

# CAPITAL POWER CORPORATION

## Management's Discussion and Analysis

This management's discussion and analysis (MD&A), prepared as of February 21, 2020, should be read in conjunction with the audited consolidated financial statements of Capital Power Corporation and its subsidiaries for the years ended December 31, 2019 and December 31, 2018, the annual information form of Capital Power Corporation for the year ended December 31, 2019 and the cautionary statements regarding forward-looking information which begin on page 2. 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 years ended December 31, 2019, 2018 and 2017 is based on the audited consolidated financial statements of the Company 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 February 21, 2020.

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## FORWARD-LOOKING INFORMATION

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

- future revenues, expenses, earnings, adjusted EBITDA and adjusted funds from operations,
- 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,
- future growth and emerging opportunities in the Company's target markets including the focus on certain technologies,
- the timing of, funding of, and costs for existing, planned and potential development projects and acquisitions (including the Cardinal Point Wind project and phase 2 of the Whitla Wind project)
- facility availability and planned outages,
- capital expenditures for facility maintenance and other (sustaining capital, future growth projects, Genesee dual-fuel capability project),
- the impact of market designs on the Company's core markets,
- the impact of the transformation of the Genesee units to 100% dual-fuel, including impacts to adjusted funds from operations, costs of the project, unit capacity and reduction of greenhouse gas emissions,
- expected operational improvements at Genesee resulting from the Genesee Performance Standard program,
- timing of commencing commercial production of carbon nanotubes and expected capital costs of the Genesee Carbon Conversion Centre (see Significant Events),
- expectation of exercising the Company's option to increase its interest in C2CNT,
- expectations pertaining to the financial impacts of Whitla Wind 1 in its first year of operations, including the impacts to adjusted funds from operations and adjusted EBITDA (see Significant Events),
- expectations pertaining to the financial impacts of the acquisition of Goreway (see Significant Events), including the impacts to adjusted funds from operations, adjusted funds from operations per share and adjusted EBITDA,
- expectations pertaining to the financial impacts of the swap of interests in the Genesee 3 and Keephills 3 facilities (see Significant Events), including expectations regarding the impacts to adjusted funds from operations,
- expectations around the Company's heat rate call option agreement for Arlington Valley, including impacts to adjusted EBITDA and adjusted funds from operations, and
- expectations around the Line Loss Rule Proceeding including timing of retrospective loss factors being finalized, participation in applicable regulatory processes, and potential impacts to the Company.

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 prices 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,
- other matters discussed under the Performance Overview and Outlook and Targets for 2020 sections,
- results of carbon nanotube concrete testing and preliminary marketing,
- anticipated performance of the acquired Goreway facility,
- anticipated performance of Whitla Wind 1, and
- the anticipated future performance of the Genesee 3 and Keephills 3 facilities used to assess the financial impacts of the swap of interests.

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:

- changes in electricity prices in markets in which the Company operates,
- changes in energy commodity market prices and use of derivatives,
- regulatory and political environments including changes to environmental, financial reporting, market structure and tax legislation,
- generation facility availability and performance including maintenance of equipment,
- 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 market prices and availability of fuel,
- ability to realize the anticipated benefits of the Goreway acquisition,
- ability to realize the anticipated benefits of the swap of interests in the Genesee 3 and Keephills 3 facilities,
- limitations inherent in the Company's review of acquired assets, and
- changes in general economic and competitive conditions.

See Risks and Risk Management 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.

## OVERVIEW OF BUSINESS AND CORPORATE STRUCTURE

Capital Power is a growth-oriented North American power producer headquartered in Edmonton, Alberta. The Company develops, acquires, owns, and operates power generation facilities using a variety of energy sources. Capital Power owns approximately 6,200 megawatts (MW) of power generation capacity at 26 facilities across North America. Approximately 800 MW of owned generation capacity is in advanced development in Alberta and Illinois.

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 is based on its vision to power a sustainable future, with our business solutions meeting the evolving electricity needs of society in a responsible and sustainable manner. The corporate strategy comprises the business strategy to operate as a competitive power producer and the financial strategy designed to provide consistent access to low-cost capital. The Company is committed to a position that provides for future dividend growth, an investment-grade credit rating supported by contracted cash flows, and a prudent expansion strategy with a focus on contracted renewable resources and natural gas.

- Geographic focus** – Canada and the U.S. for contracted power generation and Alberta for merchant power generation.
- Technology focus** – large-scale natural gas technologies, renewable wind and solar facilities, with a limited number of technologies and suppliers for each type of generation, as well as carbon conversion technologies.
- Financial strategy** – supportive of the business strategy; intended to provide access to cost competitive capital throughout the business cycle. This is facilitated by maintaining an investment grade credit rating with a stable and growing dividend. This requires a moderate risk profile where price volatility from merchant facilities is balanced with long-term contracted assets and hedging of merchant power price risk through forward sales.
- Operational excellence** – safely manage, operate and maintain its power generation facilities in a manner that optimizes efficiency, productivity and reliability, and minimizes costs while reducing environmental impact and risk.
- Disciplined growth** – restricted to the geographic and technology focuses with specific financial hurdles and rigorous due diligence processes.
- Sustainability** - Capital Power delivers responsible energy for tomorrow by focusing on creating sustainable value for our investors, shareholders, customers and employees in the communities where we operate. Our Environmental, Social and Governance reporting practices are a key pillar of our sustainability strategy, reflecting our belief in the importance of transparency and the resiliency of our business strategy as we transition to a low-carbon economy.

The Company continues to pursue growth in contracted power generation across North America as well as creating additional value in the Alberta market through power generation growth and portfolio trading strategies. During 2019, the Company:

- commenced commercial operation of phase 1 of the Whitla Wind project (Whitla Wind 1),

- commenced construction on the Cardinal Point Wind project (Cardinal Point Wind),
- completed the acquisition of the Goreway facility (see Significant Events),
- entered into a heat rate call option agreement to cover periods outside of Arlington Valley's existing summer tolling agreements (see Significant Events),
- announced an accelerated plan to convert the Genesee facilities to natural gas (see Significant Events), and
- completed the swap of interests in the Genesee 3 and Keephills 3 facilities (see Significant Events).

The Company continues to evaluate acquisition prospects to strengthen its existing portfolio. The Company is also advancing the 100% dual-fuel capability project at the Genesee facility and moving forward with plans to build the Genesee Carbon Conversion Centre for commercial scale production of carbon nanotubes (CNTs). To help ensure that the Company's growth strategy does not compromise its financial condition, it employs hurdle rates of return for acquisition and development project opportunities and evaluates them against the Company's current strategic plan. As part of the Company's growth strategy through developing and building new assets, the Company views power facility construction as a core competency.

## PERFORMANCE OVERVIEW

The Company measures its performance in relation to its corporate strategy through financial and non-financial targets that are approved by the Board of Directors of Capital Power. The measurement categories include corporate measures and measures specific to certain groups within the Company. The corporate measures are company-wide and include adjusted funds from operations and safety. The group-specific measures include facility operating margin and other operations measures, committed capital, construction and maintenance capital on budget and on schedule, and facility site safety.

### Operational excellence

| Performance measure             | 2019 target          | 2019 actual results       |
|---------------------------------|----------------------|---------------------------|
| Facility availability average   | 95% or greater       | 94%                       |
| Sustaining capital expenditures | \$80 to \$90 million | \$78 million <sup>1</sup> |

<sup>1</sup> Includes sustaining capital expenditures net of joint venture contributions of \$6 million.

The Company's facility availability averaged 94% which reflected planned outages at Genesee, Cloverbar Energy Centre, Joffre, Shepard Energy Centre, York Energy, Goreway, Roxboro, Southport, Decatur Energy, and Arlington Valley. Unplanned outages also occurred at Genesee, Cloverbar Energy Centre, Shepard Energy Centre, Island Generation, Goreway, EnPower, Roxboro, and Southport.

Sustaining capital expenditures were lower than target largely due to lower than expected mine capital spending, scope reductions and cancellation of various projects.

### Disciplined growth

| Performance measure     | 2019 target   | Status as at December 31, 2019  |
|-------------------------|---|---|
| Whitla Wind 1           | Completion of Whitla Wind 1 on budget and on time for commercial operations in December 2019.                     | Construction completed on time in December 2019. Total project costs are expected to be on budget except for foreign exchange impacts which are partially hedged (see Liquidity and Capital Resources). |
| Cardinal Point Wind     | Progress on the development of Cardinal Point Wind to be on track with budget and the March 2020 completion date. | Construction expected to be complete and on budget (in U.S. dollars) in the first quarter of 2020.  |
| Other contracted growth | \$500 million of committed capital.   | The Company exceeded its target for other contracted growth through the acquisition of Goreway (see Significant Events).  |

### Financial stability and strength

| Performance measure                         | 2019 target <sup>1</sup>       | 2019 actual results |
|---|--------------------------------|---------------------|
| Adjusted funds from operations <sup>2</sup> | \$485 million to \$535 million | \$555 million       |
| Adjusted EBITDA <sup>2</sup>                | \$870 million to \$920 million | \$1,029 million     |

<sup>1</sup> The targets presented at the Company's Investor Day in December 2018 were revised to include the expected impact of the acquisition of Goreway for the periods subsequent to the close of the transaction (see Significant Events).

<sup>2</sup> Adjusted funds from operations and adjusted EBITDA are non-GAAP financial measures. See Non-GAAP Financial Measures.

## OUTLOOK AND TARGETS FOR 2020

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 its Investor Day held in December 2019, the Company provided financial guidance for 2020 adjusted funds from operations in the range of \$500 million to \$550 million and adjusted EBITDA in the range of \$935 million to \$985 million (see Non-GAAP Financial Measures). The 2020 guidance was based on approximately 63% of the Alberta commercial baseload generation portfolio sold forward at an average contracted price in the mid-\$50 per megawatt hour (MWh) range.

Priorities for the Company in 2020 will include supporting our sustainability targets through the development of the Genesee Carbon Conversion Centre (see Significant Events) and the strategic development of natural gas and renewable assets. This includes the advancement of the dual-fuel capability project for the three Genesee units, re-contracting efforts on the Company's facilities and ongoing development of the Company's wind projects. Cardinal Point Wind is expected to commence commercial operations in the first quarter of 2020 and development of phase 2 of the Whittle Wind project (Whittle Wind 2) will proceed in 2020. The Company is targeting additional committed capital of \$500 million for contracted growth in 2020.

In 2020, Capital Power's availability target of 93% reflects major scheduled maintenance outages for Genesee 2, Arlington Valley, Decatur Energy, and Southport compared to those scheduled for Genesee 1, Clover Bar Energy Centre, Joffre, Shepard, and Decatur Energy in 2019.

The Alberta portfolio position, contracted prices and forward Alberta pool prices for 2020, 2021 and 2022 (all as at December 31, 2019) were:

| Alberta commercial portfolio positions and power prices     | 2020     | 2021     | 2022     |
|---|----------|----------|----------|
| Percentage of baseload generation sold forward <sup>1</sup> | 72%      | 3%       | 11%      |
| Contracted price <sup>2</sup>                               | Mid-\$50 | Mid-\$60 | Low-\$50 |
| Forward Alberta pool prices                                 | \$57     | \$55     | \$53     |

<sup>1</sup> Based on the Alberta baseload facilities plus a portion of Joffre and the uncontracted portion of Shepard.

<sup>2</sup> 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.

The 2020 targets and forecasts are based on numerous assumptions including power and natural gas price forecasts. However, 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 its Investor Day held in December 2019, the Company confirmed its 7% annual dividend growth guidance for 2020 and 2021 and announced a 5% dividend growth guidance for 2022. Each annual increase is subject to changing circumstances and 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. It is expected that, outside of new growth opportunities, no additional common share equity will be required in 2020.

### Performance measure targets for 2020

| Performance measure                         | 2020 target  |
|---|--|
| <b>Operational excellence</b>               |  |
| Facility availability average               | 93% or greater   |
| Sustaining capital expenditures             | \$90 to \$100 million  |
| <b>Disciplined growth</b>                   |  |
| Cardinal Point Wind                         | Completion of Cardinal Point Wind on budget and on time for commercial operations in March 2020.           |
| Whittle Wind 2                              | Advance development of the Whittle Wind 2 project to be on track with budget and the 2021 completion date. |
| Other contracted growth                     | \$500 million of committed capital.  |
| <b>Financial stability and strength</b>     |  |
| Adjusted funds from operations <sup>1</sup> | \$500 million to \$550 million   |
| Adjusted EBITDA <sup>1</sup>                | \$935 million to \$985 million   |

<sup>1</sup> Adjusted funds from operations and adjusted EBITDA are non-GAAP financial measures. See Non-GAAP Financial Measures.

## **NON-GAAP FINANCIAL MEASURES**

The Company 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 its joint venture interests, gains or losses on disposals and unrealized changes in fair value of commodity derivatives and emission credits (adjusted EBITDA), (ii) adjusted funds from operations, (iii) adjusted funds from operations (AFFO) per share, (iv) normalized earnings attributable to common shareholders, and (v) normalized earnings per share as financial performance measures.

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 the Company, 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 the Company's 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 and gains or losses on disposals are excluded from the adjusted EBITDA measure. Commencing with the Company's March 31, 2019 quarter-end, adjusted EBITDA excludes unrealized changes in fair value of commodity derivatives and emission credits which were previously included in adjusted EBITDA. This change was made to better align the Company's measure of adjusted EBITDA with its other non-GAAP measures, as both the adjusted funds from operations and the normalized earnings per share measures exclude the impacts of unrealized changes in fair value of commodity derivatives and emission credits. This change also results in improved period over period comparability of adjusted EBITDA.

Comparative figures have been restated to reflect the above change to the adjusted EBITDA metric.

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

| (unaudited, \$ millions)  | Year ended<br>December 31 |            | Three months ended |              |             |             |             |             |             |             |
|---|---------------------------|------------|--------------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | 2019                      | 2018       | Dec<br>2019        | Sep<br>2019  | Jun<br>2019 | Mar<br>2019 | Dec<br>2018 | Sep<br>2018 | Jun<br>2018 | Mar<br>2018 |
| Revenues and other income <sup>2</sup>  | 1,963                     | 1,417      | 683                | 517          | 366         | 397         | 340         | 395         | 369         | 313         |
| Energy purchases and fuel, other raw materials and operating charges, staff costs and employee benefits expense, and other administrative expense | (841)                     | (799)      | (309)              | (231)        | (134)       | (167)       | (233)       | (261)       | (152)       | (153)       |
| Remove unrealized changes in fair value of commodity derivatives and emission credits included within revenues and energy purchases and fuel      | (118)                     | 67         | (28)               | (8)          | (48)        | (34)        | 53          | 35          | (22)        | 1           |
| Adjusted EBITDA from joint ventures <sup>1</sup>  | 25                        | 51         | 6                  | 6            | 7           | 6           | 11          | 10          | 12          | 18          |
| <b>Adjusted EBITDA</b>  | <b>1,029</b>              | <b>736</b> | <b>352</b>         | <b>284</b>   | <b>191</b>  | <b>202</b>  | <b>171</b>  | <b>179</b>  | <b>207</b>  | <b>179</b>  |
| Depreciation and amortization <sup>2</sup>  | (473)                     | (335)      | (118)              | (135)        | (122)       | (98)        | (85)        | (83)        | (83)        | (84)        |
| Unrealized changes in fair value of commodity derivatives and emission credits  | 118                       | (67)       | 28                 | 8            | 48          | 34          | (53)        | (35)        | 22          | (1)         |
| Impairment (see Significant Events)   | (401)                     | -          | -                  | (401)        | -           | -           | -           | -           | -           | -           |
| Gains on acquisition and disposal transactions (see Significant Events)   | 24                        | 159        | 24                 | -            | -           | -           | 159         | -           | -           | -           |
| Foreign exchange (loss) gain  | (5)                       | 10         | -                  | (1)          | -           | (4)         | 6           | (2)         | 3           | 3           |
| Net finance expense   | (156)                     | (123)      | (41)               | (42)         | (37)        | (36)        | (33)        | (28)        | (29)        | (33)        |
| Finance expense and depreciation expense from joint ventures <sup>1</sup>   | (23)                      | (32)       | (1)                | (7)          | (7)         | (8)         | (10)        | (7)         | (8)         | (7)         |
| Income tax recovery (expense) <sup>2</sup>  | 6                         | (90)       | (63)               | 66           | 33          | (30)        | (19)        | (7)         | (46)        | (18)        |
| <b>Net income (loss)</b>  | <b>119</b>                | <b>258</b> | <b>181</b>         | <b>(228)</b> | <b>106</b>  | <b>60</b>   | <b>136</b>  | <b>17</b>   | <b>66</b>   | <b>39</b>   |
| <b>Net income (loss) attributable to:</b>   |                           |            |                    |              |             |             |             |             |             |             |
| Non-controlling interests   | (6)                       | (7)        | (1)                | (2)          | (2)         | (1)         | (2)         | (1)         | (2)         | (2)         |
| Shareholders of the Company <sup>2</sup>  | 125                       | 265        | 182                | (226)        | 108         | 61          | 138         | 18          | 68          | 41          |
| <b>Net income (loss)</b>  | <b>119</b>                | <b>258</b> | <b>181</b>         | <b>(228)</b> | <b>106</b>  | <b>60</b>   | <b>136</b>  | <b>17</b>   | <b>66</b>   | <b>39</b>   |

<sup>1</sup> Total income from joint ventures as per the Company's consolidated statements of income. Prior quarters' values include Capital Power's share of K2 Wind up until the December 31, 2018 disposal date.

<sup>2</sup> Prior quarters' amounts have been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16, see Accounting Changes.

### Adjusted funds from operations and adjusted funds from operations per share

The Company uses adjusted funds from operations as a measure of the Company's ability to generate cash from its current operating activities to fund growth capital expenditures, debt repayments and common share dividends to the Company's shareholders.

Adjusted funds from operations represents net cash flows from operating activities adjusted to include net finance expense and current income tax expense and exclude changes in operating working capital and distributions received from the Company's joint venture interests. Net finance expense and current income tax expense are included as the timing of cash receipts and payments of interest and income taxes and the resulting cash basis amounts are not comparable from period to period. Changes in operating working capital are excluded from adjusted funds from operations as the timing of cash receipts and payments also affects the period-to-period comparability. Distributions received from the Company's joint venture interests are excluded as the distributions are calculated after the effect of joint venture debt payments, which are not considered operating activities. Adjusted funds from operations is reduced by the tax equity financing project investors' shares of adjusted funds from operations associated with assets under tax equity financing structures to ensure that only the Company's share is reflected in the overall metric. Adjusted funds from operations also excludes 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. Adjusted funds from operations is reduced by sustaining capital expenditures and preferred share dividends and adjusted to include the Company's share of the adjusted funds from operations of its joint venture interests and cash from coal compensation that will be received annually.

Adjusted funds from operations per share is determined by applying adjusted funds from operations to the weighted average number of common shares used in the calculation of basic, diluted and normalized earnings per share.

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

| (unaudited, \$ millions)  | Year ended<br>December 31 |              | Three months ended<br>December 31 |              |
|---|---------------------------|--------------|-----------------------------------|--------------|
|   | 2019                      | 2018         | 2019                              | 2018         |
| <b>Net cash flows from operating activities per consolidated statements of cash flows</b>   | <b>720</b>                | <b>450</b>   | <b>201</b>                        | <b>133</b>   |
| Add (deduct) items included in calculation of net cash flows from operating activities per consolidated statements of cash flows: |                           |              |                                   |              |
| Interest paid   | 110                       | 96           | 27                                | 26           |
| Realized loss on settlement of interest rate derivatives  | 19                        | -            | -                                 | -            |
| Change in fair value of derivatives reflected as cash settlement  | (29)                      | (21)         | 7                                 | (5)          |
| Distributions received from joint ventures  | (12)                      | (30)         | (3)                               | (6)          |
| Miscellaneous financing charges paid <sup>1</sup>   | 6                         | 6            | 2                                 | 2            |
| Income taxes paid   | 11                        | 2            | 7                                 | -            |
| Change in non-cash operating working capital  | (69)                      | 43           | (43)                              | (19)         |
|   | 36                        | 96           | (3)                               | (2)          |
| Net finance expense <sup>2</sup>  | (123)                     | (97)         | (33)                              | (25)         |
| Current income tax expense <sup>3</sup>   | (14)                      | (18)         | (7)                               | (3)          |
| Sustaining capital expenditures <sup>4</sup>  | (78)                      | (79)         | (20)                              | (25)         |
| Preferred share dividends paid  | (48)                      | (41)         | (12)                              | (11)         |
| Cash received from coal compensation  | 50                        | 50           | -                                 | -            |
| Remove tax equity interests' respective shares of adjusted funds from operations  | (5)                       | (7)          | (1)                               | (2)          |
| Adjusted funds from operations from joint ventures  | 17                        | 43           | 3                                 | 15           |
| <b>Adjusted funds from operations</b>   | <b>555</b>                | <b>397</b>   | <b>128</b>                        | <b>80</b>    |
| Weighted average number of common shares outstanding (millions)   | <b>104.3</b>              | <b>103.0</b> | <b>105.3</b>                      | <b>102.3</b> |
| <b>Adjusted funds from operations per share (\$)</b>  | <b>5.32</b>               | <b>3.85</b>  | <b>1.22</b>                       | <b>0.78</b>  |

<sup>1</sup> Included in other cash items on the consolidated statements of cash flows to reconcile net income to net cash flows from operating activities.

<sup>2</sup> Excludes unrealized changes on interest rate derivative contracts, amortization, accretion charges and non-cash implicit interest on tax equity investment structures.

<sup>3</sup> Excludes current income tax expense related to the disposal of the Company's interest in the K2 Wind joint venture as the amount is considered an investing activity.

<sup>4</sup> Includes sustaining capital expenditures net of partner contributions of \$6 million and \$1 million for the year and three months ended December 31, 2019, respectively, compared with \$8 million and \$2 million for the year and three months ended December 31, 2018, respectively.

### Normalized earnings attributable to common shareholders and normalized earnings per share

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

| (unaudited, \$ millions except per share amounts and number of common shares)   | Year ended  |             | Three months ended |               |             |             |             |             |             |             |
|---|-------------|-------------|--------------------|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   | December 31 |             | Dec                | Sep           | Jun         | Mar         | Dec         | Sep         | Jun         | Mar         |
|   | 2019        | 2018        | 2019               | 2019          | 2019        | 2019        | 2018        | 2018        | 2018        | 2018        |
| <b>Basic earnings (loss) per share (\$)<sup>2</sup></b>   | <b>0.73</b> | <b>2.17</b> | <b>1.61</b>        | <b>(2.25)</b> | <b>0.93</b> | <b>0.49</b> | <b>1.24</b> | <b>0.08</b> | <b>0.55</b> | <b>0.30</b> |
| <b>Net income (loss) attributable to shareholders of the Company per Consolidated Statements of Income (Loss)<sup>2</sup></b> | <b>125</b>  | <b>265</b>  | <b>182</b>         | <b>(226)</b>  | <b>108</b>  | <b>61</b>   | <b>138</b>  | <b>18</b>   | <b>68</b>   | <b>41</b>   |
| Preferred share dividends including Part VI.1 tax   | (49)        | (42)        | (12)               | (14)          | (12)        | (11)        | (11)        | (10)        | (11)        | (10)        |
| Earnings (loss) attributable to common shareholders <sup>2</sup>  | 76          | 223         | 170                | (240)         | 96          | 50          | 127         | 8           | 57          | 31          |
| Unrealized changes in fair value of derivatives <sup>1</sup>  | (81)        | 67          | (28)               | (3)           | (30)        | (20)        | 35          | 26          | (19)        | 25          |
| Net loss (gain) on swap transaction (see Significant Events)  | 192         | -           | (115)              | 307           | -           | -           | -           | -           | -           | -           |
| Alberta tax rate change   | (51)        | -           | -                  | -             | (51)        | -           | -           | -           | -           | -           |
| Gain on disposal of joint venture   | -           | (134)       | -                  | -             | -           | -           | (134)       | -           | -           | -           |
| Non-cash tax equity adjustment  | -           | (15)        | -                  | -             | -           | -           | -           | -           | (15)        | -           |
| Realized foreign exchange gain on settlement of foreign currency derivative instruments                                       | -           | (29)        | -                  | -             | -           | -           | -           | -           | -           | (29)        |
| Asset held for sale accounting treatment of K2 Wind   | -           | 3           | -                  | -             | -           | -           | 3           | -           | -           | -           |
| Income tax adjustments  | -           | -           | -                  | -             | -           | -           | -           | -           | (2)         | 2           |
| Provision for Line Loss Rule Proceeding   | 4           | -           | 4                  | -             | -           | -           | -           | -           | -           | -           |
| <b>Normalized earnings attributable to common shareholders<sup>2</sup></b>  | <b>140</b>  | <b>115</b>  | <b>31</b>          | <b>64</b>     | <b>15</b>   | <b>30</b>   | <b>31</b>   | <b>34</b>   | <b>21</b>   | <b>29</b>   |
| Weighted average number of common shares outstanding (millions)   | 104.3       | 103.0       | 105.3              | 106.5         | 103.6       | 101.8       | 102.3       | 102.4       | 103.1       | 104.2       |
| <b>Normalized earnings per share (\$)<sup>2</sup></b>   | <b>1.34</b> | <b>1.12</b> | <b>0.29</b>        | <b>0.60</b>   | <b>0.14</b> | <b>0.29</b> | <b>0.30</b> | <b>0.33</b> | <b>0.20</b> | <b>0.28</b> |

<sup>1</sup> Includes impacts of the interest rate non-hedge held by one of the Company's joint ventures and recorded within income from joint ventures on the Company's statements of income.

<sup>2</sup> Prior quarters' amounts have been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16, see Accounting Changes.



## **SIGNIFICANT EVENTS**

### **Capital Power increases its equity interest in C2CNT; testing of carbon nanotubes in concrete proceeding**

On December 5, 2019, Capital Power announced plans to build the Genesee Carbon Conversion Centre, the first ever commercial scale production facility of carbon nanotubes at its Genesee facility and plans to exercise its options to increase its equity interest in C2CNT to 40% by the end of 2020.

C2CNT has developed an innovative technology that captures and transforms carbon dioxide into a useful and high-value product called carbon nanotubes which can be used as an additive to help reduce weight and increase the strength in an array of applications including batteries, electronics, sensors, polymer composites and structural materials such as concrete, steel and aluminum. Carbon dioxide emissions are avoided by reducing the amount of material required in addition to the carbon dioxide utilized in the production of CNTs.

The investment supports Capital Power's pursuit of innovative and leading-edge technology to reduce greenhouse gases. The carbon conversion technology, led by Dr. Stuart Licht, head of the C2CNT team and professor of chemistry at George Washington University, is currently being tested at demonstration scale at the Alberta Carbon Conversion Technology Centre located at the Shepard Energy Centre in Calgary that Capital Power co-owns with ENMAX.

Lehigh Hanson, Inc. (Lehigh), a subsidiary of HeidelbergCement A.G., a worldwide construction materials company, has agreed to conduct testing for the utilization of CNTs in concrete at their cost. The testing is currently underway and is expected to be followed by limited marketing of the CNTs in concrete product in the first half of 2020. Lehigh has also made a modest financial contribution to C2CNT development.

### **Whitla Wind 1 commences commercial operations; Whitla Wind 2 project proceeding**

On December 1, 2019, Whitla Wind 1, located in southeast Alberta, began commercial operations. The construction of the 202 MW project was completed on schedule and on budget within its \$315 million to \$325 million target, except for foreign exchange impacts (see Liquidity and Capital Resources). Whitla Wind 1 is expected to provide adjusted EBITDA of \$27 million and AFFO of \$17 million in its first full year of operation.

The Company also announced that it is moving forward with the second phase of the Whitla Wind facility that will add 97 MW in 2021. Capital Power will leverage its construction experience from Whitla Wind 1 to deliver Whitla Wind 2 with an expected capital cost of \$165 million.

Whitla Wind 2 will generate carbon credits that can be used to hedge against Capital Power's carbon compliance costs from its Alberta thermal generation facilities. Capital Power is in active discussions with commercial and industrial customers for renewable offtake contracts from Whitla Wind 2.

### **Accelerated plan for Genesee natural gas capability**

During 2019, the Company announced that it is proceeding with a project that will maximize the flexibility to utilize natural gas as fuel at Genesee, which previously burned primarily coal. The total cost of the project to completely transform the Genesee units to dual-fuel capability is estimated at \$70 million with expenditures of \$10 million incurred in 2019 and expected costs of \$43 million, and \$17 million in 2020 and 2021, respectively. The project involves adding new gas pipeline infrastructure within the Genesee site and modifications to the Genesee 1 and 2 boilers. The rated capacity of the units will remain the same.

After the units have been transformed to 100% dual-fuel capability, the units can utilize up to 100% natural gas or coal, or a mix of the two. The amount of coal used at any given time, versus natural gas, will be driven by several factors including natural gas and coal prices and carbon costs.

Based on 100% dual-fuel capability, annual greenhouse gas emissions (GHGs) would be reduced by approximately 25% to 45%, if operation of the units is between 50% to 100% of hours on natural gas.

The Genesee facility will have dual-fuel capability up to December 2029 and will continue as a 100% natural gas-fired facility after that time. The Genesee units are already the most efficient coal generating units in Alberta and best performing from an emissions intensity perspective. Under the Genesee Performance Standard program, which commenced in 2016, a 12% improvement in efficiency and performance of the units is targeted by 2021, which improvements will benefit both natural gas and coal operations.

### **\$275 million medium-term note issuance**

On November 8, 2019, the Company issued \$275 million of unsecured medium-term notes due in 2030 with interest payable semi-annually at 4.424% commencing on August 8, 2020. The net proceeds of the offering were used to repay indebtedness under the Company's credit facilities and for general corporate purposes.

## **Genesee 3 and Keephills 3 swap transaction**

On August 2, 2019, the Company announced it had entered into an agreement to divest its 50% share of Keephills 3 to TransAlta Corporation (TransAlta), and to acquire TransAlta's 50% share of Genesee 3. The transaction closed on October 1, 2019, with a net cost to Capital Power of \$10 million, net of nominal working capital and other closing adjustments. Previously both facilities had been owned and operated under 50/50 Joint Venture Agreements between Capital Power and TransAlta. Following the close of the transaction, Genesee 3 is fully owned and operated by Capital Power and Keephills 3 is fully owned and operated by TransAlta.

Keephills 3 and Genesee 3 are the only supercritical coal facilities in Alberta, with a net capacity of 463 MW and 466 MW, respectively. The swap of interests in the facilities is aligned with Capital Power's strategic plan to deliver responsible energy for tomorrow. As a result of the transaction, the Company gained full control of the Genesee site, providing strategic freedom and latitude to make decisions that further optimize value for the Genesee units. The transaction is expected to streamline costs and commercial processes and reduce regulatory compliance risk.

The transaction resulted in a pre-tax net loss of \$249 million. In the third quarter of 2019, the Company recorded a pre-tax impairment of \$401 million on Keephills 3 upon classification as assets held for sale. In the fourth quarter of 2019, the acquisition of the additional 50% of Genesee 3 was accounted for as a business combination. A gain of \$24 million was recognized upon close of the transaction driven by the remeasurement of the Company's existing share of Genesee 3. In addition, the net reduction to the carrying amounts of the Company's coal-fired generation assets resulted in a one-time adjustment of \$128 million to accelerate the recognition of deferred government grant revenue that aligns with the reduction in the new lower carrying amount of coal-fired assets. This is related to the government grant revenue that the Company is receiving over time from the province of Alberta for the 2029 phase-out of coal-fired generation. The Off-coal Agreement was not impacted by the transaction and as a result, compensation will continue to be collected over time and the Company's ongoing obligations pertaining to the Off-coal Agreement are unchanged. The transaction is expected to be neutral to AFFO over the medium term.

## **Capital Power updates plans for President and Chief Executive Officer role**

On July 29, 2019, the Company announced that Brian Vaasjo, President and Chief Executive Officer, had advised the Board of Directors of his intention to retire in 2020.

The announcement activated an established Chief Executive Officer succession plan developed by Capital Power's Board of Directors. The Board's search for a new President and Chief Executive Officer was conducted through the remainder of 2019 and into early 2020, with the intention that the Board would announce a successor in due course. On February 24, 2020, the Company announced that Brian Vaasjo will remain as President and Chief Executive Officer of the Company for an additional three years.

## **Dividend increase**

On July 26, 2019, the Company's Board of Directors approved an increase of 7.3% in the annual dividend for holders of its common shares, from \$1.79 per common share to \$1.92 per common share. This increased common share dividend commenced with the third quarter 2019 quarterly dividend payment on October 31, 2019 to shareholders of record at the close of business on September 30, 2019.

## **\$325 million private placement debt financing**

On June 12, 2019, the Company issued \$325 million of private placement senior notes which consist of three tranches with 10, 12 and 15-year terms. The 10-year tranche has a principal amount of \$210 million that matures in June 2029 with a coupon rate of 4.56%. The 12-year tranche has a \$65 million principal amount and matures in June 2031 with a coupon rate of 4.72%. The 15-year tranche has a \$50 million principal amount and matures in June 2034 with a coupon rate of 4.96%. The net proceeds from the transaction will primarily be used for refinancing of existing bank indebtedness and for other general corporate purposes.

## **Acquisition of the Goreway Power Station**

On June 4, 2019, the Company completed the acquisition of 100% of the ownership interests in Goreway Power Station Holdings Inc., which owns the Goreway Power Station (Goreway). Goreway is an 875 MW natural gas combined cycle generation facility located in Brampton, Ontario. The purchase price consisted of (i) \$405 million of total cash consideration, including working capital and other closing adjustments of \$18 million, and (ii) the assumption of \$590 million of project level debt.

Financing of the Goreway acquisition consisted of a combination of debt from the Company's existing credit facilities and equity offerings as described below.

Goreway has a 20-year Accelerated Clean Energy Supply Contract expiring in June 2029 with the Ontario Independent Electricity System Operator (credit ratings of A (high)/Aa3 from DBRS and Moody's, respectively). Goreway is strategically located in the Greater Toronto Area load centre making it an important asset in Ontario's electric system and, in combination with the Company's other Ontario natural gas assets, will provide operating and

market synergies over time. The acquisition of Goreway supports the Company's growth strategy and fully meets the Company's investment criteria. In addition, the investment contributes to the Company's dividend growth strategy through immediate AFFO accretion supported by contracted cash flows through mid-2029.

Goreway is expected to generate approximately \$124 million of adjusted EBITDA and \$50 million of AFFO in 2020. For the 2020-2023 period, average annual adjusted EBITDA and AFFO are estimated to be \$127 million and \$56 million, respectively. The acquisition of Goreway is forecasted to be \$0.27 accretive to AFFO per share in 2020 representing growth of approximately 6%.

### **Preferred share offering**

On May 16, 2019, the Company issued 6 million Cumulative Minimum Rate Reset Preference Shares, Series 11 (Series 11 Shares) at a price of \$25.00 per share for gross proceeds of \$150 million less issue costs of \$5 million. The preferred shares will pay fixed cumulative dividends of \$1.4375 per share per annum, yielding 5.75% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board of Directors of Capital Power, for the initial period ending June 30, 2024. The dividend rate will be reset on June 30, 2024 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 4.15%, provided that, in any event, such rate shall not be less than 5.75%. The Series 11 Shares are redeemable by Capital Power, at its option on June 30, 2024 and every five years thereafter at a value of \$25.00 per share.

Holders of the Series 11 Shares will have the right to convert all or any part of their shares into Cumulative Floating Rate Preference Shares, Series 12 (Series 12 Shares), subject to certain conditions, on June 30, 2024 and every five years thereafter. Holders of the Series 12 Shares will be entitled to receive a cumulative quarterly floating dividend at a rate equal to the sum of the then 90-day Government of Canada Treasury Bill yield plus 4.15%, as and when declared by the Board of Directors of Capital Power. The Series 12 Shares would be redeemable by Capital Power, at its option, on June 30, 2029 and June 30 of every fifth year thereafter at a value of \$25.00 per share. The Series 12 Shares would also be redeemable by Capital Power, at its option, on any date after June 30, 2024 excluding June 30 of every fifth year, at a value of \$25.50 per share.

### **Common share offering**

In May of 2019, the Company completed a public offering of 4,945,000 subscription receipts (Subscription Receipts), on a bought deal basis, at an issue price of \$30.30 per Subscription Receipt, for total gross proceeds of \$150 million less issue costs of \$7 million (inclusive of the full exercise of a 645,000 over-allotment option). On June 4, 2019, upon closing of the Goreway acquisition, each Subscription Receipt was converted for one common share of the Company.

### **Appointments to the Board of Directors**

Effective April 26, 2019, Robert Phillips was appointed to the Capital Power Board of Directors.

Effective March 1, 2019, Jane Peverett was appointed to the Capital Power Board of Directors.

### **Heat rate call option at Arlington Valley**

During the first quarter of 2019, the Company entered into a heat rate call option agreement (HRCO) with an investment grade counterparty covering the periods outside of Arlington Valley's existing summer tolling agreements. The HRCO commenced on April 1, 2019 and terminates December 31, 2025, covering (i) April and November-December 2019 and (ii) January-May and October-December 2020-2025. Pursuant to the HRCO the counterparty has the right to call the plant in exchange for fixed monthly premiums plus reimbursements for fuel at an indexed price, variable operating and maintenance expense and start charges. Adjusted EBITDA and AFFO from the Arlington Valley facility during the period covered by the HRCO are expected to be consistent with the guidance provided at the time the acquisition was announced.

## **SUBSEQUENT EVENT**

### **Approval of normal course issuer bid**

Subsequent to the end of 2019, the Toronto Stock Exchange approved Capital Power's normal course issuer bid to purchase and cancel up to 10.5 million of its outstanding common shares during the one-year period from February 26, 2020 to February 25, 2021.

## FACILITIES AND PORTFOLIO OPTIMIZATION

| Facility category and facility                            | Type of generating facility                   | Year commissioned                     | Capacity (MW) |                        | Revenues based on <sup>2</sup>  | Contract expiry          |
|---|---|---------------------------------------|---------------|------------------------|---|--------------------------|
|   |   |                                       | Facility      | Capital Power interest |   |                          |
| <b>Alberta commercial facilities <sup>1</sup></b>         |   |                                       |               |                        |   |                          |
| Genesee 3 <sup>3</sup>                                    | Coal and natural gas co-fired                 | 2005                                  | 516           | 516                    | Merchant  | -                        |
| Keephills 3 <sup>3</sup>                                  | Supercritical coal-fired                      | 2011                                  | 516           | -                      | Merchant  | -                        |
| Clover Bar Energy Centre 1, 2 and 3                       | Natural gas-fired simple cycle                | 2008 (Unit 1)<br>2009 (Units 2 and 3) | 243           | 243                    | Merchant  | -                        |
| Joffre  | Natural gas-fired combined cycle cogeneration | 2001                                  | 480           | 192                    | Merchant (mid-merit)  | -                        |
| Shepard   | Natural gas-fired combined cycle              | 2015                                  | 860           | 430                    | Merchant with tolling agreement for 50% of owned capacity   | 2035 (tolling agreement) |
| Halkirk   | Wind turbine                                  | 2012                                  | 150           | 150                    | Merchant with renewable energy credits (RECs) sold under fixed price agreement                        | 2032 (RECs)              |
| Clover Bar Landfill Gas                                   | Landfill gas-fired                            | 2005                                  | 5             | 5                      | Merchant with emission credits purchased by Capital Power from the City of Edmonton                   | -                        |
| <b>Alberta contracted facilities <sup>1</sup></b>         |   |                                       |               |                        |   |                          |
| Genesee 1   | Coal and natural gas co-fired                 | 1994                                  | 430           | 430                    | Capacity and output sold under PPA to Alberta Balancing Pool  | 2020                     |
| Genesee 2   | Coal and natural gas co-fired                 | 1989                                  | 430           | 430                    | Capacity and output sold under PPA to Alberta Balancing Pool  | 2020                     |
| Whitla Wind 1   | Wind turbine                                  | 2019                                  | 202           | 202                    | Fixed price contract with the Alberta Electric System Operator  | 2039                     |
| <b>Ontario and British Columbia contracted facilities</b> |   |                                       |               |                        |   |                          |
| Island Generation   | Natural gas-fired combined cycle              | 2002                                  | 275           | 275                    | PPA with BC Hydro   | 2022                     |
| York Energy   | Natural gas-fired simple cycle                | 2012                                  | 400           | 200                    | Energy supply contract with Independent Electric System Operator (IESO)                               | 2032                     |
| East Windsor  | Natural gas-fired cogeneration                | 2009                                  | 84            | 84                     | Energy supply contract with IESO  | 2029                     |
| Goreway   | Natural gas-fired combined cycle              | 2009                                  | 875           | 875                    | Energy supply contract with IESO  | 2029                     |
| Kingsbridge 1   | Wind turbine                                  | 2001 and 2006                         | 40            | 40                     | Energy supply contracts with IESO   | 2026                     |
| Port Dover and Nanticoke                                  | Wind turbine                                  | 2013                                  | 105           | 105                    | Energy supply contract with IESO  | 2033                     |
| Quality Wind  | Wind turbine                                  | 2012                                  | 142           | 142                    | Electricity purchase agreement (EPA) with BC Hydro  | 2037                     |
| Savona <sup>4</sup>                                       | Waste heat                                    | 2008                                  | 5             | 5                      | EPA with BC Hydro   | 2028                     |
| 150 Mile House <sup>4</sup>                               | Waste heat                                    | 2008                                  | 5             | 5                      | EPA with BC Hydro   | 2028                     |
| <b>U.S. contracted facilities</b>                         |   |                                       |               |                        |   |                          |
| Roxboro, North Carolina                                   | Solid fuels <sup>5</sup>                      | 1987                                  | 46            | 46                     | PPA with Duke Energy Progress Inc.  | 2021                     |
| Southport, North Carolina                                 | Solid fuels <sup>5</sup>                      | 1987                                  | 88            | 88                     | PPA with Duke Energy Progress Inc.  | 2021                     |
| Decatur Energy, Alabama                                   | Natural gas-fired combined cycle              | 2002                                  | 825           | 825                    | Tolling agreement with Tennessee Valley Authority   | 2022                     |
| Arlington Valley, Arizona                                 | Natural gas-fired combined cycle              | 2002                                  | 580           | 580                    | Tolling agreements with Arizona Public Service Company and HRCO with an investment grade counterparty | 2025                     |
| Beaufort Solar, North Carolina                            | Solar   | 2015                                  | 15            | 15                     | PPA with Duke Energy Progress, LLC  | 2030                     |

| Facility category and facility | Type of generating facility | Year commissioned | Capacity (MW) |                        | Revenues based on <sup>2</sup>                         | Contract expiry |
|--------------------------------|-----------------------------|-------------------|---------------|------------------------|--|-----------------|
|                                |                             |                   | Facility      | Capital Power interest |  |                 |
| Bloom Wind, Kansas             | Wind turbine                | 2017              | 178           | 178                    | Fixed price contract with Allianz Risk Transfer        | 2027            |
| Macho Springs, New Mexico      | Wind turbine                | 2011              | 50            | 50                     | PPA with Tucson Electric Power                         | 2031            |
| New Frontier, North Dakota     | Wind turbine                | 2018              | 99            | 99                     | Fixed price contract with Morgan Stanley Capital Group | 2030            |

<sup>1</sup> Management has determined, based on a review of the nature of future cash flows, that its Alberta assets should be combined as one cash generating unit (CGU) for impairment testing purposes (see Use of Judgments and Estimates). Since the cash flows of Genesee 1 and 2 will remain contracted through 2020, management will continue to present facility results based on the Alberta Commercial and Alberta Contracted groupings through 2020.

<sup>2</sup> Certain of the Company's facilities derive revenues under PPAs.

<sup>3</sup> On October 1, 2019, the Company divested its 50% share of Keephills 3 and, in exchange, acquired TransAlta's 50% share of Genesee 3 (see Significant Events).

<sup>4</sup> For operational reporting, the Company combines Savona and 150 Mile House waste heat facilities together as a single entity referred to as EnPower.

<sup>5</sup> Solid fuels at Roxboro and Southport include wood residuals, tire-derived fuels and coal.

| Facility category and facility                       | Type of generating facility      | Year to be commissioned       | Capacity (MW) |                        | Revenues based on  | Contract expiry  |
|--|----------------------------------|-------------------------------|---------------|------------------------|--|------------------|
|  |                                  |                               | Facility      | Capital Power interest |  |                  |
| <b>Under construction or in advanced development</b> |                                  |                               |               |                        |  |                  |
| Cardinal Point Wind                                  | Wind turbine                     | 2020                          | 150           | 150                    | Fixed price contract with an investment grade U.S. financial institution covering 85% of the facility's output | 2032             |
| Whitla Wind 2  | Wind turbine                     | 2021                          | 97            | 97                     | In discussions for potential offtake contracts   | -                |
| Genesee 4 and 5                                      | Natural gas-fired combined cycle | To be determined <sup>1</sup> | 1,060         | 530                    | Merchant with approximately 250 MW contracted to ENMAX for an initial term of 8 years                          | To be determined |

<sup>1</sup> Contingent on future Alberta electricity demand requiring the addition of new generation.

## Portfolio optimization

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

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

## CONSOLIDATED NET INCOME AND RESULTS OF OPERATIONS

The primary factors contributing to the change in consolidated net income for 2019 compared with 2018 are presented below followed by further discussion of these items.

| (unaudited, \$ millions)   |      |              |
|--|------|--------------|
| <b>Consolidated net income for the year ended December 31, 2018<sup>1</sup></b>                                  |      | <b>258</b>   |
| Increase (decrease) in adjusted EBITDA:  |      |              |
| Alberta commercial facilities and portfolio optimization   | 79   |              |
| Alberta contracted facilities  | (12) |              |
| Ontario and British Columbia contracted facilities   | 39   |              |
| U.S. contracted facilities   | 71   |              |
| Corporate  | 116  | 293          |
| Change in unrealized net gains or losses related to the fair value of commodity derivatives and emission credits |      | 185          |
| Impairment   |      | (401)        |
| Decrease in gains on acquisition and disposal transactions (see Significant Events)                              |      | (135)        |
| Increase in depreciation and amortization expense  |      | (138)        |
| Increase in foreign exchange loss  |      | (15)         |
| Decrease in finance expense and depreciation expense from joint ventures   |      | 9            |
| Increase in net finance expense  |      | (33)         |
| Decrease in income before tax  |      | (235)        |
| Change in income tax expense or recovery   |      | 96           |
| <b>Decrease in net income</b>  |      | <b>(139)</b> |
| <b>Consolidated net income for the year ended December 31, 2019</b>  |      | <b>119</b>   |

<sup>1</sup> The comparative periods' amounts have been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16, see Accounting Changes.

## Results by facility category and other

|   | Year ended December 31                    |        |  |      |  |              |   |            |
|---|---|--------|--|------|--|--------------|---|------------|
|   | 2019                                      | 2018   | 2019                                   | 2018 | 2019   | 2018         | 2019  | 2018       |
|   | Electricity generation (GWh) <sup>1</sup> |        | Facility availability (%) <sup>2</sup> |      | Revenues and other income (unaudited, \$ millions) <sup>13</sup> |              | Adjusted EBITDA (unaudited, \$ millions) <sup>3, 13</sup> |            |
| Total electricity generation, average facility availability and facility revenues | 24,527                                    | 20,229 | 94                                     | 95   | 1,525  | 1,222        |   |            |
| <b>Alberta commercial facilities <sup>4</sup></b>                                 |   |        |  |      |  |              |   |            |
| Genesee 3 <sup>5</sup>  | 2,509                                     | 1,814  | 99                                     | 92   | 132  | 88           |   |            |
| Keephills 3 <sup>5</sup>  | 1,353                                     | 1,831  | 95                                     | 98   | 72   | 93           |   |            |
| Clover Bar Energy Centre 1, 2 and 3   | 1,043                                     | 860    | 92                                     | 89   | 69   | 59           |   |            |
| Joffre  | 774                                       | 609    | 93                                     | 95   | 66   | 53           |   |            |
| Shepard Energy Centre   | 2,928                                     | 2,938  | 91                                     | 92   | 140  | 136          |   |            |
| Halkirk   | 442                                       | 450    | 98                                     | 97   | 43   | 41           |   |            |
| Clover Bar Landfill Gas   | -   | -      | -                                      | 21   | -  | -            |   |            |
| Alberta commercial facilities   | 9,049                                     | 8,502  | 94                                     | 93   | 522  | 470          |   |            |
| Portfolio optimization  | N/A                                       | N/A    | N/A                                    | N/A  | 203  | 117          |   |            |
|   | 9,049                                     | 8,502  | 94                                     | 93   | 725  | 587          | 307   | 228        |
| <b>Alberta contracted facilities <sup>4</sup></b>                                 |   |        |  |      |  |              |   |            |
| Genesee 1   | 3,044                                     | 3,268  | 92                                     | 100  | 118  | 140          |   |            |
| Genesee 2   | 3,167                                     | 2,959  | 99                                     | 94   | 140  | 128          |   |            |
| Whitla Wind 1 <sup>6</sup>  | 77  | N/A    | 97                                     | N/A  | 3  | N/A          |   |            |
|   | 6,288                                     | 6,227  | 95                                     | 97   | 261  | 268          | 191   | 203        |
| <b>Ontario and British Columbia contracted facilities</b>                         |   |        |  |      |  |              |   |            |
| Island Generation   | 721                                       | 27     | 98                                     | 100  | 38   | 39           |   |            |
| York Energy <sup>7</sup>  | 16  | 10     | 98                                     | 98   | N/A  | N/A          |   |            |
| East Windsor  | 11  | 9      | 99                                     | 99   | 35   | 35           |   |            |
| Goreway <sup>8</sup>  | 537                                       | N/A    | 89                                     | N/A  | 119  | N/A          |   |            |
| K2 Wind <sup>9</sup>  | N/A                                       | 222    | N/A                                    | 99   | N/A  | 3            |   |            |
| Kingsbridge 1   | 105                                       | 103    | 98                                     | 98   | 9  | 9            |   |            |
| Port Dover and Nanticoke  | 294                                       | 299    | 97                                     | 98   | 44   | 44           |   |            |
| Quality Wind  | 354                                       | 362    | 97                                     | 96   | 46   | 47           |   |            |
| EnPower   | 23  | 38     | 79                                     | 96   | 2  | 3            |   |            |
|   | 2,061                                     | 1,070  | 94                                     | 98   | 293  | 180          | 232   | 193        |
| <b>U.S. contracted facilities</b>   |   |        |  |      |  |              |   |            |
| Roxboro, North Carolina   | 324                                       | 327    | 94                                     | 96   | 38   | 37           |   |            |
| Southport, North Carolina   | 459                                       | 439    | 90                                     | 92   | 67   | 61           |   |            |
| Decatur Energy, Alabama   | 2,145                                     | 2,703  | 93                                     | 95   | 87   | 88           |   |            |
| Arlington Valley, Arizona <sup>10</sup>   | 2,934                                     | 87     | 95                                     | 94   | 154  | 7            |   |            |
| Beaufort Solar, North Carolina  | 29  | 27     | 99                                     | 96   | 3  | 2            |   |            |
| Bloom Wind, Kansas  | 717                                       | 711    | 99                                     | 98   | 44   | 94           |   |            |
| Macho Springs, New Mexico   | 132                                       | 127    | 98                                     | 98   | 16   | 15           |   |            |
| New Frontier, North Dakota <sup>11</sup>  | 389                                       | 9      | 96                                     | 98   | 40   | -            |   |            |
|   | 7,129                                     | 4,430  | 94                                     | 95   | 449  | 304          | 247   | 176        |
| <b>Corporate <sup>12</sup></b>  |   |        |  |      | 188  | 58           | 52  | (64)       |
| Unrealized changes in fair value of commodity derivatives and emission credits    |   |        |  |      | 47   | 20           |   |            |
| <b>Consolidated revenues and other income and adjusted EBITDA</b>                 |   |        |  |      | <b>1,963</b>   | <b>1,417</b> | <b>1,029</b>  | <b>736</b> |

<sup>1</sup> 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.
- 4 Based on the nature of future cash flows, the Alberta assets are combined as one CGU for impairment testing purposes. Since the cash flows of Genesee 1 and 2 will remain contracted through 2020, management will continue to present facility results based on the Alberta Commercial and Alberta Contracted groupings through 2020.
- 5 On October 1, 2019, the Company divested its 50% share of Keephills 3 and, in exchange, acquired TransAlta's 50% share of Genesee 3 (see Significant Events).
- 6 Phase 1 of Whitla Wind was commissioned on December 1, 2019.
- 7 York Energy is accounted for under the equity method. Capital Power's share of the facility's net income is included in income from joint ventures on the Company's consolidated statements of income. Capital Power's share of the facility's adjusted EBITDA is included in adjusted EBITDA above. The equivalent of Capital Power's share of the facility's revenue was \$31 million for 2019, compared with \$30 million for 2018. The facility's revenues are not included in the above results.
- 8 Goreway was acquired on June 4, 2019.
- 9 Capital Power's share of K2 Wind was disposed of effective December 31, 2018.
- 10 Arlington Valley was acquired on November 30, 2018.
- 11 New Frontier Wind was commissioned on December 21, 2018.
- 12 Corporate revenues were offset by interplant category eliminations.
- 13 The prior periods' amounts for the Ontario and British Columbia contracted facilities, as appropriate, have been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16, see Accounting Changes.

### **Energy prices and hedged positions**

| Alberta                               | Unit   | Year ended December 31 |      |
|---------------------------------------|--|------------------------|------|
|                                       |  | 2019                   | 2018 |
| Hedged position <sup>1</sup>          | Percentage sold forward at beginning of year (%) | 78                     | 87   |
| Spot power price average              | \$ per MWh                                       | 55                     | 50   |
| Realized power price <sup>2</sup>     | \$ per MWh                                       | 57                     | 51   |
| Natural gas price (AECO) <sup>3</sup> | \$ per gigajoule (Gj)                            | 1.87                   | 1.46 |

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

<sup>2</sup> Realized power price is the average price realized as a result of the Company's commercial contracted sales and portfolio optimization activities.

<sup>3</sup> AECO refers to the historical virtual trading hub located in Alberta and known as the NOVA Inventory Transfer system operated by TransCanada Pipelines Limited.

### **Alberta commercial facilities and portfolio optimization**

The Alberta spot price averaged \$55 per MWh in 2019, compared to \$50 per MWh in 2018. The increase in spot prices in 2019 reflected the impact of higher natural gas pricing as well as unseasonably cold temperatures coupled with baseload facility outages experienced during the first quarter of the year.

Generation and availability for the year ended December 31, 2019 were higher than the corresponding period in 2018 primarily due to higher dispatch at Clover Bar Energy Centre and Joffre, despite a longer planned outage at Joffre in 2019 compared with 2018, and more frequent unplanned outages at Keephills 3 in 2019 compared with 2018. Higher generation and availability for the year ended December 31, 2019 was also driven by the Genesee 3 and Keephills 3 swap transaction (see Significant Events) as Genesee 3 performed above expectations after the close of the transaction and did not experience a planned outage in the fourth quarter of 2019 compared with a significant planned outage that occurred primarily in the fourth quarter of 2018.

Revenues and other income were higher for the year ended December 31, 2019 compared to 2018, primarily due to higher realized power prices and increased generation as described above.

Adjusted EBITDA for the year ended December 31, 2019 increased compared to 2018 as a result of the revenues and other income drivers noted above. Additionally, there were higher margins earned on export activity and on sales of emission credits than in 2018. Partially offsetting these favourable variances were the impact of higher natural gas pricing on fuel purchases, increased carbon costs, lower ancillary services revenue and higher transmission expenses as compared to 2018.

### **Alberta contracted facilities**

Availability for 2019 was lower compared with 2018 primarily due to the length of the Genesee 1 planned maintenance outage in 2019, which was longer than the Genesee 2 planned outage in 2018. Despite the length and

timing of the 2019 planned outage, generation for the year ended December 31, 2019 was consistent with 2018 due to lower dispatch by the PPA buyer for Genesee 1 and 2 in 2018, compared with 2019.

Revenues and other income were lower for the year ended December 31, 2019 compared to 2018 primarily due to the noted planned outage length as the 2019 results reflect higher net availability penalties which were magnified by higher Alberta power pool prices during the outage period in 2019. The variance also reflects higher excess energy payments driven by higher generation and higher running energy payments on higher pricing, partially offset by lower capacity revenues compared with 2018.

Adjusted EBITDA was lower in 2019 compared with 2018, primarily due to the noted factors affecting revenues and other income, as well as higher coal costs in 2019. These unfavourable variances were partially offset by higher environmental compliance incentive recoveries in 2019 compared with 2018.

#### **Ontario and British Columbia contracted facilities**

Generation was higher in 2019 compared with 2018 primarily due to the acquisition of Goreway (see Significant Events) in the second quarter of 2019 and higher dispatch at Island Generation in 2019, partially offset by the sale of K2 Wind in the fourth quarter of 2018. Availability in 2019 was lower than 2018 primarily due to unplanned outages at the EnPower facilities, as well as the impact on overall availability of a Goreway planned outage in 2019.

Revenues and other income were higher in 2019 compared with 2018 primarily due to the acquisition of Goreway in the second quarter of 2019 (see Significant Events). Adjusted EBITDA was higher in 2019 compared with 2018 primarily due to the Goreway acquisition (see Significant Events), partially offset by the disposal of K2 Wind in the fourth quarter of 2018. Revenues and other income do not include K2 Wind and York Energy, which are accounted for under the equity method, with the exception of distribution income received from K2 Wind following its classification as an asset held for sale, at which time equity accounting ceased and distributions were no longer recorded against the equity investment.

#### **U.S. contracted facilities**

Generation increased for the year ended December 31, 2019 compared with 2018 primarily due to the addition of Arlington Valley in the fourth quarter of 2018 and the commencement of commercial operations at New Frontier Wind in the fourth quarter of 2018, partially offset by lower dispatch at Decatur Energy.

Availability for 2019 decreased compared to 2018 primarily due to a longer planned outage at Decatur Energy in 2019 compared with 2018 and more frequent unplanned outages at Southport and Roxboro in 2019 compared with 2018. This was partially offset by the noted additions of Arlington Valley and New Frontier Wind which had strong availability in 2019.

Revenues and other income and adjusted EBITDA were higher in 2019 compared with 2018 primarily due to the addition of Arlington Valley and the commencement of commercial operations at New Frontier Wind in 2018, partially offset by the impacts of the updated Bloom Wind tax equity investor agreement signed during the second quarter of 2018.

#### **Corporate**

Corporate results include (i) revenues for cost recoveries and other income related to coal compensation from the Province of Alberta, (ii) costs of support services such as treasury, finance, internal audit, legal, human resources, 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.

Adjusted EBITDA for 2019 was higher compared with 2018 primarily as a result of the accelerated recognition of coal compensation revenue recognized on the swap of interests in Genesee 3 and Keephills 3 (see Significant Events). This was partially offset by an increase in the provision for the Line Loss Rule proceeding related to the noted swap of interests and the write-off of wind development projects no longer being developed.

#### **Unrealized changes in fair value of commodity derivatives and emission credits**

|   | Year ended December 31           |           |                          |             |
|---|----------------------------------|-----------|--------------------------|-------------|
|   | 2019                             | 2018      | 2019                     | 2018        |
| (unaudited, \$ millions)  |                                  |           |                          |             |
| <b>Unrealized changes in fair value of commodity derivatives and emission credits</b> | <b>Revenues and other income</b> |           | <b>Income before tax</b> |             |
| Unrealized (losses) gains on Alberta power derivatives                                | (19)                             | 79        | 20                       | (5)         |
| Unrealized gains (losses) on U.S. energy derivatives                                  | 67                               | (51)      | 67                       | (51)        |
| Unrealized (losses) gains on natural gas derivatives                                  | -                                | (10)      | 33                       | (16)        |
| Unrealized (losses) gains on emission derivatives                                     | (1)                              | 2         | (1)                      | 2           |
| Unrealized (losses) gains on emission credits held for trading                        | -                                | -         | (1)                      | 3           |
|   | <b>47</b>                        | <b>20</b> | <b>118</b>               | <b>(67)</b> |

The Company's revenues and other income and adjusted EBITDA relating to its 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 the Alberta commercial facilities and portfolio optimization and U.S. wind facilities and are also excluded from the Company's 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.

Unrealized gains on the Alberta power portfolio of \$20 million recognized by the Company in 2019 were primarily due to the impact of increasing forward prices on net forward purchase contracts not designated as cash flow hedges, partially offset by the reversal of prior period unrealized net gains on positions that settled during the year. During the comparable period in 2018, the Alberta power portfolio recognized unrealized losses of \$5 million primarily due to the reversal of prior period unrealized net gains on positions that settled during the year as well as the impact of decreasing forward prices on future positions.

During the year ended December 31, 2019, the Company recorded unrealized gains of \$67 million on U.S. energy derivatives, due to the impact of decreasing forward prices on the value of forward sales contracts associated with the Bloom Wind, New Frontier Wind and Cardinal Point Wind facilities. During the comparable period in 2018, unrealized losses on U.S. energy derivatives of \$51 million were attributable to the impact of increasing forward prices on the value of forward sales contracts associated with the Bloom Wind, New Frontier Wind and Cardinal Point Wind facilities.

Unrealized gains on natural gas derivatives of \$33 million recognized in 2019 were due to the impact of increasing forward natural gas prices on net forward purchase contracts, as well as the reversal of prior period unrealized losses on purchase contracts that settled during the year. During the comparable period in 2018, unrealized losses of \$16 million reflected the impact of decreasing forward natural gas prices on net forward purchase contracts, partially offset by the reversal of prior period unrealized losses on purchase contracts that settled during the year.

### Consolidated other expenses and non-controlling interests

| (unaudited, \$ millions)   | Year ended December 31 |       |
|--|------------------------|-------|
|  | 2019                   | 2018  |
| Interest on borrowings less capitalized interest   | (133)                  | (110) |
| Other net finance expense – interest on coal compensation from the Province of Alberta, sundry interest, guarantee and other fees                                | 1                      | 11    |
|  | (132)                  | (99)  |
| Other finance expense – amortization and accretion charges, including accretion of deferred revenue pertaining to coal compensation from the Province of Alberta | (24)                   | (24)  |
| Total net finance expense  | (156)                  | (123) |
| Impairments  | (401)                  | -     |
| Depreciation and amortization  | (473)                  | (335) |
| Foreign exchange (loss) gain   | (5)                    | 10    |
| Gains on acquisition and disposal transactions (see Significant Events)  | 24                     | 159   |
| Finance expense and depreciation expense from joint ventures   | (23)                   | (32)  |
| Income tax recovery (expense)  | 6                      | (90)  |
| Net loss attributable to non-controlling interests   | 6                      | 7     |

#### Net finance expense

Higher net finance expense for the year ended December 31, 2019 compared with the prior year was primarily due to higher loans and borrowings outstanding as a result of the acquisition of Arlington Valley in the fourth quarter of 2018 and the financing related to the acquisition of Goreway in the second quarter of 2019 (see Significant Events).

#### Impairments

During the year ended December 31, 2019, the Company recognized a pre-tax impairment of \$401 million related to the classification of Keephills 3 as an asset held for sale prior to its divestiture (see Significant Events).

#### Depreciation and amortization

Depreciation and amortization for the year ended December 31, 2019 increased compared with the prior year primarily due to the acquisition of Arlington Valley and New Frontier Wind commencing commercial operation in the last quarter of 2018 and the acquisition of Goreway in the second quarter of 2019 (see Significant Events). In addition to this, starting in the first quarter of 2019, Capital Power adjusted the useful lives of assets related to coal to reflect new expected end of life dates resulting from federal regulation changes, including the assets that would be used in a coal-to-gas conversion, to the new estimated life as set out by the federal government. Slightly offsetting these impacts was

the net lower depreciation resulting from the swap of interests in Genesee 3 and Keephills 3 (see Significant Events).

#### **Foreign exchange (loss) gain**

Foreign exchange losses for 2019 are mostly attributable to the impact of the strengthening of the Canadian dollar relative to the U.S. dollar on the Company's forward U.S. dollar purchase contracts which were settled during 2019.

Foreign exchange gains for 2018 are primarily driven by the impact of the weakening of the Canadian dollar relative to the U.S. dollar on the Company's forward U.S. dollar purchase contracts.

#### **Gains on acquisition and disposal transactions**

During the year ended December 31, 2019, the Company recognized a pre-tax gain of \$24 million on the swap of interests in Genesee 3 and Keephills 3 (see Significant Events).

On December 31, 2018, the Company disposed of its minority owned interest of 90 MW in K2 Wind and recorded a pre-tax gain of \$159 million.

#### **Finance expense and depreciation expense from joint ventures**

Finance expense and depreciation expense from joint ventures includes Capital Power's share of finance expense and depreciation expense of York Energy and K2 Wind (through to the December 31, 2018 disposal date), which are accounted for under the equity method. Equity accounting ceased for K2 Wind during the fourth quarter of 2018 when it was classified as an asset held for sale.

#### **Income tax recovery (expense)**

In 2019, the Company recorded an income tax recovery of \$6 million compared with an income tax expense of \$90 million in 2018. The change is primarily due to the recognition of a deferred income tax recovery on the impairment of Keephills 3 in the third quarter of 2019 (see Significant Events), the decrease in the Alberta corporate income tax rate in the second quarter of 2019, the reversal of a deferred tax expense on the Company's investment in a subsidiary following the disposal of Keephills 3 in the fourth quarter of 2019, and lower amounts attributable to tax-equity interests. This was partially offset by the recognition of a deferred income tax expense on the one-time adjustment to accelerate the recognition of deferred government grant revenue following the swap of interests in Genesee 3 and Keephills 3 in the fourth quarter of 2019 (see Significant Events).

With the introduction of the Bill 3 – Job Creation Tax Act on June 28, 2019, the Alberta corporate income tax rate was reduced from 12% to 8% over four years. Since the Canadian deferred tax assets and liabilities were re-measured, a deferred income tax recovery of \$51 million was recognized during the second quarter of 2019.

#### **Non-controlling interests**

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

## **COMPREHENSIVE INCOME**

| (unaudited, \$ millions)  | Year ended December 31 |            |
|---|------------------------|------------|
|   | 2019                   | 2018       |
| Net income  | 119                    | 258        |
| Other comprehensive (loss) income:  |                        |            |
| Net unrealized (losses) gains on derivative instruments                                   | (26)                   | 15         |
| Net unrealized gains on derivative instruments – joint ventures                           | -                      | 3          |
| Net realized losses on derivative instruments reclassified to net income                  | 9                      | 14         |
| Net realized losses on derivative instruments reclassified to net income – joint ventures | -                      | 2          |
| Unrealized foreign exchange (loss) gain on the translation of foreign operations          | (39)                   | 50         |
| Actuarial (loss) gain related to the Company's defined benefit pension plan               | (6)                    | 2          |
| Losses realized in net income on disposal of joint venture                                | -                      | 12         |
| Total other comprehensive (loss) income, net of tax                                       | (62)                   | 98         |
| <b>Comprehensive income</b>   | <b>57</b>              | <b>356</b> |

Other comprehensive (loss) income includes fair value adjustments on financial instruments held by the Company 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, 2018 to December 31, 2019 were as follows:

| (unaudited,<br>\$ millions)                      | As at<br>December 31 |       | Increase<br>(decrease) | IFRS 16<br>impact (see<br>Accounting<br>Changes) | Acquisition<br>through<br>business<br>combination <sup>2</sup> | Impact of<br>G3/K3 swap<br>transaction <sup>3</sup> | Other | Primary other<br>changes  |
|--|----------------------|-------|------------------------|--|--|---|-------|---|
|  | 2019                 | 2018  |                        |  |  |   |       |   |
| Trade and other receivables <sup>1</sup>         | 334                  | 438   | (104)                  | (2)  | 22   | (1)   | (123) | Lower receivables are driven by the receipt of the remaining proceeds on disposal of K2 Wind and timing of collection of generation receivables.  |
| Right-of-use assets                              | 95                   | -     | 95                     | 86   | -  | -   | 9     | Reclassification from property, plant and equipment and additions less depreciation.  |
| Intangible assets                                | 760                  | 473   | 287                    | -  | 498  | (79)  | (132) | Decrease due largely to amortization and emission credits used for compliance.  |
| Property, plant and equipment <sup>1</sup>       | 6,089                | 5,356 | 733                    | -  | 814  | (312)   | 231   | Increase due to capital additions, including Whitla Wind 1 and Cardinal Point Wind, partly offset by depreciation and foreign exchange impacts.   |
| Net derivative financial instruments liabilities | 64                   | 45    | 19                     | -  | 104  | -   | (85)  | Primarily due to the impacts of increasing forward prices on forward natural gas purchase contracts and decreasing forward prices on forward power sales for U.S. contracted wind facilities, offset partly by the impacts of increasing forward prices on forward Alberta power sales contracts. |
| Loans and borrowings (including current portion) | 3,413                | 2,647 | 766                    | -  | 590  | -   | 176   | Increase primarily due to issuance of private placement senior notes (see Significant Events) and medium-term notes (see Significant Events), partly offset by net repayments of various loans and borrowings.  |

| (unaudited,<br>\$ millions)  | As at<br>December 31 |      | Increase<br>(decrease) | IFRS 16<br>impact (see<br>Accounting<br>Changes) | Acquisition<br>through<br>business<br>combination <sup>2</sup> | Impact of<br>G3/K3 swap<br>transaction <sup>3</sup> | Other | Primary other<br>changes   |
|--|----------------------|------|------------------------|--|--|---|-------|--|
|  | 2019                 | 2018 |                        |  |  |   |       |  |
| Deferred revenue and other liabilities (including current portion) | 443                  | 649  | (206)                  | (4)  | -  | (156)   | (46)  | Decrease mainly driven by amortization of deferred government grant revenue.   |
| Provisions (including current portion)                             | 457                  | 345  | 112                    | -  | 40   | 1   | 71    | Increase mainly due to additional decommissioning liabilities incurred for development projects and revisions to existing decommissioning provisions.  |
| Lease liabilities (including current portion)                      | 111                  | 18   | 93                     | 96   | -  | -   | (3)   | Decrease primarily due to lease payments, partially offset by the addition of land leases for Whittla Wind 1.  |
| Net deferred tax liabilities <sup>1</sup>                          | 488                  | 351  | 137                    | (2)  | 206  | (58)  | (9)   | Decrease primarily due to the impact of the reduced Alberta statutory income tax rate and the reclass of tax on the disposal of K2 Wind from deferred tax liability to current tax liability, which was partially offset by the utilization of non-capital loss carry forwards and an increase in taxable temporary differences that will reverse in the future. |

<sup>1</sup> Balance as at December 31, 2018 has been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16, see Accounting Changes.

<sup>2</sup> Includes the impact of assets and liabilities acquired through the Goreway acquisition (see Significant Events).

<sup>3</sup> Includes the net impact of assets and liabilities acquired and disposed of through the Genesee 3 and Keephills 3 swap transaction (see Significant Events).

## LIQUIDITY AND CAPITAL RESOURCES

| (unaudited, \$ millions)       | Year ended December 31 |       |        |
|--------------------------------|------------------------|-------|--------|
|                                | 2019                   | 2018  | Change |
| <b>Cash inflows (outflows)</b> |                        |       |        |
| Operating activities           | 720                    | 450   | 270    |
| Investing activities           | (866)                  | (554) | (312)  |
| Financing activities           | 218                    | 233   | (15)   |

### Operating activities

Cash flows from operating activities increased compared with 2019 due to higher EBITDA before non-cash items (including non-cash tax equity attributes, changes in non-cash operating working capital and the Company's share of adjusted EBITDA from joint ventures). These increases were partially offset by higher interest paid due to additional loans and borrowings, realized losses on the settlement of interest rate derivative instruments during 2019 and lower distributions received from joint ventures driven by the disposal of K2 Wind in 2018.

### Investing activities

Cash flows used in investing activities for the year ended December 31, 2019 increased compared with the same period in 2018 primarily due to the acquisition of Goreway in the second quarter of 2019 (see Significant Events) as compared to the acquisition of Arlington Valley during 2018, combined with higher capital expenditures, including higher spend on Whitla Wind 1 and Cardinal Point Wind in 2019 compared to spending on New Frontier Wind in 2018, and lower proceeds on disposal of the K2 Wind joint venture received in 2019 as compared to 2018.

### Capital expenditures and investments

| (unaudited, \$ millions)  | Pre-2018 actual | Year ended December 31 |             |                               | Actual or projected total <sup>2</sup> | Timing   |
|---|-----------------|------------------------|-------------|-------------------------------|--|--|
|   |                 | 2018 actual            | 2019 actual | 2020 estimated <sup>1,2</sup> |  |  |
| Genesee 4 & 5 <sup>3,4</sup>                                      | 18              | -                      | -           | -                             | 700                                    | Targeted completion currently being reassessed by management |
| New Frontier Wind <sup>5</sup>                                    | 20              | 154                    | 3           | -                             | 177                                    | Completed in December 2018                                   |
| Whitla Wind 1 <sup>6</sup>  | 3               | 68                     | 251         | 17                            | 339                                    | Completed in December 2019                                   |
| Cardinal Point Wind <sup>7</sup>                                  | 2               | 26                     | 228         | 71                            | 327                                    | Targeted completion March of 2020                            |
| Whitla Wind 2   | -               | -                      | -           | 60                            | 165                                    | Targeted completion in the fourth quarter of 2021            |
| Commercial initiatives <sup>8</sup>                               | 5               | 11                     | 65          | 90                            | 241                                    |  |
| Development sites and projects                                    | 9               | 6                      | 5           | -                             |  |  |
| <b>Subtotal growth projects</b>                                   |                 | <b>265</b>             | <b>552</b>  | <b>238</b>                    |  |  |
| Sustaining – plant maintenance excluding Genesee mine             |                 | 73                     | 74          |                               |  |  |
| Sustaining – Genesee mine maintenance and lands                   |                 | 14                     | 10          |                               |  |  |
| <b>Total capital expenditures<sup>9</sup></b>                     |                 | <b>352</b>             | <b>636</b>  |                               |  |  |
| Emission credits held for compliance                              |                 | 5                      | 12          |                               |  |  |
| Investment in C2CNT   |                 | 3                      | -           |                               |  |  |
| Capitalized interest  |                 | (5)                    | (13)        |                               |  |  |
| <b>Purchase of property, plant and equipment and other assets</b> |                 | <b>355</b>             | <b>635</b>  |                               |  |  |

<sup>1</sup> The Company's 2020 estimated capital expenditures include only expenditures for previously announced growth projects and exclude other potential new development projects.

<sup>2</sup> Projected capital expenditures to be incurred over the life of the projects for Genesee 4 and 5, New Frontier Wind, Whitla Wind 1, Cardinal Point Wind, Whitla Wind 2, and commercial initiatives 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.

<sup>3</sup> Excludes interest to fund construction and refundable transmission system contribution payments.

- 4 Continuation and timing of the Genesee 4 and 5 project will be considered once new generation is required in Alberta to balance supply and demand.
- 5 New Frontier Wind began commercial operations in December 2018. The finalization of construction activities occurred during 2019. The total cost excludes a \$19 million (US\$15 million) developer fee paid to a subsidiary of the Company.
- 6 The original projected total construction cost for Whitla Wind 1 was expected to be in the range of \$315 million to \$325 million. Actual project costs are now expected to exceed that range driven by foreign exchange impacts on U.S. dollar costs. These amounts were partially economically hedged by forward U.S. currency purchase derivatives which settled in the year ended December 31, 2019 resulting in realized foreign exchange gains of \$8 million recorded in net income. The remaining foreign exchange differential is driven by movements in the U.S dollar to Canadian dollar foreign exchange rate between the bid date of Whitla Wind 1 into the initial Alberta Renewable Electricity Program and the date that Whitla Wind 1 was awarded the contract, which were not hedged.
- 7 The projected total cost for Cardinal Point Wind exceeds the expected range of construction costs of \$289 million to \$301 million (US\$236 million to US\$246 million) driven by foreign exchange rate impacts. The projected total cost in U.S. dollars is US\$246 million and is within the expected range.
- 8 Commercial initiatives include the combustion turbine upgrade project for Decatur Energy with capital expenditures incurred to the end of December 31, 2019 of \$32 million (US\$24 million). This project resulted in an additional 30 MW of generation and was completed in the second quarter of 2019. Commercial initiatives also includes expected spending on the Company's Genesee dual-fuel project (see Significant Events) and the Genesee Performance Standard project as well as various other projects designed to either increase the capacity or efficiency of their respective facilities or to reduce emissions.
- 9 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.

## Financing activities

The cash flows from financing activities for the year ended December 31, 2019 primarily reflected the net issuance of loans and borrowings in the year, issuance of common and preferred shares (see Significant Events), repurchase of common shares under the Company's normal course issuer bid, and payment of common and preferred share dividends. Cash flows from financing activities for 2019 decreased compared with 2018 most notably due to realized gains on settlement of foreign exchange derivatives in 2018 and higher dividends paid in 2019, offset partially by higher net funds received from the issue, net of repayments and repurchases, of shares and loans and borrowings in 2019 as compared to 2018.

The Company's credit facilities consisted of:

|                                     | (unaudited, \$ millions) | As at December 31, 2019 |                  |                                       | As at December 31, 2018 |                                       |            |
|-------------------------------------|--------------------------|-------------------------|------------------|---------------------------------------|-------------------------|---------------------------------------|------------|
|                                     |                          | Maturity timing         | Total facilities | Credit facility utilization Available | Total facilities        | Credit facility utilization Available |            |
| Committed credit facilities         | 2024                     | 1,000                   |                  |                                       | 1,150                   |                                       |            |
| Letters of credit outstanding       |                          |                         |                  | 50                                    |                         | 99                                    |            |
| Bankers' acceptances outstanding    |                          |                         |                  | -                                     |                         | 396                                   |            |
| Bank loans outstanding <sup>1</sup> |                          |                         |                  | 319                                   |                         | 218                                   |            |
|                                     |                          | 1,000                   | 369              | 631                                   | 1,150                   | 713                                   | 437        |
| Bilateral demand credit facilities  | N/A                      | 430                     |                  |                                       | 200                     |                                       |            |
| Letters of credit outstanding       |                          |                         |                  | 189                                   |                         | 172                                   |            |
|                                     |                          | 430                     | 189              | 241                                   | 200                     | 172                                   | 28         |
| Demand credit facilities            | N/A                      | 25                      | -                | 25                                    | 25                      | -                                     | 25         |
|                                     |                          | <b>1,455</b>            | <b>558</b>       | <b>897</b>                            | <b>1,375</b>            | <b>885</b>                            | <b>490</b> |

<sup>1</sup> U.S. dollar denominated bank loans outstanding totaling US\$246 million (December 31, 2018 – US\$160 million).

As at December 31, 2019, the committed credit facility utilization decreased \$344 million compared with the utilization as at December 31, 2018, due to the Company's other loans and borrowings issuances during the year. In the second quarter of 2019, the \$1 billion of committed credit facilities were extended one year to mature in July 2024. In the third quarter of 2019, the Company secured \$100 million of additional Canadian bilateral demand credit facilities, and an additional US\$50 million in U.S. bilateral demand credit facilities were secured in each of the third and fourth quarters of 2019. The available credit facilities provide the Company with adequate funding for ongoing development projects.

The Company 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.

The Company has a corporate credit rating of BBB (low) with a stable outlook from DBRS Limited (DBRS). The BBB rating category assigned by DBRS is the fourth highest rating of DBRS' 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.

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

| <b>Financial covenant</b>  | <b>Required at the end of each fiscal quarter</b> | <b>Actual as at December 31, 2019</b> |
|--|---|---------------------------------------|
| Modified consolidated net tangible assets to consolidated net tangible assets ratio <sup>1</sup> | Not less than 0.75 to 1.0                         | 0.88                                  |
| Consolidated senior debt to consolidated capitalization ratio <sup>1</sup>                       | Not more than 0.65 to 1.0                         | 0.55                                  |
| Consolidated EBITDA to consolidated interest expense <sup>1, 2</sup>                             | Not less than 2.5 to 1.0                          | 3.48                                  |

<sup>1</sup> As defined in the relevant agreements.

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

### Future cash requirements

The following estimates of future cash requirements are subject to variable factors including those discussed in Forward-looking Information. Capital Power's expected cash requirements for 2020 include:

| (unaudited, \$ millions)                       | <b>2020 expected cash requirements</b> |
|--|--|
| Repayment of debt payable <sup>1, 2</sup>      | 310                                    |
| Capital expenditures – sustaining              | 92                                     |
| Capital expenditures – ongoing growth projects | 148                                    |
| Capital expenditures – commercial initiatives  | 90                                     |
| Common share dividends <sup>3</sup>            | 206                                    |
| Preferred share dividends                      | 52                                     |

<sup>1</sup> Excludes repayment of credit facilities.

<sup>2</sup> Assumes refinancing of \$559 million of Goreway unsecured senior debt due in 2020. The bank facility was extended to January 2027 subsequent to year end.

<sup>3</sup> Includes 7% annual dividend growth, subject to approval by the Board of Directors of Capital Power.

The Company uses a short-form base shelf prospectus to provide it with the ability, market conditions permitting, to obtain new debt and equity capital from external markets when required. Under the short-form base shelf prospectus, Capital Power may raise up to \$3 billion by issuing common shares, preferred shares, subscription receipts exchangeable for common shares and/or other securities of the Company and/or debt securities. This prospectus expires in June 2020.

If the Canadian and U.S. financial markets become unstable, Capital Power's ability to raise new capital, to meet its financial requirements, and to refinance indebtedness under existing credit facilities and debt agreements may be adversely affected. Capital Power has credit exposure relating to various agreements, particularly with respect to its PPA, energy supply contract, trading and supplier counterparties. While Capital Power continues to monitor its exposure to its significant counterparties, there can be no assurance that all counterparties will be able to meet their commitments.

### Off-statement of financial position arrangements

As at December 31, 2019, the Company has \$239 million of outstanding letters of credit for collateral support for trading operations, conditions of certain service agreements and to satisfy legislated reclamation requirements. If the Company were to terminate these off-statement of financial position arrangements, the penalties or obligations would not have a material impact on the Company's financial condition, results of operations, liquidity, capital expenditures or resources.

## Capital resources

| (unaudited, \$ millions)                | As at December 31 |              |
|---|-------------------|--------------|
|   | 2019              | 2018         |
| Loans and borrowings                    | 3,413             | 2,647        |
| Lease liabilities <sup>1</sup>          | 111               | 18           |
| Less cash and cash equivalents          | (248)             | (182)        |
| Net debt                                | 3,276             | 2,483        |
| Share capital                           | 3,441             | 3,200        |
| Deficit and other reserves <sup>2</sup> | (377)             | (190)        |
| Non-controlling interests               | 37                | 43           |
| Total equity                            | 3,101             | 3,053        |
| <b>Total capital</b>                    | <b>6,377</b>      | <b>5,536</b> |

<sup>1</sup> Includes the current portion disclosed within deferred revenue and other liabilities.

<sup>2</sup> Balance as at December 31, 2018 has been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16, see Accounting Changes.

## CONTRACTUAL OBLIGATIONS, CONTINGENT LIABILITIES, OTHER LEGAL MATTERS AND PROVISIONS

| (unaudited, \$ millions)   | Payments due by period |            |            |            |            |              | Total        |
|--|------------------------|------------|------------|------------|------------|--------------|--------------|
|  | 2020                   | 2021       | 2022       | 2023       | 2024       | Thereafter   |              |
| Loans and borrowings <sup>1,2</sup>                                | 824                    | 315        | 17         | 17         | 787        | 1,246        | 3,206        |
| Interest on loans and borrowings                                   | 134                    | 101        | 92         | 91         | 85         | 213          | 716          |
| Trade and other payables <sup>3</sup>                              | 282                    | -          | -          | -          | -          | -            | 282          |
| Lease liabilities  | 10                     | 9          | 9          | 9          | 9          | 113          | 159          |
| Capital – growth projects <sup>4</sup>                             | 142                    | 101        | -          | -          | -          | -            | 243          |
| Capital – commercial initiatives <sup>5</sup>                      | 90                     | 70         | -          | -          | -          | -            | 160          |
| Additional investment in C2CNT                                     | 26                     | -          | -          | -          | -          | -            | 26           |
| Decommissioning provisions <sup>6</sup>                            | 4                      | 5          | 38         | 4          | 4          | 435          | 490          |
| Energy purchase and transportation contracts <sup>7</sup>          | 189                    | 80         | 44         | 44         | 44         | 446          | 847          |
| Operating and maintenance contracts                                | 60                     | 65         | 55         | 38         | 35         | 217          | 470          |
| Environmental credits <sup>8</sup>                                 | 30                     | -          | 2          | -          | 6          | 6            | 44           |
| Commodity and other derivative liabilities net of financial assets | -                      | -          | -          | 3          | 2          | 8            | 13           |
| <b>Total</b>   | <b>1,791</b>           | <b>746</b> | <b>257</b> | <b>206</b> | <b>972</b> | <b>2,684</b> | <b>6,656</b> |

<sup>1</sup> Repayments of loans and borrowings exclude fair value differentials of \$19 million related to debt assumed on previous asset acquisitions and \$213 million related to repayments of tax-equity financing through non-cash tax-equity attributes.

<sup>2</sup> Payments on loans and borrowings for 2020 include \$559 million of Goreway unsecured senior debt due in September 2020. Subsequent to year end, the Company extended the bank facility to January 2027.

<sup>3</sup> Excluding accrued interest on loans and borrowings of \$19 million.

<sup>4</sup> Capital Power's obligations for capital – growth projects in future periods include Cardinal Point Wind, Whitla Wind 2, the finalization of construction activities for Whitla Wind 1, and expected spend on other development sites and projects in 2020. Obligations for 2021 include expected spend for Whitla Wind 2. These obligations exclude interest to fund construction of \$10 million and refundable transmission system contribution payments.

<sup>5</sup> Capital Power's obligations for capital – commercial initiatives in future periods include the combustion turbine upgrade project for Decatur Energy, the Genesee dual-fuel project (see Significant Events), the Genesee Performance Standard project, and various other projects designed to either increase the capacity or efficiency of their respective facilities or to reduce emissions.

<sup>6</sup> Capital Power's decommissioning provisions reflect the undiscounted cash flows required to settle obligations for the retirement of its generation facilities and the Genesee Coal Mine.

- <sup>7</sup> Energy purchase and transportation contracts include natural gas transportation contracts which are based on estimates that are subject to changes in regulated rates for transportation and natural gas purchase contracts. The estimates for natural gas purchase contracts are subject to changes in expected consumption levels, and have expiry terms ranging from 2020 to 2037.
- <sup>8</sup> Future environmental credits purchases are presented net of future environmental credits sales.

### **Contingent liabilities**

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

### **Other legal matters**

In each of 2017, 2018, and 2019, the Government of Alberta (GoA) withheld approximately \$2.7 million from the Company's annual off-coal payment, on the basis of an alleged "implied term" of the Off-Coal Agreement. Capital Power believes there was no such implied term and has therefore sued the GoA for recovery of the withheld amount and specific performance for future payments. Similarly, the GoA amended its Linear Property Assessment Guidelines in 2017 to eliminate the anticipated cessation of coal emissions (and related business closures) from being considered in property tax assessments, which erroneously suggests that the off-coal payments were intended to compensate the Company for non-net book value related costs. Capital Power has also commenced litigation on the basis that this provision discriminatorily applies only to three coal generators.

### **Line Loss Rule Proceeding provision**

Capital Power participated in the Line Loss Rule (LLR) Proceeding before the Alberta Utilities Commission (AUC) regarding loss factors that form the basis for certain transmission charges paid by Alberta generators, including Capital Power. The LLR Proceeding addressed the replacement of the non-compliant LLR as well as the possible correction of line loss charges and credits for the years 2006 up to and including 2016.

The Company is participating in legal or regulatory processes rendering the final outcome of the LLR Proceeding still unknown. However, based on current AUC decisions, Capital Power would incur additional charges related to historical periods and, as such, has recorded a provision of \$15 million pertaining to the estimated net liability for its currently held Alberta assets. The recorded provision reflects the Company's estimated net liability. It is expected that the invoicing process will result in gross billings to Capital Power of which those amounts not attributable to Capital Power will then be recovered from the appropriate parties. Though the Alberta Electric System Operator had indicated that invoicing for the line loss adjustments would not occur until 2021, it is now seeking an order from the AUC to accelerate and commence the invoicing process in 2020. Until such an order is granted, however, no change in invoice timing is expected. As a result, the estimated net liability is recorded as a non-current provision at December 31, 2019. Upon closing of the acquisition of the additional 50% interest in Genesee 3 and divestiture of the Company's interest in Keephills 3 (see Significant Events) on October 1, 2019, the Company recorded a \$6 million increase to the provision in the fourth quarter of 2019, which increased the previously recorded provision of \$9 million. The increase in the provision is a result of Genesee 3 being an older asset which therefore has greater exposure to the retroactive line loss adjustments.

## **RISKS AND RISK MANAGEMENT**

The Company's approach to risk management is to identify, monitor and manage the key controllable risks facing the Company and to consider appropriate actions to respond to uncontrollable risks. Risk management includes the controls and procedures for reducing controllable risks to acceptable levels and the identification of the appropriate actions in cases of events occurring outside of management's control. Acceptable levels of risk are established by the Board of Directors of Capital Power and govern the Company's decisions and policies associated with risk. The Board of Directors of Capital Power reviews the Company's risk profile on a bi-annual basis and material changes to the risk profile as required.

Capital Power employs an Enterprise Risk Management Program (ERM Program) to identify, evaluate, report and monitor key risks that may affect the achievement of the Company's strategic and related business objectives. During 2019 the ERM Program was updated to align with the Committee of Sponsoring Organization's (COSO) standard for risk management, COSO Enterprise Risk Management – Integrated Framework, which was released in 2017. Previously, the ERM Program aligned with the International Organization for Standardization's (ISO) ISO 31000. The change from the ISO to COSO framework did not result in significant changes to the ERM Policy and the Company continues to undertake risk assessment in conjunction with core corporate business strategy and planning processes.

Risk management at Capital Power is carried out at several levels and is subject to the oversight of the Board of Directors of Capital Power. The President and Chief Executive Officer has ultimate accountability for managing the Company's risks and approves the framework for enterprise risk management. The President and Chief Executive Officer as well as the rest of the executive team provide general oversight and policy reviews and recommendations, meeting periodically to review enterprise risk management performance and to evaluate significant or emerging risks.

The Vice President of Risk Management and Internal Audit is responsible for the enterprise risk management framework, including developing risk management policies and processes and monitoring the Company's compliance with said policies and processes by performing periodic reviews and internal audits. They are also responsible for the leadership of the commodity and credit risk management (middle office) function, security and contingency planning, as well as insurance risk management. Individual executive risk owners are accountable for carrying out the risk management and mitigation activities associated with the risks in their respective operations. All Capital Power employees are expected to understand the risks that fall within their areas of responsibility and to manage these risks within approved risk tolerances.

Management views risk management as an ongoing process and continually looks for ways to enhance the Company's risk management framework.

Capital Power's principal risk factors could have an adverse impact on the Company's business, prospects, financial condition, results of operations, cash flow, liquidity, capital expenditures, or resources. Not only do these risks provide Capital Power with exposure to negative consequences but also to the possibility that positive consequences will be missed. The identified risk factors are interdependent and the potential impact of any one factor is generally difficult to quantify as the impact of other risk factors changes at the same time or at a subsequent time. These principal risk factors are discussed below:

### **Climate change risk**

Capital Power has prepared an assessment of climate-related risks and opportunities to conform with the recommendations of the Task Force on Climate-related Financial Disclosure. This involved exploring the resulting risks and opportunities of three different scenarios, including scenarios with both favourable and unfavourable outcomes, and one of which was a scenario in which global temperatures are reduced to limit the global temperature increase to 2 degrees Celsius (or lower) above pre-industrial levels. This document can be accessed on the Company's website via the following link: <https://www.capitalpower.com/2019-capital-power-climate-change-disclosure-report-tcf>.

Environmental risk discussion is incorporated across this and other subsections of this Risk and Risk Management section including legal, regulatory and stakeholder risk, people risk, operation and maintenance of equipment and systems risk, extreme natural and other unexpected occurrences, energy supply risk, and reputation risk.

Climate change will be the primary theme driving the industry in which Capital Power operates for the foreseeable future. Deep decarbonization initiatives therefore represent a significant opportunity for power generation and Capital Power.

As such, the risks, opportunities, and environmental compliance obligations associated with climate change and decarbonization have been directly integrated into Capital Power's annual business strategy and planning process. The Company has assessed which technologies could prevail in the short, medium and long term under various scenarios. Capital Power intends to evolve with the power market and ensure that the Company's generation portfolio is an optimal mix of low cost, reliability and low carbon.

#### ***Strategies employed for managing climate change risk:***

- Portfolio evolution to lower emitting and renewable assets resulting in a lower greenhouse gas compliance obligations.
- Development of significant expertise in the development and construction of renewables facilities.
- Active compliance cost management via an active presence in environmental commodity markets.
- Regular engagement with government bodies to participate in the development of carbon policy.
- Proactive pursuit of opportunities to enhance the reliability and efficiency of the Company's renewables facilities.
- Development of the Genesee Performance Standard program targeting efficiency and performance improvements to both natural gas and coal operations.
- Development of expertise and the investment in carbon capture and utilization technology, such as C2CNT.

Over the short and medium term, Capital Power will continue to focus on growing renewable and natural gas opportunities in Canada and the U.S., and transitioning fuel at existing facilities from coal to natural gas or renewable sources. Capital Power anticipates a continual evolution towards carbon free generation through the medium and long term. The intention is to monitor technologies in the short term and potentially pursue these new technologies in the medium and long term if they align with our competencies.

### **Legal, regulatory and stakeholder risk**

Capital Power is subject to risk associated with changing political conditions and with changes in federal, provincial, state, or local laws and regulations or common law and their interpretation by relevant authorities. It is not possible to predict with complete accuracy all changes in the legislative and regulatory environment or their impact on the Company's business, operations, or the markets in which the Company operates.

Capital Power is required to maintain numerous licenses, permits and governmental approvals for the development,

construction and operation of its projects and participation in its markets. If Capital Power fails to satisfy the conditions of these instruments, there could be an adverse impact on the effectiveness and cost of those projects or operations. Many of the regulatory approval processes for the development, construction and operation of power generation facilities require stakeholder input. Accordingly, progress in Capital Power's development, construction and operational activities could be impeded by stakeholder intervention. Changes in law and regulatory requirements may also adversely impact the market dynamics for Capital Power, the participation levels of counterparties that Capital Power relies on to support its portfolio optimization strategies and the costs associated with participating in these markets.

Capital Power's assets are emitters of various air pollutants including CO<sub>2</sub>, NO<sub>x</sub>, SO<sub>2</sub>, mercury, and particulate matter. Accordingly, Capital Power's operations are subject to extensive environmental laws, regulations and guidelines relating to the generation and transmission of electricity, pollution and protection of the environment, health and safety, air emissions, water usage, wastewater discharges, hazardous material handling and storage, treatment and disposal of waste and other materials, remediation of sites, and land-use responsibility.

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

The Company is subject to requirements around minimizing the impact to wildlife at its wind facilities. Capital Power complies with all regulatory requirements which include completing pre-disturbance bird and bat studies and post-construction bird and bat monitoring programs.

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

See Regulatory Matters for further discussion of current regulatory items.

***Strategies employed for managing legal, regulatory and stakeholder risk:***

- Predict and identify existing, new or changed laws or regulations, or changed interpretations of such, and prepare appropriate responses or plans.
- Comply with all applicable laws, regulations and guidelines and monitor compliance.
- Perform environmental compliance audits and take corrective actions as necessary.
- Establish positive relationships with relevant levels of government, agencies and stakeholders.
- Participate in all relevant consultation processes. Execute on-time permitting, license renewals and other activities associated with laws and regulations.
- Proactively identify environmental risks within operations, maintenance and construction activities and promote awareness throughout and at all levels of the Company.
- Ensure that contractors align with Capital Power's environmental policies and procedures.
- Support the timely development of appropriate transmission capability through active relationships with regulators and government.

**Power price risk**

The market price for electricity, in the jurisdictions and markets in which Capital Power operates, affects Capital Power's revenues. Capital Power buys and sells some of its electricity in the Alberta wholesale market and such transactions are settled at spot market prices. Market electricity prices are dependent upon a number of factors including: the projected supply and demand of electricity, the bidding strategy of other generators offering electricity in Alberta, the asset management plans of the Balancing Pool, the price of raw materials that are used to generate electricity, the cost of complying with applicable environmental and other regulatory requirements, the structure of the particular market, and weather conditions. Natural gas price levels may impact power prices in the markets that the Company participates in. It is not possible to predict future electricity prices with certainty, and electricity price volatility could therefore have a material effect on Capital Power.

Electricity sales associated with the PPA for Genesee 1 and 2 are accounted for as long-term fixed margin contracts, which limits the impact of swings in wholesale electricity spot prices, unless plant availability drops significantly below the PPA target availability for an extended period. Electricity sales and steam sales associated with the Joffre facility located at the Nova Chemicals Company (NOVA) petrochemical complex are subject to market price variability as there are provisions in the contract with NOVA that require the facility to run to provide steam to the host facility,

irrespective of market prices. Although the Company's Genesee 3 plant is not covered by a long-term commercial contract, it is a baseload coal-fired generating plant with relatively low variable costs that generally runs when it is available. For the Company's Genesee 3, Clover Bar Energy Centre, Halkirk, Joffe and Shepard facilities, spot electricity prices affect profitability.

Capital Power uses derivative instruments, including futures, forwards, options and swaps, to manage its power price and financial market risks inherent in its electricity generation operations. These activities, although intended to mitigate price volatility, expose Capital Power to other risks. When Capital Power sells power forward, it gives up the opportunity to sell power at potentially higher prices in the future. Selling forward may also result in losses if the underlying price to provide replacement power, in the event of an outage, turns out to be greater than the contract price. In addition, Capital Power purchases and sells electricity-based contracts for merchant trading purposes. In the future, Capital Power could recognize financial losses on these contracts as a result of volatility in the market values of the underlying commodity.

Capital Power is exposed to market risks through its power marketing business, which involves the sale of energy, capacity and related products, and the purchase and sale of fuel, transmission services and emission allowances. These market risks primarily include volatility arising from location and from timing differences that may be associated with buying and transporting fuel, converting fuel into energy and delivering the energy to a buyer.

When aggregate customer electricity consumption (load shape) changes unexpectedly, Capital Power is exposed to price risk. Load shape refers to the different pattern of consumption between peak hours and off-peak hours. Consumption is higher during peak hours when people and organizations are most active; conversely, consumption is lower during off-peak hours at night or early morning.

**Strategies employed for managing power price risk:**

- The Risk Oversight Council (consisting of the senior management representatives appointed by the President and Chief Executive Officer) establishes the overall direction, structure, conduct and control of Capital Power's commodity exposure management activities, both in physical and financial derivatives markets.
- Execute the Company's growth strategy and re-contract generation facilities under new or extended contracts to maintain a balance of contracted and non-contracted facilities.
- Limit exposure to market price volatility by entering into long-term power contracts on certain of our generation units. Examples include contracts-for-differences, and back-to-back physical and financial contracts to lock in a margin.
- Maintain a commodity risk management program which provides the infrastructure to manage commodity and trading risks associated with the commodity business.
- Take market risk positions within authorized limits approved by Capital Power's executive team and Board of Directors.
- Report monthly key risk measures in relation to applicable limits to the executive team with quarterly review by the Board of Directors of Capital Power.
- Perform regular commodity portfolio stress testing to observe the effects of plausible scenarios taking into account historical price movements and certain hypothetical extreme events.
- Minimize exposure to extreme price fluctuations, especially during higher priced peak hour periods. To do this, Capital Power relies on historical load shape data provided by load settlement agents and local distribution companies to anticipate what the aggregate customer electricity consumption will be during peak hours. When consumption varies from historical consumption patterns and from the volume of electricity purchased for any given peak hour period, Capital Power is exposed to prevailing market prices because it must either buy electricity if it is short or sell electricity if it is long. Such exposures can be exacerbated by other events such as unexpected generation facility outages and unusual weather patterns.
- Limit exposure to spot price variability within specified risk limits by entering into various purchase and sale arrangements for periods of varying duration. Due to limited market liquidity and the variability of electricity consumption between peak hours and off-peak hours, it is not possible to hedge all positions every hour. The Company operates under specific policy limits, such as total commodity risk and stop-loss limits, and generally trades in electricity to reduce the Company's exposure to changes in electricity prices or to match physical or financial obligations.

**Fuel supply and price risk**

Capital Power requires energy from sources such as coal, natural gas, wind, wood waste, tire derived fuel (TDF) and the sun to generate electricity. A disruption in the supply or a significant increase in the price of any supplies required by Capital Power could have a material adverse impact on Capital Power's business, financial condition and results of operations. The price of energy supply is dependent upon a number of factors, including: the supply and demand for fuel supplies, the quality of the fuel, the cost of complying with applicable environmental and other regulatory requirements, and transportation costs. In the case of natural gas, prices are also influenced by weather conditions, storage inventory levels, drilling levels and production, imports and general economic conditions. Changes in any of these factors could increase Capital Power's cost of generating electricity or decrease Capital Power's revenues due

to production cutbacks.

The Genesee units have partial dual-fuel capability with 100% capability expected by 2021. By 2021 these units will have the flexibility to utilize up to 100% natural gas or coal, or a mix of the two, and will exclusively burn natural gas after coal is phased out on December 31, 2029. The dual-fuel transformation of the Genesee units introduces a greater degree of exposure to AECO natural gas prices than Capital Power has seen in the past. Accordingly, natural gas price volatility could have a significant impact on the Company's cost of generating electricity, particularly after 2029. Coal for the Genesee units is supplied under long-term agreements where the price is based on a cost-of-service model with annual updates for inflation, interest rate and capital budget parameters and is therefore not subject to coal market price volatility. A shortage of coal supply resulting from significant disruption of the coal mine equipment and operation could negatively impact generation and revenues from these plants.

Capital Power's natural gas-fired plants that are operated as merchant facilities are susceptible to the risks associated with the volatility of natural gas prices. Natural gas purchases for these power plants are made under variable price contracts and when a facility's heat rate (a measure of fuel efficiency) does not meet expectations, unit profitability is affected. Our risk exposure to variable natural gas pricing for Arlington, Decatur Energy, East Windsor, Goreway, Island Generation, and York Energy is substantially or fully mitigated by their long term PPAs. The facilities at Southport and Roxboro operate using a fuel mixture of wood waste, TDF, and a small amount of coal. Coal is sourced with regional coal suppliers, while the TDF and wood residuals are supplied under long-term agreements.

Capital Power uses derivative instruments for merchant trading purposes and to manage its natural gas and emission allowances and financial market risks inherent in its electricity generation operations to mitigate price volatility. In the future, Capital Power could recognize financial losses on these contracts as a result of volatility in the market values of the underlying commodities.

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

***Strategies employed for managing fuel supply and price risk:***

- The strategies described in power price risk above, such as the Risk Oversight Council, commodity risk management program, corporate governance over market positions and key risk measures and commodity portfolio stress testing also apply to natural gas risk.
- Establish long-term supply agreements.
- Establish long-term fixed transportation agreements.
- Maintain coal stock-pile inventories.
- Establish contracts with fuel cost flow-through provisions, where possible.
- Limit exposure to market price volatility by entering into long-term natural gas contracts on certain of our generation units. Examples include contracts-for-differences, and back-to-back physical and financial contracts to lock in a margin.
- Actively participate on the Genesee Coal Mine Joint Venture Committee and exercise contractual rights as required.
- Development of the Genesee Performance Standard program targeting efficiency and performance improvements to both natural gas and coal operations.
- Manage greenhouse gas compliance obligations via an active presence in environmental commodity markets.
- Thorough research and collection of wind and solar data prior to development or acquisition of facilities.
- Keep apprised of new technology that may increase generation by capturing more wind or sun.

**Operation and maintenance of equipment risk**

Power facilities operations are susceptible to outages due to failure of generation equipment, transmission lines, pipelines or other equipment, which could make the impacted facility unavailable to generate electricity.

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

The terms of the PPAs for owned facilities provide appropriate incentives to facility owners to keep the facilities well

maintained and operational. They also provide force majeure protection for high-impact, low-probability events including major equipment failure.

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

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

***Strategies employed for managing operation and maintenance of equipment risk:***

- Establish long-term service agreements with original equipment manufacturers on key assets including access to replacement components to limit down time in the event of a unit failure.
- Ensure constructive relationships with original equipment manufacturers.
- Execute appropriate operating and maintenance practices (reliability program) to minimize the likelihood of prolonged unplanned down time for the Company's facilities.
- Maintain an inventory of strategic spare parts which can reduce down time in the event of failure.
- Employ a root cause analysis program to ensure that problems are properly identified and addressed and that learnings are shared across the fleet.
- Establish and maintain appropriate business interruption, property, and boiler and machinery insurance to reduce the impact of prolonged outages caused by insured events.
- Ensure operations and sustainment projects are properly resourced with qualified and trained staff and contractors.

**Cybersecurity and systems risk**

Capital Power's ability to carry out its normal business processes is dependent on the performance and security of the key information and operational technology systems that support its core operations. Cyberattacks are possible and, if successful, could result in the loss or misuse of sensitive information and have significant adverse impacts on the Company's general operations. Failure of any key information and operational technology systems, during or after implementation, could result in significant lost revenues, increased costs or regulatory fines.

***Strategies employed for managing cybersecurity and systems risk:***

- Establish and maintain disaster recovery and backup plans to ensure systems and processes can be recovered in the event of a cyberattack.
- Regular monitoring of the Company's information and operational technology systems, logs and security events.
- Regular communication with external governmental and industry groups to share threat intelligence, trend analysis, and best practices.
- Periodic external audits of the effectiveness of the Company's information and operational technology security systems.
- System safeguards to combat the ever-increasing sophistication in phishing attacks.
- End user awareness training.
- Ensure critical assets meet all North American Electric Reliability Corporation Critical Infrastructure Protection standards, based on each respective asset's categorization and the applicable regulatory region's requirements.
- Minimize the customization of commercial software, monitor impacts on processes and internal controls and undertake remedial actions, if required.
- Ensure implementation projects are properly resourced with qualified and trained staff and contractors.
- Employ change management to ensure all enhancements are fully tested and approved, prior to production deployment.
- The Cybersecurity Leadership Council, comprised of senior leaders from various areas of the Company, meets regularly to monitor the effectiveness of the strategies above and to address new and evolving risks.

**People risk**

Capital Power's ability to continuously operate its facilities and grow the business is dependent upon attracting, retaining and developing sufficient labour and management resources. Capital Power is experiencing a demographic shift as a significant number of its employees are expected to retire over the next several years. Failure to secure sufficient qualified labour may negatively impact Capital Power's operations or construction and development projects, or may increase expenses. Capital Power's current collective bargaining agreements expire periodically. Although not a common occurrence in Capital Power's history, the renegotiation of the collective agreements bears

the risk of labour disruption or significant increases in labour costs.

The Company's collective agreement with UNIFOR 829, which represents power engineers at the Genesee power plant, was ratified during 2019 and expires on December 19, 2020. The Company's collective agreement with IBEW 1007, which represents all employees directly engaged in the maintenance of the electrical generation at Genesee, was also ratified during 2019 and expires on December 19, 2020.

The Company's collective agreement with CSU 52, which represents certain administrative, technical, professional, and information technology employees located in the Edmonton corporate office and the Genesee power plant, expired on December 23, 2018. All existing terms, conditions and wage rates in the expired collective agreement will continue in force and effect until the new collective agreement is ratified. Negotiations related to the new collective agreement are currently underway.

***Strategies employed for managing human resources risk:***

- Maintain good human resource programs and practices including appropriate ethics and employee conduct policies and programs, a diversity and inclusion committee, employee engagement tracking, monitoring of developments and contingency planning.
- Maintain competitive compensation programs.
- Maintain succession plans for key positions.
- Maintain good collective bargaining capability, programs and practices.

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

***Strategies employed for managing health and safety risk:***

- Maintain an organization-wide health and safety culture and system with regular measurements and compliance audits.
- Maintain facility specific safety programs and work procedures.
- Ensure that contractors and other stakeholders align with Capital Power's health and safety policies and procedures.

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

***Strategies employed for managing cost optimization and efficiency risk:***

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

**Finance risk**

Capital Power's ability to fund current and future capital requirements, along with its working capital needs is dependent upon access to financial markets. Uncertainty and volatility in the Canadian and U.S. financial markets may adversely affect Capital Power's ability to access and arrange financing under favourable terms and conditions. The cost of capital will also depend upon prevailing market conditions and the business performance of Capital Power as indicated by the assigned corporate credit ratings (see Liquidity and Capital Resources). If Capital Power is unable to access sufficient amounts of capital on acceptable terms, there could be an adverse effect on its business plan and financial condition.

***Strategies employed for managing credit rating risk:***

- Maintain strong relationships with credit rating agencies.
- Develop flexible financial structuring to adapt if circumstances would cause a credit rating downgrade from investment grade.

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

***Strategies employed for managing liquidity risk:***

- Monitor cash and currency requirements on a regular basis by preparing short-term and long-term cash flow forecasts and by matching the maturity profiles of financial assets and liabilities to identify financing requirements.
- Maintain strong relationships with banks, investment banks and other financial counterparties.

- Meet financing requirements through a combination of committed and demand revolving credit facilities, financings in public and private capital debt markets, and equity offerings.

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

The Company is party to a contract whereby it sells RECs to Pacific Gas and Electric Company (PG&E) which, in January 2019, filed for bankruptcy and subsequently had its credit rating downgraded to “D”, representing default. PG&E faces political and regulatory pressure and needs the support of multiple stakeholders before they will be able to exit from bankruptcy. At this time, PG&E has continued to fulfill their obligations to the Company under the contract. As PG&E’s bankruptcy proceeds, the Company will continue to monitor the situation. If at some point, PG&E is no longer able to fulfill their obligations under the contract, the Company would have to pursue replacement contracts which may not be replaceable on similar terms to the existing contract.

***Strategies employed for managing counterparty credit risk:***

- Maintain a credit policy including limits for credit risk exposure levels.
- Conduct periodic credit reviews on existing counterparties.
- Use credit enhancements such as cash deposits, prepayments, parent company guarantees, bank letters of credit, master netting agreements, margin accounts and credit derivatives.
- Monitor and report credit risk exposures.

**Extreme natural and other unexpected events risk**

Capital Power’s operations are exposed to potential damage resulting from extreme storm and other weather conditions and natural disasters. In addition, major accidents or events including environmental incidents and physical terrorist attacks are possible and the negative consequences could be significant.

***Strategies employed for managing extreme events risk:***

- Establish and maintain emergency and other related contingency planning measures to enable the timely response to and recovery from extreme weather and other events.
- Maintain appropriate insurance coverage.
- Regular communication with external governmental and industry groups to share threat intelligence, trend analysis, and best practices.
- Establish and maintain a physical security management program that is based on industry guidelines and best practices.
- Periodic internal audits of our facilities to ensure that physical security measures are aligned with the Company’s risk profile.

**Competition, acquisition, development and construction risk**

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

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

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

***Strategies employed for managing competition, acquisition, development, and construction risk:***

- Perform detailed project analyses, risk assessments and due diligence prior to and during construction or acquisition.
- Perform post-implementation evaluation of all major acquisition and development projects to improve internal capabilities and processes and to leverage lessons learned for future projects. When necessary, corrective actions are taken to increase the likelihood of investment recovery.
- Enter into favourable long-term contracts for the projects' output, whenever possible.
- Establish positive relationships with suppliers.

Ongoing research and development activities improve upon existing power technologies and reduce the cost of alternative methods of power generation. As identified by ongoing research and development activities, Capital Power's facilities may over time be unable to compete with newer more efficient facilities utilizing improvements to existing power technologies and cost-efficient new technologies.

**Tax risk**

Capital Power's operations are complex and the determination of income taxes involves income tax interpretations, regulations and legislation that are continually changing. It is not possible to predict, with complete accuracy, changes in the legislative environment or their impact on the Company's income tax status. Future changes in tax legislation may have an adverse impact on Capital Power, its shareholders and the value of the Company's common shares.

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

The statutory income tax rates on income before tax were 26.5% and 27% for 2019 and 2018, respectively. The effective income tax rate can change depending on the mix of earnings from various jurisdictions, and on deductions and inclusions in determining taxable income that do not fluctuate with earnings.

***Strategies employed for managing tax risk:***

- Develop and maintain tax expertise and resources necessary to interpret tax legislation.
- Consult with all levels of government with respect to tax policy development and proposed legislation.
- Develop and maintain tax expertise and resources necessary, including third party advisors, to understand tax legislation.
- Comply with tax laws of jurisdictions that Capital Power operates in.

**Foreign exchange risk**

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

***Strategies employed for managing foreign exchange risk:***

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

**Performance of assets of joint arrangements risk**

Some of Capital Power's assets are operated through joint arrangements under which Capital Power is not the operator of the associated assets. There is a risk that the assets will not be operated in accordance with Capital Power's expectations or requirements which could result in financial loss to the Company. While contractual agreements help minimize risk, there can be no assurance that such operations will continue to be effective.

The occurrence of an event which disrupts the ability of facilities operated by external parties to produce or sell power or thermal energy for an extended period would likely require Capital Power to replace the electricity at market prices prevailing at that time. Depending on market liquidity, these market prices could be significantly higher than the prices inherent in the joint arrangements, thus increasing the cost of energy purchases to Capital Power.

***Strategies employed for joint arrangements risk:***

- Work with facility owner and/or operator to execute appropriate operating and maintenance practices to minimize the likelihood of prolonged unplanned down time.
- Measure performance against benchmarks.
- Establish positive relationships with all parties to the joint arrangements.
- Actively participate in management committees of joint operations.

- Proactively manage the contract's rights and obligations based on thorough understanding of the contract.
- Proactively assess and resolve any contract issues including force majeure claims and appropriately respond with dialogue, advocacy, negotiation, arbitration and legal actions, as required.

### **General economic conditions, business environment and other risks**

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

Evolving technologies in the industry may impact the success of the Company's strategy (see Corporate Strategy). Management evaluates the Company's strategy on an ongoing basis and monitors technology changes in the industry. The Company's focus on sustainability is a key component in ensuring that the Company's business model remains flexible and resilient as technology evolves.

The Company is dependent upon cash dividends, distributions or other transfers from its subsidiaries, including CPLP, in order to repay any debt the Company may incur, to make dividend payments to its shareholders and to meet its other obligations. The right of the Company, as a unitholder or shareholder of these entities, to realize on the assets of these entities in the event of their bankruptcy or insolvency, would be subordinate to the rights of their creditors and claimants preferred by statute. The terms of the credit facilities of the Company's subsidiaries prohibit them from making distributions if an event of default has occurred and is continuing or would reasonably be expected to result from the distribution. As of December 31, 2019, the Company loaned \$2,704 million to the respective subsidiaries under subordinated debt agreements. The terms of these agreements allow interest to be deferred. If interest is deferred, then CPLP has covenanted not to make distributions on any of its outstanding common limited partnership units.

Weather can have a significant impact on Capital Power's operations. Temperature levels, seasonality and precipitation, both within Capital Power's markets and adjacent geographies, can affect the level of demand for electricity and natural gas, thus resulting in electricity and natural gas price volatility.

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

The Company considers reputation risk to be a consequence of all other risks that it faces. If a certain risk factor results in positive or negative consequences to the Company, its reputation may also be positively or negatively affected. In part, the Company manages its reputation risk by employing appropriate risk management strategies for all identified risks.

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

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

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

### **ENVIRONMENTAL MATTERS**

The Company recorded decommissioning provisions of \$356 million as at December 31, 2019 (\$259 million as at December 31, 2018) for its generation facilities and the Genesee Coal Mine as it is obliged to remove the facilities at the end of their useful lives and restore the facility and mine sites to their original condition. Decommissioning provisions for the Genesee Coal Mine are incurred over time as new areas are mined, and a portion of the liability is settled over time as areas are reclaimed prior to final pit reclamation. 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.

The Company has forward contracts to purchase environmental credits totaling \$467 million and forward contracts to sell environmental credits totaling \$435 million in future years. Included within these forward purchases and sales are net purchase amounts which will be used by the Company to comply with applicable environmental regulations and net sales amounts related to other emissions trading activities.

## REGULATORY MATTERS

### Alberta

On April 16, 2019, the Province of Alberta held an election resulting in the United Conservative Party forming a majority government that replaced the previous New Democratic Party. On July 24, 2019, the Government of Alberta announced its decision to cancel plans to transition the province's electricity market structure to a capacity market from an energy-only market. Capital Power remains well positioned to compete in an energy-only market through our market and commodity management expertise, young, diverse and efficient fleet of assets, and pipeline of development projects.

In July of 2019, the Government of Alberta also announced that the province's existing carbon policy, the Carbon Competitiveness Incentive Regulation (CCIR), would be replaced by a new regime, the Technology Innovation and Emissions Reduction (TIER) program effective January 1, 2020. The TIER program and its impact on electricity producers is expected to be largely comparable to CCIR. In 2019, the federal Greenhouse Gas Pollution Pricing Act (GGPPA) Regulations were amended to implement charges on fossil fuels for Alberta beginning January 1, 2020 in response to the absence of an Alberta economy wide carbon levy. The governments of Alberta, Saskatchewan, Manitoba and Ontario have put forward constitutional challenges of the GGPPA. Alberta's TIER regime, including as it applies to large power generation, has been deemed compliant with federal standards for 2020.

In 2016, the Canadian federal government announced the Pan-Canadian Framework (PCF) on Clean Growth and Climate Change. The key elements of the PCF are carbon pricing as implemented by the provinces and territories, coal phase-out by December 31, 2029, and the opportunity to extend the life of coal units through conversion to natural gas. The Canadian federal government's Output-Based Pricing System came into effect in January 2019 and applies to provinces and territories without their own equivalent program (currently Ontario, Manitoba, New Brunswick, Prince Edward Island, and select sectors in Saskatchewan). In December 2019, Alberta's TIER framework was deemed equivalent for 2020. Changes to the Regulations Limiting Carbon Dioxide Emissions from Natural Gas-fired Generation were also finalized in 2018 and set the GHG emission requirements for coal units converted to natural gas (CTG) units. These regulations impacted the useful lives of the Company's current coal assets, commencing in 2019, as described within Use of Judgments and Estimates.

### Ontario

Ontario's IESO unexpectedly announced in July 2019 that it was cancelling further work on a broad capacity market framework. In reviewing its long-term planning outlook, the IESO advised that it expects sufficient capacity to exist in the market for the next ten-year period particularly if resources are re-acquired when their existing contracts expire. The process to recontract assets, including those owned by the Company, is expected to commence in 2020 and is likely to include a combination of bilateral contract extensions and competitive processes.

Concurrently, the Ontario government issued a directive on November 6, 2019, requiring the IESO to retain a third party and undertake a targeted review of existing large gas and wind generation contracts to identify opportunities to lower overall electricity costs. A report on key findings and recommendations resulting from the review is due by February 28, 2020. As part of this process, the IESO will also seek the perspectives of contract counterparties such as Capital Power on potential cost-savings opportunities. As at this time, it is unknown how the results of the targeted review will affect the Company.

On October 31, 2018, the Government of Ontario passed Bill 4, the *Cap and Trade Cancellation Act, 2018*. Bill 4 repealed the *Climate Change Mitigation and Low-carbon Economy Act, 2016*, and set out the legal framework for a wind-down of the Cap and Trade program. The Federal GGPPA imposes a carbon pricing system on Ontario and other provinces that do not have an equivalent system in place to meet targeted GHG reduction levels. On July 4, 2019, the Government of Ontario published the final Greenhouse Gas Emissions Performance Standards (Ontario Regulation 241/19) and the regulation also came into effect on the day it was filed. However, the first compliance period is not until the Federal Government removes Ontario from Part 2 of Schedule 1 of the Federal GGPPA. As such, the GGPPA will remain in effect in Ontario until 2022. The PPAs for York Energy, East Windsor and Goreway have a provision that triggers a contractual amendment, the effect of which will enable recovery of any imposed federal carbon compliance costs. Accordingly, the Company does not believe the implementation of a federal carbon pricing system or any potential provincial GHG system will have a material adverse effect on its financial condition and results of operations.

## USE OF JUDGMENTS AND ESTIMATES

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

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

### Critical judgments in applying accounting policies

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

| Judgment  | Management applies judgment to evaluate  | Resulting conclusions  |
|---|--|--|
| Cash generating units                                   | What constitutes a CGU based on the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. | CGUs were determined giving consideration to geographic proximity and shared risk exposure and risk management.  |
| Asset impairment  | Whether events or circumstances may indicate that an asset's carrying amount exceeds its recoverable amount.   | No indicators were identified during 2019 that required impairment testing beyond annual testing of the East Windsor CGU which contains goodwill.  |
| Whether an arrangement contains a lease                 | Whether a PPA or similar contract conveys the right to control the Company's property, plant and equipment in return for payment, and, if so, a lease exists.                                      | <p>Contracts that convey the right to control Capital Power's property, plant and equipment and, therefore, are considered operating leases with the Company as the lessor:</p> <ul style="list-style-type: none"> <li>• Genesee 1 and 2 PPA</li> <li>• Island Generation PPA</li> <li>• Decatur Energy tolling agreement</li> <li>• Arlington Valley tolling agreement</li> </ul> <p>The Company has been determined to be the lessee for the following:</p> <ul style="list-style-type: none"> <li>• Beaufort Solar sale and leaseback agreement</li> <li>• Various office, equipment and land leases</li> </ul>   |
| Control of subsidiaries that are less than wholly-owned | Whether certain subsidiaries are controlled by the Company even though the subsidiaries are less than wholly-owned.  | Since the Company has majority rights, the Genesee Coal Mine and Macho Springs facility are consolidated and have non-controlling interests.   |
| Classification of joint arrangements                    | How joint arrangements structured through a separate vehicle should be classified; either as a joint venture or a joint operation.   | <p>York Energy is accounted for as a joint venture because each of the partners effectively has rights to the net assets of the arrangement.</p> <p>Joffre, Shepard and Genesee 4 and 5 are accounted for as joint operations because each of the joint operators has rights to the assets and obligations for the liabilities of the arrangements and rights to the corresponding revenues and obligations for the corresponding expenses.</p>  |
| Operating segments                                      | Whether the Company operates in one or multiple business segments, and if the Company operates in multiple segments, how the aggregation criteria are applied to reportable segments.              | <p>The Company has aggregated its operating segments into one reportable business segment as its operating segments have similar products, production processes, types of customers, product distribution methods, regulatory environments and economic characteristics.</p> <p>Each operating segment is involved with the generation and sale of electricity, which includes the process of turning various fuel sources into electricity and managing the revenues and costs of such electricity, including engaging in trading activities. The Company's customers tend to be large industrial and commercial customers, independent system operators and government owned or sponsored entities. Given the similar size and credit profiles of these counterparties, they are deemed to be similar types of customers. The method of distributing electricity is the same across all facilities, and none of the Company's entities are rate-regulated.</p> |

## Assumptions and estimation uncertainties

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

| Estimate   | Impacts and assumptions subject to estimation uncertainty   |
|--|---|
| Measurement of fair values   | Carrying amounts for financial instruments <ul style="list-style-type: none"> <li>• Amounts and timing of future cash flows</li> <li>• Future prices</li> <li>• Future interest rate yield curves</li> <li>• Volatility</li> </ul>  |
|  | Impairment of financial and non-financial assets and liabilities <ul style="list-style-type: none"> <li>• Discount rates</li> <li>• Growth rates</li> <li>• Other cash flow assumptions including revenues, expenses and capital expenditures</li> <li>• Future generating capacity</li> <li>• Contract renewals and rates adjusted for inflation</li> <li>• Fuel mix at optimized levels</li> </ul>  |
|  | Decommissioning and other provisions <ul style="list-style-type: none"> <li>• Discount rates</li> <li>• Amount and timing of asset retirement</li> <li>• Extent of site remediation required</li> <li>• Future cash flows based on amount and timing of settlement of obligation</li> <li>• Expected customer renewals for other provisions</li> </ul>  |
|  | Share-based payments <ul style="list-style-type: none"> <li>• Expected volatility, option life and dividend yield</li> <li>• Risk-free interest rate</li> </ul>   |
|  | Purchase price allocations for financial and non-financial assets and liabilities <ul style="list-style-type: none"> <li>• Same fair value measurement factors and assumptions as applicable to determine carrying amounts for derivative financial instruments, impairment of financial and non-financial assets and liabilities, and decommissioning and other provisions.</li> </ul>   |
| Depreciation and amortization  | Assets useful lives are based on the life characteristics of common assets and the expectation of coal asset fuel conversion to allow for generation post-2029.<br><br>As a result of the Amendments to the Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity Regulations, and the changes to Regulations Limiting Carbon Dioxide Emissions from Natural Gas-fired Generation, commencing in 2019, Capital Power prospectively adjusted the useful lives of its current coal assets to reflect these new expected end of life dates. This included adjusting the lives of asset components that could be used in a CTG conversion to the new estimated life as set out by the federal government. |
| Recognition of deferred tax assets and availability of future taxable income against which carry forward tax losses can be used. | Deferred tax assets and income tax provisions are based on the likelihood that tax losses will be recovered from future taxable income.   |

## ACCOUNTING CHANGES

### Effective January 1, 2019

The Company adopted one new accounting standard as issued by the International Accounting Standards Board. The standard and impact to Capital Power were:

| Standard         | Description  | Impact to Capital Power and current implementation status   | Effective Date  |
|------------------|--|---|---|
| Leases (IFRS 16) | The new standard which replaced IAS 17 – Leases addresses the recognition, measurement, presentation and disclosure of leases. IFRS 16 provides a single lessee accounting model requiring lessees to recognize right-of-use assets and lease liabilities for all leases previously classified as operating leases, including but not limited to, office space leases and land leases. There are no changes to lessor accounting under the new standard. However, the criteria for assessing whether a contract contains a lease have changed. | <p>The Company elected not to grandfather lease assessments, as previously assessed under IAS 17 and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. Management reviewed all contracts and existing lease arrangements to determine the impact of the IFRS 16 adoption.</p> <p>For contracts determined to contain leases with the Company as the lessee under IFRS 16, the Company elected to apply the modified retrospective approach where the lessee does not restate comparative figures and the cumulative effect of initial application of the standard is recognized in the opening deficit balance. The Company recognized right-of-use assets for the underlying assets and lease liabilities for future lease payments.</p> <p>Management determined that certain PPAs and energy supply contracts that were previously considered to be finance leases with the Company as the lessor are no longer considered leases under IFRS 16, but rather are now accounted for under IFRS 15 – Revenue from Contracts with Customers. The transition impact for the former finance leases was accounted for retrospectively in accordance with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors and treated as a change in accounting policy.</p> | Effective for annual periods beginning on or after January 1, 2019. |

The adjustments to the impacted financial statement categories within the consolidated statements of financial position as a result of changes described in the IFRS 16 discussion above are as follows:

|                          | Previously stated at January 1, 2018 |         | Restated as at January 1, 2018 |          | Previously stated at December 31, 2018 |          | Restated as at December 31, 2018 |          | As at January 1, 2019 |
|--------------------------|--------------------------------------|---------|--------------------------------|----------|--|----------|----------------------------------|----------|-----------------------|
|                          | IAS 8                                |         | IAS 8                          |          | IAS 8                                  |          | IAS 8                            | IFRS 16  |                       |
| Assets <sup>1</sup>      | \$ 6,898                             | \$ (79) | \$ 6,819                       | \$ 7,660 | \$ (91)                                | \$ 7,569 | \$ 84                            | \$ 7,653 |                       |
| Liabilities <sup>2</sup> | 3,836                                | (22)    | 3,814                          | 4,541    | (25)                                   | 4,516    | 90                               | 4,606    |                       |
| Equity <sup>2</sup>      | \$ 3,062                             | \$ (57) | \$ 3,005                       | \$ 3,119 | \$ (66)                                | \$ 3,053 | \$ (6)                           | \$ 3,047 |                       |

<sup>1</sup> Under IFRS 16, assets related to leases as the lessee represent right-of-use assets and assets related to leases as the lessor represent property, plant and equipment.

<sup>2</sup> The opening deficit adjustments above reflect increase to the opening deficit balances, net of deferred tax impacts at a rate of 27% which also impacts the liabilities amounts as reductions to deferred tax liabilities.

The adjustments to the impacted line items within the consolidated statements of income pertaining to the IAS 8 accounting policy change related to the former finance leases where Capital Power was the lessor were:

|                               | Year ended December 31, 2019 |                    |        | Year ended December 31, 2018 |                    |        |
|-------------------------------|------------------------------|--------------------|--------|------------------------------|--------------------|--------|
|                               | Pre-policy change            | Post-policy change | Impact | Pre-policy change            | Post-policy change | Impact |
| Revenues                      | 1,690                        | 1,713              | 23     | 1,249                        | 1,272              | 23     |
| Depreciation and amortization | (438)                        | (473)              | (35)   | (300)                        | (335)              | (35)   |
| Income tax recovery (expense) | 3                            | 6                  | 3      | (93)                         | (90)               | 3      |
| Net income (loss) impact      |                              |                    | (9)    |                              |                    | (9)    |

## FINANCIAL INSTRUMENTS

The classification, carrying amounts and fair values of financial instruments held at December 31, 2019 and 2018 were as follows:

| (unaudited, \$ millions)   | Fair value hierarchy level <sup>1</sup> | December 31, 2019 |            | December 31, 2018 |            |
|--|---|-------------------|------------|-------------------|------------|
|  |   | Carrying amount   | Fair value | Carrying amount   | Fair value |
| <b>Financial assets:</b>   |   |                   |            |                   |            |
| Amortized cost   |   |                   |            |                   |            |
| Cash and cash equivalents  | N/A                                     | 248               | 248        | 182               | 182        |
| Trade and other receivables <sup>2</sup>                               | N/A                                     | 281               | 281        | 386               | 386        |
| Government grant receivable <sup>3</sup>                               | Level 2                                 | 476               | 435        | 511               | 505        |
| Fair value through income or loss                                      |   |                   |            |                   |            |
| Derivative financial instruments assets – current and non-current      | See Below                               | 234               | 234        | 148               | 148        |
| Fair value through other comprehensive (loss) income                   |   |                   |            |                   |            |
| Derivative financial instruments assets – current and non-current      | See Below                               | -                 | -          | 11                | 11         |
| <b>Financial liabilities:</b>  |   |                   |            |                   |            |
| Other financial liabilities  |   |                   |            |                   |            |
| Trade and other payables   | N/A                                     | 301               | 301        | 244               | 244        |
| Loans and borrowings <sup>3</sup>                                      | Level 2                                 | 3,413             | 3,505      | 2,647             | 2,645      |
| Fair value through income or loss                                      |   |                   |            |                   |            |
| Derivative financial instruments liabilities – current and non-current | See Below                               | 106               | 106        | 186               | 186        |
| Fair value through other comprehensive (loss) income                   |   |                   |            |                   |            |
| Derivative financial instruments liabilities – current and non-current | See Below                               | 192               | 192        | 18                | 18         |

<sup>1</sup> 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.

<sup>2</sup> Excludes current portion of government grant receivable.

<sup>3</sup> Includes current portion.

### Risk management and hedging activities

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

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

For example, the Company usually has more physical supply of power in Alberta from its generating units than the Company has contracted to physically sell. The Company utilizes financial sales contracts to reduce its exposure to changes in the price of power in Alberta. Economically, the Company benefits from higher Alberta power prices due to the net long position held since the Company's expected physical supply is in excess of the Company's physical and financial sales contracts. However, financial sales contracts that are not hedged for accounting purposes are recorded at fair value at each statement of financial position date and the offsetting anticipated future physical supply or economically hedged item is not. Accordingly, an increase in forward Alberta power prices can result in fair value

losses for accounting purposes whereas on an economic basis, these losses are offset by unrecognized gains on the physical supply. The economic gains will be recognized in later periods when the power is produced and sold. The opposite is true for forward price decreases in Alberta power.

The derivative financial instruments assets and liabilities held at December 31, 2019 and 2018 and used for risk management purposes were measured at fair value and consisted of the following:

| (unaudited, \$ millions)   |                            | As at December 31, 2019    |                      |                                |                          |             |
|--|----------------------------|----------------------------|----------------------|--------------------------------|--------------------------|-------------|
|  | 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                    | -                          | 191                  | -                              | 2                        | 193         |
|  | Level 3                    | -                          | 41                   | -                              | -                        | 41          |
|  |                            | -                          | 232                  | -                              | 2                        | 234         |
| Derivative financial instruments liabilities                     | Level 2                    | (23)                       | (192)                | (83)                           | -                        | (298)       |
|  | Level 3                    | -                          | -                    | -                              | -                        | -           |
|  |                            | (23)                       | (192)                | (83)                           | -                        | (298)       |
| <b>Net derivative financial instruments (liabilities) assets</b> |                            | <b>(23)</b>                | <b>40</b>            | <b>(83)</b>                    | <b>2</b>                 | <b>(64)</b> |

| (unaudited, \$ millions)   |                            | As at December 31, 2018    |                      |                                |                             |             |
|--|----------------------------|----------------------------|----------------------|--------------------------------|-----------------------------|-------------|
|  | Fair value hierarchy level | Commodity cash flow hedges | Commodity non-hedges | Interest rate cash flow hedges | Foreign exchange non-hedges | Total       |
| Derivative financial instruments assets                          | Level 2                    | 11                         | 120                  | -                              | 12                          | 143         |
|  | Level 3                    | -                          | 16                   | -                              | -                           | 16          |
|  |                            | 11                         | 136                  | -                              | 12                          | 159         |
| Derivative financial instruments liabilities                     | Level 2                    | (11)                       | (141)                | (7)                            | (1)                         | (160)       |
|  | Level 3                    | -                          | (44)                 | -                              | -                           | (44)        |
|  |                            | (11)                       | (185)                | (7)                            | (1)                         | (204)       |
| <b>Net derivative financial instruments (liabilities) assets</b> |                            | <b>-</b>                   | <b>(49)</b>          | <b>(7)</b>                     | <b>11</b>                   | <b>(45)</b> |

### 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 (loss) income 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 loss and recognized within finance expense over the life of the debt, consistent with the interest expense on the hedged debt.

### 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 the Company's 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**

As at December 31, 2019, management conducted an evaluation of the design and operation of the Company's disclosure controls and procedures to provide reasonable assurance that:

- (i) material information relating to the Company is made known to management by others, particularly during the period in which the Company's annual filings are being prepared, and
- (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation.

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

As at December 31, 2019, management conducted an evaluation of the design and operation of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's internal controls over financial reporting are appropriately designed and effective.

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

## SUMMARY OF QUARTERLY RESULTS

| (GWh)   | Three months ended |                |                |                |                |                |                |                |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | Dec 31<br>2019     | Sep 30<br>2019 | Jun 30<br>2019 | Mar 31<br>2019 | Dec 31<br>2018 | Sep 30<br>2018 | Jun 30<br>2018 | Mar 31<br>2018 |
| <b>Electricity generation</b>                             |                    |                |                |                |                |                |                |                |
| Total generation  | 6,437              | 6,808          | 5,500          | 5,782          | 5,406          | 5,213          | 4,584          | 5,026          |
| <b>Alberta commercial facilities</b>                      |                    |                |                |                |                |                |                |                |
| Genesee 3   | 1,015              | 492            | 502            | 500            | 372            | 495            | 468            | 479            |
| Keephills 3   | N/A                | 450            | 433            | 470            | 483            | 494            | 434            | 420            |
| Clover Bar Energy Centre 1, 2 and 3                       | 135                | 348            | 264            | 296            | 264            | 217            | 204            | 175            |
| Joffre  | 187                | 150            | 205            | 232            | 212            | 154            | 115            | 128            |
| Shepard Energy Centre                                     | 660                | 782            | 679            | 807            | 769            | 789            | 585            | 795            |
| Halkirk   | 129                | 86             | 107            | 120            | 130            | 85             | 103            | 132            |
| Clover Bar Landfill Gas                                   | -                  | -              | -              | -              | -              | -              | -              | -              |
|   | 2,126              | 2,308          | 2,190          | 2,425          | 2,230          | 2,234          | 1,909          | 2,129          |
| <b>Alberta contracted facilities</b>                      |                    |                |                |                |                |                |                |                |
| Genesee 1   | 848                | 803            | 556            | 837            | 877            | 829            | 751            | 811            |
| Genesee 2   | 826                | 795            | 698            | 848            | 850            | 799            | 647            | 663            |
| Whitla Wind 1   | 77                 | N/A            | N/A            | N/A            | N/A            | N/A            | N/A            | N/A            |
|   | 1,751              | 1,598          | 1,254          | 1,685          | 1,727          | 1,628          | 1,398          | 1,474          |
| <b>Ontario and British Columbia contracted facilities</b> |                    |                |                |                |                |                |                |                |
| Island Generation   | 8                  | 379            | 166            | 168            | -              | 17             | -              | 10             |
| York Energy   | 5                  | 3              | 4              | 4              | 2              | 3              | 3              | 2              |
| East Windsor  | 4                  | 2              | 3              | 2              | 1              | 4              | 2              | 2              |
| Goreway   | 157                | 304            | 76             | N/A            | N/A            | N/A            | N/A            | N/A            |
| K2 Wind   | N/A                | N/A            | N/A            | N/A            | 70             | 35             | 41             | 76             |
| Kingsbridge 1   | 34                 | 15             | 20             | 36             | 33             | 14             | 20             | 36             |
| Port Dover and Nanticoke                                  | 84                 | 46             | 65             | 99             | 78             | 43             | 70             | 108            |
| Quality Wind  | 130                | 73             | 77             | 74             | 112            | 74             | 98             | 78             |
| EnPower   | 10                 | 3              | 5              | 5              | 3              | 10             | 11             | 14             |
|   | 432                | 825            | 416            | 388            | 299            | 200            | 245            | 326            |
| <b>U.S. contracted facilities</b>                         |                    |                |                |                |                |                |                |                |
| Roxboro, North Carolina                                   | 86                 | 88             | 88             | 62             | 74             | 87             | 90             | 76             |
| Southport, North Carolina                                 | 127                | 112            | 121            | 99             | 106            | 104            | 118            | 111            |
| Decatur Energy, Alabama                                   | 656                | 709            | 372            | 408            | 674            | 784            | 576            | 669            |
| Arlington Valley, Arizona                                 | 912                | 878            | 750            | 394            | 87             | N/A            | N/A            | N/A            |
| Beaufort Solar, North Carolina                            | 6                  | 8              | 9              | 6              | 5              | 8              | 8              | 6              |
| Bloom Wind, Kansas  | 197                | 176            | 169            | 175            | 164            | 152            | 197            | 198            |
| Macho Springs, New Mexico                                 | 29                 | 21             | 43             | 39             | 31             | 16             | 43             | 37             |
| New Frontier Wind, North Dakota                           | 115                | 85             | 88             | 101            | 9              | N/A            | N/A            | N/A            |
|   | 2,128              | 2,077          | 1,640          | 1,284          | 1,150          | 1,151          | 1,032          | 1,097          |

| Facility availability                                     | Three months ended |                |                |                |                |                |                |                |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | Dec 31<br>2019     | Sep 30<br>2019 | Jun 30<br>2019 | Mar 31<br>2019 | Dec 31<br>2018 | Sep 30<br>2018 | Jun 30<br>2018 | Mar 31<br>2018 |
| Total average facility availability                       | 94                 | 96             | 92             | 96             | 94             | 98             | 93             | 96             |
| <b>Alberta commercial facilities</b>                      |                    |                |                |                |                |                |                |                |
| Genesee 3   | 100                | 96             | 100            | 100            | 74             | 98             | 98             | 97             |
| Keephills 3   | N/A                | 93             | 92             | 99             | 100            | 100            | 100            | 92             |
| Clover Bar Energy Centre 1, 2 and 3                       | 86                 | 96             | 91             | 97             | 85             | 88             | 90             | 93             |
| Joffre  | 89                 | 82             | 100            | 100            | 100            | 97             | 90             | 93             |
| Shepard Energy Centre                                     | 79                 | 100            | 86             | 97             | 100            | 100            | 68             | 100            |
| Halkirk   | 99                 | 95             | 98             | 98             | 98             | 95             | 98             | 98             |
| Clover Bar Landfill Gas                                   | -                  | -              | -              | -              | -              | 7              | 78             | -              |
|   | 90                 | 95             | 93             | 98             | 93             | 96             | 87             | 96             |
| <b>Alberta contracted facilities</b>                      |                    |                |                |                |                |                |                |                |
| Genesee 1   | 100                | 96             | 72             | 100            | 100            | 99             | 100            | 100            |
| Genesee 2   | 100                | 100            | 95             | 100            | 98             | 100            | 93             | 83             |
| Whitla Wind 1   | 97                 | N/A            | N/A            | N/A            | N/A            | N/A            | N/A            | N/A            |
|   | 100                | 98             | 83             | 100            | 99             | 99             | 97             | 92             |
| <b>Ontario and British Columbia contracted facilities</b> |                    |                |                |                |                |                |                |                |
| Island Generation   | 92                 | 99             | 100            | 100            | 100            | 100            | 100            | 100            |
| York Energy   | 94                 | 99             | 100            | 100            | 100            | 100            | 94             | 100            |
| East Windsor  | 97                 | 99             | 99             | 99             | 99             | 99             | 99             | 99             |
| Goreway   | 88                 | 87             | 99             | N/A            | N/A            | N/A            | N/A            | N/A            |
| K2 Wind   | N/A                | N/A            | N/A            | N/A            | 99             | 98             | 100            | 98             |
| Kingsbridge 1   | 99                 | 98             | 97             | 98             | 99             | 98             | 98             | 98             |
| Port Dover and Nanticoke                                  | 97                 | 94             | 100            | 99             | 98             | 94             | 99             | 100            |
| Quality Wind  | 98                 | 96             | 98             | 96             | 95             | 94             | 97             | 97             |
| EnPower   | 91                 | 72             | 97             | 55             | 97             | 100            | 86             | 97             |
|   | 91                 | 92             | 99             | 98             | 99             | 98             | 98             | 99             |
| <b>U.S. contracted facilities</b>                         |                    |                |                |                |                |                |                |                |
| Roxboro, North Carolina                                   | 88                 | 99             | 100            | 88             | 97             | 100            | 99             | 88             |
| Southport, North Carolina                                 | 96                 | 84             | 90             | 91             | 83             | 100            | 95             | 89             |
| Decatur Energy, Alabama                                   | 93                 | 100            | 81             | 98             | 85             | 100            | 94             | 100            |
| Arlington Valley, Arizona                                 | 99                 | 100            | 100            | 81             | 94             | N/A            | N/A            | N/A            |
| Beaufort Solar, North Carolina                            | 98                 | 100            | 100            | 100            | 97             | 100            | 98             | 93             |
| Bloom Wind, Kansas  | 99                 | 98             | 98             | 99             | 100            | 97             | 96             | 98             |
| Macho Springs, New Mexico                                 | 98                 | 97             | 99             | 98             | 99             | 97             | 98             | 97             |
| New Frontier Wind, North Dakota                           | 94                 | 97             | 95             | 96             | 98             | N/A            | N/A            | N/A            |
|   | 96                 | 99             | 91             | 92             | 89             | 99             | 95             | 98             |

## Financial results

| (unaudited, \$ millions)   | Three months ended |                |                |                |                |                |                |                |
|--|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | Dec 31<br>2019     | Sep 30<br>2019 | Jun 30<br>2019 | Mar 31<br>2019 | Dec 31<br>2018 | Sep 30<br>2018 | Jun 30<br>2018 | Mar 31<br>2018 |
| <b>Revenues and other income</b>   |                    |                |                |                |                |                |                |                |
| Alberta commercial facilities and portfolio optimization                       | 214                | 181            | 150            | 180            | 150            | 148            | 116            | 173            |
| Alberta contracted facilities  | 73                 | 68             | 46             | 74             | 71             | 70             | 66             | 61             |
| Ontario and British Columbia contracted facilities <sup>3</sup>                | 102                | 88             | 56             | 47             | 52             | 37             | 41             | 50             |
| U.S. contracted facilities   | 103                | 149            | 102            | 95             | 63             | 74             | 102            | 65             |
| Corporate <sup>1</sup>   | 141                | 15             | 17             | 15             | 13             | 15             | 15             | 15             |
| Unrealized changes in fair value of commodity derivatives and emission credits | 50                 | 16             | (5)            | (14)           | (9)            | 51             | 29             | (51)           |
|  | <b>683</b>         | <b>517</b>     | <b>366</b>     | <b>397</b>     | <b>340</b>     | <b>395</b>     | <b>369</b>     | <b>313</b>     |
| <b>Adjusted EBITDA</b>   |                    |                |                |                |                |                |                |                |
| Alberta commercial facilities and portfolio optimization                       | 80                 | 72             | 71             | 84             | 62             | 60             | 51             | 55             |
| Alberta contracted facilities  | 57                 | 49             | 32             | 53             | 53             | 54             | 51             | 45             |
| Ontario and British Columbia contracted facilities <sup>2, 3</sup>             | 77                 | 63             | 48             | 44             | 52             | 37             | 45             | 59             |
| U.S. contracted facilities   | 40                 | 115            | 54             | 38             | 25             | 44             | 72             | 35             |
| Corporate  | 98                 | (15)           | (14)           | (17)           | (21)           | (16)           | (12)           | (15)           |
|  | <b>352</b>         | <b>284</b>     | <b>191</b>     | <b>202</b>     | <b>171</b>     | <b>179</b>     | <b>207</b>     | <b>179</b>     |

<sup>1</sup> Revenues are offset by interplant category revenue eliminations.

<sup>2</sup> The reported Ontario and British Columbia contracted facilities' adjusted EBITDA includes the adjusted EBITDA from the York Energy joint venture. Prior quarters' values include Capital Power's share of K2 Wind which was disposed of effective December 31, 2018.

<sup>3</sup> Prior quarters' amounts have been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16, see Accounting Changes.

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

## Financial highlights

| (unaudited, \$ millions except per share amounts)                          | Three months ended |                |                |                |                |                |                |                |
|--|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | Dec 31<br>2019     | Sep 30<br>2019 | Jun 30<br>2019 | Mar 31<br>2019 | Dec 31<br>2018 | Sep 30<br>2018 | Jun 30<br>2018 | Mar 31<br>2018 |
| Revenues and other income <sup>5</sup>                                     | 683                | 517            | 366            | 397            | 340            | 395            | 369            | 313            |
| Adjusted EBITDA <sup>1, 2, 3, 5</sup>                                      | 352                | 284            | 191            | 202            | 171            | 179            | 207            | 179            |
| Net income (loss) <sup>5</sup>   | 181                | (228)          | 106            | 60             | 136            | 17             | 66             | 39             |
| Net income (loss) attributable to shareholders of the Company <sup>5</sup> | 182                | (226)          | 108            | 61             | 138            | 18             | 68             | 41             |
| Basic earnings (loss) per share (\$) <sup>5</sup>                          | 1.61               | (2.25)         | 0.93           | 0.49           | 1.24           | 0.08           | 0.55           | 0.30           |
| Diluted earnings (loss) per share (\$) <sup>4,5</sup>                      | 1.60               | (2.25)         | 0.92           | 0.49           | 1.24           | 0.08           | 0.55           | 0.30           |
| Normalized earnings per share (\$) <sup>1, 5</sup>                         | 0.29               | 0.60           | 0.14           | 0.29           | 0.30           | 0.33           | 0.20           | 0.28           |
| Net cash flows from operating activities                                   | 201                | 209            | 114            | 196            | 133            | 65             | 109            | 143            |
| Adjusted funds from operations <sup>1</sup>                                | 128                | 225            | 85             | 117            | 80             | 156            | 76             | 85             |
| Adjusted funds from operations per share (\$) <sup>1</sup>                 | 1.22               | 2.11           | 0.82           | 1.15           | 0.78           | 1.52           | 0.74           | 0.82           |
| Purchase of property, plant and equipment and other assets                 | 112                | 193            | 279            | 51             | 114            | 135            | 66             | 40             |

- <sup>1</sup> The consolidated financial highlights, except for adjusted EBITDA, normalized earnings per share, adjusted funds from operations and adjusted funds from operations per share were prepared in accordance with GAAP. See Non-GAAP Financial Measures.
- <sup>2</sup> The reported Ontario and British Columbia contracted facilities' adjusted EBITDA includes the adjusted EBITDA from the York Energy joint venture. Prior quarters' values include Capital Power's share of K2 Wind which was disposed of effective December 31, 2018.
- <sup>3</sup> Commencing with the Company's March 31, 2019 quarter-end, adjusted EBITDA excludes unrealized changes in fair value of commodity derivatives and emission credits which were previously included in adjusted EBITDA. This change was made to better align the Company's measure of adjusted EBITDA with its other non-GAAP measures, as both the adjusted funds from operations and the normalized earnings per share measures exclude the impacts of unrealized changes in fair value of commodity derivatives and emission credits. Comparative figures have been restated to reflect the above change to the adjusted EBITDA metric.
- <sup>4</sup> Diluted earnings per share was calculated after giving effect to outstanding share purchase options.
- <sup>5</sup> Prior quarters' amounts have been restated to reflect the IAS 8 accounting policy change resulting from the transition to IFRS 16, see Accounting Changes.

| Spot price averages  | Three months ended |                |                |                |                |                |                |                |
|--|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|  | Dec 31<br>2019     | Sep 30<br>2019 | Jun 30<br>2019 | Mar 31<br>2019 | Dec 31<br>2018 | Sep 30<br>2018 | Jun 30<br>2018 | Mar 31<br>2018 |
| Alberta power (\$ per MWh)   | 47                 | 47             | 57             | 69             | 56             | 55             | 56             | 35             |
| Alberta natural gas (AECO) (\$ per Gj)   | 2.32               | 0.99           | 1.17           | 2.62           | 1.59           | 1.15           | 1.10           | 1.99           |
| <b>Capital Power's Alberta portfolio average realized power price (\$ per MWh)</b> | 57                 | 59             | 55             | 58             | 52             | 54             | 51             | 47             |

## Factors impacting results for the fourth quarter of 2019

For the quarter ended December 31, 2019, the Company recorded net income attributable to shareholders of \$182 million compared to net income attributable to shareholders \$138 million for the quarter ended December 31, 2018. Gains in the fourth quarter of 2019 related to the Genesee 3 and Keephills 3 swap transaction (see Significant Events) were largely offset by the gain on disposal of the Company's minority owned interest in K2 Wind during the fourth quarter of 2018. Increases in net income in the fourth quarter of 2019 were driven partly by unrealized gains on commodity derivatives and emission credits being \$81 million higher than in the comparable 2018 period, most notably related to the impact of decreasing forward prices on forward sales contracts for the Company's U.S. wind facilities. In addition, adjusted EBITDA was higher as a result of the 2019 addition of Goreway (see Significant Events) and the acquisition of Arlington Valley and commercial operation of New Frontier Wind in the fourth quarter of 2018 as well as higher Alberta commercial EBITDA on higher captured pricing. Partially offsetting these increases was a corresponding increase in depreciation driven by the noted asset additions. Further offsetting the increases in net income were higher tax expenses in the fourth quarter of 2019 primarily due to recognition of deferred income tax expense on the one-time adjustment to accelerate the recognition of deferred government grant revenue upon close

of the Genesee 3 and Keephills 3 swap transaction, partially offset by the reversal of deferred income tax expense on the disposal of Keephills 3.

### Factors impacting results for the previous quarters

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

For the quarter ended September 30, 2019, the Company recorded net loss attributable to shareholders of \$226 million compared to net income attributable to shareholders of \$18 million for the quarter ended September 30, 2018. The decrease was largely due to pre-tax impairment of \$401 million on Keephills 3 upon classification as an asset held for sale (see Significant Events). Further contributing to the decrease was higher depreciation and amortization due to New Frontier Wind commencing commercial operation in the last quarter of 2018 and the acquisitions of Arlington Valley and Goreway (see Significant Events) in the last quarter of 2018 and second quarter of 2019, respectively, partly offset by depreciation for Keephills 3 ceasing following its classification as held for sale in August 2019. Higher net loss attributable to shareholders was partially offset by an increase in adjusted EBITDA, most notably due to the addition of Goreway and Arlington Valley and the commencement of operations at New Frontier Wind, as well as an increase in unrealized gains on commodity derivatives and emission credits, which were \$43 million higher in the third quarter of 2019 compared to the third quarter of 2018. In addition, income tax recovery for the third quarter of 2019 was \$66 million compared to income tax expense of \$7 million for the third quarter of 2018, primarily due to the recognition of a deferred tax recovery on the impairment of Keephills 3.

For the quarter ended June 30, 2019, the Company recorded net income attributable to shareholders of \$108 million compared to net income attributable to shareholders of \$68 million for the quarter ended June 30, 2018. The increase mainly resulted from an income tax recovery of \$33 million in the second quarter of 2019 compared to income tax expense of \$46 million in the second quarter of 2018 primarily due to a reduction in the Alberta corporate income tax rate enacted in the second quarter of 2019. Further contributing to the increase were unrealized gains on commodity derivatives and emission credits which were \$26 million higher in the second quarter of 2019 compared to the second quarter of 2018. These variances were partially offset by higher depreciation and amortization due to New Frontier Wind commencing commercial operation in the last quarter of 2018 and the acquisitions of Arlington Valley and Goreway in the last quarter of 2018 and second quarter of 2019, respectively. In addition, adjusted EBITDA was lower in the second quarter of 2019 compared to the second quarter of 2018, largely due to the timing and length of planned outages and the impact of the Bloom Wind tax equity agreement renegotiation in the second quarter of 2018, offset partially by higher margins earned on the sale of emission credits in the second quarter of 2019.

For the quarter ended March 31, 2019, the Company recorded net income attributable to shareholders of \$61 million compared to net income attributable to shareholders of \$41 million for the quarter ended March 31, 2018. The increase compared to the prior quarter mainly resulted from an increase in adjusted EBITDA most notably due to the higher Alberta power pricing averaging \$69 per MWh in the first quarter of 2019 compared to \$35 per MWh in the first quarter of 2018, offset partially by lower adjusted EBITDA from joint ventures due to the disposal of K2 Wind in December 2018. Other notable impacts included higher unrealized gains on commodity derivatives and emission credits in 2019 which were higher by \$35 million, largely offset by higher depreciation and amortization due to the acquisition of Arlington Valley and New Frontier Wind commencing commercial operation in the last quarter of 2018, and increased income tax expense primarily due to higher consolidated income before tax.

For the quarter ended December 31, 2018, the Company recorded net income attributable to shareholders of \$138 million compared to net loss attributable to shareholders of \$11 million for the quarter ended December 31, 2017. The increase compared to the prior quarter mainly resulted from the \$159 million gain on disposal of the Company's minority owned interest in K2 Wind. In addition, tax expenses were lower by \$26 million in the fourth quarter of 2018 as compared to 2017 driven by U.S. federal tax rate decreases in the fourth quarter of 2017 and the resulting reduction in deferred tax assets. These impacts were partially offset by higher unrealized losses on commodity derivatives and emission credits in 2018 which were higher by \$35 million.

For the quarter ended September 30, 2018, the Company recorded net income attributable to shareholders of \$18 million compared to net loss attributable to shareholders of \$7 million for the quarter ended September 30, 2017. Higher net income reflects the recognition of non-cash impairment losses in the third quarter of 2017 totalling \$83 million (pre-tax) related to the Company's Southport, Roxboro and Decatur Energy facilities. The Company did not record an impairment loss in 2018. Favourable net income attributed to shareholders was partially offset by a foreign exchange loss of \$2 million in the third quarter of 2018 compared to a foreign exchange gain of \$21 million in the third quarter of 2017 reflecting a gain on the revaluation of U.S. dollar denominated debt not hedged for accounting purposes, and income tax expense of \$7 million in the third quarter of 2018 compared to income tax recovery of \$9 million in the third quarter of 2017. Adjusted EBITDA was higher in the third quarter of 2018 compared to the third quarter of 2017 primarily due to the impact of higher Alberta power prices in 2018 compared with 2017 on the Alberta contracted assets. Losses related to unrealized changes in the fair value of commodity derivatives and emission credits were higher in the third quarter of 2018 compared to the third quarter of 2017 largely as a result of the 2018 impact of increasing forward prices on forward sales contracts relating to U.S. energy derivatives.

For the quarter ended June 30, 2018, the Company recorded net income attributable to shareholders of \$68 million

compared to \$107 million for the quarter ended June 30, 2017. Lower net income reflected the reversal of a previous write-down of deferred tax assets related to the tax benefit associated with the Company's U.S. income tax loss carryforwards as a result of the acquisition of Decatur Energy and the commissioning of Bloom Wind in the second quarter of 2017. Further contributing to the decrease were higher net finance expenses and depreciation and amortization due to the acquisition of the thermal facilities and Decatur Energy and the receipt of Bloom Wind Project financing in the second quarter of 2017. These variances were partially offset by higher adjusted EBITDA in the second quarter of 2018 compared to the second quarter of 2017 primarily due to the impact of higher Alberta power prices in 2018 compared with 2017 on the Alberta contracted assets, a full quarter of results from the assets acquired in the second quarter of 2017, and higher Bloom Wind revenue due to the renegotiation of the commercial terms within the Bloom Wind tax equity agreement. Non-cash after tax net income related to Bloom Wind increased \$15 million driven by tax rate differences while the \$44 million increase in adjusted EBITDA was related to timing.

For the quarter ended March 31, 2018, the Company recorded net income attributable to shareholders of \$41 million compared to \$46 million for the quarter ended March 31, 2017. The financial results reflected higher unrealized gains on Alberta energy derivatives in the first quarter of 2017 that resulted from the impact of decreasing forward Alberta power prices on net forward sales contracts, partially offset by the reversal of prior year unrealized net gains on forward sales contracts that settled during the first quarter of 2017. Further contributing to the decrease were higher net finance expenses and depreciation and amortization due to the acquisition of the thermal facilities and Decatur Energy and the receipt of Bloom Wind Project financing in the second quarter of 2017. Adjusted EBITDA was higher in the first quarter of 2018 compared to the first quarter of 2017 primarily due to Bloom Wind commencing operations and acquisition of the thermal facilities and Decatur Energy in the second quarter of 2017.

## 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 |                |                |                |                |                |                |                |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|   | Dec 31<br>2019     | Sep 30<br>2019 | Jun 30<br>2019 | Mar 31<br>2019 | Dec 31<br>2018 | Sep 30<br>2018 | Jun 30<br>2018 | Mar 31<br>2018 |
| <b>Share price<br/>(\$/common share)</b>      |                    |                |                |                |                |                |                |                |
| High  | 35.09              | 31.43          | 32.25          | 32.44          | 29.79          | 29.45          | 26.00          | 25.14          |
| Low   | 30.13              | 29.31          | 29.60          | 26.22          | 25.33          | 25.12          | 23.42          | 22.15          |
| Close   | 34.39              | 30.68          | 30.15          | 31.30          | 26.59          | 28.51          | 25.23          | 24.24          |
| <b>Volume of shares<br/>traded (millions)</b> | 21.3               | 18.2           | 19.6           | 18.0           | 25.5           | 14.8           | 11.1           | 14.0           |

### Outstanding share and partnership unit data

As at February 18, 2020, the Company had 105.446 million common shares, 5 million Cumulative Rate Reset Preference Shares, 6 million Cumulative Rate Reset Preference Shares, 8 million Cumulative Rate Reset Preference Shares, 8 million Cumulative Minimum Rate Reset Preference Shares, 6 million Cumulative Minimum Rate Reset Preference Shares, 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 as at February 18, 2020 were 108.557 million. The outstanding special limited voting share is held by EPCOR.

As at February 18, 2020, CPLP had 24.040 million general partnership units outstanding and 89.473 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](http://www.sedar.com).