdings) Inc., all wholly owned subsidiaries of the Company.

CORPORATE STRATEGY

Capital Power's corporate strategy and accelerated pathway towards net zero by 2045 remains unchanged from that disclosed in our 2022 Integrated Annual Report.

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 of Directors. 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.

Operational excellence

Performance measure

Facility availability average

94%

Actual results [2]
2023 target of 94% or greater

Sustaining capital expenditures [1] (in millions)

$73

Actual results [2]
2023 target of $135 to $145

[1] Includes our share of joint venture sustaining capital expenditures of $17 million net of partner contributions of $4 million.
[2] For the six months ended June 30, 2023.

Our facility availability averaged 94% during the first half of 2023, which reflected planned outages at Genesee 2, Arlington Valley, Goreway, York Energy, Shepard, Clover Bar Energy Centre and Midland Cogen. Unplanned outages also occurred at Genesee 1 and 2, Quality Wind, Kingsbridge 1, Joffre, EnPower and Clover Bar Energy Centre.

Capital Power's availability target of 94% or greater reflects major scheduled maintenance outages for Clover Bar Energy Center, York Energy, Decatur Energy and Midland Cogen.

Full year sustaining capital expenditures are expected to be consistent with the target range.

Disciplined growth

Performance measure	2023 target	Status at June 30, 2023
Repowering of Genesee 1 and 2	Continued progress with anticipated in-service date in 2024.	Construction is underway with anticipated in-service dates for both units in 2024 (see Significant Events).
Halkirk 2 Wind (Alberta)	Continued progress with anticipated commercial operations in the fourth quarter of 2024.	Approved by the Alberta Utilities Commission (AUC) on July 27, 2023, the project is expected to meet return expectations with anticipated commercial operations consistent with target (see Significant Events and Liquidity and Capital Resources)
Growth target	$600 million of committed capital	We have exceeded our target for committed capital with the growth projects executed in the second quarter (see Significant Events) and continue to explore growth opportunities during the remainder of the year.

Financial stability and strength

Adjusted funds from operations [1] (in millions)

$361

Actual results [2]
2023 target of $805 to $865

Adjusted EBITDA [1] (in millions)

$728

Actual results [2]
2023 target of $1,455 to $1,515

[1] Adjusted funds from operations and adjusted EBITDA are non-GAAP financial measures. See Non-GAAP Financial Measures and Ratios.
[2] For the six months ended June 30, 2023.

OUTLOOK

The following discussion should be read in conjunction with the forward-looking information section of this MD&A, which identifies the material factors and assumptions used to develop forward-looking information and their material associated risk factors.

At our Investor Day held in December 2022, we provided financial guidance for 2023 AFFO in the range of $805 million to $865 million and 2023 adjusted EBITDA in the range of $1,455 million to $1,515 million (see Non-GAAP Financial Measures and Ratios).

The Company provided an updated Genesee Repowering Project schedule and costs (see Significant Events) in June 2023. The delay in commissioning is expected to have a modest impact on the full year 2023 AFFO and adjusted EBITDA as the unfavourable impact will be offset across the Alberta commercial portfolio. Based on the Company's actual results to date and the forecast for the balance of year, the Company expects adjusted EBITDA and AFFO for 2023 to be above midpoint of the annual guidance ranges.

As a result of the updated schedule to the Genesee Repowering Project, we expect to continue blending natural gas with coal to align with the commissioning of the repowered units in 2024, ensuring reliability and capacity of the grid.

Priorities for the remainder of 2023 include progressing our sustainability targets through:

- Continued progression on the repowering of Genesee 1 and 2 and Halkirk 2 Wind,
- Advancement of the carbon capture and storage (CCS) project and carbon conversion technologies at the Genesee facility,
- Continued advancement on potential opportunities and partnerships with Indigenous communities; and
- Ongoing development and strategic acquisitions of renewable and natural gas assets.

The Canadian Federal Budget 2023 released on March 28, 2023 included a number of proposals and expanded programs and initiatives that support Capital Power's sustainability targets, including the CCS development at Genesee. Refer to the Regulatory and Government Matters section of this MD&A for further details.

The Alberta portfolio position, contracted prices and forward Alberta pool prices for 2024, 2025 and 2026 (all at June 30, 2023) were:

Alberta commercial portfolio	2024	2025	2026
Power			
Hedged Volume (GWh)	8,500	7,000	5,500
Weighted average hedged prices [1] ($/MWh)	Mid-$70s	Low-$70s	Low-$70s
Forward Alberta pool prices ($/MWh)	$96	$72	$73
Natural gas			
Hedged Volume (TJ)	70,000	60,000	45,000
Weighted average hedged prices [1,2] ($/GJ)	< $2.00	< $3.00	< $4.00
Forward Alberta natural gas prices ($/GJ)	$2.90	$3.50	$3.60

[1] 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.

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

The power hedged volumes and weighted average hedged prices include origination contracts with contract terms greater than 12 months. The weighted average hedged price of these longer term duration contracts was in the mid-$70s per megawatt hour (MWh) range. In addition to the remaining open baseload position, gas peaking and renewable assets in the Company's Alberta commercial portfolio are available to capture upside from higher Alberta power prices.

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.

At our Investor Day held in December 2022, management confirmed 6% annual dividend growth guidance for 2023 through to 2025. Each annual increase is premised on the assumptions listed under Forward-Looking Information and subject to approval by the Board of Directors of Capital Power at the time of the increase.

See Liquidity and Capital Resources for discussion of future cash requirements and expected sources of funding.

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), and (ii) AFFO as financial performance measures.

Capital Power also uses AFFO per share as a performance measure. This measure is a non-GAAP ratio determined by applying AFFO 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.

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

(unaudited, $ millions)	Three months ended							
	Jun 2023	**Mar 2023**	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	**Dec 2021**	**Sep 2021**
Revenues and other income	881	1,267	929	786	713	501	672	377
Energy purchases and fuel, other raw materials and operating charges, staff costs and employee benefits expense, and other administrative expense	(614)	(723)	(909)	(543)	(429)	(178)	(506)	(162)
Remove unrealized changes in fair value of commodity derivatives and emission credits included within revenues and energy purchases and fuel	23	(179)	247	136	28	18	123	66
Adjusted EBITDA from joint ventures [1]	37	36	36	4	7	7	5	5
Adjusted EBITDA	**327**	**401**	**303**	**383**	**319**	**348**	**294**	**286**
Depreciation and amortization	(143)	(141)	(139)	(133)	(139)	(142)	(137)	(133)
Unrealized changes in fair value of commodity derivatives and emission credits	(23)	179	(247)	(136)	(28)	(18)	(123)	(66)
Foreign exchange gains (losses)	4	1	3	(12)	(7)	1	(1)	(7)
Net finance expense	(34)	(48)	(44)	(40)	(35)	(37)	(44)	(43)
(Losses) gains on acquisition and disposal transactions	(3)	-	(33)	(3)	(1)	-	6	31
Impairment (losses) reversals	-	-	-	-	-	-	(52)	(8)
Other items [1,2]	(19)	(21)	(17)	(4)	(1)	-	(4)	(4)
Income tax (expense) recovery	(24)	(86)	75	(24)	(31)	(33)	(8)	(18)
Net income (loss)	**85**	**285**	**(99)**	**31**	**77**	**119**	**(69)**	**38**
Net income (loss) attributable to:								
Non-controlling interests	(2)	(1)	(1)	(3)	(3)	(3)	(4)	(2)
Shareholders of the Company	87	286	(98)	34	80	122	(65)	40
Net income (loss)	**85**	**285**	**(99)**	**31**	**77**	**119**	**(69)**	**38**

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.

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; 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. No comparative AFFO figures have been impacted or restated for this change.

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

(unaudited, $ millions)	Three months ended June 30		Six months ended June 30	
	2023	**2022**	**2023**	**2022**
Net cash flows from operating activities per condensed interim consolidated statements of cash flows	**11**	**108**	**360**	**523**
Add (deduct) items included in calculation of net cash flows from operating activities per condensed interim consolidated statements of cash flows:				
Interest paid	13	16	63	54
Change in fair value of derivatives reflected as cash settlement	30	52	(81)	45
Realized gain on settlement of interest rate derivatives	(10)	-	(10)	-
Distributions received from joint ventures	(9)	(2)	(18)	(2)
Miscellaneous financing charges paid [1]	2	2	4	4
Income taxes paid	11	5	25	17
Change in non-cash operating working capital	192	75	195	(105)
	229	148	178	13
Net finance expense [2]	(31)	(29)	(66)	(60)
Current income tax expense	(30)	(9)	(81)	(24)
Sustaining capital expenditures [3]	(41)	(30)	(56)	(55)
Preferred share dividends paid	(8)	(10)	(15)	(20)
Remove tax equity interests' respective shares of adjusted funds from operations	(2)	(4)	(4)	(8)
Adjusted funds from operations from joint ventures	23	6	45	11
Adjusted funds from operations	**151**	**180**	**361**	**380**
Weighted average number of common shares outstanding (millions)	**116.9**	**116.4**	**116.9**	**116.3**
Adjusted funds from operations per share ($)	**1.29**	**1.55**	**3.09**	**3.27**

1 Included in other cash items on the condensed interim 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 Includes sustaining capital expenditures net of partner contributions of $1 million and $4 million for the three and six months ended June 30, 2023, respectively, compared with $1 million and $2 million for the three and six months ended June 30, 2022, respectively.

FINANCIAL HIGHLIGHTS

(unaudited, $ millions, except per share amounts)	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Revenues and other income	881	713	2,148	1,214
Adjusted EBITDA [1]	327	319	728	667
Net income	85	77	370	196
Net income attributable to shareholders of the Company	87	80	373	202
Basic earnings per share ($)	0.68	0.59	3.06	1.56
Diluted earnings per share ($) [2]	0.67	0.59	3.05	1.55
Net cash flows from operating activities	11	108	360	523
Adjusted funds from operations [1]	151	180	361	380
Adjusted funds from operations per share ($) [1]	1.29	1.55	3.09	3.27
Purchase of property, plant and equipment and other assets, net	131	147	217	279
Dividends per common share, declared ($)	0.5800	0.5475	1.1600	1.0950
Dividends per Series 1 preferred share, declared ($)	0.1638	0.1638	0.3276	0.3276
Dividends per Series 3 preferred share, declared ($)	0.3408	0.3408	0.6816	0.6816
Dividends per Series 5 preferred share, declared ($)	0.3274	0.3274	0.6548	0.6548
Dividends per Series 9 preferred share, declared ($) [3]	N/A	0.3594	N/A	0.7188
Dividends per Series 11 preferred share, declared ($)	0.3594	0.3594	0.7188	0.7188

	As at	
	June 30, 2023	December 31, 2022
Loans and borrowings including current portion	3,517	3,726
Total assets	9,499	10,135

1 The consolidated financial highlights, except for adjusted EBITDA, AFFO and AFFO per share were prepared in accordance with GAAP. See Non-GAAP Financial Measures and Ratios.

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

3 On September 30, 2022, Capital Power redeemed all of our 6 million issued and outstanding 5.75% cumulative rate reset preference shares, Series 9.

Adjusted EBITDA for the three months ended June 30, 2023 was mainly consistent with the corresponding period in 2022. Results from the acquisition of Midland Cogen in September 2022 were partially offset by the Company's Alberta Commercial facilities and portfolio optimization segment, as outages at Genesee 2 during hours of high Alberta power prices in June 2023 driven by unseasonably warm temperatures, supply shortages, and low wind generation led to the need to procure high-priced MWhs to backstop the portfolio's position. Results for the six months ended June 30, 2023 were driven by higher realized power pricing on our Alberta commercial facilities and portfolio optimization segment during the first quarter of 2023 and the commissioning of Clydesdale Solar in the fourth quarter of 2022. The Company expects strong fleetwide performance through the balance of the year.

AFFO for the three months ended June 30, 2023 was lower than the corresponding period in 2022 primarily due to:

- higher current income tax due to higher overall consolidated net income before tax;
- higher sustaining capital expenditure mostly due to Genesee sustaining capital related work, and;
- partially offset by higher AFFO from joint ventures due to the acquisition of Midland Cogen in September 2022.

AFFO for the six months ended June 30, 2023, further reflects higher finance expense due to higher loans and borrowings offset by lower sustaining capital expenditure during the first quarter of 2023 as compared to the comparable period in 2022.

Revenues and other income for the three and six months ended June 30, 2023 were higher compared with the corresponding period in 2022 primarily due to higher realized power pricing on our Alberta commercial facilities and the impact of unrealized changes in the fair value of the Company's commodity derivatives and emission credits.

See Consolidated Net Income and Results of Operations 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.

Basic and diluted earnings per share changes 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.

See Liquidity and Capital Resources for discussion of key drivers of changes in net cash flows from operating activities.

The decrease in purchases of property, plant and equipment and other assets is discussed in Liquidity and Capital Resources.

SIGNIFICANT EVENTS

Updates to Genesee Repowering project schedule and costs and Battery Energy Storage System project no longer required

On June 29, 2023, the Company announced modifications to the commissioning timelines for the repowered units as a result of construction delays on the Repowering Project. Simple cycle commissioning of Unit 1 is expected to commence in December 2023, approximately 60 days later than initially anticipated. Simple cycle commissioning for Unit 2 is expected to be further delayed and will begin in March 2024. Combined cycle commissioning is expected to begin in April 2024 (Unit 1) and June 2024 (Unit 2). The total capital costs for the Repowering Project have increased to $1.35 billion as a result of cost escalations and increased labour costs.

Subsequently, the Alberta Electric System Operator (AESO) completed its review process and provided conditional approval to Capital Power's alternate solution to utilize unique operational characteristics of the repowered units to meet the Most Severe Single Contingency (MSSC) limit of 466 MW. The 210 MW Genesee BESS which was added to the repowering project to meet the MSSC limit will not be needed. As a result, the Company is cancelling that portion of the project.

Maple Leaf Solar project awarded 25-year contract

On June 29, 2023, the Company announced it executed a 25-year, fixed price renewable power purchase agreement (PPA) for 100% of the output from its Maple Leaf Solar project (Maple Leaf) with Duke Energy Progress (DEP) as part of the 2022 Duke Energy Solar Procurement Program. Maple Leaf is a 73 MWac (92 MWdc) solar development project in Selma, North Carolina. The construction of Maple Leaf is planned to begin in 2025 at a total cost of approximately US$165 million with an expected commercial operations date in the fourth quarter of 2026, pending completion of the Duke interconnection upgrades. Local zoning approvals were obtained in May 2023 and detailed design and permitting are underway.

Contracts executed for Natural Gas and Batteries from Ontario IESO’s bids

Capital Power’s active participation in the Ontario Independent Electric System Operator’s (IESO) expedited call for new power generation and capacity in high priority areas to help address the IESO’s forecasted shortfall, resulted in five successful bids.

On June 29, 2023, the Company announced that it has:

- Executed two long-term contracts for the East Windsor Expansion (81 MW summer and 100 MW winter contracted capacities) and the York BESS project as part of the IESO’s Expedited Long-Term request for proposals (RFP) process. Both projects are expected to begin commercial operations in 2025. Capital Power holds 100% interest in the York Energy BESS project.
- Been selected as a successful proponent for the Goreway BESS project as part of Category 2 of the Ontario IESO’s Expedited Long-Term request for proposals. The contract was subsequently executed in July 2023 and the project is expected to enter service in 2025.

Growth Projects

Project	Contracted Capacity	Term	Status
East Windsor Expansion	81 to 100 MW	to 2040 (approximately 15 years)	Contract Executed
York Energy BESS	114 MW	to 2047 (approximately 22 years)	Contract Executed
Goreway BESS	48 MW	to 2047 (approximately 22 years)	Contract Executed

Capital Power also executed a 3-year contract extension for the York Energy Centre associated with its successful bid in the Same Technology Upgrade Solicitation. The upgrade will increase York Energy’s contracted capacity from 393 MW to 431 MW. The contract extension applies to the new contracted capacity of 431 MW (from the commercial operation date of the upgrades expected in 2025) and extends the current contract from 2032 to 2035.

In addition, on April 25, 2023, Capital Power and the Ontario IESO executed a 6-year contract extension for

Goreway associated with its successful efficiency upgrade bid of approximately 40 MW in IESO's competitive capacity procurement process. The efficiency upgrade will increase Goreway's current combined contracted capacity from 840 MW to 880 MW. The IESO contract extension applies to the new combined contracted capacity of 880 MW and extends the current Clean Energy Supply Contract from 2029 to 2035. The upgrade is expected to be completed in 2025.

Commercial Initiatives

	Contracted Capacity				
Project	**Existing**	**New**	**Total**	**Contract Expiry**	**Status**
Goreway upgrade	840 MW	40 MW	880 MW	2035	Contract Executed
York Energy upgrade[1]	393 MW	38 MW	431 MW	2035	Contract Executed

[1] 50% interest in joint venture

Avik Dey appointed as President and Chief Executive Officer, Brian Vaasjo to Retire

On April 19, 2023, the Company's Board of Directors announced that it unanimously selected Avik Dey to be the next President and Chief Executive Officer and become a member of the Board of Directors, effective May 8, 2023. The appointment follows the planned retirement of Brian Vaasjo who will support Mr. Dey in an advisory role for six months to ensure a seamless transition.

Retirement announced for Kate Chisholm, Senior Vice President and Chief Strategy and Sustainability Officer

On April 13, 2023, the Company announced internally that Kate Chisholm, our Senior Vice President and Chief Strategy and Sustainability Officer has advised of her intention to retire effective July 4, 2023. Kate has been an integral part of the Executive Team with outstanding service and valuable contributions since the inception of Capital Power. Kate's replacement will occur in due course.

Approval of normal course issuer bid

During the first quarter of 2023, the Toronto Stock Exchange approved Capital Power's normal course issuer bid to purchase and cancel up to 5.8 million of its outstanding common shares during the one-year period from March 3, 2023 to March 2, 2024.

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 Alberta-based Halkirk 2 Wind project is completed, which is expected to be operational by January 1, 2025. 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. On July 27, 2023, the Alberta Utilities Commission approved the Halkirk 2 Wind project and included conditions that Capital Power will review and incorporate as part of our final project design.

SUBSEQUENT EVENTS

Board of Director changes

On August 1, 2023, the Company announced the appointment of Carolyn Graham to Capital Power's Board of Directors (the Board) effective August 2, 2023. The appointment follows the retirement of Katharine Stevenson from the Board. With this appointment and retirement, the Board consists of 10 directors, with 44% of the independent directors being women; and 33% of the independent directors representing diverse groups beyond gender.

Reinstatement of Dividend Reinvestment Plan

On August 1, 2023, the Company reinstated its Dividend Reinvestment Plan (the Plan), which was previously suspended during the fourth quarter of 2021. Eligible shareholders may elect to participate in the Plan commencing with the Company's third quarter 2023 cash dividend. The reinstated Plan will provide eligible shareholders with an alternative to receiving their quarterly cash dividends. Under the Plan, eligible shareholders may elect to efficiently and cost-effectively accumulate additional shares in the Company by reinvesting their quarterly cash dividends on the applicable dividend payment date in new shares issued from treasury. The new shares will be issued at a discount of 1% to the average closing price on the Toronto Stock Exchange for the ten trading days immediately preceding the applicable Dividend Payment Date. Participation in the Plan is optional. Those shareholders who do not enroll in the Plan will still be entitled to receive their quarterly cash dividends. Shareholders that were enrolled in the Plan upon suspension, and remain enrolled with the Plan administrator, will automatically resume participation in the Plan.

Dividend increase

On August 1, 2023, the Company's Board of Directors approved an increase of 6% in the annual dividend for holders of its common shares, from $2.32 per common share to $2.46 per common share. This increased common share dividend will commence with the third quarter 2023 quarterly dividend payment on October 31, 2023 to shareholders of record at the close of business on September 30, 2023.

Secured 1 GW supply of responsibly produced, ultra-low carbon First Solar modules

On July 5, 2023, the Company announced it has secured its first order of responsibly produced, ultra-low carbon thin film solar modules for approximately 1 gigawatt (GWDC) from First Solar, Inc. The solar modules, which will be delivered between 2026 and 2028, will support Capital Power's growing development portfolio and qualify our projects for domestic content under the Inflation Reduction Act (IRA).

CONSOLIDATED NET INCOME AND RESULTS OF OPERATIONS

The primary factors contributing to the change in consolidated net income for the three and six months ended June 30, 2023 compared with 2022 are presented below followed by further discussion of these items.

(unaudited, $ millions)	Three months		Six months	
Consolidated net income for the periods ended June 30, 2022		**77**		**196**
Increase (decrease) in adjusted EBITDA:				
Alberta commercial facilities and portfolio optimization	(13)		34	
Western Canada contracted facilities	-		(12)	
Ontario contracted facilities	4		1	
U.S. contracted facilities	18		37	
Corporate	(1)	8	1	61
Change in unrealized net gains or losses related to the fair value of commodity derivatives and emission credits		5		202
Increase in depreciation and amortization expense		(4)		(3)
Increase in losses on disposals and other transactions		(2)		(2)
Decrease in foreign exchange loss		11		11
Increase in finance expense and depreciation expense from joint ventures		(18)		(39)
Decrease (increase) in net finance expense		1		(10)
Increase in income before tax		1		220
Decrease (increase) in income tax expense		7		(46)
Increase in net income		**8**		**174**
Consolidated net income for the periods ended June 30, 2023		**85**		**370**

Results by facility category and other

	Three months ended June 30							
	2023	2022	2023	2022	2023	2022	2023	2022
	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	7,857	6,638	95	92	795	697		
Alberta commercial facilities								
Genesee 1	793	733	95	86	133	93		
Genesee 2	759	843	91	100	112	108		
Genesee 3	1,000	1,010	100	100	158	122		
Clover Bar Energy Centre 1, 2 and 3	130	72	47	89	34	14		
Joffre	150	187	95	96	40	34		
Shepard	741	814	98	100	81	66		
Halkirk Wind	107	124	96	98	15	19		
Clover Bar Landfill Gas	1	3	58	74	1	-		
Alberta commercial facilities	3,681	3,786	91	96	574	456		
Portfolio optimization	N/A	N/A	N/A	N/A	39	(33)		
	3,681	3,786	91	96	613	423	169	182
Western Canada contracted facilities								
Island Generation	2	-	100	100	4	4		
Quality Wind	73	70	92	98	9	8		
EnPower	3	4	94	99	1	-		
Whitla Wind	280	349	94	97	12	16		
Strathmore Solar [4]	28	26	98	100	1	2		
Clydesdale Solar [4]	54	N/A	97	N/A	5	N/A		
	440	449	96	99	32	30	20	20
Ontario contracted facilities								
York Energy [5]	3	6	89	100	N/A	N/A		
East Windsor	3	3	99	76	9	10		
Goreway	608	234	98	59	72	67		
Kingsbridge 1	16	23	89	99	1	2		
Port Dover and Nanticoke Wind	54	67	96	99	8	10		
	684	333	96	71	90	89	60	56
U.S. contracted facilities								
Decatur Energy, Alabama	494	752	100	100	19	23		
Arlington Valley, Arizona	908	659	98	96	46	55		
Beaufort Solar, North Carolina	8	9	99	99	-	1		
Bloom Wind, Kansas	153	208	98	94	8	8		
Macho Springs Wind, New Mexico	41	48	98	98	5	5		
New Frontier Wind, North Dakota	83	116	94	95	5	7		
Cardinal Point Wind, Illinois	134	167	95	98	10	15		
Buckthorn Wind, Texas	77	111	94	90	6	8		
Midland Cogen, Michigan [5,6]	1,154	N/A	94	N/A	N/A	N/A		
	3,052	2,070	97	97	99	122	85	67
Corporate [7]					35	33	(7)	(6)
Unrealized changes in fair value of commodity derivatives and emission credits					12	16		
Consolidated revenues and other income and adjusted EBITDA					**881**	**713**	**327**	**319**

	Six months ended June 30							
	2023	2022	2023	2022	2023	2022	2023	2022
	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	15,274	13,531	94	93	1,599	1,304		
Alberta commercial facilities								
Genesee 1	1,602	1,523	96	89	250	168		
Genesee 2	1,642	1,660	96	98	240	185		
Genesee 3	1,998	1,990	99	100	299	207		
Clover Bar Energy Centre 1, 2 and 3	280	184	58	88	63	32		
Joffre	304	396	96	98	71	62		
Shepard	1,456	1,600	92	100	142	113		
Halkirk Wind	229	274	97	98	36	37		
Clover Bar Landfill Gas	4	3	68	83	1	1		
Alberta commercial facilities	7,515	7,630	92	96	1,102	805		
Portfolio optimization	N/A	N/A	N/A	N/A	198	74		
	7,515	7,630	92	96	1,300	879	408	374
Western Canada contracted facilities								
Island Generation	2	7	100	100	7	13		
Quality Wind	177	196	95	96	25	25		
EnPower	7	12	84	99	1	1		
Whitla Wind	664	785	95	98	31	39		
Strathmore Solar [4]	40	29	97	100	2	2		
Clydesdale Solar [4]	81	N/A	97	N/A	7	N/A		
	971	1,029	97	98	73	80	48	60
Ontario contracted facilities								
York Energy [5]	7	14	94	100	N/A	N/A		
East Windsor	4	6	99	87	17	18		
Goreway	966	833	94	80	145	145		
Kingsbridge 1	47	58	92	98	4	5		
Port Dover and Nanticoke Wind	141	167	96	99	21	25		
	1,165	1,078	95	85	187	193	122	121
U.S. contracted facilities								
Decatur Energy, Alabama	734	1,369	99	97	43	50		
Arlington Valley, Arizona	1,421	1,135	90	87	118	88		
Beaufort Solar, North Carolina	14	15	99	100	1	1		
Bloom Wind, Kansas	339	388	97	94	17	17		
Macho Springs Wind, New Mexico	85	82	98	98	10	9		
New Frontier Wind, North Dakota	191	238	94	96	11	13		
Cardinal Point Wind, Illinois	308	363	94	97	24	34		
Buckthorn Wind, Texas	185	204	94	91	13	14		
Midland Cogen, Michigan [5,6]	2,346	N/A	95	N/A	N/A	N/A		
	5,623	3,794	96	94	237	226	157	120
Corporate [7]					68	65	(7)	(8)
Unrealized changes in fair value of commodity derivatives and emission credits					283	(229)		
Consolidated revenues and other income and adjusted EBITDA					**2,148**	**1,214**	**728**	**667**

1 Gigawatt hours (GWh) of electricity generation reflects the Company's 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.

4 Strathmore Solar and Clydesdale Solar were commissioned on March 17, 2022 and December 13, 2022, respectively.

5 York Energy and Midland Cogen are accounted for under the equity method. Capital Power's share of the facilities net income are included in income from joint ventures on the Company's condensed interim consolidated statements of income. Capital Power's share of the facilities adjusted EBITDA are included in adjusted EBITDA above. The equivalent of Capital Power's share of the facility's revenue was $82 million and $173 million for three and six months ended June 30, 2023, respectively, compared with $10 million and $19 million for the three and six months ended June 30, 2022. The facilities revenues are not included in the above results.

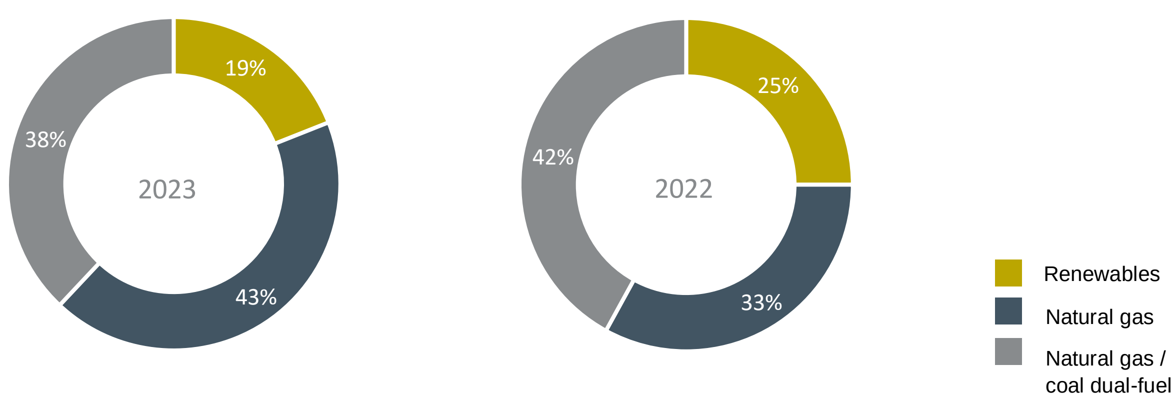
6 Midland Cogen was acquired on September 23, 2022.

7 Corporate revenues were offset by interplant category eliminations.

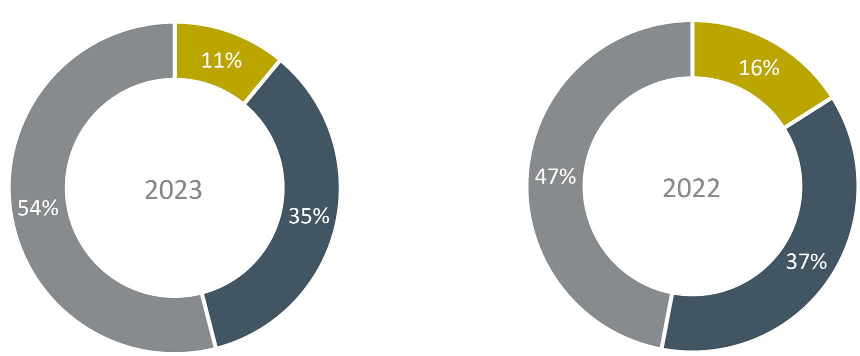
Adjusted EBITDA and revenues and other income by fuel type for the six months ended June 30

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 revenue percentages from our natural gas/coal dual-fuel facilities are largely driven by higher realized Alberta power prices in 2023 compared to 2022 partially offset by lower generation, while adjusted EBITDA was lower period-over-period primarily due to portfolio optimization activities and higher emission compliance costs. Natural gas period-over-period revenue percentages were consistent period-over-period, while increases in adjusted EBITDA percentages from our natural gas facilities were largely due to the acquisition of Midland Cogen. As our renewable facilities are primarily contracted, periods of high power prices have an impact of increasing the contributions from our thermal facilities.

Adjusted EBITDA by fuel type



Revenues and other income by fuel type[1]



1 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.

Energy prices and hedged positions

Alberta commercial portfolio	Three months ended June 30 2023	Three months ended June 30 2022	Six months ended June 30 2023	Six months ended June 30 2022	Year ended December 31, 2022
Power					
Hedged volume at beginning of period (GWh)	3,000	2,000	5,000	5,000	8,500
Spot power price average ($/MWh)	160	122	151	106	162
Realized power price average [1] ($/MWh)	85	85	91	84	95
Natural gas					
Hedged volume at beginning of period (TJ)	13,000	14,000	18,000	19,000	40,000
Spot natural gas price average (AECO) [2] ($/GJ)	2.39	6.86	2.73	5.69	5.08

1 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.

2 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.

Alberta commercial facilities and portfolio optimization

Alberta spot price averaged $160 and $151 per MWh in the second quarter and first six months of 2023 compared to the $122 and $106 per MWh in the same periods of 2022. Outages to various generating facilities, low wind generation and higher demand driven by warm weather, restricted import capacity due to timeline restrictions and the impact of increased carbon compliance pricing from $50 per tonne to $65 per tonne all contributed to the higher power prices during the second quarter of 2023 compared with the same period of 2022.

Generation and availability were lower during the second quarter and first half of 2023 compared with the same period of 2022 primarily due to the net effect of the following:

- Unit 1 at Clover Bar Energy Centre experienced an unplanned outage spanning the majority of 2023 compared with both planned and shorter unplanned outages in 2022.
- Unit 3 at Clover Bar Energy Centre experienced longer unplanned outages in the second quarter of 2023 compared with the outages in the second quarter of 2022.
- Despite the lower availability at Clover Bar Energy Centre in 2023, the facility was dispatched more frequently compared to 2022 to capture the higher pool prices.
- A planned outage at Shepard in the first and second quarters of 2023 compared with no outages in 2022.
- Unplanned outages at Genesee 1 in the first half of 2023 compared with a longer planned outage in 2022.
- Planned and unplanned outages at Genesee 2 in the second quarter of 2023 compared with an unplanned outage of similar duration in the first quarter of 2022.

Higher revenues and other income for the second quarter of 2023 as compared with the same period of 2022 were primarily attributable to the facilities realizing higher Alberta spot prices as mentioned above, an insurance recovery for an unplanned outage at Joffre in 2022, higher ancillary services revenues, and margins earned on the sale of emission credits. These were partially offset by lower generation during the quarter. The unplanned outages at Genesee 2 in June 2023 occurred during hours of unseasonably warm temperatures, low wind generation, and high settled prices averaging $372/MWh. This resulted in the need to procure high-priced MWhs to backstop the portfolio's position, leading to lower adjusted EBITDA for the quarter compared to prior year.

Year-to-date results were favorable compared to 2022 as a result of higher realized power pricing during the first quarter of 2023 net of portfolio optimization activities as well as the receipt of the Joffre insurance recovery. These were partially offset by the impact of lower generation, and higher fuel and emission compliance expenses.

Western Canada contracted facilities

Generation in the second quarter and first half of 2023 were lower compared with the same periods in 2022 due to overall lower wind resource availability partially offset by the commencement of operations at Strathmore Solar on March 17, 2022 and Clydesdale Solar on December 13, 2022. Availability in 2023 was consistent with 2022 other than an unplanned outage at Quality Wind in the second quarter of 2023 due to wildfire.

Revenues and other income and adjusted EBITDA were consistent in the second quarter of 2023 compared with the second quarter of 2022. Favourable results from the commencement of operations at Clydesdale Solar offset Whitla's unfavourable results, driven by lower generation and higher transmission costs in 2023 due to higher Alberta pool prices compared to the prior year. On a year-to-date basis, results were further impacted by the classification of Island Generation's current electricity purchase agreement as a finance lease effective May 2022 and further lower revenues at Whitla Wind as a result of receiving higher merchant revenues in the first quarter of 2022 compared with contracted revenues throughout 2023.

Ontario contracted facilities

Strong availability for the second quarter of 2023 compared to the same period in 2022 was primarily attributable to the Goreway and East Windsor facilities, as both had undergone planned outages in the second quarter of 2022. This was partially offset by a planned outage that occurred at York Energy during this quarter along with a forced outage at Kingsbridge 1.

Higher generation during the second quarter of 2023 compared to the same period in 2022 was primarily driven by the strong availability at Goreway, allowing the facility to generate more to capture ancillary service revenues and backstop tight market conditions in the Ontario power market, leading to higher revenues and other income as well as adjusted EBITDA quarter-over-quarter. Partially offsetting these strong results were low wind resources impacting our Port Dover and Nanticoke wind facility. On a year-to-date basis, results were further dampened by Goreway's planned outage during the first quarter of 2023.

U.S. contracted facilities

The acquisition of Midland Cogen on September 23, 2022 contributed to the higher generation, availability, and adjusted EBITDA year-over-year. Midland Cogen's revenue is not included in revenues and other income as the facility is accounted for under the equity method.

The following discussion regarding availability, generation, revenues and other income, and adjusted EBITDA applies to the remaining U.S. contracted facilities excluding Midland Cogen.

Availability during the second quarter of 2023 was consistent with the same period in 2022. Strong availability year-to-date was driven by a shorter planned outage at Arlington Valley and minimal outage hours at Decatur during the first quarter of 2023 compared to the same period in 2022. Generation was lower quarter-over-quarter and year-over-year, as Decatur was dispatched less frequently due to lower demand driven by weather conditions in the region while low wind resources impacted the Company's U.S. wind facilities. This was partially offset by more frequent dispatch at Arlington Valley under its Heat Rate Call Option (HRCO) to backstop tight market conditions during the second quarter of 2023 and due to cold temperatures in the U.S. Desert Southwest Region in the first quarter of 2023.

Revenues and other income and adjusted EBITDA for the second quarter of 2023 compared with the second quarter of 2022 were impacted by lower generation at Decatur and the Company's wind facilities as mentioned above in addition to the declining balance of tax attributes available to Cardinal Point. While Arlington Valley was dispatched more frequently, revenues and other income from the facility were dampened by a lower recovery of natural gas expense in 2023 compared to 2022 driven by declining natural gas prices. As this cost is flowed through from the facility to the HRCO counterparty, the impact to adjusted EBITDA was negligible. Results for the first half of 2023 were further impacted by higher outage costs at Arlington Valley during the first quarter of 2023 due to an increased scope of work.

Corporate

Corporate results include (i) revenues for cost recoveries and other income related to off-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 for the second quarter and first half of 2023 were consistent with the same periods in 2022.

Unrealized changes in fair value of commodity derivatives and emission credits

(unaudited, $ millions)	Three months ended June 30			
	2023	**2022**	**2023**	**2022**
	Revenues and other income[1]		**Income before tax[1]**	
Unrealized losses on Alberta power derivatives	(10)	(63)	(3)	(53)
Unrealized gains (losses) on U.S. power derivatives	49	(5)	49	(5)
Unrealized (losses) gains on natural gas derivatives	(27)	78	(73)	25
Unrealized gains on emission derivatives	-	6	-	6
Unrealized gains (losses) on emission credits held for trading	-	-	4	(1)
	12	**16**	**(23)**	**(28)**

(unaudited, $ millions)	Six months ended June 30			
	2023	2022	2023	2022
	Revenues and other income[1]		Income before tax[1]	
Unrealized gains (losses) on Alberta power derivatives	139	(80)	126	(73)
Unrealized gains (losses) on U.S. power derivatives	101	(88)	101	(88)
Unrealized gains (losses) on natural gas derivatives	32	(75)	(97)	106
Unrealized gains on emission derivatives	11	14	11	14
Unrealized gains (losses) on emission credits held for trading	-	-	15	(5)
	283	**(229)**	**156**	**(46)**

1 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 three months ended June 30, 2023, the Alberta power portfolio recognized unrealized losses $3 million on Alberta power derivatives, due to the impact of increasing forward prices on net forward sale contracts, offset partly by the reversal of prior period unrealized losses on positions that settled during the quarter. During the six months ended June 30, 2023, the Alberta power portfolio recognized unrealized gains of $126 million mainly as a result of the reversal of prior period unrealized losses on positions that settled during 2023, partially offset by the impact of increasing forward prices on net forward sales contracts. During the comparable three and six months ended June 30, 2022, the Alberta power portfolio recognized unrealized losses of $53 million and $73 million, respectively on Alberta power derivatives due to the impact of increasing forward prices on net forward sale contracts, offset partly by the reversal of prior period unrealized losses on positions that settled during those periods.

During the three and six months ended June 30, 2023, the U.S. power portfolio recognized unrealized gains of $49 million and $101 million respectively, mainly as a result of the reversal of prior period unrealized losses on positions that settled during those periods as well as the impact of decreasing forward power prices on forward sale contracts associated with the Company's U.S Wind facilities. During the comparable periods in 2022, the U.S. power portfolio recognized unrealized revenues and losses of $5 million and $88 million respectively, as a result of the impact of increasing forward power prices on forward sale contracts associated with the Company's U.S Wind facilities

During the three and six months ended June 30, 2023, Capital Power recognized unrealized losses on natural gas derivatives of $73 million and $97 million respectively, due to both the impact of decreasing forward prices on forward purchase contracts as well as the reversal of prior period unrealized gains on positions that settled during those periods. During the comparable periods in 2022, Capital Power recognized unrealized gains on natural gas derivatives of $25 million and $106 million respectively, due primarily to the impact of increasing forward prices on forward purchase contracts.

During the six months ended June 30, 2023, Capital Power recognized unrealized gains on emission derivatives of $11 million, mainly as a result of the impact of increasing forward prices on net forward purchase contracts. During the three and six months ended June 30, 2022, Capital Power recognized unrealized gains on emission derivatives of $6 million and $14 million, mainly as a result of the reversal of prior period unrealized losses on positions that settled during the quarter, as well as the impact of increasing forward prices on net forward purchase contracts.

During the three and six months ended June 30, 2023, Capital Power recognized unrealized gains on emission credits held for trading of $4 million and $15 million respectively, due mainly to the impact of increasing market prices on the value of inventory positions, partially offset by the reversal of unrealized gains on emission credits sold during those periods. During the six months ended June 30, 2022, Capital Power recognized unrealized losses of $5 million on emission credits held for trading, due to the reversal of prior period unrealized gains on inventory sold during that time.

Consolidated other expenses and non-controlling interests

(unaudited, $ millions)	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Interest on borrowings less capitalized interest	(37)	(30)	(75)	(61)
Realized gains (losses) on settlement of interest rate derivatives	14	(1)	18	(3)
Other net finance expense – interest on off-coal compensation from the Province of Alberta, lease liability interest, sundry interest, guarantee and other fees	(3)	(2)	(7)	(5)
	(26)	(33)	(64)	(69)
Unrealized (losses) gains representing changes in the fair value of interest rate derivatives	(2)	6	(5)	14
Other net finance expense – amortization and accretion charges, including accretion of deferred revenue pertaining to off-coal compensation from the Province of Alberta	(6)	(8)	(13)	(17)
Total net finance expense	(34)	(35)	(82)	(72)
Depreciation and amortization	(143)	(139)	(284)	(281)
Foreign exchange gain (loss)	4	(7)	5	(6)
Losses on disposals and other transactions	(3)	(1)	(3)	(1)
Other items from joint ventures[1]	(19)	(1)	(40)	(1)
Income tax expense	(24)	(31)	(110)	(64)
Net loss attributable to non-controlling interests	2	3	3	6

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

Net finance expense

Higher net finance expense for the six months ended June 30, 2023 compared with the same period in the prior year largely reflects higher interest and increased loans and borrowings outstanding due to the Subordinated green hybrid notes issued in the third quarter of 2022 and higher unrealized losses on the fair value changes of interest rate derivatives. This was partially offset by higher capitalized interest due to the continued advancement of the Genesee repowering project, lower accretion charges incurred due to off-coal compensation and higher realized gains from settlement of interest rate derivatives.

Other items from joint ventures

Other items from joint ventures include 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 $39 million in 2023 compared with 2022 primarily due to the acquisition of Midland Cogen joint venture in the third quarter of 2022.

Income tax expense

Income tax expense for the six months ended June 30, 2023, increased compared with the corresponding period in 2022 primarily due to higher overall consolidated net income before tax.

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

(unaudited, $ millions)	Three months ended June 30		Six months ended June 30	
	2023	2022	2023	2022
Net income	85	77	370	196
Other comprehensive income (loss):				
Actuarial gain related to the Company's defined benefit pension plan	-	10	-	10
Net unrealized losses on derivative instruments	(134)	(61)	(11)	(2)
Net realized losses on derivative instruments reclassified to net income	115	47	143	52
Equity-accounted investments	-	-	(2)	-
Unrealized foreign exchange (losses) gains on the translation of foreign operations	(28)	34	(31)	23
Total other comprehensive (loss) income, net of tax	(47)	30	99	83
Comprehensive income	**38**	**107**	**469**	**279**

Other comprehensive income 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, 2022 to June 30, 2023 were as follows:

(unaudited, $ millions)	June 30, 2023	December 31, 2022	Increase (decrease)	Primary reason for increase (decrease)
Trade and other receivables	637	949	(312)	Decrease primarily due to lower AESO pool receipt receivables resulting from lower Alberta pool prices and generation compared with December 2022.
Inventories	314	242	72	Increase primarily due to net purchases of emissions offsets held for trading and unrealized gains on those offsets.
Intangible assets and goodwill	744	817	(73)	Decrease mostly due to the use of emission credits for plant compliance and amortization, partially offset by additions for Genesee Repowering.
Property, plant and equipment	6,297	6,360	(63)	Decrease mostly due to the impact of depreciation and foreign exchange, partially offset by capital additions for Genesee Repowering.
Trade and other payables	803	1,249	(446)	Decrease due to lower trading margin account payables driven by decreasing forward natural gas prices on net forward purchase contracts, the impact of lower accrued power costs for commercial and industrial customers due to lower Alberta pool pricing, settlement of prior years emission compliance liability, and lower natural gas accruals.
Net derivative financial instruments liabilities	497	741	(244)	Decrease due to reversal of unrealized losses on power positions that settled during the year as well as the impact of decreasing forward power pricing on forward sale contracts. These were partially offset by the reversal of unrealized gains on natural gas positions that settled during the year as well as the impact of decreasing forward natural gas pricing on forward purchase contracts.
Loans and borrowings (including current portion)	3,517	3,726	(209)	Decrease primarily due to repayments of U.S. and Canadian dollar bank loans and allocation of income tax benefits to tax-equity investors associated with the Company's tax-equity structures.

(unaudited, $ millions)	June 30, 2023	December 31, 2022	Increase (decrease)	Primary reason for increase (decrease)
Net deferred tax liabilities	579	510	69	Increase primarily due to recognition of taxable temporary differences that will reverse in the future, and changes in derivative financial instrument balances.

LIQUIDITY AND CAPITAL RESOURCES

(unaudited, $ millions)	Six months ended June 30		
Cash inflows (outflows)	**2023**	**2022**	**Change**
Operating activities	360	523	(163)
Investing activities	(217)	(279)	62
Financing activities	(346)	(439)	93

Operating activities

Cash flows from operating activities for the six months ended June 30, 2023 decreased compared with the same period in 2022 mainly due to:

- unfavourable changes in non-cash working capital mainly driven by lower margin account withdrawals resulting from the impact of decreasing forward natural gas prices on forward purchase contracts, and higher purchases of emissions offset inventory held for trading; and
- higher interest paid mainly due to the issuance of Subordinated green hybrid notes in the third quarter of 2022; and
- higher income taxes paid mainly due to increased Canadian tax instalments paid as a result of higher overall taxable income.

Partially offsetting the above decreases are:

- increases in adjusted EBITDA described in the Consolidated Net Income and Results of Operations section, primarily due to the acquisition of Midland Cogen in September 2022 and higher realized pricing on our Alberta Commercial facilities; and
- favourable fair value changes in the first six months of 2023 compared with the same period in 2022, most notably driven by the impact of decreasing forward power prices on net forward sale contracts in 2023. These fair value changes in certain unsettled derivative financial instruments are credited to the Company’s bank margin account held with a specific exchange counterparty.

Investing activities

Cash flows used in investing activities for the six months ended June 30, 2023, decreased compared with the same period in 2022 due to higher capital expenditures for the construction of Strathmore Solar and Clydesdale Solar and higher expenditures on emission credits held for compliance during the comparable period in the prior year, partially offset by higher year to date spend on the repowering of Genesee 1 and 2.

Capital expenditures and investments

(unaudited, $ millions)	Pre-2023 actual	Six months ended June 30, 2023 actual	Balance of 2023 estimated [1,2]	Actual or projected total [2]	Targeted completion
Repowering of Genesee 1 and 2 [3]	644	165	283	1,350	Unit 1 and 2 in 2024 (see Significant Events)
Clydesdale Solar	121	3	-	124	Operations commenced December 2022
Halkirk 2 Wind [4]	1	4	52	345	Fourth quarter of 2024
Ontario growth projects [5]	-	-	61	655	2025
Maple Leaf Solar [5]	-	-	9	219	Fourth quarter of 2026
Commercial initiatives [6]	196	2	17		
Development sites and projects	62	1	-		
Subtotal growth projects		**175**	**422**		
Sustaining – plant maintenance excluding Genesee mine		60			
Total capital expenditures [7]		**235**			
Emission credits held for compliance		9			
Capitalized interest		(17)			
Additions of property, plant and equipment and other assets		**227**			
Change in other non-cash investing working capital and non-current liabilities		(10)			
Purchase of property, plant and equipment and other assets, net		**217**			

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 has been revised for cost escalations and increased labour costs related to the Repowering Project as well as the cancellation of the 210 MW Genesee BESS as AESO has completed its review process and provided conditional approval to Capital Power's alternate solution to meet the MSSC limit (See Significant Events).

4 Projected total costs have been revised for the addition of investment tax credit (ITC), increased cost pressures on supply chain and impact of foreign exchange. The project is expected to continue to meet targeted return expectations.

5 See Significant Events

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.

Financing activities

Cash flows used in financing activities decreased in the six months ended June 30, 2023 mainly due to lower net repayments of loans and borrowings. This is partly offset by higher net common share and preferred share dividends paid, and higher capitalized interest from the continued advancement of the Genesee repowering project.

The Company's credit facilities consisted of:

(unaudited, $ millions)		At June 30, 2023			At December 31, 2022		
	Maturity timing	**Total facilities**	**Credit facility utilization**	**Available**	**Total facilities**	**Credit facility utilization**	**Available**
Committed credit facilities	2028	1,000			1,000		
Letters of credit outstanding			-			91	
Bankers' acceptances outstanding			6			59	
Bank loans outstanding [1]			200			281	
		1,000	206	794	1,000	431	569
Bilateral demand credit facilities	N/A	1,387			1,397		
Letters of credit outstanding			799			1,171	
		1,387	799	588	1,397	1,171	226
Demand credit facilities	N/A	25	-	25	25	-	25
		2,412	**1,005**	**1,407**	**2,422**	**1,602**	**820**

[1] U.S. dollar denominated bank loans outstanding totaling US$151 million (December 31, 2022 – US$207 million).

At June 30, 2023, the committed credit facility utilization decreased $225 million compared with December 31, 2022 due to repayment of U.S. and Canadian bank loans and lower letters of credit utilization. The available credit facilities provide adequate funding for ongoing development projects.

Capital Power has surety capacity to accommodate, as part of normal course of operations, the issuance of bonds for certain capital projects and contracts. At June 30, 2023 and December 31, 2022, $90 million and no amounts of bonds were issued under these facilities, respectively .

Capital Power has a corporate credit rating of BBB- with a stable outlook from Standard & Poor's (S&P). 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 April 2023. 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.

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)	Six months ended June 30, 2023 actual	Balance of 2023 estimated	Total 2023 expected cash requirements
Repayment of debt payable [1]	37	36	73
Interest on loans and borrowings	62	98	160
Capital expenditures – sustaining	73	63	136
Capital expenditures – ongoing growth projects [2]	173	416	589
Capital expenditures – commercial initiatives	2	17	19
Common share dividends [3]	136	139	275
Preferred share dividends	15	16	31
	498	**785**	**1,283**

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 (see Subsequent Events).

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 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 for additional discussion on recent developments pertaining to these risks and Capital Power's risk mitigation strategies.

Off-statement of financial position arrangements

At June 30, 2023, Capital Power has $799 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.

Capital resources

(unaudited, $ millions)	As at	
	June 30, 2023	December 31, 2022
Loans and borrowings	3,517	3,726
Lease liabilities [1]	148	153
Less cash and cash equivalents	(103)	(307)
Net debt	3,562	3,572
Share capital	3,500	3,498
Deficit and other reserves	(723)	(1,044)
Non-controlling interests	-	6
Total equity	2,777	2,460
Total capital	**6,339**	**6,032**

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

CONTINGENT LIABILITIES, OTHER LEGAL MATTERS AND PROVISIONS

Refer to Contractual Obligations, Contingent Liabilities, Other Legal Matters and Provisions discussion in our 2022 Integrated Annual Report for details on ongoing legal matters for which there were no notable updates in the current period.

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 of the Company arising from these claims is immaterial and therefore no provision has been made.

RISKS AND RISK MANAGEMENT

For the six months ended June 30, 2023, Capital Power's business and operational risks have remained consistent with those described in our 2022 Integrated Annual Report. Information pertaining to climate-related risks and opportunities can be found on our website within its 2022 Climate Change Disclosure Report.

Details around Capital Power's approach to risk management, including principal risk factors and the associated risk mitigation strategies, are described in our 2022 Integrated Annual Report. These factors and strategies have not changed materially in the six months ended June 30, 2023.

ENVIRONMENTAL MATTERS

The Company recorded decommissioning provisions of $303 million at June 30, 2023 ($278 million as at December 31, 2022) for our generation facilities and the Genesee Mine as Capital Power 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 totalling $751 million and forward contracts to sell environmental credits totalling $733 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 sales amounts related to other emissions trading activities.

REGULATORY AND GOVERNMENT MATTERS

Refer to Regulatory Matters discussion in the Company's 2022 Integrated Annual Report for further details that supplement the recent developments discussed below:

Canada

Federal Budget 2023

The Federal Budget 2023 was tabled on March 28, 2023. Federal budget 2023 included proposals for a number of new and expanded programs and initiatives to support investment across a range of zero and low-emitting technologies to advance the Government's clean electricity and net-zero objectives. Federal Budget measures of particular note for Capital Power were the following: (i) reaffirmation of the role and mandate for the Canada Growth Fund (CGF) to support de-risking of large scale decarbonization through instruments such as carbon contracts for differences and a commitment that the CGF will begin investing in the first half of 2023, (ii) direction by the Government that the Canada Infrastructure Bank will have a new priority focus on clean electricity, (iii) enhancements to the 50% refundable ITC for carbon capture, utilization and storage , (iv) updates to the 30% refundable Clean Technology ITC that will be available to taxable entities for investments in eligible technologies, (v) a new 15% refundable Clean Electricity ITC that will be available for non-taxable entities for investments in eligible technologies, and (vi) updates to the Clean Hydrogen ITC.

The measures outlined in Federal Budget 2023 are encouraging in terms of Genesee's CCS development. The broader suite of ITC programs proposed in Federal Budget 2023 will also support future renewable and battery projects by the Company, though Management will seek clarification of details relating to aspects of the ITC programs, including with respect to labour requirements that will be part of program eligibility.

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 (Discussion Paper) 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. ECCC released the Proposed Frame for the CES on July 26, 2022, setting out the key elements of the potential performance standard framework that ECCC was proposing based on feedback received on the Discussion Paper.

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 Summer 2023, following 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.

Alberta

Market Pathways

The AESO held a stakeholder symposium event on June 27, 2023. At the event the AESO indicated that there is a need to review the market structure due to key operational and reliability challenges that are occurring as a result of the energy transition. The AESO's Market Pathways work will build on its Net-Zero Pathways report (published 2022) and its Reliability Requirements Roadmap (published March 2023) and will evaluate the sustainability of the existing market structure. A key focus of this work for the AESO will be on how to achieve reliability and affordability through competition. The AESO is expected to release its Market Pathways Primer document the week of July 31, 2023 commencing the formal consultation period. The Company plans to actively participate in this process.

Most Severe Single Contingency limit

On June 27, 2023 the AESO released its decision to maintain the MSSC limit at 466 MW and will be procuring frequency stability services to enable this limit to also be applied when the province is islanded from the rest of Western Electricity Coordinating Council (WECC). The AESO indicated that they will be exploring a new ancillary service product, Fast Net Demand Response (FNDR), which is intended to respond in a way that it would support the grid following an instantaneous loss of supply within Alberta. The AESO has indicated that FNDR would enable an increase to the MSSC limit. The Company will continue to actively engage with the AESO on the MSSC and the development of the FNDR product.

Alberta's Emissions Reduction and Energy Development Plan

On April 19, 2023, the Government of Alberta (GOA) released "Alberta's Emissions Reduction and Energy Development Plan" (ERED). The ERED included an "aspiration" of achieving a carbon neutral economy – net zero – by 2050 in Alberta and does not specify any other targets. It noted Alberta's plan for emissions reduction will rely heavily on technology such as carbon capture and storage, hydrogen, and small modular (nuclear) reactors (SMR) and be balanced with a commitment to maintaining affordability, reliability and energy security. The province sees a continued role for natural gas generation in the province for decades to come and expressed concern with the Federal government's net-zero electricity grid by 2035 goal and Federal Clean Electricity Regulations (CER).

With respect to electricity, the ERED noted government will continue to work with consumers, industry and regulators on approaches to support new technologies, including storage and demand side management (DSM) that will improve the efficiency, reliability and fairness of Alberta's electricity system while also supporting emissions reduction. Alberta will also review its distribution and transmission policies to ensure ongoing reliability, affordability and coordinated efforts to increase efficiency. Additional diversification of low-emitting technologies in Alberta, including CCUS, hydrogen and SMR will provide a more robust electricity grid going forward.

The ERED's recognition of the important continued role for natural gas in Alberta's power system, and the role for CCUS, among other technologies, are consistent with the Company's expectations for decarbonization of Alberta's electricity system. The Company will continue to engage with the government on matters relating to decarbonization and Alberta's electricity system.

TIER Regulation Amendments

On November 22, 2022, the Government of Canada announced that Alberta's Technology, Innovation and Emissions Reduction (TIER) framework for industrial emissions will remain in effect for the period 2023-2030. On December 15, 2022, Alberta Environment and Protected Area (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 tCO2e/MWh in 2030. In 2023, the electricity benchmark is 0.3626 tCO2e/MWh.

The Minister of Environment and Protected Areas signed the Ministerial Order for Alberta's carbon price for 2023-2030 which confirmed that Alberta's carbon price will match the Federal carbon price over the period. Alberta's carbon price in 2023 is $65/tCO2e and will increase annually by $15/tCO2e per year, reaching $170 in 2030. The TIER amendment included sequestration credits and capture recognition tonnes (CCUS credits) 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. The TIER amendments also increase the emission performance credit and emission offset credit usage limit from the current 60% level to 90% for 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 while 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.

Ontario

IESO Potential Gas Phase-Out Impact Assessment

Capital Power was a successful bidder in the IESO's Expedited Process and its Same Technology Upgrade Process (see Significant Events), The Company continues to actively participate in the IESO's Long Term 1 (LT1) RFP engagement and expects the LT1 process to launch in the fourth quarter of 2023.

On July 10, 2023 the Ministry of Energy released its comprehensive policy report, titled *Powering Ontario's Growth.* The report sets out a series of long-term actions to meet the province's forecasted capacity and energy needs. The report outlines the role of natural gas and natural gas-fired generation in Ontario for the foreseeable future as a necessary transition technology. The report also underscores the role of further competitive procurements for bulk supply to meet energy needs projected to emerge in the late 2020s. The Minister has guided the IESO to develop the framework for future procurements, and report back to government by February 2024. Management believes the report is positive and continues to monitor these developments.

Emissions Performance Standards (EPS)

On December 13, 2022, the Ontario Minister of the Environment, Conservation and Parks (MECP) amended the EPS to meet stricter benchmark criteria set by the Federal Government and extend the program to 2030.

The EPS regulation came into effect on January 1, 2023. Under the EPS, the carbon price will align with the minimum Federal carbon price of $65/tCO2e for the 2023 compliance period, increasing by $15 per year to $170 for the 2030 compliance period. The performance standard for generating electricity using fossil fuels declined from 0.370 tCO2e/MWh to 0.310 tCO2e/MWh effective 2023 and will remain at that level until 2030.

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.

British Columbia

BC Hydro Integrated Resource Plan (IRP)

On June 15, 2023 BC Hydro released their "signpost" update to their IRP. The update indicates an increase in BC Hydro's demand forecast and also a reduction in supply expectations resulting in the need for BC Hydro to accelerate its plans to address both capacity and energy shortfalls. To address the energy shortfall BC Hydro's updated IRP outlines that it will extend electricity purchase agreement renewals past 2026 and look to procure approximately 700 GWh of new clean or renewable energy from existing sources. BC Hydro intends to achieve this through bilateral negotiations with independent power producers (IPPs). Additionally, it has initiated a call for power to acquire around 3,000 GWh of new clean energy from greenfield projects that are able to achieve operations as early as fall 2028. To meet capacity shortfalls BC Hydro has indicated that it will accelerate its efforts on utility scale batteries and look to move forward additional energy efficiency, demand response, and industrial load curtailment programs. While BC Hydro has brought forward the need for new resources, the updated IRP is silent on any potential to use Island Generation as a resource option to defer these needs. The Company will evaluate BC Hydro's call for power and will continue to engage in the British Columbia Utilities Commission's hearing of the IRP which is expected to continue into the Fall of 2023.

British Columbia Output-Based Carbon Pricing System

As part of Budget 2023, the Government of British Columbia (B.C.) announced the transition to an output-based carbon pricing system (B.C. OBPS) beginning in April 2024. The B.C. OBPS will ensure emissions reductions for industry continue while also providing flexible options, such as carbon offsets, to meet compliance obligations. B.C.'s current industrial pricing system will remain in place for a transition year (2023) with OBPS implementation starting in April 2024. Further details about the system and performance standards will be available later this summer.

Net-Zero New Industry Intentions

On July 5, 2023, the BC Climate Action Secretariat (CAS) released the Net-Zero New Industry Intentions Paper (Paper). B.C. is proposing to amend the *Greenhouse Gas Industrial Reporting and Control Act* (GGIRCA) and its regulations to implement the Net-Zero New Industry Policy (Policy). The Paper did not discuss the benchmarks for any industrial sector. Under the Policy, new facilities will be required to develop net-zero plans to achieve net-zero emissions in 2050 (2030 for LNG projects) and every year thereafter. The net-zero plan would have to be approved by the CAS before a facility is permitted to proceed.

Management is reviewing the Policy for potential implications for Capital Power's interests in B.C. The contract for Capital Power's Island Generation has provisions that trigger amendments as a result of changes in GHG costs, the effect of which will limit the impact of changes to carbon compliance costs.

United States

U.S. Clean Air Act

On May 23, 2023, the Environmental Protection Agency (EPA) announced a proposed rule that aims to curb greenhouse gas emissions for coal-, gas-, and oil-fired power plants that run at least 50% of the time, with initial requirements for gas-fired power plants beginning as early as 2032. The proposed limits would require existing gas plants to utilize hydrogen co-firing or CCS within the next decade and the emission guidelines proposal will apply to existing natural gas power plants facilities with a 300 MW capacity or higher. Management continues to assess the proposed guidelines and currently expects Midland Cogen facility to be exempt and our other US based natural gas assets to be scoped out of the current proposal due to its expected run time.

Inflation Reduction Act Implementation

The IRA passed by Congress and signed into law in August of 2022 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 IRA implementation. On April 4, 2023, the U.S. Treasury Department (Treasury) and IRS released guidance that provides detailed information about the bonus under the IRA for clean energy projects and facilities located in communities that have driven and historically been at the forefront of energy production. Developers can receive a bonus of up to 10 percentage points on top of the United States ITC (UITC) and an increase of 10 percent for the Production Tax Credit (PTC).

The energy community bonus for the UITC and PTC is available to developers for locating projects in historical energy communities, including areas with closed coal mines or coal-fired power plants. The bonus is also available to areas that have significant employment or local tax revenues from fossil fuels and higher than average unemployment. To qualify for the bonus, certain criteria related to direct employment, local tax revenues, and unemployment rates must be met. Brownfields, which are properties contaminated by hazardous materials or other pollutants, also qualify as energy communities.

Treasury and IRS have partnered with the Interagency Working Group on Energy Communities to provide a searchable mapping tool that helps identify areas that may be eligible for the energy communities bonus. The tool will be updated regularly as additional data becomes available.

Management continues to monitor the risks and opportunities that these provisions provide to our existing commercial assets and 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.

Michigan Legislation

In Michigan the Senate Democrats are introducing comprehensive climate and clean energy legislation. An outline of the legislation was released to the public by Senate leadership in early April, and continue to expect a full bill to be introduced in the second half of 2023. Management will continue to monitor the status of the proposed legislation and its impact to our existing assets. Capital Power's portfolio of greenfield solar opportunities in Michigan will benefit from a legislative approach directionally moving towards low or zero carbon goals.

USE OF JUDGMENTS AND ESTIMATES

In preparing the condensed interim consolidated financial statements, Management made judgments, estimates and assumptions that affect the application of Capital Power's accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. There have been no significant changes to Capital Power's use of judgments and estimates as described in our 2022 Integrated Annual Report.

FINANCIAL INSTRUMENTS

The classification, carrying amounts and fair values of financial instruments held at June 30, 2023 and December 31, 2022 were as follows:

(unaudited, $ millions)		June 30, 2023		December 31, 2022	
	Fair value hierarchy level [1]	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:					
Amortized cost					
Cash and cash equivalents	N/A	103	103	307	307
Trade and other receivables [2]	N/A	579	579	892	892
Government grant receivable [3]	Level 2	372	335	367	317
Fair value through income or loss					
Derivative financial instruments assets – current and non-current	See below	359	359	405	405
Fair value through other comprehensive income					
Derivative financial instruments assets – current and non-current	See below	71	71	78	78
Financial liabilities:					
Other financial liabilities					
Trade and other payables	N/A	803	803	1,249	1,249
Loans and borrowings [3]	Level 2	3,517	3,388	3,726	3,590
Fair value through income or loss					
Derivative financial instruments liabilities – current and non-current	See below	743	743	944	944
Fair value through other comprehensive income					
Derivative financial instruments liabilities – current and non-current	See below	184	184	280	280

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 the Company's commodity risk group and by management.

2 Excludes current portion of government grant receivable.

3 Includes current portion.

Risk management and hedging activities

There have been no material changes in the six months ended June 30, 2023 to our risk management and hedging activities as described in our 2022 Integrated Annual Report.

The derivative financial instruments assets and liabilities held at June 30, 2023 compared with December 31, 2022 and used for risk management purposes were measured at fair value and consisted of the following:

(unaudited, $ millions)		June 30, 2023				
	Fair value hierarchy level	**Commodity cash flow hedges**	**Commodity non-hedges**	**Interest rate cash flow hedges**	**Interest rate non-hedges**	**Total**
Derivative financial instruments assets	Level 2	19	322	52	8	401
	Level 3	-	29	-	-	29
		19	351	52	8	430
Derivative financial instruments liabilities	Level 2	(173)	(390)	(11)	-	(574)
	Level 3	-	(353)	-	-	(353)
		(173)	(743)	(11)	-	(927)
Net derivative financial instruments (liabilities) assets		**(154)**	**(392)**	**41**	**8**	**(497)**

(unaudited, $ millions)		December 31, 2022				
	Fair value hierarchy level	**Commodity cash flow hedges**	**Commodity non-hedges**	**Interest rate cash flow hedges**	**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)**

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.

Commodity, interest rate and foreign exchange derivatives not designated as accounting hedges

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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no significant changes in Capital Power's disclosure controls and procedures and internal controls over financial reporting that occurred during the six months ended June 30, 2023 that have materially affected or are reasonably likely to materially affect disclosures of required information and internal control over financial reporting.

SUMMARY OF QUARTERLY RESULTS

(GWh)	Three months ended							
Electricity generation	**Jun 2023**	**Mar 2023**	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	**Dec 2021**	**Sep 2021**
Total generation	7,857	7,417	8,049	6,993	6,638	6,893	6,103	6,103
Alberta commercial facilities								
Genesee 1	793	809	869	863	733	790	877	824
Genesee 2	759	883	916	803	843	817	259	156
Genesee 3	1,000	998	543	988	1,010	980	1,006	1,009
Clover Bar Energy Centre 1, 2 and 3	130	150	278	218	72	112	135	235
Joffre	150	154	45	135	187	209	136	166
Shepard	741	715	829	824	814	786	714	739
Halkirk Wind	107	122	139	87	124	150	145	98
Clover Bar Landfill Gas	1	3	2	2	3	-	-	-
	3,681	3,834	3,621	3,920	3,786	3,844	3,272	3,227
Western Canada contracted facilities								
Island Generation	2	-	4	-	-	7	16	424
Quality Wind	73	104	124	93	70	126	130	101
EnPower	3	4	4	2	4	8	6	-
Whitla Wind	280	384	381	238	349	436	307	156
Strathmore Solar [1]	28	12	10	26	26	3	N/A	N/A
Clydesdale Solar [2]	54	27	6	N/A	N/A	N/A	N/A	N/A
	440	531	529	359	449	580	459	681
Ontario contracted facilities								
York Energy	3	4	5	8	6	8	4	6
East Windsor	3	1	4	6	3	3	3	4
Goreway	608	358	655	721	234	599	383	453
Kingsbridge 1	16	31	36	14	23	35	32	13
Port Dover and Nanticoke	54	87	91	50	67	100	81	47
	684	481	791	799	333	745	503	523
U.S. contracted facilities								
Decatur Energy, Alabama	494	240	617	785	752	617	789	381
Arlington Valley, Arizona	908	513	907	685	659	476	501	876
Beaufort Solar, North Carolina	8	6	5	8	9	6	6	8
Bloom Wind, Kansas	153	186	171	126	208	180	147	132
Macho Springs Wind, New Mexico	41	44	31	17	48	34	30	15
New Frontier Wind, North Dakota	83	108	117	83	116	122	126	92
Cardinal Point Wind, Illinois	134	174	170	86	167	196	177	93
Buckthorn Wind, Texas	77	108	82	64	111	93	93	75
Midland Cogen, Michigan [3]	1,154	1,192	1,008	61	N/A	N/A	N/A	N/A
	3,052	2,571	3,108	1,915	2,070	1,724	1,869	1,672

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.

(%)	Three months ended							
Facility availability	**Jun 2023**	**Mar 2023**	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	**Dec 2021**	**Sep 2021**
Total average facility availability	95	94	90	96	92	95	89	91
Alberta commercial facilities								
Genesee 1	95	97	99	99	86	93	100	94
Genesee 2	91	100	99	93	100	95	29	19
Genesee 3	100	99	54	99	100	99	100	99
Clover Bar Energy Centre 1, 2 and 3	47	69	84	93	89	87	83	97
Joffre	95	96	53	81	96	100	82	92
Shepard	98	85	100	98	100	100	99	100
Halkirk Wind	96	97	96	94	98	97	98	96
Clover Bar Landfill Gas	58	83	82	69	74	92	75	24
	91	93	84	95	96	96	84	83
Western Canada contracted facilities								
Island Generation	100	100	91	100	100	100	97	96
Quality Wind	92	98	97	99	98	93	97	96
EnPower	94	73	99	92	99	99	98	100
Whitla Wind	94	98	96	92	97	98	97	95
Strathmore Solar [1]	98	96	100	100	100	100	N/A	N/A
Clydesdale Solar [2]	97	97	100	N/A	N/A	N/A	N/A	N/A
	96	98	95	96	99	98	97	96
Ontario contracted facilities								
York Energy	89	100	100	96	100	100	89	87
East Windsor	99	99	73	93	76	97	88	100
Goreway	98	91	99	100	59	100	91	100
Kingsbridge 1	89	95	98	96	99	98	99	99
Port Dover and Nanticoke	96	96	96	90	99	99	97	90
	96	94	97	98	71	99	91	97
U.S. contracted facilities								
Decatur Energy, Alabama	100	99	76	98	100	94	82	94
Arlington Valley, Arizona	98	81	99	97	96	78	99	100
Beaufort Solar, North Carolina	99	99	99	100	99	100	98	96
Bloom Wind, Kansas	98	97	94	95	94	94	90	90
Macho Springs Wind, New Mexico	98	99	98	97	98	97	98	97
New Frontier Wind, North Dakota	94	95	92	94	95	96	97	95
Cardinal Point Wind, Illinois	95	93	96	96	98	95	99	96
Buckthorn Wind, Texas	94	95	93	92	90	92	94	96
Midland Cogen, Michigan [3]	94	95	92	86	N/A	N/A	N/A	N/A
	97	94	89	96	97	90	91	96

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.

Financial results

(unaudited, $ millions)	Three months ended							
	Jun 2023	**Mar 2023**	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	**Dec 2021**	**Sep 2021**
Revenues and other income								
Alberta commercial facilities and portfolio optimization	613	687	656	573	423	456	380	313
Western Canada contracted facilities	32	41	41	29	30	50	43	28
Ontario contracted facilities	90	97	118	126	89	104	88	82
U.S. contracted facilities	99	138	198	110	122	104	97	101
Corporate [1]	35	33	33	33	33	32	32	32
Unrealized changes in fair value of commodity derivatives and emission credits	12	271	(117)	(85)	16	(245)	32	(179)
	881	**1,267**	**929**	**786**	**713**	**501**	**672**	**377**
Adjusted EBITDA [2]								
Alberta commercial facilities and portfolio optimization	169	239	162	234	182	192	172	132
Western Canada contracted facilities	20	28	28	17	20	40	34	20
Ontario contracted facilities [3]	60	62	67	59	56	65	57	53
U.S. contracted facilities [3]	85	72	62	92	67	53	35	85
Corporate	(7)	-	(16)	(19)	(6)	(2)	(4)	(4)
	327	**401**	**303**	**383**	**319**	**348**	**294**	**286**

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).

3 Ontario contracted facilities and U.S. contracted facilities include adjusted EBITDA from the York Energy and Midland Cogen 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, and 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 the Company's power, natural gas, interest rate and foreign exchange derivative contracts.

Financial highlights

(unaudited, $ millions except per share amounts)	Three months ended							
	Jun 2023	**Mar 2023**	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	**Dec 2021**	**Sep 2021**
Revenues and other income	881	1,267	929	786	713	501	672	377
Adjusted EBITDA [1, 2,]	327	401	303	383	319	348	294	286
Net income (loss)	85	285	(99)	31	77	119	(69)	38
Net income (loss) attributable to shareholders of the Company	87	286	(98)	34	80	122	(65)	40
Basic earnings (loss) per share ($)	0.68	2.39	(0.91)	0.21	0.59	0.96	(0.67)	0.23
Diluted earnings (loss) per share ($)[3]	0.67	2.38	(0.91)	0.20	0.59	0.96	(0.67)	0.23
Net cash flows from operating activities	11	349	42	370	108	415	185	347
Adjusted funds from operations [1]	151	210	140	328	180	200	149	206
Adjusted funds from operations per share ($) [1]	1.29	1.80	1.20	2.81	1.55	1.72	1.28	1.78
Purchase of property, plant and equipment and other assets, net	131	86	179	224	147	132	198	176

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.

2 Includes adjusted EBITDA from the York Energy and Midland Cogen joint ventures.

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

	Three months ended							
Spot price averages	**Jun 2023**	**Mar 2023**	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	**Dec 2021**	**Sep 2021**
Alberta power ($ per MWh)	160	142	214	221	122	90	107	100
Alberta natural gas (AECO) ($ per Gj)	2.39	3.08	4.91	4.02	6.86	4.54	4.48	3.32
Capital Power's Alberta portfolio average realized power price ($ per MWh)	85	98	111	101	85	84	84	75

Factors impacting results for the previous quarters

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

First quarter of 2023 - For the quarter ended March 31, 2023, Capital Power recorded AFFO of $210 million compared to $200 million for the quarter ended March 31, 2022. Contributing to the AFFO for the quarter ended March 31, 2023 was AFFO due to the acquisition of Midland Cogen and higher adjusted EBITDA from our Alberta commercial facilities mainly due to higher realized power pricing. In addition, we incurred lower sustaining capital expenditures during the quarter compared to the first quarter of 2022. These favourable impacts to AFFO were partially offset by: higher current income tax expense, lower adjusted EBITDA at Island Generation due to new EPA classification as a finance lease, and lower adjusted EBITDA from our Ontario thermal facilities due to lower dispatch from warmer temperatures and higher renewable generation during the first quarter of 2023 compared to 2022. Net income attributable to shareholders of $286 million was recorded in the first quarter ended March 31, 2023 compared to net income attributable to shareholders of $122 million for the quarter ended March 31, 2022. In addition to the factors mentioned above, further contributions to the net income in the first quarter of 2023 included higher unrealized gains on commodity derivatives and emission credits most notably related to the reversal of Alberta and U.S. unrealized losses on positions that settled in the first quarter of 2023. This was partially offset by unrealized losses on natural gas derivatives due primarily to the reversal of prior period unrealized gains on positions that settled during the quarter as well as the impact of decreasing forward prices on forward purchase contracts.

Fourth quarter of 2022 - For the quarter ended December 31, 2022, Capital Power recorded AFFO of $140 million compared to $149 million for the quarter ended December 31, 2021. Contributing to the AFFO for the quarter ended December 31, 2022 was AFFO due to the acquisition of Midland Cogen 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 unfavourable results from our emissions trading portfolio as a result of a strategy to optimize our offset credit inventory and 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, 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 the 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 in the fourth quarter of 2022 included higher unrealized losses on commodity derivatives and emission credits 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.

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) 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. 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.

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.

SHARE AND PARTNERSHIP UNIT INFORMATION

Quarterly common share trading information

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

	Three months ended							
	Jun 2023	**Mar 2023**	**Dec 2022**	**Sep 2022**	**Jun 2022**	**Mar 2022**	**Dec 2021**	**Sep 2021**
Share price ($/common share)								
High	46.73	46.90	50.28	51.90	46.51	41.98	45.05	45.04
Low	41.16	40.06	40.69	44.34	40.48	36.35	37.95	39.99
Close	42.10	41.64	46.33	46.90	45.01	40.71	39.46	42.71
Volume of shares traded (millions)	20.7	25.1	23.4	28.2	19.9	21.6	15.8	13.4

Outstanding share and partnership unit data

At July 27, 2023, the Company had 116.950 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 July 27, 2023 were 118.996 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.

At July 27, 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.

Condensed Interim Consolidated Financial Statements of

CAPITAL POWER CORPORATION

(Unaudited, in millions of Canadian dollars)
Six months ended June 30, 2023 and 2022

CAPITAL POWER CORPORATION
Condensed Interim Consolidated Financial Statements
Six months ended June 30, 2023 and 2022

Condensed Interim Consolidated Financial Statements:

CAPITAL POWER CORPORATION

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenues	$ 823	$ 657	$ 2,037	$ 1,103
Other income	58	56	111	111
Energy purchases and fuel	(494)	(313)	(1,098)	(387)
Gross margin	387	400	1,050	827
Other raw materials and operating charges	(35)	(40)	(79)	(73)
Staff costs and employee benefits expense	(48)	(44)	(89)	(86)
Depreciation and amortization	(143)	(139)	(284)	(281)
Other administrative expense	(37)	(32)	(71)	(61)
Foreign exchange gain (loss)	4	(7)	5	(6)
Operating income	128	138	532	320
Losses on disposals and other transactions	(3)	(1)	(3)	(1)
Net finance expense	(34)	(35)	(82)	(72)
Income from joint ventures	18	6	33	13
Income before tax	109	108	480	260
Income tax expense (note 3)	(24)	(31)	(110)	(64)
Net income	$ 85	$ 77	$ 370	$ 196
Attributable to:				
Non-controlling interests	$ (2)	$ (3)	$ (3)	$ (6)
Shareholders of the Company	$ 87	$ 80	$ 373	$ 202
Earnings per share (attributable to common shareholders of the Company):				
Basic (note 4)	$ 0.68	$ 0.59	$ 3.06	$ 1.56
Diluted (note 4)	$ 0.67	$ 0.59	$ 3.05	$ 1.55

See accompanying notes to the condensed interim consolidated financial statements

CAPITAL POWER CORPORATION

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

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Net income	$ 85	$ 77	$ 370	$ 196
Other comprehensive (loss) income:				
Items that will not be reclassified subsequently to net income:				
Defined benefit plans:				
Actuarial gains[1]	-	10	-	10
Items that are or may be reclassified subsequently to net income:				
Cash flow hedges:				
Unrealized losses on derivative instruments[2]	(134)	(61)	(11)	(2)
Reclassification of losses on derivative instruments to income for the period[3]	115	47	143	52
Equity-accounted investments [4]	-	-	(2)	-
Net investment in foreign subsidiaries:				
Unrealized (losses) gains [5]	(28)	34	(31)	23
Total items that are or may be reclassified subsequently to net income, net of tax	(47)	20	99	73
Total other comprehensive (loss) income, net of tax	(47)	30	99	83
Total comprehensive income	$ 38	$ 107	$ 469	$ 279
Attributable to:				
Non-controlling interests	$ (2)	$ (3)	$ (3)	$ (6)
Shareholders of the Company	$ 40	$ 110	$ 472	$ 285

[1] For the three and six months ended June 30, 2023, net of income tax expense of nil. For the three and six months ended June 30, 2022, net of income tax expense of $3.

[2] For the three and six months ended June 30, 2023, net of income tax recoveries of $40 and $3, respectively. For the three and six months ended June 30, 2022, net of income tax recoveries of $18 and nil, respectively.

[3] For the three and six months ended June 30, 2023, net of reclassification of income tax recoveries of $34 and $43, respectively. For the three and six months ended June 30, 2022, net of reclassification of income tax recoveries of $14 and $16, respectively.

[4] For the three and six months ended June 30, 2023 and 2022, net of income tax recoveries of $1 and nil, respectively.

[5] For the three and six months ended June 30, 2023 and 2022, net of income tax expense of nil.

See accompanying notes to the condensed interim consolidated financial statements

CAPITAL POWER CORPORATION

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

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 103	$ 307
Trade and other receivables	637	949
Inventories	314	242
Derivative financial instruments assets (note 5)	164	188
	1,218	1,686
Non-current assets:		
Other assets	48	49
Derivative financial instruments assets (note 5)	266	295
Finance lease receivable	30	34
Government grant receivable	314	310
Deferred tax assets	18	20
Equity-accounted investments	443	437
Right-of-use assets	121	127
Intangible assets and goodwill	744	817
Property, plant and equipment	6,297	6,360
Total assets	$ 9,499	$ 10,135
Liabilities and equity		
Current liabilities:		
Trade and other payables	$ 803	$ 1,249
Derivative financial instruments liabilities (note 5)	449	600
Loans and borrowings	132	133
Deferred revenue and other liabilities	124	158
Provisions	42	72
	1,550	2,212
Non-current liabilities:		
Derivative financial instruments liabilities (note 5)	478	624
Loans and borrowings	3,385	3,593
Lease liabilities	142	146
Deferred revenue and other liabilities	229	245
Deferred tax liabilities	597	530
Provisions	341	325
	5,172	5,463
Equity:		
Equity attributable to shareholders of the Company		
Share capital (note 6)	3,500	3,498
Deficit	(613)	(835)
Other reserves	(110)	(209)
Deficit and other reserves	(723)	(1,044)
	2,777	2,454
Non-controlling interests	-	6
Total equity	2,777	2,460
Total liabilities and equity	$ 9,499	$ 10,135

See accompanying notes to the condensed interim consolidated financial statements

CAPITAL POWER CORPORATION

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

	Share capital (note 6)	Cash flow hedges[1]	Cumulative translation reserve[1]	Defined benefit plan actuarial losses[1]	Employee benefits reserve	Deficit	Equity attributable to shareholders of the Company	Non-controlling interests	Total
Equity as at January 1, 2023	$ 3,498	$ (264)	$ 53	$ (8)	$ 10	$ (835)	$ 2,454	$ 6	$ 2,460
Net income	-	-	-	-	-	373	373	(3)	370
Other comprehensive income (loss):									
Cash flow derivative hedge losses	-	(14)	-	-	-	-	(14)	-	(14)
Reclassification of derivative hedge losses to net income	-	186	-	-	-	-	186	-	186
Equity-accounted investments	-	(2)	-	-	-	-	(2)	-	(2)
Unrealized losses on foreign currency translation	-	-	(31)	-	-	-	(31)	-	(31)
Tax on items recognized directly in equity	-	(40)	-	-	-	-	(40)	-	(40)
Other comprehensive income (loss)	$ -	$ 130	$ (31)	$ -	$ -	$ -	$ 99	$ -	$ 99
Total comprehensive income (loss)	-	130	(31)	-	-	373	472	(3)	469
Distributions to non-controlling interests	-	-	-	-	-	-	-	(3)	(3)
Common share dividends (note 6)	-	-	-	-	-	(136)	(136)	-	(136)
Preferred share dividends (note 6)	-	-	-	-	-	(15)	(15)	-	(15)
Share options exercised	2	-	-	-	-	-	2	-	2
Equity as at June 30, 2023	$ 3,500	$ (134)	$ 22	$ (8)	$ 10	$ (613)	$ 2,777	$ -	$ 2,777

[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 condensed interim consolidated financial statements

CAPITAL POWER CORPORATION

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

	Share capital (note 6)	Cash flow hedges[1]	Cumulative translation reserve[1]	Defined benefit plan actuarial losses[1]	Employee benefits reserve	Deficit	Equity attributable to shareholders of the Company	Non-controlling interests	Total
Equity as at January 1, 2022	$ 3,631	$ (84)	$ (28)	$ (17)	$ 10	$ (671)	$ 2,841	$ 18	$ 2,859
Net income	-	-	-	-	-	202	202	(6)	196
Other comprehensive income (loss):									
Defined benefit plan actuarial gain	-	-	-	13	-	-	13	-	13
Cash flow derivative hedge losses	-	(2)	-	-	-	-	(2)	-	(2)
Reclassification of derivative hedge losses to net income	-	68	-	-	-	-	68	-	68
Unrealized gains on foreign currency translation	-	-	23	-	-	-	23	-	23
Tax on items recognized directly in equity	-	(16)	-	(3)	-	-	(19)	-	(19)
Other comprehensive income	$ -	$ 50	$ 23	$ 10	$ -	$ -	$ 83	$ -	$ 83
Total comprehensive income (loss)	-	50	23	10	-	202	285	(6)	279
Distributions to non-controlling interests	-	-	-	-	-	-	-	(1)	(1)
Common share dividends (note 6)	-	-	-	-	-	(127)	(127)	-	(127)
Preferred share dividends (note 6)	-	-	-	-	-	(20)	(20)	-	(20)
Tax on preferred share dividends	-	-	-	-	-	(1)	(1)	-	(1)
Share options exercised	7	-	-	-	-	-	7	-	7
Equity as at June 30, 2022	$ 3,638	$ (34)	$ (5)	$ (7)	$ 10	$ (617)	$ 2,985	$ 11	$ 2,996

[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 condensed interim consolidated financial statements

CAPITAL POWER CORPORATION

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

	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash flows from operating activities:		
Net income	$ 370	$ 196
Non-cash adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	284	281
Net finance expense	82	72
Fair value changes on commodity derivative instruments and emission credits held for trading	(156)	46
Foreign exchange (gains) losses	(5)	6
Income tax expense	110	64
Income from joint ventures	(33)	(13)
Recognition of government grant deferred revenue	(63)	(63)
Tax equity attributes	(36)	(45)
Other items	12	13
Change in fair value of derivative instruments reflected as cash settlement	81	(45)
Distributions received from joint ventures	18	2
Interest paid	(63)	(54)
Income taxes paid	(25)	(17)
Other cash items	(21)	(25)
Change in non-cash operating working capital	(195)	105
Net cash flows from operating activities	360	523
Cash flows used in investing activities:		
Purchase of property, plant and equipment and other assets, net[1]	(217)	(279)
Net cash flows used in investing activities	(217)	(279)
Cash flows used in financing activities:		
Repayment of loans and borrowings	(168)	(280)
Repayment of lease liabilities	(3)	(2)
Proceeds from exercise of share options	2	7
Dividends paid (note 6)	(151)	(148)
Capitalized interest paid	(17)	(7)
Distributions to non-controlling interests	(3)	(1)
Income taxes paid on preferred share dividends	(6)	(8)
Net cash flows used in financing activities	(346)	(439)
Foreign exchange loss on cash held in foreign currency	(1)	(8)
Net decrease in cash and cash equivalents	(204)	(203)
Cash and cash equivalents at beginning of period	307	387
Cash and cash equivalents at end of period	$ 103	$ 184

[1] Reflects total additions for the six months ended June 30, 2023, reduced by $10 million for changes in non-cash investing working capital and other non-current liabilities (six months ended June 30, 2022 – reduced by $40 million), to arrive at cash additions of property, plant and equipment and other assets.

See accompanying notes to the condensed interim consolidated financial statements

(Unaudited, 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".

Interim results will fluctuate due to plant maintenance schedules, the seasonal demands for electricity and changes in energy prices. Consequently, interim results are not necessarily indicative of annual results.

2. Basis of presentation:

These condensed interim consolidated financial statements have been prepared by management in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's 2022 annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

These condensed interim consolidated financial statements have been prepared following the same accounting policies and methods as those used in preparing the most recent annual consolidated financial statements and have been prepared under the historical cost basis, except for the Company's derivative instruments, emission credits held for trading, defined benefit pension assets and cash-settled share-based payments, which are stated at fair value.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on August 1, 2023.

3. Income tax:

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

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Income before tax	$ 109	$ 108	$ 480	$ 260
Income tax at the statutory rate of 23%	25	25	110	60
Increase (decrease) resulting from:				
Non-(taxable) deductible amounts	(1)	4	(1)	3
Amounts attributable to non-controlling interests and tax-equity interests	-	-	(1)	1
Change in unrecognized tax benefits	(1)	2	(1)	1
Statutory and other rate differences	1	1	2	(1)
Other	-	(1)	1	-
Income tax expense	$ 24	$ 31	$ 110	$ 64

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

4. 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:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Income for the period attributable to shareholders	$ 87	$ 80	$ 373	$ 202
Preferred share dividends[1]	(8)	(11)	(15)	(21)
Earnings available to common shareholders	$ 79	$ 69	$ 358	$ 181
Weighted average number of common shares	116,938,271	116,398,934	116,916,644	116,310,808
Basic earnings per share	$ 0.68	$ 0.59	$ 3.06	$ 1.56
Weighted average number of common shares	116,938,271	116,398,934	116,916,644	116,310,808
Effect of dilutive share purchase options	504,023	747,853	489,490	701,566
Diluted weighted average number of common shares	117,442,294	117,146,787	117,406,134	117,012,374
Diluted earnings per share	$ 0.67	$ 0.59	$ 3.05	$ 1.55

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

5. Derivative financial instruments and hedge accounting:

Derivative financial and non-financial instruments are held for the purposes of energy purchases, merchant trading or financial risk management.

The derivative instruments assets and liabilities used for risk management purposes consist of the following:

	June 30, 2023				
	Energy and emission allowances		Interest rate		
	cash flow hedges	non-hedges	cash flow hedges	non-hedges	Total
Derivative instruments assets:					
Current	$ 6	$ 136	$ 14	$ 8	$ 164
Non-current	13	215	38	-	266
Derivative instruments liabilities:					
Current	(161)	(286)	(2)	-	(449)
Non-current	(12)	(457)	(9)	-	(478)
Net fair value	$ (154)	$ (392)	$ 41	$ 8	$ (497)
Net notional buys (sells) (millions):					
Megawatt hours of electricity	(7)	(31)			
Gigajoules of natural gas purchased[1]		103			
Gigajoules of natural gas basis swaps[1]		101			
Metric tonnes of emission allowances		1			
Number of renewable energy credits		(11)			
Interest rate swaps			$ 1,366	$ 120	
Range of remaining contract terms in years	0.1 to 4.5	0.1 to 23.6	0.1 to 3.6	0.4	

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

5. Derivative financial instruments and hedge accounting, continued:

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

	December 31, 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[2]		73			
Gigajoules of natural gas basis swaps[2]		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	

[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 using valuation techniques, inputs, and assumptions as described in the Company's 2022 annual consolidated financial statements. It is possible that the assumptions used in establishing fair value amounts will differ from future outcomes and the impact of such variations could be material.

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

	Three months ended June 30, 2023		Three months ended June 30, 2022	
	Unrealized (losses) gains	Realized (losses) gains	Unrealized (losses) gains	Realized (losses) gains
Energy cash flow hedges	$ (46)	$ (153)	$ (71)	$ (60)
Energy and emission allowances non-hedges	(27)	13	(27)	(50)
Interest rate cash flow hedges	21	4	52	(1)
Interest rate non-hedges	(2)	10	6	-
Foreign exchange cash flow hedges	-	-	1	-
Foreign exchange non-hedges	-	-	(1)	(1)

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

5. Derivative financial instruments and hedge accounting, continued:

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Unrealized gains (losses)	Realized (losses) gains	Unrealized (losses) gains	Realized (losses) gains
Energy cash flow hedges	$ 167	$ (194)	$ (53)	$ (65)
Energy and emission allowances non-hedges	141	(16)	(41)	(47)
Interest rate cash flow hedges	5	8	118	(3)
Interest rate non-hedges	(5)	10	14	-
Foreign exchange cash flow hedges	-	-	1	-
Foreign exchange non-hedges	-	-	-	(1)

The following realized and unrealized (losses) and gains are included in the Company's consolidated statements of income for the three and six months ended June 30, 2023 and 2022:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Revenues	$ (149)	$ (212)	$ 45	$ (497)
Energy purchases and fuel	(18)	75	(114)	344
Foreign exchange loss	-	(2)	-	(1)
Net finance expense	12	5	13	11

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.

Net after tax (losses) and gains 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:

	June 30, 2023
Within one year	$ (211)
Between one and five years	49
After five years	30
	$ (132)

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

6. Share capital:

	Dividends declared							
	For the three months ended June 30,				For the six months ended June 30,			
	2023		2022		2023		2022	
	Per share	Total	Per share	Total	Per share	Total	Per share	Total
Common	$ 0.5800	$ 68	$ 0.5475	$ 63	$ 1.1600	$ 136	$ 1.0950	$127
Preference								
Series 1	0.1638	1	0.1638	1	0.3276	2	0.3276	2
Series 3	0.3408	2	0.3408	2	0.6816	4	0.6816	4
Series 5	0.3274	3	0.3274	3	0.6548	5	0.6548	6
Series 9[1]	-	-	0.3594	2	-	-	0.7188	4
Series 11	0.3594	2	0.3594	2	0.7188	4	0.7188	4

[1] On September 30, 2022, the Company redeemed all of its 6 million issued and outstanding 5.75% cumulative rate reset preference shares, Series 9.

	Dividends paid[2]							
	For the three months ended June 30,				For the six months ended June 30,			
	2023		2022		2023		2022	
	Per share	Total	Per share	Total	Per share	Total	Per share	Total
Common[3]	$ 0.5800	$ 68	$ 0.5475	$ 64	$ 1.1600	$ 136	$ 1.0950	$128

[2] Preference Share dividends are declared and paid in the same period.

[3] For the three and six months ended June 30, 2023 and 2022, all common dividends were paid in cash.

During the three and six months ended June 30, 2023 and 2022, the Company did not purchase and cancel any of its outstanding common shares under its Toronto Stock Exchange approved normal course issuer bid.

In March 2023, the Toronto Stock Exchange approved the Company's normal course issuer bid to purchase and cancel up to 5.8 million of its outstanding common shares during the one-year period from March 3, 2023 to March 2, 2024.

7. Financial instruments

Fair values

Details of the fair values of the Company's derivative instruments are described in note 5.

The Company's other short-term financial instruments are classified and measured at amortized cost, consistent with the methodologies described in the Company's 2022 annual consolidated financial statements. Due to the short-term nature of these financial instruments, the fair values are not materially different from their carrying amounts.

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

7. Financial instruments, continued:

Fair values, continued

The fair values of the Company's other long-term financial instruments are determined using the same valuation techniques, inputs, and assumptions as described in the Company's 2022 annual consolidated financial statements. The carrying amount and fair value of the Company's other financial instruments, which are all classified and subsequently measured at amortized cost, are summarized as follows:

		June 30, 2023		December 31, 2022	
	Fair value hierarchy level	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets[1]					
Government grant receivable	Level 2	$ 372	$ 335	$ 367	$ 317
Financial liabilities[1]					
Loans and borrowings	Level 2	$ 3,517	$ 3,388	$ 3,726	$ 3,590

[1] Includes current portion.

Fair value hierarchy

Fair value represents the Company's estimate of the price at which a financial instrument could be exchanged between knowledgeable and willing parties in an orderly arm's length transaction under no compulsion to act. Fair value measurements recognized in the consolidated statements of financial position are categorized into levels within a fair value hierarchy based on the nature of the valuation inputs and precedence is given to those fair value measurements calculated using observable inputs over those using unobservable inputs. The determination of fair value requires judgment and is based on market information where available and appropriate. The valuation techniques used by the Company in determining the fair value of its financial instruments are the same as those used at December 31, 2022.

The fair value measurement of a financial instrument is included in only one of the three levels described in the Company's 2022 annual consolidated financial statements, 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.

The Company's policy is to recognize transfers between levels as of the date of the event of change in circumstances that caused the transfer.

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 the Company's 2022 annual consolidated financial statements.

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments assets	$ -	$ 401	$ 29	$ 430
Derivative financial instruments liabilities	-	(574)	(353)	(927)

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments assets	$ -	$ 463	$ 20	$ 483
Derivative financial instruments liabilities	-	(748)	(476)	(1,224)

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

7. Financial instruments, continued:

Fair value hierarchy, continued

Valuation techniques used in determination of fair values within Level 3

The Company has various commodity and renewable energy credit (REC) contracts with terms that extend beyond a liquid trading period. Certain of these contracts include notional quantities based on future actual generation of underlying generation facilities. As forward market prices and actual generation 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 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:

	June 30, 2023	December 31, 2022
REC pricing (per certificate) – Solar	$3 to $197	$4 to $172
REC pricing (per certificate) – Wind	$3 to $5	$2 to $7
Forward power pricing (per MWh) – Solar	$32 to $249	$38 to $335
Forward power pricing (per MWh) – Wind	$21 to $174	$27 to $234
Average monthly generation (MWh) – Strathmore Solar	6,864	7,124
Average monthly generation (MWh) – Clydesdale Solar	11,677	12,054
Average monthly generation (MWh) – Whitla Wind	39,331	41,479
Average monthly generation (MWh) – Bloom Wind	59,084	59,198
Average monthly generation (MWh) – Buckthorn Wind	17,623	17,703

Valuation process applied to Level 3

The valuation models used to calculate the fair values 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:

	June 30, 2023	December 31, 2022
REC pricing – Solar	$ 1	$ 1
REC pricing – Wind	2	3
Forward power pricing – Solar	24	24
Forward power pricing – Wind	70	85
Generation – Solar	7	8
Generation – Wind	19	24

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:

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

7. Financial instruments, continued:

Fair value hierarchy, continued

Continuity of Level 3 balances, continued

	June 30, 2023	December 31, 2022
At January 1[2]	$ (456)	$ (184)
Unrealized and realized gains (losses) included in net income[3]	46	(278)
Settlements[4]	78	33
Transfers [5]	-	(4)
Foreign exchange gains (losses)	8	(23)
At end of period	$ (324)	$ (456)
Total unrealized and realized gains (losses) for the period included in net income[3]	$ 46	$ (278)

[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 become 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 a result, unrealized gains and losses from Level 3 financial instruments are often offset by unrealized gains and losses on financial instruments that are classified in Levels 1 or 2.

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

8. Commitments:

The Company is committed to the following growth and commercial initiative projects at June 30, 2023:

Projects	Contracted Capacity	Expected capital cost	Expected completion date	Location
Growth Projects:				
Maple Leaf Solar[1]	73 MWac	$219 (US$165)	Q4 2026	North Carolina
Ontario growth projects[2]	262 MW	$655	2025	Ontario
Commercial Initiatives:				
Goreway and York Energy Upgrade[3]	78 MW	$72	2025	Ontario

1 On June 29, 2023, the Company announced it executed a 25-year, fixed price renewable power purchase agreement (PPA) for 100% of the output from its Maple Leaf Solar project ("Maple Leaf" or "The Project") with Duke Energy Progress (DEP). Maple Leaf is a 73 MWac (92 MWdc) solar development project in Selma, North Carolina. The construction of the Project is planned to begin in 2025 at a total cost of approximately $219 million (US$165 million) with an expected commercial operations date in the fourth quarter of 2026, pending completion of the Duke interconnection upgrades.

2 On June 29, 2023, the Company announced that it has:

- Executed two long-term contracts for the East Windsor Expansion (81 MW summer and 100 MW winter contracted capacities) and the York Battery Energy Storage System (BESS) project as part of the IESO's Expedited Long-Term request for proposals process. Both projects are expected to begin commercial operations in 2025. Capital Power holds 100% interest in the York Energy BESS project.
- Been selected as a successful proponent for the Goreway BESS project as part of Category 2 of the Ontario IESO's Expedited Long-Term request for proposals. The contract was subsequently executed in July 2023 and the project is expected to enter service in 2025.

3 On April 25, 2023, Capital Power and the Ontario Independent Electric System Operator (IESO) executed a 6-year contract extension for Goreway associated with its successful efficiency upgrade bid of approximately 40 megawatts (MW) in IESO's competitive capacity procurement process. The uprate will increase Goreway's current combined contracted capacity from 840 MW to 880 MW. The IESO contract extension applies to the new combined contracted capacity of 880 MW and extends the current Clean Energy Supply Contract from 2029 to 2035. The upgrade is expected to be completed in 2025. Goreway is a natural gas-fired combined cycle facility located in Brampton, Ontario.

On June 29, 2023, the Company announced that it executed a 3-year contract extension for York Energy for approximately 38 MW that will increase York Energy's contracted capacity from 393 MW to 431 MW. The contract extension applies to the new contracted capacity of 431 MW (from the commercial operation date of the upgrades expected in 2025) and extends the current contract from 2032 to 2035. Expected capital cost represents Capital Power's 50% ownership interest the York Energy joint venture.

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

9. 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:

	Three months ended June 30, 2023				Three months ended June 30, 2022			
	Canada	U.S.	Inter-area eliminations	Total	Canada	U.S.	Inter-area eliminations	Total
Revenues – external[1]	$ 722	$ 101	$ -	$ 823	$ 544	$ 113	$ -	$ 657
Revenues – inter-area	5	-	(5)	-	(59)	66	(7)	-
Other income	43	15	-	58	33	23	-	56
Total revenues and other income	$ 770	$ 116	$ (5)	$ 881	$ 518	$ 202	$ (7)	$ 713

	Six months ended June 30, 2023				Six months ended June 30, 2022			
	Canada	U.S.	Inter-area eliminations	Total	Canada	U.S.	Inter-area eliminations	Total
Revenues – external[1]	$ 1,696	$ 341	$ -	$ 2,037	$ 1,149	$ (46)	$ -	$1,103
Revenues – inter-area	16	-	(16)	-	(65)	77	(12)	-
Other income	76	35	-	111	66	45	-	111
Total revenues and other income	$ 1,788	$ 376	$ (16)	$ 2,148	$ 1,150	$ 76	$ (12)	$1,214

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

	At June 30, 2023			At December 31, 2022		
	Canada	U.S.	Total	Canada	U.S.	Total
Property, plant and equipment	$ 4,747	$ 1,550	$ 6,297	$ 4,737	$ 1,623	$ 6,360
Right-of-use assets	61	60	121	63	64	127
Intangible assets and goodwill	625	119	744	687	130	817
Finance lease receivable[2]	38	-	38	41	-	41
Other assets	48	-	48	49	-	49
	$ 5,519	$ 1,729	$ 7,248	$ 5,577	$ 1,817	$ 7,394

[2] Includes current portion.

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

9. Segment information, continued:

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

	Three months ended June 30, 2023						
	Alberta Commercial	Western Canada Contracted	Ontario Contracted	U.S. Contracted	Total from contracts with customers	Other sources	Total
Energy revenues	$ 694	$ 36	$ 90	$ 47	$ 867	$ (67)	$ 800
Emission credit revenues	5	4	-	-	9	14	23
Total revenues[3]	$ 699	$ 40	$ 90	$ 47	$ 876	(53)	$ 823

	Six months ended June 30, 2023						
	Alberta Commercial	Western Canada Contracted	Ontario Contracted	U.S. Contracted	Total from contracts with customers	Other sources	Total
Energy revenues	$ 1,387	$ 79	$ 178	$ 135	$ 1,779	$ 204	$ 1,983
Emission credit revenues	12	6	-	3	21	33	54
Total revenues[3]	$ 1,399	$ 85	$ 178	$ 138	$ 1,800	237	$ 2,037

	Three months ended June 30, 2022						
	Alberta Commercial	Western Canada Contracted	Ontario Contracted	U.S. Contracted	Total from contracts with customers	Other sources	Total
Energy revenues	$ 552	$ 34	$ 88	$ 82	$ 756	$ (117)	$ 639
Emission credit revenues	7	1	-	-	8	10	18
Total revenues[3]	$ 559	$ 35	$ 88	$ 82	$ 764	(107)	$ 657

	Six months ended June 30, 2022						
	Alberta Commercial	Western Canada Contracted	Ontario Contracted	U.S. Contracted	Total from contracts with customers	Other sources	Total
Energy revenues	$ 1,002	$ 71	$ 186	$ 135	$ 1,394	$ (334)	$ 1,060
Emission credit revenues	14	4	-	3	21	22	43
Total revenues[3]	$ 1,016	$ 75	$ 186	$ 138	$ 1,415	(312)	$ 1,103

[3] Included within trade and other receivables, at June 30, 2023, were amounts related to contracts with customers of $411 million (2022 - $308 million).

10. Subsequent events:

Reinstatement of Dividend Reinvestment Plan

On August 1, 2023, the Company reinstated its Dividend Reinvestment Plan (the Plan), which was previously suspended during the fourth quarter of 2021. Eligible shareholders may elect to participate in the Plan commencing with the Company's third quarter 2023 cash dividend. The reinstated Plan will provide eligible shareholders with an alternative to receiving their quarterly cash dividends. Under the Plan, eligible shareholders may elect to efficiently and cost-effectively accumulate additional shares in the Company by reinvesting their quarterly cash dividends on the applicable dividend payment date in new shares issued from treasury. The new shares will be issued at a discount of 1% to the average closing price on the Toronto Stock Exchange for the ten trading days immediately preceding the applicable Dividend Payment Date. Participation in the Plan is optional. Those shareholders who do not enroll in the Plan will still be entitled to receive their quarterly cash dividends. Shareholders that were enrolled in the Plan upon suspension, and remain enrolled with the Plan administrator, will automatically resume participation in the Plan.

Dividend increase

On August 1, 2023, the Company's Board of Directors approved an increase of 6% to $2.46 in the annual dividend per common share effective for the third quarter of 2023.

Secured 1 GW supply of First Solar modules

On July 5, 2023, the Company announced that it secured 1 gigawatt supply of solar modules from First Solar, Inc. which will be delivered between 2026 and 2028.