



**Capital Power Corporation
(the “Corporation”)**

CORPORATE GOVERNANCE POLICY

Policy Statement:

Capital Power is committed to responsible corporate governance. Key elements of good corporate governance principles include honesty, integrity, transparency, and accountability. This Corporate Governance Policy establishes guidelines for the way in which corporate governance is carried out within Capital Power. We believe that these practices benefit all of our stakeholders and must be maintained as an essential part of our operations. This policy is designed to provide control over business affairs with sufficient accountability or monitoring by the Board of Directors. A company-wide commitment to good governance practices allows Capital Power to operate in the most fair, efficient and transparent manner by adopting governance practices appropriate to a publicly traded company of Capital Power’s size and complexity. *National Policy 58-201 - Corporate Governance Guidelines* provides corporations with guidance on corporate governance practices. Capital Power is required to annually disclose whether it follows the guidelines and, where we do not, provide explanations for divergent practices.

This Corporate Governance Policy applies to all Directors, Officers, Employees and Contractors of Capital Power.

1. Definitions

Capital Power (or the Company) – refers collectively to Capital Power Corporation, Capital Power L.P. and their respective direct and indirect majority-owned subsidiaries.

Capital Power’s Articles - refer to the Articles of Incorporation that Capital Power filed with the federal government in order to conduct business, and any amendments to them.

CGCN Committee – the Corporate Governance, Compensation and Nominating Committee of the Board.

General Counsel – a corporate officer holding the most senior legal position concerning legal affairs in the company and associated with an executive officer position.

Contractors – refers to companies, consultants and/or individuals engaged by Capital Power to provide services under consulting or other contractual arrangements.

Deferred Share Unit – a unit credited by the company to a director by way of a bookkeeping entry and administered pursuant to the terms of the Deferred Share Unit Plans.

HS&E Committee – the Health, Safety and Environment Committee of the Board.

Employee – refers to a regular, temporary or contract employee of the company.

Ethics Policy – constitutes our code of ethics and provides a framework for employees to demonstrate a commitment to ethical business practices by conducting themselves with integrity, by acting honestly and ethically and complying with relevant laws, rules and regulations and behaving in a manner which is consistent with Capital Power’s core values.



Financial Literacy – as defined by the Board as an individual having, through education, experience, supervision or oversight: an understanding of generally accepted accounting principles and financial statements and the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves.

Independent Directors – all those Directors who, in the opinion of the Board, are independent of management and who have no direct or indirect material relationship with Capital Power Corporation, Capital Power L.P. or any of their respective subsidiaries which could, in view of the Board, reasonably interfere with the exercise of their independent judgment.

Management – senior management of Capital Power.

Skills Matrix – a collation of the various skills and expertise that the Board believes are necessary to oversee Capital Power’s business, along with an identification of the specific Director(s) who bring each skill and expertise to the Board.

Terms of Reference – set out the duties and responsibilities of the Board, its committees, the Board Chair, and the Chief Executive Officer (CEO).

2. The Board

The Board is responsible for the stewardship of Capital Power, providing independent, effective leadership to oversee the management of Capital Power’s business and affairs and to grow value responsibly, in a profitable and sustainable manner.

The Board annually reviews and confirms or updates its *Terms of Reference* which set out the duties and responsibilities of the Board. The Board *Terms of Reference* are publicly disclosed on our website at www.capitalpower.com.

Independence from Management

Independence

Capital Power’s Board will at all times comprise a majority of Directors who are independent of management and who have no direct or indirect material relationship with Capital Power Corporation, Capital Power L.P. or any of their respective subsidiaries which could, in view of the Board, reasonably interfere with the exercise of their independent judgment.

The Board meets without Management at every regularly scheduled meeting, and as the Board otherwise deems necessary at non-regularly scheduled meetings.

Independent Advisors

The Board has the authority to engage independent advisors, at Capital Power’s expense, to assist it in carrying out its responsibilities.

Size of Board and Selection Process

As required by Capital Power’s Articles, the Board consists of between 3 and 12 Directors at all times. Directors are elected by the shareholders each year at the annual general meeting of shareholders (“AGM”). The Board may from time to time appoint additional Directors between AGMs, to fill vacancies until the next AGM.



In order to support its board succession planning, the Board maintains a Skills Matrix that identifies: (a) all background skills and experience required or desirable to be on the Board to guide and oversee Capital Power's business; and (b) the identity of current Directors and the required or desired skills and experience each of them respectively brings to the Board. The CGCN Committee also endeavours to maintain an evergreen list of potential Board Directors, which is comprised of people whom the CGCN Committee feels would be appropriate to be asked to join the Board when a vacancy arises and who would fill in gaps on, or complement, the current skills matrix and comply with the independence requirements of the Board and its committees and with the Board's Diversity Policy. From time to time, the CGCN Committee also engages a search firm to identify other new candidates for recommendation to the Board.

All candidates for election or appointment to the Board are initially reviewed and recommended by the CGCN Committee.

3. Individual Directors

Capital Power's Directors are expected to contribute actively, individually and collectively to the effective governance of Capital Power. The Board annually reviews and confirms or updates the Individual Director *Terms of Reference* which set out the duties and responsibilities of individual Directors. The Individual Director *Terms of Reference* are publicly disclosed.

The Board annually reviews and confirms or updates its view of the independence of each Director, and of the independence of members of the Audit and CGCN committees, in light of applicable law and corporate governance best practices, and the results of this review are publicly disclosed.

Attendance

Directors are expected to strive for perfect attendance at all Board and Board Committee meetings. Capital Power publicly discloses each Director's attendance record annually. The CGCN Committee will review any circumstances that caused a Director to attend less than 80% of his or her required meetings and report its findings to the Board, so that the Board can determine whether further action is required.

Material Change in Status

The Board has determined that the CGCN Committee will assess the appropriateness of continued Board service when any Director has a material change in status that could compromise his or her ability to act as a Director of Capital Power. Any Director who has a material change in employment or health status is required to immediately notify the Chair of the CGCN Committee. The CGCN Committee will advise the Board and provide recommendations on the Director's continued service to Capital Power. It is not intended that a Director who has a material change in employment or health status be required to leave the Board, but the Committee has the responsibility to assess the continued appropriateness of Board membership under the relevant circumstances.

Independent Advisors

Individual Directors may engage independent advisors at Capital Power's expense in appropriate circumstances and with the approval of the CGCN Committee.

Orientation

Capital Power has established and maintains an in-depth orientation program for new Directors which includes: information on the role of the Board and each of its Committees; company and



industry information; an overview of Capital Power's operations, along with one or more plant site visits; training regarding the risks faced by Capital Power; and the contribution individual Directors are expected to make. Each new Director receives a package with up-to-date information on Capital Power's corporate and organizational structure, recent filings and financial information, governance documents and important policies and procedures. In addition, each new Director will attend an orientation session detailing the values and strategy of Capital Power and reviewing its operations, internal structure and processes. Each new Director is also invited to attend a full set of committee meetings, regardless of which committees he or she will be appointed to.

Continuing Education

Presentations are made regularly to the Board and its committees to educate and keep them informed of changes within Capital Power and in legal, regulatory and industry requirements and standards. Special presentations on operations and issues of particular business units are also provided to all Directors from time to time. Trips to various operating sites are arranged for Directors so that they may better understand the unique challenges each operational facility faces. Capital Power also pays or contributes toward tuition and expenses for Directors to attend relevant external education sessions.

Director Evaluation

Board and director assessments and evaluations involve:

- Annual one-on-one meetings between the Board Chair and each director,
- Annual director self-evaluations (to be conducted and reviewed in conjunction with the annual one-on-one meetings with the Board Chair), and
- Peer-to-peer evaluations for all directors to be conducted every three years by an independent third party expert.
- Annual Board and Committee effectiveness surveys

Although not anonymous, the one-on-one interviews between the Board Chair and individual directors, including the director self-evaluations, allow the Board Chair to discuss key areas of interest, future committee service, and areas of desired Board focus for the coming year.

The Board and committee annual effectiveness surveys (in accordance with their terms of reference), involve two or more of: anonymous on-line questionnaires, in-camera discussions and one-on-one interviews with each committee chair by the CGCN Committee Chair.

The results of the annual effectiveness surveys, director self-evaluations and one-on-one discussions with the Chair and triennial peer to peer director evaluations are discussed by the Board Chair and the Chair of the CGCN Committee to capture any required follow-up actions and to contribute to director development and Board succession planning.

Compensation

Capital Power reviews the compensation of Directors, the Board Chair and the committee chairs regularly and reports to the Board on the results of all such reviews. Whenever it is felt that a change is required, the CGCN Committee makes a recommendation to the Board.

All compensation paid to Capital Power's Directors is publicly disclosed.



Performance-Based Compensation

Directors who are not employees of Capital Power are not eligible to receive stock options. They receive deferred share units, all grants of which are publicly disclosed.

Minimum Share Ownership Requirements for Directors

All Directors are subject to a requirement that they hold the equivalent of three times their annual cash and equity retainer in Capital Power deferred share units and/or common shares by the fifth anniversary of their initial appointments.

The Board regularly reviews its guidelines for shareholdings of its Directors. The guidelines are publicly disclosed.

Director Tenure and Succession

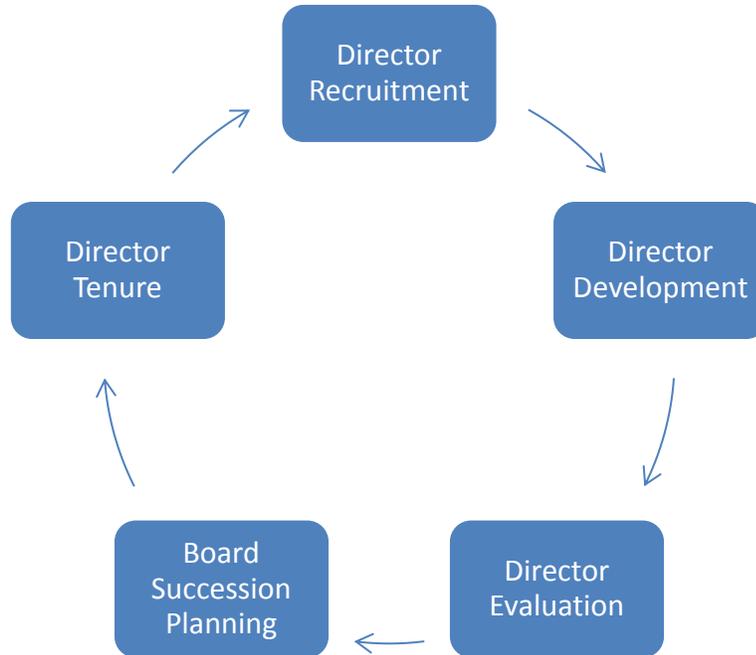
Management's primary tools for determining whom to nominate to the Board each year are the Board's director skills matrix, director self-evaluations and third party peer-to-peer director performance evaluations, however directors must be re-elected by Capital Power's shareholders and receive satisfactory performance reviews in order to remain on the Board. In addition, non-management directors elected or appointed to the Board prior to 2016 will have a maximum tenure of 12 years, and those elected or appointed to the board after 2016 will have a maximum tenure of 10 years.

The Board may extend the term of any director beyond the foregoing limits if the Board determines that Capital Power and the Board would benefit from a director's service beyond the tenure limit, however any exercise of such discretion must be identified and disclosed to Capital Power's shareholders in the proxy circular in which such director is being nominated for election beyond his or her term limit.

The CGCN Committee reviews the anticipated retirement dates of Capital Power's directors every year, and, in conjunction with this review, considers the Board's size and composition, succession planning needs associated with anticipated losses of skills and experience, the need for Board continuity, and the need for new skills and experience on the Board as Capital Power's business and external conditions change.

The Board's Succession Plan also addresses succession of directors chairing and/or serving on the Board's standing committees, which do much of the detailed, substantive work of the Board and which work generally requires specific subject-matter expertise:

- The Board Chair and the CGCN Committee Chair maintain a board succession plan;
- The CGCN Committee establishes a development plan for each of Capital Power's directors that feeds into the succession plan;
- A skills matrix is used for each standing committee of the Board in order to aid succession planning and director development; and
- Committee chairs and memberships will be rotated as appropriate to facilitate director development, Board succession planning, institutional knowledge, continuity and renewal.



Interlocking Directorships and Participation on Other Boards

The Board does not expressly limit the number of its Directors who sit on the same board of another company because it does not believe that interlocking board memberships impair the ability of those directors to act in the best interests of Capital Power. The Board does, however, review interlocking board memberships and believes that disclosing them is important. Similarly, the Board has not placed a maximum limit on the number of boards of other publicly traded companies on which its Directors can serve because it does not believe that serving on other boards is causing any of its Directors to have difficulty devoting sufficient time to their Capital Power Board duties. To the contrary, the Board believes that experience from serving on other boards enables Capital Power’s Directors to bring and share best practices from other companies to Capital Power. Regular performance evaluations are conducted and the Board manages individual Director performance issues as they arise.



4. Board Committees

Independence from Management

Board committees meet without Management at each regularly scheduled meeting, and as each committee otherwise deems necessary at non-regularly scheduled meetings.

Committees

Capital Power's Board has mandated an Audit Committee, a CGCN Committee, and a HS&E Committee. The Board may also authorize other committees, as it feels are appropriate.

Member Independence

All members of the Audit Committee, the CGCN Committee and the HS&E Committee are independent. The Board annually reviews and makes a determination on the independence of each of the members of the Committees and the result of this review is publicly disclosed.

Audit Committee Financial Expertise

All members of the Audit Committee are financially literate. "Financial literacy" is defined by the Board and the definition is publicly disclosed.

Independent Advisors

All Board committees have the authority to engage independent advisors, at Capital Power's expense, to assist them in carrying out their responsibilities.

Reporting

The Board receives reports from the Board committees following each committee meeting. The Board committees also report to other Board committees from time to time, as required.

The **Audit Committee** assists the Board in fulfilling its oversight responsibilities with respect to (i) the integrity of annual and quarterly financial statements to be provided to shareholders and regulatory bodies; (ii) compliance with accounting and finance based legal and regulatory requirements; (iii) the independent auditor's qualifications and independence; (iv) the system of internal accounting and financial reporting controls that Management has established; (v) performance of the internal and external audit process and of the independent auditor; and, (vi) implementation and effectiveness of the *Ethics Policy*.

The **CGCN Committee** assists the Board in fulfilling its oversight responsibilities with respect to (i) the development and implementation of principles, systems and policies for the management of corporate governance; (ii) identifying qualified candidates and recommending nominees for Director and Board Committee appointments; (iii) evaluations of the Board, Board Committees, individual Directors, and the Board and Committee chairs; (iv) key compensation and human resources policies; (v) CEO compensation; (vi) executive Management compensation; (vii) Board of Directors compensation; and (viii) CEO and executive Management succession and development, all with a view to ensuring that the company's corporate governance is appropriate and relevant to an organization of Capital Power's size and complexity. The CGCN Committee also conducts an annual risk assessment to ensure that Capital Power's compensation structure and practices do not encourage unintended risk taking.

The **HS&E Committee** assists the Board in fulfilling its oversight with respect to due diligence in the development and implementation of leading health, safety and environmental policies, systems and culture relevant to an organization of Capital Power's size and complexity.



Terms of Reference

The Board has developed *Terms of Reference* for each Board committee which set forth the committee's respective duties and responsibilities. All Board committee *Terms of Reference* are reviewed annually by the CGCN Committee and any resulting changes are recommended for approval by the Board. All Board committee *Terms of Reference* are publicly disclosed.

5. Board & Committee Chairs

The Board Chair is a non-executive Director and meets the Board's independence requirements.

The Board has adopted and maintains, and annually reviews and updates or confirms, the *Terms of Reference* for the Board which set out the duties and responsibilities of the Chair. The duties and responsibilities of each committee chair are set forth in the *Terms of Reference* for the relevant committee. The *Terms of Reference* for the Board and committee chairs are publicly disclosed.

Link Between Compensation and Risk Management

The Board believes that there should be overlap between the membership of the Audit and CGCN committees to ensure that the CGCN Committee can always take into account the Audit Committee's view of Capital Power's reporting and financial risk when approving and recommending changes to Capital Power's compensation structure. The CGCN Committee annually undertakes a compensation risk assessment to ensure that Capital Power's compensation system does not inadvertently encourage unintended risk taking.

Term Guidelines for Chairs

The Board has not adopted a formal policy regarding Board and committee chair rotation. Instead, all Capital Power Board and committee appointments (including the applicable chairs) are reviewed each year by the CGCN Committee and approved by the full Board. In addition, the Audit Committee's *Terms of Reference* (which are publicly disclosed) provide it with direct input into its membership. Each committee member and chair serves at the pleasure of the Board. Changes in committee assignments are made based on committee needs, director experience, independence, business and professional experience, interest, availability, and evolving legal and regulatory considerations. The need for continuity, subject matter expertise, tenure and the preferences of the individual directors are also considered. Consideration is given to rotating committee members from time to time if rotation is likely to improve committee performance or facilitate the work of a committee.

6. Officers

Duties and Responsibilities of the President & CEO

The Board has adopted and regularly reviews and updates or confirms the CEO's *Terms of Reference* which set out the duties and responsibilities of the CEO. The CEO's *Terms of Reference* are publicly disclosed.

The Board also reviews and approves annual objectives for the CEO and, with recommendations from the CGCN Committee, annually approves CEO compensation in light of the achievement of the annual objectives and performance measurement indicators after considering Capital Power's performance and relative total shareholder returns, and the value of similar incentive awards to CEOs at comparable companies.



Succession Planning

The CGCN Committee reviews and reports to the Board annually on the succession and talent development plans for Capital Power's CEO and senior management.

Minimum Share Ownership Requirements for Officers

The CEO is required to hold the equivalent of three times his or her base salary in Capital Power Corporation shares, and the CFO is required to hold the equivalent of two times his or her base salary in Capital Power shares. All other executives must hold the equivalent of their respective base salaries in Capital Power shares. All executives, including the CEO and CFO, must accumulate their minimum shareholdings on or before the fifth anniversary of their respective appointments. Option grants do not count towards an executive's minimum ownership requirements.

The Board regularly reviews its guidelines for shareholdings of its Officers. The guidelines are publicly disclosed.

Incentive Compensation Clawback

Capital Power's Board of Directors believes that any long and short-term incentive compensation that was awarded on the basis of financial or other results that were subsequently materially restated or corrected should be reimbursed to the Company by (i) all executives, regardless of whether they specifically contributed to the need for the material restatement or correction; and (ii) any other employee who engaged in misconduct that caused or partially caused the need for a material restatement or correction, if, in the Board's view, a lower payment would have been made to the executives and/or employee(s) based on the restated or corrected results. Any such required reimbursement will be in addition to, and not in lieu of, any actions imposed by law enforcement agencies, regulators or other authorities.

Hedging Prohibition

Capital Power's reporting insiders (including its Directors and Officers) and all other persons "in a special relationship" (as defined under securities laws) with, Capital Power are strictly prohibited from (a) engaging in any transaction in which they could benefit, directly or indirectly, if the value of any Capital Power security falls, and (b) encumbering in any way the securities which form the basis of their compliance with minimum share ownership requirements.

Loans

Capital Power does not make loans to its Officers.

7. Shareholder Engagement

Direct Shareholder Communication

The Board and Management believe in the importance of regular and constructive dialogue with Capital Power's shareholders, including:

- Annual meeting for shareholders held in Edmonton, Alberta with a live audio webcast so that shareholders unable to attend in person may listen to the meeting;
- Shareholders present at the annual meeting are invited to ask questions to the Board Chair and/or Management;



- Maintaining a toll-free investor line and investor e-mail address and a confidential ethics hotline to encourage shareholders and the public to contact us with questions or concerns;
- Holding quarterly earnings conference calls with analysts that feature open question-and-answer sessions;
- Hosting an annual investor day event for analysts and institutional investors involving numerous executive presentations that provide an overview of the Company, corporate updates and outlook;
- Executive presentations at institutional investor/industry conferences and conducting quarterly investor roadshows in Canada and the United States; and
- Inviting analysts and institutional shareholders to participate in the Company's perception study administered by an independent third party

For the various investor relations events (i.e., annual meeting, quarterly earnings conference calls, investor day event), the audio webcast, presentation slides, transcripts and audio replays are made available under the Investor Relations section of the Company's website.

Engagement Policy

The Board has adopted a Board Shareholder Engagement Policy (Engagement Policy) that prescribes governance topics for discussion between the board and shareholders, information sought by the board from the shareholder for the purpose of arranging a meeting, guidelines regarding meeting attendance, and a means for shareholders to contact the board to request a meeting.

Say on Pay

The Board believes that Capital Power's shareholders should have the opportunity to fully understand the objectives, philosophy and principles the Board has used in its approach to executive compensation decisions and to have an advisory vote on the Board's approach to executive compensation. The purpose of the 'Say on Pay' advisory vote is to provide appropriate director accountability to Capital Power's shareholders for the Board's compensation decisions by giving shareholders a formal opportunity to provide their views on the disclosed objectives of the executive compensation plans, and on the plans themselves.

While shareholders will provide their collective advisory vote, Capital Power's directors remain fully responsible for their compensation decisions and are not relieved of these responsibilities by a positive advisory vote by shareholders.

The management proxy circular distributed in advance of any of Capital Power's shareholder meetings in which a "Say on Pay" vote is to be held will ask shareholders to consider a non-binding advisory resolution substantially in the following form:

Resolved, on an advisory basis and not to diminish the role and responsibilities of the board of directors, that the shareholders accept the approach to executive compensation disclosed in the Company's information circular delivered in advance of the [insert year] annual meeting of shareholders.

Approval of this resolution will require an affirmative vote of a majority of the votes cast at the annual meeting of shareholders.



As this is an advisory vote, the results will not be binding upon the Board, however the Board will take the results of the vote into account, as appropriate, when considering future compensation policies, procedures and decisions and in determining whether there is a need to significantly increase their engagement with shareholders on compensation and related matters.

The company will disclose the results of the shareholder advisory vote as a part of its report on voting results for the relevant meeting (which is filed on SEDAR after the close of the meeting) and in the next proxy circular. In the event that a significant number of shareholders oppose the resolution, the Board will consult with its shareholders, particularly those who are known to have voted against it, in order to understand their concerns and will review Capital Power's approach to compensation in the context of those concerns. Shareholders who have voted against the resolution will be encouraged to express their specific concerns to the Board.

The Board will disclose to shareholders as soon as is practicable, ideally within six months of the vote, and no later than in the management proxy circular for Capital Power's next annual meeting, a summary of the significant comments relating to compensation received from shareholders in the engagement process and an explanation of the changes to the compensation plans made or to be made by the Board or why no changes will be made.

The Board recognizes that 'Say on Pay' is an evolving area in Canada and globally, and will review this policy no less than every two years to ensure that it is effective in achieving its objectives.

The Board has chosen to reserve the right not to conduct advisory votes at every annual shareholder meeting, as the Company's compensation philosophy, structure and practices do not change annually, however the Board will conduct an advisory vote, at minimum, every three years and in every year in which material changes are made to the Company's compensation philosophy, structure or practices.

Annual Governance Reporting

Capital Power will publicly disclose its governance practices annually in compliance with applicable Canadian and U.S. laws or rules.

Ongoing Governance Disclosure

Capital Power will publicly disclose its Corporate Governance Policy and Ethics Policy, as well as Board, committee, Board Chair, and CEO Terms of Reference, as referred to in this Corporate Governance Policy.

Access to Disclosures

Documents and information referred to in this Policy as being publicly disclosed may be accessed through the "Governance" section of Capital Power's website (www.capitalpower.com). As required by law, certain information is included in Capital Power's annual Proxy Circular or its Annual Report.

Director Majority Voting

The Capital Power Board believes that each of its members represents, and should therefore carry the confidence and support of, the Capital Power shareholders he or she represents. For this reason, all future nominees for election to the Board will be asked to subscribe to this statement before their names are put forward for election.



Forms of proxy for the votes at a shareholders' meeting where directors are to be elected will enable common shareholders to vote in favour of, or to withhold from voting, separately for each nominee. At the meeting, the Chair will call for a vote by ballot and the scrutineers will record with respect to each independent director nominee the number of shares in his or her favour and the number of shares withheld from voting. Prior to receiving the scrutineer's report on the ballot, the Chair may announce the vote result based on the number of proxies received by Capital Power. At the conclusion of the meeting, the final scrutineer's report on the ballot must be filed on SEDAR.

If, with respect to any particular nominee, the number of shares withheld exceeds the number of shares voted in favour of the nominee, then the nominee shall be considered not to have received the support of the shareholders, even though duly elected as a matter of corporate law.

A person elected as an independent director who is considered under this test not to have the confidence of the common shareholders is expected to submit his or her resignation to the board of directors forthwith, such resignation to take effect upon acceptance by the board of directors. The board will accept the resignation as soon as possible, consistent with an orderly transition. In any event, it is expected that the resignation will be accepted within 90 days.

Subject to any corporate law restrictions, the Board may: (i) leave the resultant vacancy unfilled until the next annual general meeting; (ii) fill the vacancy through the appointment of a new independent director whom the board considers to merit the confidence of the common shareholders; or (iii) call a special meeting of shareholders at which there will be presented (a) nominee(s) to fill the vacant position(s).

This policy does not apply in any director election in which there are more nominees than board seats.

9. Compliance

Under *National Instrument 58-101 – Disclosure of Corporate Governance Practices*, Capital Power must annually disclose whether or not it is complying with *National Policy 58-201 – Corporate Governance Guidelines*. The CGCN Committee assists the Board in overseeing the development and implementation of policies, principles and systems for the management of corporate governance and takes all reasonable steps to satisfy itself that Capital Power implements appropriate corporate governance practices appropriate and relevant to an organization of its size and complexity.

10. Related Policies

Ethics Policy
Disclosure & Insider Trading Policy
Shareholder Engagement Policy
Diversity Policy