Capital Power reports third quarter 2016 results

EDMONTON, AB--(Marketwired - October 24, 2016) - Capital Power Corporation (Capital Power, or the Company) (TSX: CPX) today released financial results for the third quarter ended September 30, 2016.

Net income attributable to shareholders in the third quarter of 2016 was $66 million and basic earnings per share attributable to common shareholders was $0.63 per share, compared with $49 million, or $0.44 per share, in the comparable period of 2015. Normalized earnings attributable to common shareholders in the third quarter of 2016, after adjusting for one-time items and fair value adjustments, were $30 million or $0.31 per share compared with $33 million or $0.33 per share in the third quarter of 2015.

Net cash flows from operating activities were $105 million in the third quarter of 2016 compared with $184 million in the third quarter of 2015. Funds from operations were $94 million in the third quarter of 2016, compared to $97 million in the third quarter of 2015.

For the nine months ended September 30, 2016, net income attributable to shareholders was $83 million and basic earnings per share attributable to common shareholders was $0.71 per share compared with $55 million and $0.40 for the nine months ended September 30, 2015. For the nine months ended September 30, 2016, normalized earnings attributable to common shareholders were $91 million, or $0.95 per share, compared with $70 million, or $0.73 per share, in the first nine months of 2015. Funds from operations totaled $309 million compared with $275 million in the comparable nine month period last year. Net cash flows from operating activities were $306 million for the nine months ended September 30, 2016 compared with $305 million for the nine months ended September 30, 2015.

"Capital Power's financial results for the third quarter of 2016 were modestly ahead of management's expectations," said Brian Vaasjo, President and CEO of Capital Power. "Third quarter results benefitted from strong operating performance with average plant availability of 96 per cent and a solid contribution from our portfolio optimization activities."

"Our trading desk captured an average realized Alberta power price of $70 per megawatt hour (MWh) in the third quarter, well above the average spot price of $18 per MWh that reflected excess supply in the market, low natural gas prices, and conservative offer strategies from market participants," continued Mr. Vaasjo. "Despite weak Alberta spot power prices that averaged $17 per MWh in the first nine months of the year, our portfolio optimization strategies continue to deliver value with an average realized Alberta power price of $60 per MWh this year."

"We generated funds from operations of $94 million in the third quarter and $309 million in the first nine months of 2016. Based on our outlook for the fourth quarter of the year, we are on track to exceed the mid-point of the $380 to $430 million annual financial target range," said Mr. Vaasjo.

"A significant achievement for the Company was the completion of two recent financings," continued Mr. Vaasjo. "This included a private placement of a $160 million, 10-year note and a $200 million preferred share offering. With these financings and the recent extension of our $1 billion in credit facilities, we have improved our liquidity and have strengthened our balance sheet and financing capabilities in the medium term."

"Discussions with the government-appointed coal facilitator regarding compensation for the coal units whose operating lives will be shortened by the 2030 coal phase-out component of the Alberta Climate Leadership Plan concluded in September," added Mr. Vaasjo. "We continue to remain optimistic that a fair and appropriate outcome will be reached for our shareholders with an expected announcement by the Alberta government before the end of 2016."

Capital Power, and its partner ENMAX Corporation, are moving the Genesee 4 and 5 project decision to proceed to the first quarter of 2017. The decision to proceed at that point in time will continue to be contingent on fair compensation being announced for the proposed accelerated closure of the Company's coal facilities and favourable conditions existing within the Alberta electricity market. There is no anticipated impact to the substantial completion date of the first unit at this time.

Operational and Financial Highlights[1] (unaudited)	**Three months ended September 30**		
(millions of dollars except per share and operational amounts)		**2016**	**2015**
Electricity generation (excluding Sundance power purchase arrangement (PPA)) (GWh)		3,930	3,687
Generation plant availability (excluding Sundance PPA) (%)		96%	95%
Revenues	$	378	469
Adjusted EBITDA [2]	$	148	154
Net income	$	64	50
Net income attributable to shareholders of the Company	$	66	49
Basic earnings per share	$	0.63	0.44
Normalized earnings attributable to common shareholders [2]	$	30	33
Normalized earnings per share [2]	$	0.31	0.33
Net cash flows from operating activities	$	105	184
Funds from operations [2]	$	94	97
Purchase of property, plant and equipment and other assets	$	27	36
Dividends per common share, declared	$	0.3900	0.3650

1. The operational and financial highlights in this press release should be read in conjunction with Management's Discussion and Analysis and the unaudited Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2016.

2. Earnings before finance expense, income tax expense, depreciation and amortization, impairments, foreign exchange gains or losses, finance expense from joint venture, and gains or losses on disposals (adjusted EBITDA), normalized

earnings attributable to common shareholders, normalized earnings per share and funds from operations are non-GAAP financial measures and do not have standardized meanings under GAAP and are, therefore, unlikely to be comparable to similar measures used by other enterprises. See Non-GAAP Financial Measures.

Significant Events

Impairment loss on Southport

During the three months ended September 30, 2016 the Company recognized a pre-tax impairment charge of $6 million with respect to its Southport plant which reduced the carrying amount of the related goodwill. This impairment was based on reduced expected future cash flows as a result of lower than expected generation and realized prices. The impairment charge has no cash flow impact.

$160 million private placement debt financing

On September 13, 2016, the Company issued a $160 million, 10-year unsecured senior note to Prudential Capital Group. The note bears an annual interest rate of 3.85%, payable semi-annually, and matures in September 2026. The net proceeds of the offering were used for repayment of amounts owing under credit facilities and for general corporate purposes.

K2 Wind Partnership

On August 9, 2016, a consortium composed of Axium Infrastructure, Alberta Teachers' Retirement Fund Board, and Manulife Financial Corporation acquired Samsung Renewable Energy's one-third interest in K2 Wind. There is no change to the remaining interest in K2 Wind, which is still held equally by Pattern Energy Group Inc. and the Company.

Dividend Increase

On July 25, 2016, the Company announced that its Board of Directors approved a 6.8% increase in the annual dividend for holders of its common shares, from $1.46 per common share to $1.56 per common share. This increased common dividend will commence with the third quarter 2016 quarterly dividend payment payable on October 31, 2016 to shareholders of record at the close of business on September 30, 2016.

Completion of contract for output for Bloom Wind

The Bloom Wind project (Bloom Wind) is a 178 MW facility in southwestern Kansas consisting of 54 3.3 MW turbines and is anticipated to cost $358 million (US$272 million). Construction of Bloom Wind, which was previously announced on April 25, 2016, commenced during the third quarter of 2016. Commercial operation of the facility is expected in the third quarter of 2017. Capital Power will operate Bloom Wind under a 10-year fixed price contract with Allianz Risk Transfer (rated AA-stable by Standard & Poor's), a subsidiary of Allianz SE, the worldwide insurance and asset management group, covering 100% of the project's output. Under the contract, which was executed on April 21, 2016, Capital Power will swap the market revenue of the project's generation for a fixed annual payment for a 10-year term. The agreement will secure long-term predictable revenues and mitigate generation volume uncertainty related to wind resources, allowing Bloom Wind to secure renewable energy tax equity financing and provide Capital Power the opportunity to complete its first wind development project in the growing U.S. renewables market.

Approval of normal course issuer bid

On April 25, 2016, Capital Power announced that the Toronto Stock Exchange (TSX) approved the Company's normal course issuer bid (NCIB) to purchase and cancel up to 8.6 million of its outstanding common shares during the one year period from April 28, 2016 to April 27, 2017. Capital Power purchased and cancelled 7.1 million common shares under its prior NCIB approved by the TSX on March 25, 2015 for the period from April 7, 2015 to April 6, 2016, but has not yet purchased and cancelled any common shares under the NCIB approved on April 25, 2016.

Termination of the Sundance PPA

On March 24, 2016, Capital Power notified the Balancing Pool of the Company's decision to terminate its role as Buyer of the Sundance PPA. Capital Power exercised its right to terminate the Sundance PPA under the Change in Law provisions of the arrangement, following changes to the Specified Gas Emitters Regulation (SGER) that took effect at the start of 2016. As a result of this termination, no further economic benefits are expected from the Sundance PPA and the related intangible asset was derecognized. The Company has recorded a non-cash pre-tax loss of $53 million ($46 million post-tax) with respect to the derecognition of the Sundance PPA asset.

Climate Leadership Plan (CLP) Update

In late September 2016, the Alberta government initiated formal consultations relating to the Carbon Competitiveness Regulation (CCR) which are scheduled to conclude by the end of 2016. The CCR will establish the performance standard and carbon pricing framework that will apply to facilities that are currently subject to the Specified Gas Emitters Regulation (SGER), and will replace SGER effective January 1, 2018. The Company expects that the performance standard for the electricity sector will be consistent with the emissions performance of a combined-cycle natural gas-fired facility in Alberta, with specific details to be developed through consultation.

On March 16, 2016, the Alberta government appointed a Facilitator to oversee the transition away from coal-fired generation in Alberta by 2030. The Facilitator's background is with large public power providers and centrally dispatched power systems and advising energy leaders in numerous countries around the world. The Facilitator's mandate was to provide options and preferred approaches to the Alberta government to phase out emissions from coal-fired generation by 2030 that will maintain both the reliability of Alberta's electricity grid and price stability for consumers, while avoiding unnecessarily stranding capital. Throughout this process, the Alberta government has indicated that it intends to ensure that affected workers, communities and companies are treated fairly. Capital Power will continue to actively participate in the process with the Alberta government to ensure that fair compensation is received for the proposed accelerated closure of the Company's coal facilities. The Facilitator has provided recommendations to the Alberta government and the Company expects the Alberta government will make a decision on the Facilitator's recommendations by the end of 2016.

On January 26, 2016, the Alberta government tasked the Alberta Electric System Operator (AESO) to develop and implement a plan to bring on new renewable electricity generation capacity to the grid by 2030 in connection with the CLP. The Company expects that the process will be carefully managed and operate in concert with the retirement of the current coal generating units. The Alberta government also confirmed that it has not chosen to fundamentally alter the current wholesale electricity market structure. The AESO undertook a process to receive industry perspectives regarding various elements of the Renewable Electricity Program (REP), and provided its recommendations regarding the REP to the Alberta government on May 31, 2016. The recommendations have not been made public. On September 14, 2016, the Alberta government confirmed a firm target of achieving 30% of Alberta's electricity use by 2030 from renewable energy sources, and announced that the Alberta government would support 5000 MW of additional renewable capacity to help achieve that target. It is currently expected that the Alberta government will provide direction on the REP during the fourth quarter of 2016, and the AESO currently expects to initiate the process for the first procurement by year-end.

Preferred Shares (Series 1) dividend rate reset

On February 18, 2016 the Board of Directors of Capital Power declared a quarterly dividend of $0.19125 per share on the Company's Cumulative 5-Year Rate Reset Preference Shares, Series 1 (Series 1 Shares). This quarterly dividend was paid on March 31, 2016. The Annual Fixed Dividend Rate for the Series 1 Shares for the next five year period was reset from 4.60% to 3.06% on December 31, 2015 at a rate equal to the sum of the then Government of Canada bond yield and 2.17%. The Annual Fixed Dividend Rate will be next reset on December 31, 2020 and every five years thereafter.

<u>Subsequent Event</u>

Preferred share offering

On October 4, 2016, the Company issued 8 million Cumulative Minimum Rate Reset Preference Shares, Series 7 (Series 7 Shares) priced at $25.00 per share for gross proceeds of $200 million less issue costs of $5 million on a bought deal basis with a syndicate of underwriters. The preferred shares will pay fixed cumulative dividends of $1.50 per share per annum, yielding 6.00% 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 December 31, 2021. The dividend rate will be reset on December 31, 2021 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 5.26%, provided that, in any event, such rate shall not be less than 6.00%. The Series 7 Shares are redeemable by Capital Power, at its option on December 31, 2021 and every five years thereafter at a value of $25.00 per share.

Holders of the Series 7 Shares will have the right to convert all or any part of their shares into Cumulative Floating Rate Preference Shares, Series 8 (Series 8 Shares), subject to certain conditions, on December 31, 2021 and every five years thereafter. Holders of the Series 8 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 5.26%, as and when declared by the Board of Directors of Capital Power. The Series 8 Shares would be redeemable by Capital Power, at its option, on December 31, 2026 and December 31 of every fifth year thereafter at a value of $25.00 per share. The Series 8 shares would also be redeemable by Capital Power, at its option, on any date after December 31, 2021, excluding December 31 of every fifth year, at a value of $25.50 per share.

<u>Analyst Conference Call and Webcast</u>

Capital Power will be hosting a conference call and live webcast with analysts on October 24, 2016 at 9:00 am (MDT) to discuss the third quarter financial results. The conference call dial-in numbers are:

(604) 638-5340 (Vancouver)

(403) 351-0324 (Calgary)

(416) 915-3239 (Toronto)

(514) 375-0364 (Montreal)

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

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

Non-GAAP Financial Measures

The Company uses (i) adjusted EBITDA, (ii) funds from operations, (iii) normalized earnings attributable to common shareholders, and (iv) 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. Reconciliations of adjusted EBITDA to net income (loss), funds from operations to net cash flows from operating activities and normalized earnings attributable to common shareholders to net income (loss) attributable to shareholders of the Company are contained in the Company's Management's Discussion and Analysis, prepared as of October 21, 2016, for the nine months ended September 30, 2016 which is available under the Company's profile on SEDAR at www.SEDAR.com.

Forward-looking Information

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

Material forward-looking information in this press release includes expectations regarding: (i) compensation to be received by the Company from the Government of Alberta in respect of the proposed early retirement of coal facilities (ii) the structure and stability of Alberta's merchant power market and (iii) growth opportunities that may come to the Company as a result of new renewable electricity generation capacity.

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. The material factors and assumptions used to develop these forward-looking statements relate to: (i) electricity and other energy prices, (ii) performance, (iii) business prospects and opportunities including expected growth and capital projects, (iv) status and impact of policy, legislation and regulation, and (v) effective tax rates.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results and experience to differ materially from the Company's expectations. Such material risks and uncertainties are: (i) changes in electricity prices in markets in which the Company operates, (ii) changes in energy commodity market prices and use of derivatives, (iii) regulatory and political environments including changes to environmental, financial reporting and tax legislation, (iv) power plant availability and performance including maintenance of equipment, (v) ability to fund current and future capital and working capital needs, (vi) acquisitions and developments including timing and costs of regulatory approvals and construction, (vii) changes in market prices and availability of fuel, and (viii) changes in general economic and competitive conditions. See Risks and Risk Management in the Company's Management's Discussion and Analysis, prepared as of October 21, 2016, for further discussion of these and other risks.

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