

**Capital Power  
Corporation**



**Annual Information Form**

**For the year ended December 31, 2010**

**March 8, 2011**

## TABLE OF CONTENTS

<b>PRESENTATION OF INFORMATION</b> .....	<b>3</b>
<b>FORWARD-LOOKING INFORMATION</b> .....	<b>3</b>
<b>DEFINITIONS OF CERTAIN TERMS</b> .....	<b>3</b>
<b>CORPORATE STRUCTURE</b> .....	<b>7</b>
<b>GENERAL DEVELOPMENT OF THE BUSINESS</b> .....	<b>8</b>
<b>BUSINESS OF CAPITAL POWER</b> .....	<b>11</b>
OVERVIEW .....	11
POWER GENERATION .....	11
<i>Alberta Commercial Plants</i> .....	11
<i>Portfolio Optimization</i> .....	13
<i>Alberta Contracted Plants</i> .....	14
<i>Ontario and British Columbia Contracted Plants</i> .....	15
<i>Capital Power Income L.P.</i> .....	18
<i>Projects Under Construction and in Development</i> .....	21
COMPETITIVE ENVIRONMENT .....	23
ENVIRONMENTAL REGULATION .....	24
PERSONNEL .....	27
<b>REGULATORY OVERVIEW</b> .....	<b>27</b>
ALBERTA .....	27
ONTARIO .....	28
BRITISH COLUMBIA .....	29
UNITED STATES .....	30
<b>RISK FACTORS</b> .....	<b>32</b>
<b>COMMON DIVIDEND</b> .....	<b>32</b>
<b>CAPITAL STRUCTURE</b> .....	<b>32</b>
RATINGS .....	36
<b>MARKET FOR SECURITIES</b> .....	<b>37</b>
<b>DIRECTORS AND OFFICERS</b> .....	<b>38</b>
CORPORATE CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS .....	41
CONFLICTS OF INTEREST .....	41
<b>PROMOTER</b> .....	<b>42</b>
<b>LEGAL PROCEEDINGS AND REGULATORY ACTIONS</b> .....	<b>42</b>
<b>TRANSFER AGENT AND REGISTRAR</b> .....	<b>42</b>
<b>INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS</b> .....	<b>42</b>
<b>MATERIAL CONTRACTS</b> .....	<b>43</b>
<b>INTERESTS OF EXPERTS</b> .....	<b>47</b>
<b>AUDIT COMMITTEE</b> .....	<b>48</b>
<b>ADDITIONAL INFORMATION</b> .....	<b>50</b>
<b>APPENDIX A — AUDIT COMMITTEE TERMS OF REFERENCE</b> .....	<b>51</b>

## PRESENTATION OF INFORMATION

Unless otherwise noted, the information contained in this Annual Information Form (AIF) is given at or for the period ended December 31, 2010. Amounts are expressed in Canadian dollars unless otherwise indicated. All financial information presented in millions of Canadian dollars is rounded to the nearest million unless otherwise stated. Financial information is presented in accordance with Canadian generally accepted accounting principles (GAAP).

This AIF provides material information about the business and operations of Capital Power Corporation (Capital Power or the Company). Any reference to Capital Power or the Company in this AIF means Capital Power Corporation together with its subsidiaries on a consolidated basis, including its interest in Capital Power L.P. (CPLP or the Partnership) and Capital Power Income L.P. (CPILP), except where otherwise noted or where the context otherwise indicates. Any reference to CPILP, a publicly-traded limited partnership in which CPLP indirectly has approximately a 29.6% interest as at December 31, 2010, means CPILP and its subsidiaries on a consolidated basis, except where otherwise noted or where the context otherwise indicates.

The "Business Risks" section of the Company's Management's Discussion and Analysis (MD&A) dated March 8, 2011 for the year ended December 31, 2010 is incorporated by reference and can be found on SEDAR at [www.sedar.com](http://www.sedar.com)

## FORWARD-LOOKING INFORMATION

Certain information in this AIF is forward-looking within the meaning of Canadian securities laws as it relates to anticipated financial performance, events or strategies. When used in this context, words such as will, anticipate, believe, plan, intend, target, and expect or similar words suggest future outcomes.

Forward-looking information in this AIF includes, among other things, information relating to: (i) expectations regarding the review of strategic alternatives for CPILP, its potential outcome, and the intention of Capital Power to support the review of strategic alternatives but not participate as a prospective buyer if a sale were to occur; (ii) expectations regarding the timing of the CPILP strategic review process and that during the review process CPILP will continue its business as usual, provide the same amount of monthly distributions to its unitholders and maintain the same proposition it offers today; (iii) Capital Power's intention to continue managing CPILP assets; (iv) expectations for the Company's and CPILP's sources of capital and use, adequacy and availability of committed bank credit facilities and potential future borrowings; (v) expected contracted price for power under the OPA's FIT program for Port Dover & Nanticoke Wind project; (vi) expectations regarding amount and timing of future distributions; (vii) expectations regarding the timing and amount for the recovery and settlement of the business interruption claim for the outage of Clover Bar Energy Centre Unit 2; (viii) expectations regarding timing and amount of spending on Keephills 3; (ix) expected total capital project costs and expenditures as well as expected project completion dates and payments under contractual obligations; (x) expected improvement in and reduction of future and current plants' environment emission levels and ability to capture future emissions; (xi) expectations regarding proposed new environmental regulations and the impact of current and new emissions regulation on future environmental regulation compliance costs; (xii) expectations regarding the carbon capture storage FEED study, timing of completion, and expecting timing of decision to proceed with the project; (xiii) expectations regarding the of timing of new environmental regulations being brought into force; (xiv) expected timing of return of service date of Clover Bar Energy Centre Unit 3; (xv) expectations regarding the Kingsbridge II project and other proposed projects in the Bruce-Huron area and related possibilities to be awarded a FIT contract and anticipated timing of award of contract; (xvi) expectations regarding the development of the proposed Halkirk Wind Project as well as scheduled timing of project completion; (xvii) expectations regarding the Company's strategy, including the Company's expectation to maintain a stable dividend and an investment-grade credit rating; (xviii) expectations in respect of the new PPAs at CPILP's North Carolina plants; (xix) the Company's belief that the outcome of any claims or potential claims of which it is aware will not have a material adverse effect on Capital Power's financial conditions and results of operations; (xx) expectations regarding the purchase price and timing of closing of the Tiverton, Rumford, and Bridgeport acquisitions; (xxi) expected timing of when CPILP will make material cash income tax payments; (xxii) expectations in respect of new PPAs at the North Carolina facilities, including the effective date and terms thereof, and expectations with respect to CPILP's long-term outlook for the North Carolina plants; (xxiii) expectations that a peaking facility can or will be developed on the existing site of the Bridgeport Energy plant; (xxiv) expectations regarding the timing of closing of Capital Power's offering of common shares announced on March 8, 2011; (xxv) expectations regarding the cost for completion and anticipated timing of commencement of commercial operations of the Port Dover & Nanticoke wind project; (xxvi) expectations regarding the cost for completion and anticipated timing of commencement of commercial operations of the Quality Wind project; (xxvii) expectations regarding the sufficiency of existing coal rights related to the Genesee Coal Mine to supply the requirements of the Genesee facilities for the next 40 years; (xxviii) expectations that enhancement projects at CPILP's North Carolina facilities will significantly reduce emissions and fuel costs, and expectations regarding further investments in these facilities; (xxix) expectations regarding Capital Power's intention not to build an IGCC facility; (xxx) expectations regarding the development of additional BC wind projects with Chinook Power Corp.; (xxxi) expectations regarding power demand in Canada and the US, and the impact thereof on development activity; (xxxii) Capital Power's belief that baseload capacity and its portfolio of mid-merit and peaking facilities will result in capitalization on Alberta market dynamics; (xxxiii) expectations regarding the markets in which Capital

Power intends to grow and the development of additional networked hubs; (xxxiv) expectations regarding Capital Power's intention to focus on fossil fuel-fired technologies, supplemented by renewables; and (xxxv) expectations regarding the timing of collective bargaining with unions and that collective bargaining with unions in 2011 will lead to collective agreements on favourable terms for Capital Power.

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 and expected future developments and other factors it believes are appropriate. The material factors and assumptions used to develop these forward-looking statements include, but are not limited to: (i) the operation of the Company's facilities; (ii) power plant availability and dispatch, including Sundance which is subject to an acquired PPA; (iii) the Company's financial position and credit facilities and sources of funding; (iv) the Company's assessment of commodity and power markets; (v) the Company's assessment of the markets and regulatory environments in which it operates; (vi) weather; (vii) availability and cost of labour and management resources; (viii) performance of contractors and suppliers; (ix) availability and cost of financing; (x) foreign exchange rates; (xi) management's analysis of applicable tax legislation; (xii) currently applicable and proposed tax laws will not change and will be implemented; (xiii) currently applicable and proposed environmental regulations will be implemented; (xiv) counterparties will perform their obligations; (xv) renewal and terms of PPAs; (xvi) ability to successfully integrate and realize benefits of its acquisitions; (xvii) ability to implement strategic initiatives which will yield the expected benefits; (xviii) ability to obtain necessary regulatory approvals for development projects; (xix) the Company's assessment of capital markets and ability to complete future share and debt offerings; (xx) locations of projects and the areas of which they will be developed, including the availability and use of certain optioned lands; (xxi) costs of construction and development; and (xxii) current risk management strategies including hedges will be in place.

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 risks and uncertainties include, but are not limited to, risks relating to: (i) operation of the Company's facilities; (ii) power plant availability and performance, including unplanned plant outages at facilities of other market participants; (iii) unanticipated maintenance and other expenditures; (iv) availability and price of energy commodities; (v) electricity load settlement; (vi) regulatory and government decisions including changes to environmental, financial reporting and tax legislation; (vii) weather and economic conditions; (viii) competitive pressures; (ix) construction; (x) availability and cost of financing; (xi) foreign exchange; (xii) availability and cost of labour, equipment and management resources; (xiii) performance of counterparties, partners, contractors and suppliers in fulfilling their obligations to the Company; (xiv) developments in the North American capital markets; (xv) compliance with financial covenants; (xvi) ability to successfully realize the benefits of acquisitions and investments; (xvii) the tax attributes of and implications of any acquisitions; (xviii) the outcome of CPILP's strategic review; and (xix) ability to secure new contracts and terms of such contracts. If any such risks actually occur, they could materially adversely affect the Company's business, financial condition or results of operations. In that case the trading price of the Company's common shares could decline, perhaps materially.

Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. Forward-looking statements are provided for the purpose of providing information about management's current expectations, and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. 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.

## **DEFINITIONS OF CERTAIN TERMS**

Certain terms used in this AIF have the following meanings:

"AIF" means Annual Information Form

"ATCO" means ATCO Power Canada Ltd.

"Balancing Pool" means the Alberta Balancing Pool, an Alberta provincial government entity established to, among other things, hold certain PPAs

"BC" means British Columbia

"BC Hydro" means British Columbia Hydro and Power Authority

"BCUC" means the British Columbia Utilities Commission

"Board" means the board of directors of Capital Power

"Capital Power" or the "Company" means Capital Power Corporation together with its subsidiaries on a consolidated basis, including its interest in Capital Power L.P. and Capital Power Income L.P. except where otherwise noted or the context otherwise indicates

"CCS" means carbon capture and storage

"Clover Bar" means Clover Bar Energy Centre

"CO<sub>2</sub>" means carbon dioxide

"Common LP Units" means common limited partnership units

"Common Shares" means common shares in the capital of Capital Power Corporation

"CPILP" means Capital Power Income L.P., and its subsidiaries on a consolidated basis, except where otherwise noted or the context otherwise indicates

"CPLP" means Capital Power L.P.

"CPLPGP" means Capital Power GP Holdings Inc., the general partner of CPLP

"DBRS" means DBRS Limited

"EPA" means electricity purchase agreement or energy purchase agreement, as applicable

"EPCOR" means EPCOR Utilities Inc. collectively with its subsidiaries

"EPDC" means EPCOR Power Development Corporation

"ESA" means energy supply agreement

"FEED" means front-end engineering and design

"FERC" means Federal Energy Regulatory Commission

"FIT" means Feed-In-Tariff

"FPA" means Federal Power Act

"GE" means General Electric Inc.

"GHG" means greenhouse gases

"GP Units" means general partner units

"GWh" means gigawatt hours

"Hg" means mercury

"IPO" means Initial Public Offering

"IPP" means independent power producer

"ISO" means Independent System Operator

"ISO-NE" means New England Power Pool

"MTN" means medium term note

"MW" means megawatts

"MWh" means megawatt hour

"NO<sub>x</sub>" means nitrogen oxide

"NOVA" means Nova Chemicals Corporation

"OEFCE" means Ontario Electricity Financial Corporation

"OPA" means Ontario Power Authority

"PERH" means Primary Energy Recycling Holdings LLC

"Partnership" means Capital Power L.P.

"PM" means particulate matter

"PPA" means power purchase agreement or power purchase arrangement, as applicable

"QF" means qualifying facility

"Reorganization" has the meaning ascribed thereto under "General Development of the Business - Initial Public Offering and Reorganization"

"RFP" means request for proposal

"SEDAR" means the System for Electronic Document Analysis and Retrieval, which can be accessed via the Internet at [www.sedar.com](http://www.sedar.com)

"Series 1 Shares" means the Cumulative Rate Reset Preference Shares issued by the Company

"SO<sub>2</sub>" means sulfur dioxide

"S&P" means Standard & Poor's, a division of the McGraw-Hill Companies, Inc. (Canada) Corporation

"SRAC" means short-run avoided costs

"Tax Act" means the Income Tax Act (Canada)

"TransAlta" means TransAlta Corporation

"TransCanada" means TransCanada Corporation

"US" means United States of America

*Remainder of page intentionally left blank*

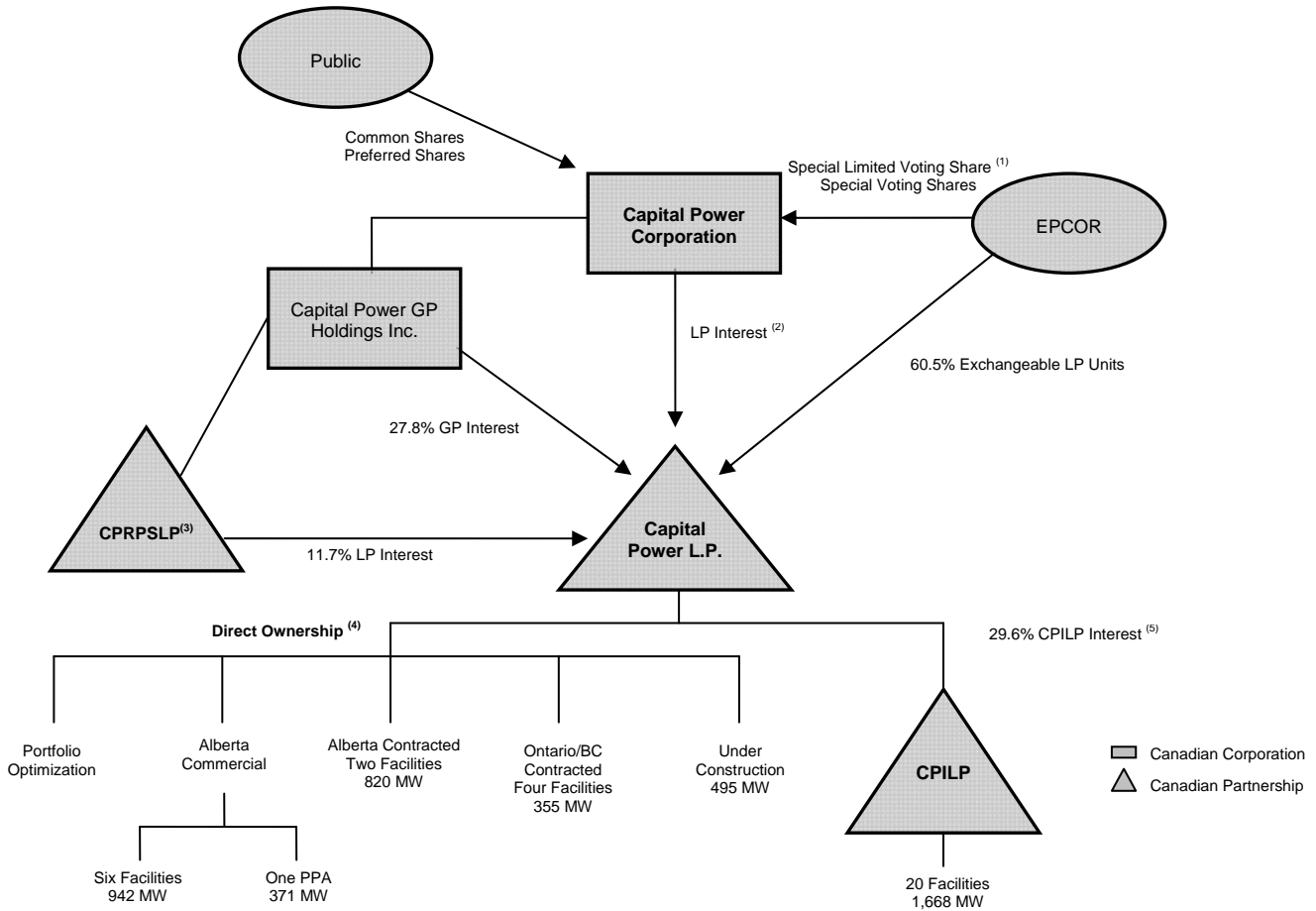
# CORPORATE STRUCTURE

## Capital Power Corporation

The Company was incorporated under the *Canada Business Corporations Act* on May 1, 2009 as 7166575 Canada Inc. The Company's name was changed to Capital Power Corporation pursuant to articles of amendment dated May 6, 2009. The Company's articles were further amended on June 16, 2009, July 7, 2009 and December 10, 2010 to, among other things, create the classes of shares described in this AIF. See "Capital Structure".

The principal business office and registered office of the Company is located at TD Tower, 5<sup>th</sup> Floor, 10088-102 Avenue, Edmonton, Alberta, Canada, T5J 2Z1.

The following organizational chart indicates the inter-corporate relationships of the Company, its material subsidiary entities and its shareholders:



- (1) EPCOR Utilities Inc. holds 47.416 million Special Voting Shares of the Company, the one Special Limited Voting Share of the Company, and the one Special Limited Voting Share of the general partner of CPLP. See "Capital Structure".
- (2) Nominal LP interest held through Capital Power LP Holdings Inc., a wholly-owned subsidiary of the Company.
- (3) CP Regional Power Services Limited Partnership
- (4) Stated capacity represents owned and / or operated capacity.
- (5) Capital Power L.P. has a 49% voting interest and a 100% economic interest in CPI Investments Inc., a holding company that owns approximately 29.6% of the limited partnership units of CPILP and 100% of the shares of the general partner of CPILP. EPCOR Utilities Inc. owns the other 51% voting interest in CPI Investments Inc. See "Capital Structure - CPI Investments Inc." and "Material Contracts - CPI Investments Inc. Shareholder Agreement". CPILP facilities are managed and operated by indirect subsidiaries of Capital Power.

## **Capital Power L.P.**

CPLP is a limited partnership established under the laws of the Province of Ontario. The general partner of CPLP is Capital Power GP Holdings Inc. (CPLPGP) which is wholly-owned by the Company (subject to the one Special Limited Voting Share held by EPCOR Utilities Inc. (collectively with its subsidiaries, EPCOR)). See "Capital Structure". The board of directors of CPLPGP is the same as the board of directors of the Company (the Board). CPLP directly and indirectly holds the Company's assets and investments in the electrical power generation business.

EPCOR through a subsidiary holds 47.416 million Exchangeable LP Units of CPLP. See "Material Contracts - Limited Partnership Agreement". The Company indirectly holds 21.750 million general partner units (GP Units) of CPLP and 9.209 million common limited partnership units (Common LP Units) of CPLP representing approximately 27.8% and 11.7%, respectively, of the total number of outstanding partnership interests in CPLP.

## **Capital Power Income L.P.**

CPLP has a 49% voting interest and a 100% economic interest in CPI Investments Inc., a holding company that owns approximately 29.6% of the limited partnership units of CPILP and 100% of the shares of CPI Income Services Ltd., the general partner of CPILP. EPCOR owns the other 51% voting interest in CPI Investments Inc. See "Capital Structure - CPI Investments Inc." and "Material Contracts - CPI Investments Inc. Shareholder Agreement".

CPILP is a limited partnership formed under the laws of the Province of Ontario with interests in 19 wholly-owned power generation facilities in Canada and the United States of America (US) that generate electricity and steam, an additional 50.15% interest in a generation asset in the US and a 14.3% common equity interest in Primary Energy Recycling Holdings LLC (PERH). CPILP is a reporting issuer in each of the provinces and territories of Canada, and its limited partnership units are listed on the Toronto Stock Exchange under the symbol "CPA.UN". Certain officers of the Company are officers and directors of the general partner of CPILP and of CPILP's subsidiaries. CPILP's facilities are managed and operated by indirect subsidiaries of Capital Power.

# **GENERAL DEVELOPMENT OF THE BUSINESS**

## **Overview**

Headquartered in Edmonton, Alberta, Capital Power is engaged in the business of producing and selling power, with interests in 32 facilities in Canada and the US totaling approximately 3,800 megawatt (MW) of owned and / or operated power generation capacity, 371 MW of capacity owned through a power purchase agreement (PPA) and 495 MW of owned capacity under construction.

## **Recent Developments**

### **Bridgeport**

On March 8, 2011, Capital Power announced that a subsidiary has entered into an agreement to acquire Bridgeport Energy, LLC, which owns the Bridgeport Energy plant. The plant is a natural gas-fired combined cycle power generation plant with a nominal capacity of 520 MW located in Bridgeport, Connecticut. The purchase price for the acquisition is US\$355 million subject to working capital adjustments and other closing adjustments, and is expected to close in May 2011, subject to regulatory approvals and satisfaction of other customary closing conditions. Having entered commercial operation in July 1999, the plant dispatches into the New England Power Pool (ISO-NE) and has historically received payments for energy, capacity and ancillary services. It is equipped with two Siemens V84.3A gas turbines and produces additional output from two Vogt/NEM three-pressure level Heat Recovery Steam Generators and one Siemens KN single-reheat condensing steam turbine. The site has adequate space to develop a peaking facility when market conditions warrant.

### **Tiverton and Rumford**

On February 17, 2011, Capital Power announced that a subsidiary has entered into an agreement to acquire two generating facilities from Brick Power Holdings LLC, one facility located in Tiverton, Rhode Island and one facility located in Rumford, Maine. Both plants are natural gas-fired combined cycle power generation facilities serving the New England region in the US Northeast, and have a maximum combined capacity of 549 MW. The purchase price for the acquisition is US\$315 million subject to working capital adjustments and other closing adjustments, and is expected to close in April 2011, subject to regulatory approvals and satisfaction of other customary closing conditions. Both plants are merchant facilities and sell their output into the ISO-NE. The plants began commercial operations in 2000 and have similar design configurations that utilize a single fuel General Electric (GE) 7FA power island.



## **Offering of Common Shares**

On March 8, 2011, the Company announced that it has entered into an agreement with a syndicate of underwriters under which the underwriters have agreed to purchase 8.1 million of Common Shares at an offering price of \$24.90 per Common Share on a bought deal basis. The agreement includes an option to purchase up to an additional 1.215 million Common Shares, exercisable in whole or in part, for total gross proceeds of approximately \$232 million. The transaction is expected to close on or about March 17, 2011.

## **Company History**

### **2010**

#### **Secondary Offering of Common Shares**

On December 14, 2010, the Company and EPCOR completed a secondary offering (the Secondary Offering), on a bought deal basis, of 8,334,000 Common Shares at an offering price of \$24.00 per Common Share. On December 22, 2010, the underwriters of the Secondary Offering exercised the over-allotment option and acquired an additional 875,000 common shares. Capital Power did not receive any of the approximately \$221 million of net proceeds from EPCOR's sale of common shares. Following completion of the Secondary Offering, EPCOR beneficially owns 47.416 million Exchangeable LP Units, representing approximately 60.5% of the equity of the Partnership and 47.416 million accompanying Special Voting Shares of the Company.

#### **Preference Shares**

On December 16, 2010 the Company issued 5,000,000 Cumulative Rate Reset Preference Shares, Series 1 (Series 1 Shares) of the Company at a price of \$25.00 per Series 1 Share for aggregate gross proceeds of \$125 million. The Company used the funds to repay a portion of the outstanding balance under its credit facilities which were used to fund the acquisition of Island Generation and for general corporate purposes. The Series 1 Shares will pay fixed cumulative dividends of \$1.15 per share per annum, yielding 4.60% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the initial five-year period ending December 31, 2015. The holders of Series 1 Shares will have the right to convert their shares into Cumulative Floating Rate Preferred Shares, Series 2 of the Company, subject to certain conditions, on December 31, 2015 and on December 31 of every fifth year thereafter. See "Capital Structure - Capital Power Corporation - Preference Shares".

#### **Debt Issuance**

On November 16, 2010, the Partnership issued \$300 million principal amount 5.276% senior unsecured medium term notes (MTNs) due November 16, 2020 (the MTN Issuance). The net proceeds of the MTN Issuance were used by the Partnership to repay amounts owing under its credit facilities and for general corporate purposes. Approximately \$202 million of the Partnership's credit facilities were utilized in connection with the Partnership's acquisition of the Island Generation Facility.

#### **Island Generation Facility**

On October 19, 2010, CPLP completed the acquisition of the Island Generation Facility (Island Generation), a 275 MW gas-fired combined cycle power plant located at Campbell River, British Columbia (BC). The purchase price for Island Generation was approximately \$205 million. Island Generation is fully contracted to April 2022 under a tolling arrangement where British Columbia Hydro and Power Authority (BC Hydro) will be responsible for the fuel supply to the facility and has dispatch rights. See "Business of Capital Power - Power Generation - Ontario and British Columbia Contracted Plants - Island Generation".

#### **Review of strategic alternatives for CPILP**

On October 5, 2010 Capital Power and CPILP jointly announced that CPILP would initiate a process to review its strategic alternatives. Capital Power will support the review of strategic alternatives, and if the process results in a determination to proceed with a sale of CPILP, Capital Power does not intend to participate as a prospective buyer. The initiation of the strategic review was not in response to any proposed transaction for CPILP, nor can there be any assurance that it will lead to a transaction. CPILP's process to review strategic alternatives is expected to continue into the second quarter of 2011. During the process it will be business as usual for CPILP and Capital Power. It is anticipated that CPILP will continue to provide the same amount of monthly distributions to its unitholders and maintain the same strategy supported by its high quality portfolio of contracted power assets. Capital Power, through its wholly owned subsidiaries, will continue to provide ongoing operational and management services to CPILP.

#### **Halkirk Wind Project**

In August 2010, Capital Power formed a joint venture with Greengate Power Corporation (Greengate) to develop the Halkirk I

Wind project which is a proposed 150 MW wind farm in central Alberta. Progress on the project is pending regulatory decisions and if it proceeds, each firm will own 50% of the project. Greengate will lead the development and Capital Power will manage the construction and operation. Subject to final approval of the project, construction could be completed in 2012.

### **Short Form Base Shelf Prospectus**

On April 13, 2010, Capital Power Corporation filed a Short Form Base Shelf Prospectus in each of the provinces and territories of Canada qualifying the issuance by Capital Power Corporation from time to time over a period of 25 months of up to \$1 billion of common shares and / or subscription receipts.

On April 14, 2010, Capital Power L.P. filed a Short Form Base Shelf Prospectus in each of the provinces and territories of Canada qualifying the issuance by Capital Power L.P. from time to time over a period of 25 months of up to \$1 billion of medium term notes.

### **Port Dover and Nanticoke Wind Project**

In April 2010, the Ontario Power Authority (OPA) selected the Company's Port Dover & Nanticoke Wind development project for the award of a 20-year Feed-in-Tariff (FIT) contract to sell power. The 105 MW project is being proposed in an area in southern Ontario where the Company has optioned lands totaling over 8,900 acres. The project has an expected cost of up to \$340 million and is anticipated to enter commercial operation in the fourth quarter of 2012. Construction of the project is subject to regulatory approvals, including Ontario's Renewable Energy Approvals process which is currently in progress for the project. Capital Power has selected Vestas Wind Systems A/S (Vestas) for the supply and maintenance of wind turbines for this project. See "Business of Capital Power - Port Dover & Nanticoke Wind Project."

### **Quality Wind**

On March 11, 2010 BC Hydro announced that Capital Power's Quality Wind Project (Quality Wind) was selected for the award of an energy purchase agreement (EPA). The 142 MW project located near Tumbler Ridge, BC is expected to cost approximately \$455 million. Electricity generated by Quality Wind will be sold under a 25-year EPA with BC Hydro. The EPA was signed in April 2010 and the Environmental Assessment Certificate for the project was received from the Government of BC in July 2010. Turbine supply, service and maintenance contracts as well as the balance of the plant's engineering procurement construction contract are now in place and construction commenced in November 2010. Commercial operation is expected to commence by the end of 2012. Capital Power has selected Vestas for the supply and maintenance of wind turbines for this project. See "Business of Capital Power - Power Generation - Projects Under Construction and in Development - Quality Wind Project".

### **Sale of interest in Battle River Power Syndicate Agreement**

In January 2010, the Company sold its remaining 15% interest in the Battle River Power Syndicate Agreement (PSA) for cash proceeds of \$64 million. This sale was pursuant to the agreement entered into in June 2006 whereby the Company agreed to sell its Battle River PPA and related interest in the Battle River PSA to ENMAX Corporation over a four-year period ending in January 2010.

## **2009**

### **Clover Bar Energy Centre**

In December 2009, Capital Power's 243 MW Clover Bar Energy Centre (Clover Bar) commissioned the third and final natural gas turbine at the site which is located in Edmonton, Alberta on the east side of the North Saskatchewan River on the same site as the former Clover Bar Generating Station. The facility consists of one 43 MW GE LM 6000 turbine, and two GE 100 MW LMS 100 turbines. The new facility's environmental footprint is reduced as the high-efficiency units use 85% less water and produce about 70% less nitrogen oxide (NO<sub>x</sub>) per megawatt hour (MWh) than the old Clover Bar Generation Station.

### **Initial Public Offering and Reorganization**

In July 2009, the Company issued 21.75 million common shares (the Common Shares) at a price of \$23.00 per share in an Initial Public Offering (IPO) pursuant to an underwriting agreement with a group of underwriters. See "Material Contracts". The proceeds from the IPO net of underwriter and issue costs were approximately \$475 million. Concurrently with the completion of the IPO, CPLP acquired substantially all of the power generation assets of EPCOR through the following transactions (the Reorganization):

- *Formation of CPLP:* The Company and Capital Power LP Holdings Inc., a wholly-owned subsidiary of the Company, formed CPLP. The Company acquired one GP Unit and was the initial general partner of CPLP. Capital Power LP Holdings Inc. acquired one Common LP Unit and as a result, became the initial limited partner in CPLP.

- *Sale of EMCC Limited to Capital Power Corporation:* EPCOR transferred all of the outstanding common shares of EMCC Limited (consisting primarily of certain securities of subsidiary entities, its Class B Shares of CPI Investments Inc. and a promissory note of CPI Investments Inc.) to the Company in return for payment of approximately \$468 million in cash from the net proceeds of the IPO. See "Material Contracts - Share Transfer Agreement".
- *Contribution of Assets by EMCC Limited to CPLP:* EMCC Limited contributed substantially all of its assets to CPLP in return for 21.75 million GP Units of CPLP. The Company transferred its GP Units in CPLP to EMCC Limited and as a result EMCC Limited, whose name was subsequently changed to Capital Power GP Holdings Inc., became the general partner of CPLP.
- *Sale of Assets by EPCOR Power Development Corporation (EPDC) to CPLP:* EPDC transferred substantially all of its assets (consisting primarily of assets related to Genesee Units 1 and 2, the Genesee Coal Mine joint venture and certain interests in partnerships) to CPLP in return for 56.625 million Exchangeable LP Units of CPLP and approximately \$896 million in cash. CPLP financed the cash payment with the proceeds from a long-term debt obligation to EPCOR. See "Material Contracts - Back-to-Back Credit Agreement". Concurrently, EPDC subscribed for 56.625 million Special Voting Shares of the Company for a nominal amount and acquired the Special Limited Voting Share. See "Material Contracts - Asset Transfer Agreement".

Immediately following completion of the IPO and the Reorganization: (i) purchasers of Common Shares under the IPO held all of the issued and outstanding Common Shares of the Company, (ii) the Company indirectly held all of the issued GP Units and Common LP Units of CPLP, representing, at that time approximately 27.8% of CPLP, (iii) EPCOR indirectly held 56.625 million Exchangeable LP Units of CPLP (exchangeable for Common Shares of the Company on a one-for-one basis), representing, at that time approximately 72.2% of CPLP, and (iv) CPLP held 49% and EPCOR held 51% of the voting rights in CPI Investments Inc. and CPLP held 100% of the economic interest in CPI Investments Inc.

Each Exchangeable LP Unit of CPLP is accompanied by one Special Voting Share of the Company. EPCOR holds, indirectly, 100% of the Special Voting Shares. Each Special Voting Share entitles the holder: (i) to certain special rights in respect of the nomination and election of directors of the Company, and (ii) generally on other matters, to one vote at shareholder meetings of the Company, subject to the restriction that such Special Voting Shares may at all times represent not more than 49% of the votes attached to all Common Shares and Special Voting Shares of the Company, taken together. See "Capital Structure - Capital Power Corporation - Special Voting Shares".

In connection with the Reorganization, Capital Power entered into various agreements with EPCOR to provide for certain other aspects of the separation of the business of Capital Power from EPCOR, to provide for the continuity of operations and services and to govern the ongoing relationships between the two entities and their subsidiaries. See "Material Contracts".

## **BUSINESS OF CAPITAL POWER**

### **Overview**

Capital Power's current portfolio consists of interests in 32 facilities in Canada and the US, totaling approximately 3,800 MW of owned and / or operated power generation capacity. Capital Power's asset portfolio includes direct ownership in operating facilities, ownership of a PPA where Capital Power is entitled to the electricity output from the facility but does not own the facility itself, and indirect ownership of an approximate 29.6% interest in CPILP.

### **Power Generation**

The Company has one line of business and reports results of operations in the following categories: (i) Alberta commercial plants and portfolio optimization, (ii) Alberta contracted plants, (iii) Ontario and British Columbia contracted plants, (iv) CPILP plants, and (v) other portfolio activities.

#### **Alberta Commercial Plants**

Alberta commercial plants consist of generation facilities for which Capital Power has not contracted substantially all output and capacity of the facilities to third parties. The Alberta commercial plants consist of six facilities representing approximately 942 MW of owned and / or operated power generation capacity and generate electricity principally from coal, but also from natural gas, hydro, wind and landfill gas.

With the exception of Joffre, the output of the Alberta plants is managed as a networked hub by Capital Power's commodity portfolio management group. Output from these plants is sold into the deregulated Alberta power market. Portfolio optimization includes generation unit offer strategy, trading, import/export activities and end-user marketing activities in the Alberta market undertaken to manage Capital Power's commodity price and volume exposures and to enhance earnings. In 2009, Capital Power created an origination business group to sell power contracts to competitive wholesale commercial and industrial

customers and manage supply on behalf of other marketers and local distribution companies. The origination group will also be utilized to support Capital Power's expansion initiatives in other deregulated North America power markets.

Capital Power seeks to maximize earnings from Alberta commercial plants by achieving high production levels from the facilities and by actively managing the portfolio's commodity price risk through the use of physical and financial contracts. Trading counterparties in the Alberta market include other power generators, large load customer entities and market trading counterparties. Internal credit limits are established and monitored for these counterparties. See "Business of Capital Power - Power Generation - Portfolio Optimization".

### **Genesee Unit 3**

Genesee Unit 3 (Genesee 3), commissioned in 2005, is located adjacent to Genesee Unit 1 and Unit 2 on the Genesee plant site. It is operated and 50% owned by Capital Power and 50% owned by TransAlta Corporation (TransAlta) and has a gross generation capacity of 495 MW. Genesee 3 is a coal-fired generating unit which uses supercritical technology to achieve greater fuel efficiency, lower carbon dioxide (CO<sub>2</sub>), NO<sub>x</sub> and sulfur dioxide (SO<sub>2</sub>) emissions per MW than conventional subcritical pulverized coal technologies. Genesee 3 produces CO<sub>2</sub> emissions that are approximately 24% less CO<sub>2</sub> in producing the same amount of power as the four Wabamun units recently retired by TransAlta.

#### *Commercial Arrangement: Merchant Facility*

Genesee 3 was constructed after deregulation of the wholesale electricity market in Alberta; consequently, the output is not sold through a PPA to a third party buyer. Capital Power's share of Genesee 3 generation is managed as part of Capital Power's Alberta electricity portfolio optimization. See "Business of Capital Power- Power Generation - Portfolio Optimization".

#### *Fuel Supply*

See "Business of Capital Power - Power Generation - Alberta Contracted Plants - Genesee Unit 1 and Unit 2 - Fuel Supply".

### **Joffre**

Joffre is a 480 MW natural gas-fired cogeneration plant, commissioned in 2000, which is located at the Nova Chemicals Corporation (NOVA) petrochemical complex near Red Deer, Alberta. The cogeneration plant at NOVA's Joffre complex is owned by a joint venture that includes Capital Power, ATCO Power Canada Ltd. (ATCO) and NOVA with interests of 40%, 40% and 20%, respectively. It began commercial operations in May 2001.

ATCO is the operator of the Joffre cogeneration plant. The plant produces both steam and electricity for NOVA's host petrochemical complex. Approximately 110 MW to 115 MW of the net electricity output of the cogeneration plant is required on site by the host petrochemical complex with the balance being sold to the wholesale electricity market. ATCO operates the plant and has full control of the dispatch of power that is surplus to the needs of the petrochemical complex.

#### *Commercial Arrangement: Energy Supply Agreement and Merchant Facility*

An energy supply agreement (ESA) dated June 30, 1999 among a subsidiary of CPLP, ATCO and NOVA, in their respective capacities as sellers of energy, and NOVA also in its capacity as buyer, sets forth the terms regarding the sale of electricity, steam and feedwater to NOVA. The ESA is a tolling agreement for approximately 110 MW to 115 MW of its electrical capacity. NOVA makes cost-of-service payments comprised primarily of a natural gas fuel cost payment, an operating & maintenance payment, and a capital payment calculated on a return-on-rate basis. Capital Power also entered into a contract-for-differences with the joint venture partners for 50 MW of electricity at a contracted floating price calculated monthly which expired in December 2010. The uncommitted capacity of the plant is bid into the wholesale electricity market by the joint venture operator and Capital Power's share of output is incorporated into the Alberta electricity portfolio optimization activities.

#### *Fuel Supply*

Natural gas for the facility is procured and managed by NOVA. Natural gas purchased from NOVA under the agreement is purchased at spot market prices. The agreement terminates upon decommissioning of the site by NOVA.

### **Clover Bar Energy Centre**

Clover Bar is located in Edmonton, Alberta and has a gross capacity of 243 MW. The facility is comprised of three natural gas fired turbines, a 43 MW GE LM 6000 turbine commissioned in March 2008 and two 100 MW GE LMS 100 turbines that commenced operations on September 1, 2009 and December 16, 2009. The turbines are simple-cycle units with quick-start capability to meet the need for additional peaking capacity in Alberta. The units are operated to take advantage of price volatility in the Alberta electricity market and are incorporated into the Alberta electricity portfolio optimization activities.

In January 2011, Unit 3 of the Clover Bar Energy Centre experienced an unplanned outage due to blade damage in its high pressure compressor. Capital Power has taken the unit out of service and returned it to the manufacturer for disassembly, analysis and repair. The unit is under warranty, but until the root cause of the damage is determined it is not possible to determine whether the repair costs are covered under warranty. Capital Power has provided the Alberta Electric System Operator with an estimated return to service date of June 30, 2011. Unit 2 went offline on March 8, 2010 due to a mechanical failure in the main turbine section. The unit came back online on September 22, 2010.

#### *Fuel Supply*

Natural gas for Clover Bar is purchased in the Alberta wholesale market to meet dispatch requirements; this fuel price exposure is incorporated into the Alberta electricity portfolio optimization activities. A natural gas transportation agreement with ATCO Pipelines, a division of ATCO Gas and Pipelines Ltd., provides firm service delivery to the Clover Bar site.

#### **Other Alberta Facilities**

Capital Power also has interests in three other power generation facilities in Alberta, being:

- a 50% joint venture interest in Taylor Coulee Chute, a 13 MW hydro facility in Southern Alberta, co-owned with TransAlta (formerly Canadian Hydro Developers, Inc.), commissioned in 2000;
- a 100% interest in Clover Bar Landfill Gas Plant, a 4.8 MW facility located in Edmonton, Alberta that extracts methane from an adjacent landfill for its fuel source, commissioned in 2005; and
- a 99% interest in Weather Dancer, a 0.9 MW wind turbine located in Southern Alberta, commissioned in 2001.

While these facilities generally have reliable operating histories and contribute to Capital Power's experience with clean energy sources, they make up a small overall contribution to the Capital Power generation fleet.

#### **Portfolio Optimization**

Capital Power's commodity portfolio is comprised of generation assets, customer positions and trading positions. Portfolio optimization includes activities undertaken to manage Capital Power's exposure to commodity risk and enhance earnings. Capital Power purchases and sells electricity, natural gas and greenhouse gas (GHG) emissions under physical and financial transactions with the objective of matching volumes and terms to hedge commodity risks from generation asset or end-customer contracts, or taking positions in electricity or natural gas within limits established under the Company's risk management policies. Capital Power manages its output from its Alberta commercial plants and acquired PPAs as a "Networked Hub", meaning that it sells forward contracts that are non-unit specific, reducing its exposure to plant specific availabilities. Capital Power also takes specific and limited positions in the electricity, natural gas and GHG emission markets to generate trading profits.

Capital Power's commodity portfolio team performs the following functions:

- Sets the generation unit offer strategy which determines generation assets contribution toward portfolio optimization goals in order to optimize returns while managing potential exposure arising from generation and transmission risks, including unplanned outages;
- Manages Capital Power's volumetric and price commodity portfolio and counterparty risks;
- Acquires and schedules deliveries of natural gas supplies used to generate electricity, in particular with respect to the CPILP plants, Joffre and Clover Bar;
- Derives earnings from wholesale trading of electricity and natural gas in all deregulated North America markets, with the exception of Electric Reliability Council of Texas, and by participating in Alberta's ancillary services (electricity operating reserves) market; and
- Ensures compliance with existing and emerging market-based environmental regulations. The GHG offset investments and purchases are designed to proactively manage potential compliance risks and costs associated with GHG regulations.

Capital Power controls its trading activities by measuring and reporting portfolio risk, validating transactions, valuing the portfolio and managing and reporting credit exposures. Capital Power uses mark-to-market valuation and Value-at-Risk (VaR) determination to assess the risk of its commodity portfolio. The VaR methodology is a statistically-defined, probability-based approach that takes into consideration market volatilities and risk diversification by recognizing offsetting positions and correlations between products and markets. This technique makes use of historical data and makes an assessment of the

market risk arising from possible future changes in commodity prices over the holding period. Capital Power actively manages the aggregate VaR exposure of its commodity portfolio within approved limits as set out in the Company's risk management policies.

## Alberta Contracted Plants

### Genesee Unit 1 and Unit 2

The Alberta contracted plants, consisting of Genesee Unit 1 and Unit 2, are wholly-owned coal-fired generating units with 820 MW of combined generation capacity located west of Edmonton near Warburg, Alberta. The generation capacity of these plants is subject to a PPA (Genesee PPA) with the Alberta Balancing Pool (Balancing Pool), an Alberta provincial government entity established to, among other things, hold certain PPAs. Genesee Unit 1 and Unit 2 are baseload units, meaning they regularly run at or near full production capacity. Genesee Unit 1 and Unit 2 are 100% owned and operated by Capital Power, and are located on land owned by Capital Power.

The following table provides details of the thermal generating facility subject to the Genesee PPA at the end of 2010. The capacity is based on the nameplate capacity at each generating unit:

Plant / Location	Type of Generating Plant	Year of Commission	Owned / Operated (%)	Capacity (MW)
Genesee Plant	Coal-fired steam turbine	Unit 1 - 1994	100 / 100	410
Warburg, Alberta	Coal-fired steam turbine	Unit 2 - 1989	100 / 100	410
<b>Total</b>				<b>820</b>

### Commercial Arrangement: Power Purchase Arrangement

Genesee Unit 1 and Unit 2 are subject to a PPA with the Balancing Pool, which is in effect until December 31, 2020. Under terms of the PPA, the Balancing Pool is entitled to the power produced by the generating units, up to their committed capacity; in return Capital Power is compensated through amounts determined as follows:

- a formula-based provision intended to recover fixed and variable costs of operating the generating units;
- a formula-based provision for income taxes;
- a return on rate base formulation which includes a return on equity and cost of debt component; and
- incentive payments for maintaining plant availability above set target availability levels in the PPA and penalties to the extent the target availability levels in the PPA are not met. Variations in generation capacity create financial exposures which are managed as part of the Alberta electricity portfolio optimization activities. When the PPA was established, the target availability levels were set with the expectation that plant availability would equal target availability over the term of the PPA, although the plant owner is free to better that performance.

Availability incentives and penalties are determined on a monthly basis, and while there have been months where Genesee Unit 1 and Unit 2 have paid penalties, on an average annual basis they have earned net incentive payments in all but one year between 2001 and 2010.

### Fuel Supply

Coal required for Genesee Units 1, 2, and 3 is supplied by the adjacent Genesee Coal Mine, making Genesee a mine-mouth operation. See "Business of Capital Power - Power Generation - Alberta Commercial Plants - Genesee Unit 3". Coal is supplied under long-term agreements with the Genesee Coal Mine joint venture, a 50/50 joint venture between Capital Power and Prairie Mines and Royalty Ltd. (PMRL). PMRL is the operator of the mine and owns approximately 50% of the coal rights within the Genesee Coal Mine permit area. The remaining 50% of the coal rights is owned by the Alberta Government, but is leased to both the Genesee Coal Mine joint venture and Capital Power under 15-year renewable lease terms. Capital Power owns substantially all surface rights within the Genesee Coal Mine permit area.

Capital Power believes the recoverable coal reserves that Capital Power has rights to are sufficient to supply the estimated requirements for the Genesee facilities, as currently configured, for at least the next 40 years, which exceeds the remaining useful lives of the Genesee Units 1, 2 and 3. The explored portions of the coal rights held by the Genesee Mine joint venture are surface mineable, which reduces extraction costs. Environmental work to date at Genesee Coal Mine has returned about 600 hectares of previously-mined area into productive farm land and wildlife habitat.

Coal is supplied by the Genesee Coal Mine to the Genesee plant on a cost-of-service basis. The coal price is determined under a fixed formula having various components, including a regulated utility-like return on investment, depreciation, tax, royalty, management fee, annual inflation and interest rate adjustments and an annually negotiated capital operating and maintenance amount. Capital Power has the deciding vote on the joint venture management committee, which must approve the final budget each year. PMRL can earn an incentive fee if it is able to reduce the actual annual operating costs below the operating costs included in the approved final budget each year while also sustaining mine output.

### **Ontario and British Columbia Contracted Plants**

Capital Power owns a 40 MW wind farm in Ontario. The Company also owns 315 MW of generation capacity in BC including two hydro-electric generation facilities totaling 40 MW of capacity and the 275 MW gas-fired combined cycle Island Generation facility acquired in October 2010. Output from these plants is sold under long-term contracts with provincial government entities; BC Hydro and OPA, respectively.

#### ***Kingsbridge***

Kingsbridge is a 40 MW wind farm, owned by Capital Power, located near Goderich, Ontario. It consists of 22 1.8 MW Vestas V-80 turbines commissioned in 2006 and one 0.7 MW Vestas V-47 turbine commissioned in 2001. The Kingsbridge wind farm serves the electricity requirements in the region and is strategically located within 200 kilometers from major load centers in the Greater Toronto Area.

The Kingsbridge wind turbines are located on land leased from 10 area landholders pursuant to 14 leases. Kingsbridge receives wind power production incentive payments under the Wind Power Production Incentive Program of the Government of Canada. Under the program, Capital Power receives from the Canadian Federal Government \$0.010 per kilowatt-hour up to a maximum of approximately \$1.1 million annually and an aggregate total of approximately \$10.8 million through to March 2016.

#### ***Commercial Arrangement: Energy Supply Contracts***

Kingsbridge operates under the terms of two energy supply contracts with the OPA; one for the 22 turbines and the other for the 0.7 MW turbine. The larger energy supply contract has a term of 20 years and terminates in March 2026. The smaller energy supply contract is a standard offer agreement under the OPA's Renewable Energy Standard Offer Program which terminates in March 2027. Both energy supply contracts state that all contract related products, including GHG credits, are transferred and assigned to the OPA. The terms of the Kingsbridge energy supply contracts are relatively similar to other renewable energy supply contracts that the OPA administers with other Ontario renewable energy power producers.

#### ***Island Generation***

CPLP acquired Island Generation on October 19, 2010. Island Generation is a 275 MW gas-fired combined cycle power plant located at Campbell River, BC. The plant was commissioned in 2002. The facility is comprised of an Alstom GT24B gas turbine and an Alstom steam turbine.

#### ***Commercial Arrangement: Electricity Purchase Agreement***

Island Generation is fully contracted to April 2022 under a tolling arrangement with BC Hydro. BC Hydro is responsible for the fuel supply to the facility.

#### ***Miller Creek***

The Miller Creek facility, commissioned in 2003, is a 33 MW, two unit run-of-river hydroelectric power plant located on Miller Creek, near Pemberton, BC. The facility is located on Crown land that is leased by Capital Power. Capital Power pays water rental fees to the Province of BC for the use of water from Miller Creek as well as royalty payments to four separate parties. Waterflows on Miller Creek peak from May through August, with relatively low flows in the winter months.

#### ***Commercial Arrangement: Electricity Purchase Agreement***

Capital Power has a 20-year term EPA in place with BC Hydro, ending May 2023, for all of the power output from the Miller Creek facility.

At the end of the initial term of the EPA, BC Hydro has the option to renew the EPA for up to two 5-year terms. In addition, BC Hydro has, under separate agreement, a right of first refusal over the facility and the option to purchase either a 25% joint venture interest in the facility or 25% of the electricity output from the facility for a fixed amount.

## Brown Lake

Brown Lake is a 7 MW hydroelectric power plant located on the Ecstall River, near Brown Lake and Prince Rupert, BC. The plant was commissioned in 1996 and purchased by a predecessor to Capital Power in 2000. Water rental fees are paid to the Province of BC and royalty payments are made to one of the original developers until 2034. Power generation from the facility is generally consistent throughout the year, with the exception of July and August when water flows and the resulting electricity generated are generally lower. The Brown Lake plant uses water flow from two lakes: Brown Lake and McKnight Lake. The facility is located on land leased from the Crown.

### Commercial Arrangement: Electricity Purchase Agreement

Capital Power is a party to a 20-year term EPA with BC Hydro, ending in December 2016, for all of the power output from the facility, unless terminated by either party on six months' notice. The agreement automatically renews on a year-to-year basis on the same terms. The pricing under the contract is at a fixed amount per MWh, escalating annually by 3%.

The following table provides details of Capital Power's generation plants, both owned and / or operated and in construction:

Category	Plant Name and Location	Type of Generating Plant	Year Commissioned or Target Date	Gross Generation Capacity (MW)	% Owned / Operated
<b>Alberta Commercial Plants</b>	Genesee 3 <sup>(1)</sup> , Warburg	Supercritical Coal	2005	495.0	50 / 100
	Joffre Co-generation, Joffre	Gas-fired, combined cycle co-generation	2000	480.0	40 / 0
	Clover Bar Energy Centre, Edmonton	Natural gas-fired	Unit 1 - 2008 Unit 2 & 3 -2009	43.4 200.0	100 / 100
	Taylor Coulee Chute, Near Lethbridge	Hydroelectric	2000	13.0	50 / 0
	Clover Bar Landfill, Edmonton	Land fill gas-fired	2005	4.8	100 / 100
	Weather Dancer, Near Brockett	Wind turbine	2001	0.9	98.6 / 100
	<b>Total Alberta Commercial Plants <sup>(1)</sup></b>				<b>942.6</b>
<b>Alberta Contracted Plants</b>	Genesee Plant, Warburg	Coal-fired steam turbine	Unit 1 -1994 Unit 2 -1989	410.0 410.0	100 / 100 100 / 100
	<b>Total Alberta Contracted Plants <sup>(1)</sup></b>				<b>820.0</b>
<b>Ontario and BC Contracted Plants</b>	Kingsbridge I Wind Power Project Goderich, Ontario	Wind turbine	2006 2001	39.6 0.7	100 / 100
	Miller Creek Pemberton, BC	Hydroelectric	2003	33.0	100 / 100
	Brown Lake, near Prince Rupert, BC	Hydroelectric	1996	7.0	100 / 100
	Island Generation, Campbell River, BC	Gas-fired, combined cycle	2002	275.0	100 / 100
	<b>Total Ontario and BC Contracted Plants <sup>(1)</sup></b>				<b>355.3</b>
<b>Under Construction</b>	Keephills 3, Keephills, Alberta	Supercritical Coal	2011	495.0	50 / 0
	Quality Wind, Tumbler Ridge, BC	Wind Turbine	2012	142.0	100 / 100
	Port Dover and Nanticoke Wind, southern Ontario	Wind Turbine	2012	105.0	100 / 100
<b>Total Under Construction <sup>(1)</sup></b>				<b>494.5</b>	
<b>Total Capital Power <sup>(1)</sup></b>				<b>2,612.4</b>	

(1) Represents the owned and / or operated capacity of Capital Power, excluding CPILP facilities.



## Power Purchase Arrangements

In 2000, Capital Power, with four other companies (the syndicate members), acquired PPAs associated with two thermal power plants, Sundance (Units 5 & 6) and Battle River. The interest in the Battle River PPA has since been sold to ENMAX Corporation through a multi-year sale, of which the final 15% was completed on January 15, 2010 for proceeds of approximately \$64 million.

As of December 31, 2010 Capital Power maintains rights to 371 MW of capacity through its 52% ownership interest in the Sundance PPA, which entitles it to 52% of the output from Units 5 and 6 of the Sundance power plant at a price reflecting the cost of fixed and variable expenses associated with operating the facilities plus a pre-determined return on invested capital.

The following table provides details of the generation Capital Power is entitled to:

Plant / Location	Type of Generating Plant	Year Commissioned	Committed Capacity (MW)	Net to Capital Power (MW)
Sundance	Coal-fired steam turbine	Unit 5 - 1978	353	184
Lake Wabamun, Alberta	Coal-fired steam turbine	Unit 6 - 1980	357	187
<b>Total</b>			<b>710</b>	<b>371</b>

Production from Sundance (Units 5 & 6) is governed by its PPA until December 31, 2020, and is contracted for the full 20 years of the PPA period. Coal for each plant is obtained from nearby coal mines. Capital Power can sell the power acquired under the PPAs through direct sales to power customers or into the wholesale electricity market.

In late 2009, TransAlta, the owner of the Sundance facility, completed an upgrade project on Unit 5 which increased the capacity of the unit by 53 MW. Commercial terms for the increased capacity from Unit 5 above the original PPA volume are governed by an agreement which was entered into in December 2008. A similar agreement for the 44 MW of increased capacity for Unit 6 has been in place since 2002. Capital Power receives a percentage of the revenues related to the increased capacity of both units for the life of the PPA.

## Revenue and Volume

The following table shows Capital Power's revenues from its generation business by category:

Revenues (\$ millions)		
Category	Twelve Months Ended December 31, 2010	Six Months Ended December 31, 2009
Alberta commercial plants and portfolio optimization	918	486
Alberta contracted plants	272	131
Ontario / BC contracted plants	23	8
CPILP plants	524	253
Other portfolio activities	111	63
Inter-plant category eliminations	(41)	(19)
Sub Total	1,807	922
Unrealized changes in fair value of CPLP's power and natural gas derivative instruments and natural gas held for trading	(55)	45
Unrealized changes in fair value of CPILP's foreign exchange contracts	8	41
<b>Total</b>	<b>1,760</b>	<b>1,008</b>

*Remainder of page intentionally left blank*

The following table shows Capital Power's power sales volumes from its generation business by category:

<b>Electricity Generation Gigawatt hours (GWh)</b>		
<b>Category</b>	<b>Twelve Months Ended December 31, 2010</b>	<b>Six Months Ended December 31, 2009</b>
Alberta commercial plants	2,355	1,174
Alberta contracted plants	6,334	3,073
Ontario / BC contracted plants	516	133
Sub Total	9,205	4,380
CPILP plants	5,013	2,635
<b>Total</b>	<b>14,218</b>	<b>7,015</b>

### Capital Power Income L.P.

CPILP is a limited partnership established under the laws of the Province of Ontario with limited partnership units listed on the Toronto Stock Exchange. Capital Power indirectly holds an approximate 29.6% interest in CPILP, and indirectly serves as its manager. At present, CPILP's portfolio consists of 19 wholly-owned power generation assets located in both Canada (Ontario and BC) and the US (California, Colorado, Illinois, New Jersey, New York, and North Carolina), a 50.15% interest in a power generation asset in Washington State and a 14.3% common equity interest in PERH. Generation capacity of these facilities totals 1,668 MW and a thermal capacity of approximately 4,157 million pounds per hour. These plants generate electricity and steam principally from natural gas and, to a lesser extent, from waste heat, hydro, biomass, coal and tire-derived fuels.

CPI Income Services Ltd., the General Partner of CPILP, has sub-contracted the management and administrative services of CPILP to indirect wholly-owned subsidiaries of Capital Power (collectively, the CPILP Manager). The CPILP Manager or its affiliates also operate and maintain the power plants and employ substantially all personnel carrying out duties for CPILP.

The following table lists the generating assets that Capital Power manages and operates on behalf of CPILP, as at December 31, 2010:

<b>Category</b>	<b>Plant Name and Location</b>	<b>Type of Generating Plant</b>	<b>Year Commissioned</b>	<b>Nameplate Capacity (MW)</b>	<b>Net Capacity (MW)</b>
<b>Ontario</b>	Calstock, Ontario	Enhanced bio-mass wood waste	2000	40	35
	Kapuskasing, Ontario	Enhanced combined cycle natural gas-fired	1997	62	40
	Nipigon, Ontario	Enhanced combined cycle natural gas-fired	1992	44	40
	North Bay, Ontario	Enhanced combined cycle natural gas -fired	1997	64	40
	Tunis, Ontario	Enhanced combined cycle natural gas-fired	1995	69	43
<b>BC</b>	Williams Lake, BC	Bio-mass wood waste	1993	68	66
	Mamquam, BC	Hydroelectric run-of-river	1996	52	50
	Moresby Lake (formerly Queen Charlotte), BC	Hydroelectric reservoir-based	1990	6	6
<b>Northwest US</b>	Manchief, Brush, Colorado	Simple cycle natural gas-fired	2000	301	300
	Greeley, Colorado	Natural gas-fired CHP facility	1988	101	72
	Frederickson, Pierce County, Washington State	Combined cycle natural gas-fired	2002	249 <sup>(2)</sup>	125

Category	Plant Name and Location	Type of Generating Plant	Year Commissioned	Nameplate Capacity (MW)	Net Capacity (MW)
<b>California</b>	Naval Station, San Diego, California	Duel-fuel (natural gas or No. 2 distillate fuel oil) CHP facility	1989	54	47
	Naval Training Centre, San Diego, California	Duel-fuel (natural gas or No. 2 distillate fuel oil) CHP facility	1989	28	25
	North Island, San Diego, California	Natural gas-fired CHP facility	1989	51	40
	Oxnard, California	Natural gas-fired CHP facility	1990	49	49
<b>Northeast US</b>	Curtis Palmer, New York	Hydroelectric impoundment and run-of-river	1986	60	60
	Kenilworth, New Jersey	Natural gas-fired CHP facility	1989	30	30
	Morris, Illinois	Cogeneration natural gas-fired	1998	177	177
<b>North Carolina</b>	Roxboro, North Carolina	Coal, tire-derived fuel and wood waste CHP facility	1987	54	52 <sup>(3)</sup>
	Southport, North Carolina	Coal, tire-derived fuel and wood waste CHP facility	1987	109	103 <sup>(3)</sup>
	<b>Total</b>			<b>1,668</b>	<b>1,400</b>

(1) CHP means combined heat and power

(2) Represents the entire capacity excluding duct firing capacity of 20 MW. CPILP owns capacity of 125 MW plus 10 MW of duct firing and manages the facility in its entirety

(3) Maximum capacity utilizing 100% coal for fuel supply

### **Ontario Facilities**

CPILP has four natural gas-fired facilities and one biomass facility located in Ontario totaling 279 MW of capacity. All five facilities are located on the Northern Canadian TransCanada Mainline natural gas pipeline and utilize waste heat from TransCanada Corporation (TransCanada) natural gas compressor stations for a portion of their energy requirements. The Ontario Electricity Financial Corporation (OEFC) is the sole purchaser of power from CPILP's five Ontario power plants. The power is purchased under long-term PPAs with OEFC which expire between 2012 and 2020. CPILP has the option to extend the Nipigon PPA that expires in 2012 for 10 years at existing terms. Payment under the PPAs is based upon a formula that generally includes a fixed capacity rate applicable in that year, or adjusted annually for that year, seasonal and peak / off-peak electricity rates that are indexed and other adjustments.

CPILP purchases fuel, natural gas and / or waste heat for each of the Ontario power plants except Tunis under natural gas and waste heat supply agreements. In December 2009, CPILP reached an agreement with the OEFC to amend the PPA for the Tunis facility that allows CPILP to flow-through natural gas and transportation costs in excess of benchmark amounts to OEFC and extends OEFC the right to curtail the plant during summer off-peak periods. Firm capacity for the transportation of fuel natural gas to the Ontario power plants has been contracted for on the TransCanada natural gas transmission system under transportation agreements the earliest of which expires in 2014. For the Calstock biomass facility, wood waste and the related transportation services are purchased under contracts with four local mills for the majority of the fuel requirements, with the balance supplemented by waste heat purchased from TransCanada.

### **British Columbia**

CPILP has one biomass facility (Williams Lake) and two hydroelectric facilities (Mamquam and Moresby Lake) located in BC totaling 126 MW of generating capacity. Williams Lake sells power to BC Hydro under a 25-year EPA contract with the initial term expiring in 2018. BC Hydro has an option to extend the EPA for two consecutive five-year terms at reduced power prices.

Energy rates are established for a firm energy tranche, representing approximately 82% of total energy produced, and a surplus energy tranche, representing approximately 18% of total energy produced. Wood waste is purchased for the facility from several local mills under long-term contracts. Under terms of the EPA, 82% of fuel costs for the plant are passed through to BC Hydro, reducing the long-term exposure to supply price changes.

Mamquam sells all of its electricity generated to BC Hydro under a long-term contract which expires in October 2027. BC Hydro has an option, exercisable in 2021 and every five years thereafter, to either purchase the Mamquam facility or extend the Mamquam contract.

Moresby Lake sells substantially all its electricity to BC Hydro under a long-term contract which will expire in August 2022. The balance, approximately 1% of its power generation, is sold to NAV Canada and the Department of Fisheries and Oceans (Canada) under long-term PPAs. Energy rates payable by BC Hydro consist of a fixed energy component adjusted annually for inflation.

### ***Northwest US Facilities***

CPILP owns three natural gas-fired facilities in the US Northwest, including the 301 MW Manchief facility and the 101 MW Greeley facility both located in Colorado, and holds a 50.15% interest in the 249 MW Frederickson power plant located in Washington State.

The Manchief power plant operates under ESAs with Public Service Company of Colorado (PSCo) that expire in 2022. Under the terms of the agreements, PSCo makes capacity payments and energy payments. Manchief is operated and maintained by Colorado Energy Management L.L.C.

The Greeley facility provides all of its electrical output to PSCo under a PPA that expires in August 2013. PSCo pays the Greeley facility a monthly capacity payment and an energy payment. The Greeley facility also sells hot water to the University of Northern Colorado pursuant to a thermal supply agreement, which expires in August 2013. Natural gas supply purchased for the Greeley facility is financially fixed until November 2011 through a contract with Shell Energy North America.

CPILP's portion of the Frederickson power plant's generating capacity is sold under PPAs to three Washington State Public Utility Districts (PUDs) for a term of 20 years ending in 2022. Under the PPAs, the PUDs pay a capacity charge, a fixed operations and maintenance charge, a variable operations and maintenance charge and a fuel charge. The PUDs must supply their proportionate share of natural gas to CPILP.

### ***California Facilities***

CPILP owns four natural gas-fired generation facilities in California including three located on US Naval bases (the Naval Facilities). The Naval Facilities are comprised of Naval Station, North Island and Naval Training Center, and have a combined capacity of 133 MW. The Naval Facilities sell substantially all their electrical output to San Diego Gas and Electric Company (SDG&E) under PPAs which expire in 2019. The Naval Facilities receive a capacity payment and an energy payment based on SDG&E's short-run avoided costs (SRAC). The Naval Facilities also sell steam to the US Navy pursuant to contracts, each of which expires in February 2018. In 2009, CPILP repowered the North Island facility with a new GE LM 6000 turbine, which improved the efficiency of the facility and is expected to reduce maintenance costs.

Oxnard is a 49 MW facility that provides all of its natural gas turbine electrical output to Southern California Edison Company (SCE) under a PPA that expires in 2020. The Oxnard facility receives a capacity payment and an energy payment based on SCE's SRAC. Capacity payments are based on achieving availability generation performance targets. In 2010, the Oxnard facility was repowered to utilize a GE LM 6000 gas turbine which improved the heat rate by 3% and is expected to reduce maintenance and forced outage costs.

Natural gas for the Naval Facilities and Oxnard is purchased through natural gas contracts with RBS Sempra Energy Trading at monthly index prices similar to those used in the utility SRAC calculations. Energy payments received by these facilities are derived from SRAC, which enables them to largely recover natural gas costs.

### ***Northeast US Facilities***

CPILP owns one hydroelectric facility (Curtis Palmer) and two natural gas-fired facilities (Kenilworth and Morris) in the North Central and Northeast US.

Curtis Palmer is a 60 MW hydroelectric facility located in New York that sells all power generated to Niagara Mohawk Power Corporation under a long-term contract which expires in 2027. The PPA sets out multiple prices for electricity sold, which are a function of the cumulative total of electricity delivered. Over the remaining term of the PPA, the price increases by US\$10/MWh with each additional 1,000 GWh of electricity delivered. The plant requires approximately three years to move through each 1,000 GWh block, depending on river flow.

Kenilworth is a 30 MW cogeneration facility located in New Jersey which sells electrical and steam energy to Schering-Plough Corporation (Schering-Plough), a subsidiary of Merck & Co. Inc., under an energy contract that expires in July 2012 and includes a minimum take-or-pay obligation. Schering-Plough pays an energy rate that escalates annually. After 2012, the contract renews automatically for 5-year terms unless written notice is provided in advance. Natural gas for the facility is purchased from RBS Sempra Energy Trading LLC with that price used in the steam pricing.

The Morris Facility is a 177 MW cogeneration facility located in Illinois. Morris sells electrical and steam energy to Equistar Chemicals LP (Equistar), a wholly-owned subsidiary of Lyondell Basell AF S.C.A., under an ESA that expires in 2023. Equistar pays a tiered energy rate based on the amount of electricity and steam consumed to a maximum of 77 MW as well as capacity fees, comprised of both a non-escalating fixed fee and an escalating variable fee that expires in 2013 and 2023, respectively. Morris also has a PPA with Exelon Generation Company, LLC (Exelon) covering 100 MW of electrical capacity which expires in 2011. The 100 MW of electrical capacity that is currently serving the Exelon PPA has been sold through the Pennsylvania, New Jersey, and Maryland (PJM) market from May 2011 to April 2014 at auction prices that are lower than the Exelon contract resulting in slightly lower capacity revenue. Exelon pays a capacity charge and an energy charge comprised of fuel costs and a per MWh variable and operating charge, as well as an availability-based "performance bonus". Any excess capacity and energy can be sold into markets in the PJM Interconnection. The Morris Facility obtains natural gas from Tenaska Power Services Co. at a price indexed to the Chicago City Gate.

### **North Carolina Facilities**

The Roxboro 52 MW and Southport 103 MW facilities in North Carolina burn a mixture of wood waste, tire-derived fuel and coal. The enhancement projects undertaken at these facilities are designed to significantly reduce their NO<sub>x</sub> and SO<sub>2</sub> emissions. These changes will additionally reduce the facilities' fuel costs via increased use of wood waste and tire-derived fuel accommodated by modified equipment design. Project costs incurred to December 31, 2010 were US\$82 million and CPILP plans to invest an additional US\$5 million in 2011 on access roads and final testing.

Both facilities provide all of their electrical output under PPAs to Carolina Power & Light Company (CP&L), a subsidiary of Progress Energy, Inc. The PPAs, which expired December 31, 2009, have been extended pending resolution of arbitration before the North Carolina Utilities Commission (NCUC). The Partnership filed for arbitration with the NCUC and is seeking long-term PPAs with pricing terms consistent with Progress's actual avoided costs. The NCUC issued an Order on Arbitration on January 26, 2011, which provided direction on four fundamental issues. The Order on Arbitration did not set a deadline for the completion of negotiations but requires CPILP and Progress to report on the status of negotiations within 30 days, if no agreement is reached sooner. On February 25, 2011, a joint report on the status of negotiations was filed in which the parties state that they have reached agreement on the majority of key commercial terms and will begin drafting final PPAs, with the goal of having an April 1, 2011 effective date. The Southport facility also sells steam pursuant to a contract that expires in December 2014.

### **Projects Under Construction and in Development**

Capital Power's current construction projects and major development opportunities include the following:

#### **Keephills 3**

Keephills 3 is a 495 MW supercritical coal-fired generation plant that is being built on TransAlta's Keephills site just west of Edmonton, Alberta. Capital Power and TransAlta are equal partners in the plant. Capital Power has overall responsibility for construction while TransAlta will be responsible for operations once the plant commences commercial operations which is expected in the second quarter of 2011. Keephills 3 will employ the same high-efficiency supercritical coal-fired technology that is currently in operation at Genesee 3 and will incorporate a number of innovative air emissions reduction technologies. The capital cost of the project, including mine capital and interest during construction, is expected to be approximately \$1.9 billion, half of which is the responsibility of Capital Power. Capital Power and TransAlta will independently dispatch and market their share of the unit's electrical output.

Keephills 3 has been designed to meet the 2006 new unit emission limits for SO<sub>2</sub>, NO<sub>x</sub>, mercury (Hg), and particulate matter (PM) under the 2006 Alberta Air Emissions Standards for Electricity Generation. Keephills 3 will use supercritical boiler technology to provide improved environmental performance. The plant will emit 24% less CO<sub>2</sub> in producing the same amount of power as the four Wabamun units recently retired by TransAlta. In addition, emissions of SO<sub>2</sub>, NO<sub>x</sub> and Hg will each be reduced by 60% to 80% in comparison to power produced by the four Wabamun units.

#### **Quality Wind Project**

The 142 MW Quality Wind project located near Tumbler Ridge, BC is expected to cost approximately \$455 million. Favourable wind conditions, nearby road access and available transmission capacity in the area make the project site well suited for development. Clean, renewable energy generated by Quality Wind will be sold under a 25-year EPA signed with BC Hydro in April 2010. The Environmental Assessment Certificate for the project was received from the Government of BC in July 2010.

Turbine supply, service and maintenance contracts as well as the balance of the plant's engineering, procurement and construction contracts are now in place and construction commenced in November 2010. Commercial operation is expected to commence by the end of 2012. Capital Power has selected Vestas for the supply and maintenance of wind turbines for this project.

### ***Port Dover and Nanticoke Wind Project***

In April 2010, the OPA selected the Company's Port Dover & Nanticoke Wind development project for the award of a FIT contract to sell power. The 105 MW project is being proposed in an area in southern Ontario where the Company has optioned lands totaling over 8,900 acres. The project has an expected cost of up to \$340 million and is anticipated to enter commercial operation in the fourth quarter of 2012. Under the terms of the OPA's FIT program, the contracted price for power at commercial operation of the project will be \$135 per MWh escalated by inflation between the contract signing date and commercial operation date. Thereafter, 20% of the contract price will escalate annually at inflation throughout the 20-year contract term. Construction of the project is subject to regulatory approvals, including Ontario's Renewable Energy Approval process which is currently in progress for the project. Capital Power has selected Vestas for the supply and maintenance of wind turbines for this project.

### ***Carbon Capture and Storage Technology Projects***

Capital Power is partnering with TransAlta, Enbridge Inc. and Alstom Canada (Alstom) to develop one of the world's largest carbon capture and storage (CCS) projects at Keephills 3, called Project Pioneer (Pioneer). TransAlta is the lead on the project which is currently in the front-end engineering and design (FEED) stage. After the FEED stage has been completed, which is expected to be by the end of the second quarter of 2011, the Company will decide whether to proceed with construction. The project has signed a letter of intent with the Province of Alberta to receive funding from the province's \$2 billion CCS fund. The Government of Canada is also contributing toward the project through its Clean Energy Fund.

In addition to the Pioneer project, Capital Power has completed the FEED work on its pre-combustion CCS project (the Genesee Integrated Gasification Combined Cycle (IGCC) power plant). The FEED project was conducted in conjunction with the Canadian Clean Power Coalition, in partnership with Alberta Innovates (formerly Alberta Energy Research Institute) and Natural Resources Canada. However, Capital Power does not intend to develop an IGCC facility at this time, primarily because it is not economical in the current power price environment.

### ***Halkirk Wind Project***

In August 2010, Capital Power formed a joint venture with Greengate to develop the Halkirk I Wind project which is a proposed 150 MW wind farm in central Alberta. Progress on the project is pending regulatory decisions and if it proceeds, each firm will own 50% of the project. Greengate will lead the development and Capital Power will manage the construction and operation. Subject to final approval of the project, construction could be completed in 2012.

### ***British Columbia Biomass***

In 2010, BC Hydro announced a competitive call for larger-scale biomass projects, with a target of acquiring up to 1,000 GWh per year of electricity production. Ten proponents bid projects into the call, representing more than 400 MW of capacity and over 3,300 GWh per year of firm energy. Capital Power submitted a bid for its 50 – 70 MW Houston biomass project. In January 2011, BC Hydro announced a list of preferred proponents to proceed to the next stage of the call. The Houston biomass project was not chosen to proceed to the next phase of the request for proposal (RFP) at this time.

### ***British Columbia Wind Projects***

Capital Power entered into a joint development agreement with Chinook Power Corp. (Chinook) to work together on certain proposed activities and to develop four wind projects in BC. Capital Power and Chinook are actively evaluating the Klo site, near Houston, BC, and have identified one other site for possible future evaluation. Capital Power currently holds 50% of the rights to the Klo site under its joint venture agreement with Chinook. Capital Power expects to further evaluate and possibly develop these projects in anticipation of the next BC Hydro call for power.

### ***Kingsbridge Wind — Phase II***

In late November 2009, Capital Power submitted an application into the OPA's FIT program for the Kingsbridge II Wind Power Project (Kingsbridge II). Kingsbridge II is proposed for the Township of Ashfield-Colborne-Wawanosh and would have the potential to generate up to 270 MW of renewable energy for the Province of Ontario. In December 2010, the OPA released its ranking of launch window projects (projects for which applications were received between October 1, 2009 and November 30, 2009) awaiting the Economic Connection Test (ECT). In February 2011, the OPA released an update to the ranking list to include post-launch projects (projects for which applications were received between December 1, 2009 and June 4, 2010). The ranking, based on the developers' proposed timing for commercial operation of their project, confirmed that 2,590 MW of

renewable FIT projects (2,453 MW of which were wind) were submitted in the Bruce-Huron region. Kingsbridge II ranked 27th out of 55 wind projects. Inclusive of Kingsbridge II, the top 27 projects would require 1,304 MW of transmission capacity. The OPA's ECT process will include an assessment as to whether a project will require additional network upgrade facilities or not. Projects determined to require additional network upgrades that would result in costs to rate payers will not be offered a FIT contract. Kingsbridge II would not require network upgrades, which could potentially improve its ranking and lead to the project being offered a FIT contract upon conclusion of the OPA's ECT, which is expected to be completed in the second quarter of 2011. The Company also expects that the OPA will not award FIT contracts for the Bruce-Huron area until the Bruce-Milton transmission line receives all necessary approvals in non-appealable form. Although the line is currently under construction, a portion of the route still requires approval from the Niagara Escarpment Commission.

## **Competitive Environment**

### ***Canada***

In its 2009 outlook of Canada's energy supply, the National Energy Board of Canada forecasts Canadian electricity production to grow at a compound average annual rate of over 1% between 2011 and 2020. The combined effect of demand growth and facility retirements is expected to result in a need for new generation in the coming years. Capital Power holds a significant baseload position in Alberta, which is the only fully regulated wholesale power market within Canada. The BC and Ontario markets remain price regulated, and provincial regulatory bodies have continued to issue RFP's or other procurements for the development of new generation.

### ***United States***

The US Energy Information Administration in its 2010 Annual Energy Outlook forecasts US electricity demand to grow at a compound average annual rate of over 1% between 2011 and 2020. In combination with limited near-term capacity development and anticipated retirements (particularly of aging coal plants), demand growth in the US is expected to compress reserve margins and necessitate renewed development activity. Regional power markets within the US exhibit a high level of diversity, due in part to differing regulatory regimes, transmission constraints, supply and demand characteristics and environmental policies. The US market has solid growth potential for the Company due to its size relative to the Canadian market and because of its historical reliance on fossil fuel-based power generation which is an area of expertise for Capital Power.

### ***Corporate Strengths***

Capital Power is one of Canada's largest independent power producers (IPP) (as measured by revenue, total assets and capacity), with an existing portfolio of nearly 3,800 MW of owned and / or operated power generation capacity, 371 MW of capacity owned through the Sundance PPA (Units 5 & 6) and 495 MW of owned capacity under construction. The Company believes that its significant baseload capacity coupled with its portfolio of mid-merit and peaking power facilities, position Capital Power to capitalize on fluctuating market dynamics in the Alberta market. Capital Power's power generation fleet has a capacity weighted average facility age of 13 years. The Company's portfolio is well diversified across three provinces and seven US states, helping to mitigate exposure to regionally isolated declines, disruptions or changes in power markets and potentially meet market demand growth.

### ***Growth and Acquisitions***

Capital Power's corporate strategy seeks to balance a strong financial position with targeted growth. Capital Power is committed to a policy of financial discipline founded upon operational success, long-term contracting and targeted growth while maintaining an investment-grade credit rating.

Capital Power intends to confine its regional footprint to Canada and the US and seeks to enhance its regional diversification by focusing on a select group of target markets across Canada and the US. Capital Power uses a disciplined approach to selecting target regions with a preference for markets with favourable reserve margins and spark spreads, regulatory frameworks conducive to competitive power generation, sufficient scale to support the establishment of a networked hub of power facilities and liquid trading markets. Reserve margin means the difference between power demand during peak usage periods and the total supply of power available to meet this demand for a particular power market and is generally expressed as a percentage that is calculated as total supply less the peak demand divided by total supply. Spark spread means the theoretical difference between the price of electricity as the output and its energy cost of production.

Based on these criteria for selecting target region markets, Capital Power intends to maintain its existing strong position in Alberta and initially focus on developing additional hubs in the following three regions: Mid-Atlantic US, including the PJM Interconnection and the Virginia-Carolinas; the Northeast US, including the New York Independent System Operator (NYISO) and the ISO-NE; and the Southwest US, including the California Independent System Operator and Desert Southwest (Arizona, New Mexico, and Nevada). In addition, other North American markets, especially where Capital Power has existing operations, will be considered on a case-by-case basis if opportunities arise for the development of contracted facilities.

Capital Power has a pipeline of projects under construction or development. Capital Power also has a number of other projects in various stages of development and continues to evaluate acquisition prospects, primarily in the US, to strengthen its regional footprint and existing portfolio. As market conditions create new opportunities, Capital Power expects to capitalize on its experience to seek to acquire high quality assets. Capital Power expects to focus primarily on larger-scale, fossil fuel-fired technologies, supplemented by renewable facilities that are economically attractive and supportive of Capital Power's long-term contracting position.

## **Environmental Regulation**

Many of 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, and other air emissions, water usage, wastewater discharges, hazardous material handling, storage, treatment and disposal of waste and other materials and remediation of sites and land-use responsibility. These regulations can impose liability for costs to investigate and remediate contamination.

The Company's business is a significant emitter of CO<sub>2</sub>, NO<sub>x</sub>, SO<sub>2</sub>, Hg, and PM, and is required to comply with all licenses and permits and federal, provincial and state requirements, including programs to reduce or offset GHG emissions. Compliance with new regulatory requirements may require Capital Power to incur significant capital expenditures or additional operating expenses, and failure to comply with such regulations could result in fines, penalties or the curtailment of operations. The Company complies with regulatory requirements while reducing environmental impact. To the extent that proposed regulations are described below, until detailed regulations are enacted there is insufficient information to assess the impact on Capital Power.

### ***Canadian Federal Government***

#### ***Greenhouse Gas Regulation***

On June 23, 2010, the Canadian Environment Minister announced the Government of Canada's plan for new GHG emission regulation for coal-fired electricity generation units. The proposed plan will apply a new GHG emissions performance standard to new coal-fired electricity generation units and facilitate phasing out conventional coal-fired electricity generation in an orderly manner. The regulations are anticipated to be effective July 1, 2015 and units that have commercial operation dates prior to July 1, 2015 are expected to be exempt from the regulation until they reach the end of their economic useful life, which has been proposed at 45 years. Because the proposed regulations allow existing coal-fired generation assets to operate for their economic life with no additional charges for GHG emissions anticipated, the regulations will not strand any existing coal investment but will establish a firm deadline by which emissions from existing coal units must be reduced through the application of new technology, or they must shut down. These regulations are therefore expected to have little if any impact on Capital Power's Genesee units and Keepphills 3.

#### ***Air Emission Regulations***

The Canadian government is considering regulations which may place stricter limits on NO<sub>x</sub>, SO<sub>2</sub>, Hg and PM emissions from fossil-fired generating stations in Canada. The Canadian Department of Environment, in conjunction with the provincial governments, is working on the development of a regulatory framework under a Comprehensive Air Management System, to minimize local emissions. The regulations are expected to be implemented in 2013. There is insufficient information to assess the financial implication to Capital Power's operations, although as additional regulation is passed it is likely Capital Power will incur increased costs.

### ***Alberta***

#### ***Greenhouse Gas Regulation***

The Specified Gas Emitters Regulation (SGER) under the *Climate Change and Emissions Management Act* (Alberta) came into force on August 1, 2007. The SGER is applicable to all facilities in Alberta that produce over 100,000 tonnes of GHG, measured as carbon dioxide equivalents (CO<sub>2</sub>Es) per year. The Alberta Government recognizes three mechanisms for compliance with this regulation: (1) operational or plant changes to reduce emission intensity; (2) payment into the Alberta Government Climate Change Emission Management Fund (currently set at \$15 per tonne) for all emissions in excess of the emission intensity target; and (3) purchase of GHG emissions offsets created from Alberta based projects. The SGER imposes a CO<sub>2</sub>E intensity reduction of 12% from the average CO<sub>2</sub>E emissions intensity based on the 2003 to 2005 period.

The approximate costs associated with compliance with the SGER for Genesee Units 1 and 2 were \$5.0 million for the 2010 compliance period (\$5.0 million for 2009). These costs were recoverable from the PPA holder under the terms of the PPA. The cost is estimated to be approximately \$6 million per year in the future, which is also recoverable from the PPA holder. The compliance cost associated with the Sundance PPA (Units 5 & 6) is passed on to Capital Power, in proportion to its PPA ownership interest, and was approximately \$5 million for the 2010 reporting period (\$4 million for 2009) for Capital Power and



for EPCOR prior to July 1, 2009. The first GHG targets for Genesee 3 began in 2009 following a three-year grace period. The target reductions are graduated starting at 2% per annum and increase at a rate of 2% per annum. Therefore the 2010 and 2009 targets were 4% and 2% respectively, and equated to approximately 30,000 tonnes and 35,000 tonnes, respectively for Capital Power's (EPCOR's prior to July 1, 2009) 50% share. Genesee 3 did not have any shutdowns in 2009 and was shutdown from September 30 to November 11, 2010. The 2010 shutdown resulted in GHG emission reduction and reduced compliance obligation. The compliance cost for Genesee 3 under the SGER and Natural Gas Combined Cycle offset for 2009 was \$1 million and for 2010 is expected to be \$1 million.

Capital Power (EPCOR prior to July 1, 2009) has been purchasing offsets for seven years and has entered into more than 25 offset purchase agreements. Approximately \$16 million worth of offsets were purchased in 2010 (\$10 million in 2009). Approximately 540,000 tonnes of offsets were applied against the Capital Power's 2009 compliance obligations associated with the Sundance and Battle River PPAs which, compared to purchasing credits through the Climate Change Emission Management Fund, resulted in a savings to Capital Power of approximately \$4 million. The amount of offsets applied against the 2010 compliance obligations will be determined by the reporting deadline of March 31, 2011.

The current SGER will expire in 2014 and it is not clear whether the proposed federal GHG emission regulations will replace the current SGER.

Genesee 3 is also required to offset its GHG emissions by approximately 53% under Clause 10 of EUB Decision 2001-111, which forms part of Genesee 3's original operating approval. This reduction obligation is in addition to the SGER obligations. In 2010, Capital Power applied to the Alberta Utilities Commission (AUC) seeking relief from the Clause 10 offset requirement. In January 2011, the AUC denied the application, concluding that the SGER was not intended to supersede or replace Clause 10, and that Capital Power must continue to meet both GHG offset requirements. The AUC decision does not impose any new reduction targets or costs for Genesee 3. Offsets have been retired every year since the plant was commissioned, and compliance costs under Clause 10 have not been material.

#### *Air Emission Regulations*

In 2009, Capital Power participated with industry, government and non-government organization stakeholders in the five-year Clean Air Strategic Alliance (CASA) Review of the Alberta Electricity Framework. The CASA project team has proposed emission limits for NO<sub>x</sub>, SO<sub>2</sub>, Hg and PM for new coal-fired units or existing units at the end of their economic life. If these recommendations are adopted they will have no impact on Capital Power's existing facilities. The project team and Alberta Environment are also reviewing potential emission standards for existing coal-fired units and for gas-fired units.

The Government of Alberta regulations require coal-fired plant operators, including Capital Power, to monitor Hg emissions and capture at least 70% of Hg in the coal starting January 1, 2011. During 2009 and 2010 the Company installed and tested an activated carbon injection system and Hg Continuous Emission Monitoring System on Genesee Units 1, 2, and 3 to meet the regulatory requirements.

#### **Ontario**

The Ontario government aims to harmonize its cap and trade program with the Western Climate Initiative (WCI), which is represented by four provinces (BC, Ontario, Quebec and Manitoba) and seven states. The WCI requires a 15% reduction in GHG emission levels by 2020, from those of 2005. The cap and trade system applicable to industrial facilities including electricity generation is expected to start in 2012. However, the Ontario Government has not yet provided the industry specific GHG reduction targets or other program details.

#### **BC**

*The Greenhouse Gas Reduction Targets Act* and the *Greenhouse Gas Reduction (Cap and Trade) Cap and Trade Act* which were enacted in 2008, provide the statutory basis for establishing a market-based framework to reduce GHG emissions from large emitters. The BC Government aims to harmonize its cap and trade program with the WCI, similar to Ontario. The cap and trade system applicable to industrial facilities including electricity generation is expected to start in 2012 and will replace the current fuel tax. However, the BC Government has not yet provided the industry specific GHG reduction targets or other program details.

#### **United States**

##### *Greenhouse Gas Regulation*

The US Environmental Protection Agency (USEPA) and the state of California have implemented mandatory GHG reporting requirements, which are expected to be met by the Company on their respective due dates in 2011.

The USEPA is expected to regulate GHG under the *Clean Air Act* (CAA) with requirements for best available control

technology for new GHG sources and major modifications of existing sources. They also plan to control GHG emissions for existing and new sources through new source performance standards.

The WCI, as described above under Ontario, may affect the operation of CPILP's four facilities in California and the Frederickson facility in Washington.

California's proposed cap and trade program to control GHG aims to cut the state's GHG emissions to 1990 levels by 2020 with further reductions each year thereafter. The initial phase of the program will apply to electric generation and large industrial units and is expected to be effective in January 2012, but the proposal's GHG emission allocation methodology has not yet been established. On November 2, 2010, a proposition to effectively repeal the program was rejected by California voters.

#### *Air Emission Regulations*

In July, 2010, USEPA proposed the *Clean Air Transport Rule (CATR)* to replace the Clean Air Interstate Rule. CATR proposes to reduce the amount of NO<sub>x</sub> and SO<sub>2</sub> emissions from electric generating units that are transported in the air to down-wind states. CATR proposes emission reductions sufficient to contribute to reducing NO<sub>x</sub> and SO<sub>2</sub> measures below the ambient air quality standards in those down-wind states. The CATR proposals are also expected to significantly limit emission trading.

CATR only applies to units of generating facilities with a capacity of 25 MW or more, although it may be extended to other facilities when it is re-evaluated in 2014. Cogeneration facilities and units not providing electricity for sale on the electricity grid are also exempt. However, details of the proposed regulations are limited at this time.

In 2010, the USEPA proposed new air toxics standards, including standards for Hg, for industrial boilers and for coal and oil-fired electric generating units. However, the state of North Carolina issued a maximum available control technology permit to CPILP under the CAA, which precludes the application of these proposed new standards to its North Carolina facilities. In addition, based on the fuel mix and newly installed controls at CPILP's North Carolina facilities, the Company does not anticipate the need for further Hg or other hazardous emissions controls at these facilities.

#### *Comprehensive Environmental Response, Compensation and Liability Act*

The *Comprehensive Environmental Response, Compensation and Liability Act (CERCLA)*, also referred to as Superfund, requires investigation and remediation of sites where there has been a release or threatened release of hazardous substances. It also authorizes the USEPA to take response actions at Superfund sites, including ordering parties who are potentially responsible for the release to pay for their actions. Many states have similar laws. CERCLA defines "potentially responsible" broadly to include past and present owners and operators, as well as generators of wastes sent to a site. Capital Power is currently not subject to any material liability for any Superfund matters. However, Capital Power generates certain wastes, including hazardous wastes, and sends some of its wastes to third party waste disposal sites. As a result, there can be no assurance that Capital Power will not incur a liability under CERCLA in the future.

#### **Capital Power Initiatives**

As part of its strategy to reduce its GHG emissions and to be better positioned for compliance with future regulation, the Company has a focus on technology to reduce CO<sub>2</sub> emissions from coal generation. The Genesee 3 plant and the Keephills 3 facility currently under construction, use supercritical coal-burning technology which will emit 24% less CO<sub>2</sub> in producing the same amount of power as the four Wabamun units recently retired by TransAlta. In addition, the Company participated in a \$33 million research project to complete a FEED study of a clean coal project. The Company, Alberta Innovates and National Resources Canada each contributed \$11 million to the study. The FEED study was completed in early 2010 and the results indicate that this technology is currently uneconomical. Additionally, the Company is partnering with TransAlta, Enbridge Inc. and Alstom on Project Pioneer to develop one of the world's largest CCS projects as part of Keephills 3 which will be designed to capture approximately 1 million tonnes of GHG emissions annually. The project has signed a letter of intent with the Province of Alberta to receive funding from the province's \$2 billion CCS fund. The Government of Canada is also contributing toward the project through its Clean Energy Fund.

Laser monitoring technology installed at the Genesee 3 facility is expected to reduce CO<sub>2</sub> by 60,000 tonnes per year. A laser monitor yields real-time data, including precise measurements of the concentration of CO<sub>2</sub> in the flue gas. Using this knowledge, operators can make daily adjustments to the pressure and temperature of steam from the plant's supercritical boiler. Capital Power was the first company in North America to install this kind of technology in a coal plant.

The Company is a corporate sponsor of and helped the University of Alberta launch its \$21 million Canadian Centre for Clean Coal, Carbon and Mineral Processing Technologies in the Faculty of Engineering, where the next generation of clean energy engineers is developing new technologies to process minerals, produce clean coal and reduce GHG emissions.

## Personnel

Capital Power employs approximately 1,115 full-time, part-time, temporary and casual employees of which approximately 867 work in Canada while approximately 248 work in the US.

Capital Power enjoys positive work relations with its six Canadian labour unions, which together represent approximately 40% of Capital Power's Canadian labour force and approximately 31% of Capital Power's overall work force. None of the US operations are unionized. The Canadian labour unions are:

- the Civic Service Union (CSU) 52, which represents administrative, technical, professional and information technology employees located in the Edmonton Corporate office and Genesee power plant;
- the International Brotherhood of Electrical Workers (IBEW) Local 1007, which represents electrical, instrument and mechanical tradesmen, coal plant operators, equipment and crane operators, utility workers, tool servicemen and related employees at the Genesee power plant;
- the Communications, Energy and Paperworkers Union of Canada (CEP) Local 829, which represents power engineers at the Genesee power plant;
- the Communications, Energy and Paperworkers Union of Canada (CEP) Local 1123, which represents shift engineers, electrical and instrumentation technicians and mechanical maintenance technicians at the Island Generation power plant;
- the United Steel Workers (USW) Local 1-425, which represents power engineers, electrical, mechanical and instrumentation technicians and tradesmen, maintenance technicians and utility workers at the Williams Lake power plant; and
- the Power Workers Union (PWU) CUPE Local 1000, which represents power engineers, maintenance technicians, wood-waste coordinators, and some administrative support positions at the Calstock, Kapuskasing, Nipigon and Tunis power plants in Northern Ontario. The North Bay plant is not unionized.

The following table provides a summary of the status of collective agreements in force:

<b>Bargaining Unit</b>	<b>Location</b>	<b>Effective Date</b>	<b>Expiry date</b>
CSU 52	Edmonton, Alberta	December 24, 2006	December 25, 2010
IBEW Local 1007	Edmonton, Alberta	December 20, 2009	December 17, 2011
CEP Local 829	Edmonton, Alberta	December 24, 2006	December 25, 2010
CEP Local 1123	Campbell River, BC	May 1, 2009	April 30, 2012
USW Local 1-425	Williams Lake, BC	January 1, 2008	December 17, 2011
PWU CUPE Local 1000	Ontario	December 20, 2009	December 19, 2013

Collective bargaining is expected to commence with the CSU 52 and the CEP Local 829 in early 2011. All existing terms, conditions and wage rates contained in any expired collective agreements will continue in force and effect until new collective agreements are negotiated. Capital Power's business has not experienced any labour disruptions or work stoppages since 1978, and has positive relations with its union stakeholders and employees.

## REGULATORY OVERVIEW

The following is an overview of the principal electrical power regulatory regimes to which Capital Power's operations are subject. Environmental regulations affecting Capital Power's operations are discussed under "Business of Capital Power-Environmental Regulation".

### Alberta

Commencing January 1, 1996, the Government of Alberta, through the *Electric Utilities Act* (Alberta) took significant steps toward deregulation of the power industry in Alberta. Under the *Electric Utilities Act* (Alberta), the wholesale electricity market, a competitive spot market for power, was created and access to the provincial transmission grid was opened to allow all

eligible persons access to trade energy through the wholesale electricity market. The *Electric Utilities Act* (Alberta), and subsequent updates and legislation, established the basic features of the Alberta market as follows:

- Since January 1, 1996, new generating capacity initiatives in Alberta have been undertaken by independent IPPs (including municipally owned entities) and have been subject to market forces, rather than rate regulation;
- Regulated generating units, including those owned and operated by Capital Power, became subject to PPAs that were auctioned by the Alberta Government to buyers in 2000. The Balancing Pool also assumed the responsibilities of “PPA Buyer” for those generating units that were subject to a PPA not acquired in the initial 2000 auction;
- Power from both PPA generating units and commercial generation is cleared through a wholesale electricity market. Power is dispatched in accordance with an economic merit order administered by the market operator based upon offers by generators to sell power. All energy traded through the wholesale electricity market is financially settled each hour at a single spot market price;
- In 2003, the market operator and transmission administrator were merged into a single entity, the Independent System Operator (ISO), which currently operates under the name of Alberta Electric System Operator (AESO);
- Also in 2003, the Market Surveillance Administrator was established as an independent entity responsible for monitoring and investigating the market behaviour and conduct of market participants, including AESO and the Balancing Pool, and enforcing compliance with all applicable legislation, regulations, and / or ISO and Alberta Utilities Commission rules;
- In 2008, the Alberta Utilities Commission Act (“AUC Act”) came into force. The AUC Act separated the Alberta Energy Utilities Board into the Energy Resources Conservation Board (“ERCB”) and the Alberta Utilities Commission (“AUC”). The AUC oversees electricity industry matters including new power plant and transmission facilities, distribution and sale of electricity as well as retail natural gas. The ERCB regulates oil, gas, oil sands and coal resources; and
- Under amendments to the EUA introduced in 2009, the Government can designate certain transmission projects as critical infrastructure and approve the need for such facilities. The AUC remains responsible for reviewing and approving other aspects of critical transmission infrastructure projects.

## Ontario

Ontario has a centrally planned electricity market, with a strong mandate to increase the amount of clean and renewable energy in the Province’s electric system. The Ministry of Energy takes a strong role in defining the electricity mix to be procured by the OPA which has the mandate to develop a detailed integrated power supply plan (IPSP), to procure the electricity generation in that plan and to manage contracts for privately-owned generation. The Independent Electric System Operator is responsible for managing the Ontario wholesale market and for ensuring reliability of the electric system in Ontario. Hydro One operates 97% of Ontario’s transmission network. The electricity sector is regulated by the Ontario Energy Board.

There have been several pieces of legislation which have provided the policy basis for the Ontario electricity industry, the most recent of which is the 2009 Green Energy Act (GEA), an Act aimed at encouraging renewable energy projects and energy conservation measures in Ontario. Key components of the GEA include: (i) a FIT program which replaces the OPA’s RFP process, and is intended to increase investor confidence in renewable energy projects by providing standard program rules, standard contracts and standard pricing for classes of renewable energy; (ii) a streamlined approvals process with new regulations that provide a “one-stop” approvals approach combining existing environmental and municipal planning approvals into a single new “renewable energy approval”; and, (iii) Enhanced Transmission Connections - authorizing incentives and cost recovery programs to encourage the expansion and upgrade of connections for renewable generation facilities.

The most recent electricity policy document issued by the Ontario Government is the Long-Term Energy Plan (LTEP) which was released in November, 2010. The LTEP calls for (i) elimination of coal-fired generation by 2014; (ii) a commitment that nuclear power will remain at approximately 50% of the province’s electricity supply by modernizing units at the Darlington and Bruce sites and building two new nuclear units at Darlington; (iii) increasing hydroelectric capacity to 9,000 MW through new facilities and significant investments in existing facilities; (iv) increase renewable energy from wind, solar and bio-energy to 10,700 MW by 2018 through transmission expansion, maximizing the use of the existing transmission system, and the continuation of FIT and microFIT programs; (v) natural gas generation will be procured for peak needs and to support renewable resources and nuclear generators; (vi) a standard offer program will be developed for combined heat and power projects under 20 MW; (vii) five priority transmission projects will proceed immediately for reliability and renewable energy growth and future plans will identify more projects as needed; and, (viii) the government will continue to increase and broaden conservation targets to 7,100 MW and reduce overall demand by 28 terawatt-hours by 2030. The LTEP contemplates that a

detailed IPSP to implement the LTEP will be developed by the OPA for approval by the Ontario Energy Board in 2011.

The Government of Ontario estimates that total required capital investments to implement the LTEP will total \$87 billion over the next 20 years, with the largest components being nuclear (\$33 billion), wind (\$14 billion), and conservation (\$12 billion) and including investments in transmission (\$9 billion), solar (\$9 billion), hydro (\$4.6 billion), biomass (\$4 billion) and natural gas (\$1.8 billion). The government projects that the industrial rate will increase by about 2.7% annually over the next 20 years. Residential rates are expected to increase by 3.5% annually over the length of the LTEP, however, over the next five years, those rates will rise by about 7.9% annually (or 46% over five years).

## **British Columbia**

BC's electricity is provided primarily by the BC Hydro, a Crown corporation that is regulated by the British Columbia Utilities Commission (BCUC). Effective July 2010, BC Hydro also resumed responsibility for the planning, management and operation of electricity transmission throughout the province with the re-integration of the operations of British Columbia Transmission Corporation into BC Hydro pursuant to the 2010 BC Clean Energy Act. BC Hydro's transmission operations are also regulated by the BCUC. Electricity is traded with other markets through BC Hydro's trading arm and wholly-owned subsidiary, Powerex Corporation.

While BC is not a deregulated market like Alberta, the BC Government has taken steps since 2003 to diversify the market and to promote new generation by IPPs. In particular, BC Hydro was directed by the BC Government to acquire electricity supply on a competitive basis from IPPs thus resulting in the various open calls for power held over the last five years.

As a result of BC Hydro effectively controlling the market (generation, distribution and trading activities), the opportunity for IPPs in BC has been limited. IPPs can bid into RFPs from BC Hydro, which, if successful, result in long-term PPAs with BC Hydro.

In February 2007, the BC Government released the BC Energy Plan. The BC Energy Plan outlined various measures to address the challenge of global warming including that all electricity produced in BC will be required to have zero net GHG emissions by 2016. The BC Government further announced in the BC Energy Plan that 90% of BC's electricity will come from renewable resources and that BC will require zero GHG emissions from any coal-fired electricity project. The BC Energy Plan placed a great deal of responsibility on British Columbians to conserve energy. The target is to acquire 50% of the Province's incremental resource needs through conservation by 2020.

### **BC Hydro 2008 Long-Term Acquisition Plan Developments**

In July 2009, the BCUC issued an order and decision with respect to BC Hydro's 2008 Long-Term Acquisition Plan (2008 LTAP). The BCUC found deficiencies with certain aspects of the 2008 LTAP, and also rejected BC Hydro's proposal to reduce the reliance on the Burrard Thermal Generating Station to 3,000 GWh/year for planning purposes (from the current 6,000 GWh/year level).

On October 28, 2009, the BC Government provided direction to both BC Hydro and the BCUC that, effective immediately, the Burrard Thermal Generating Station was not to be relied on or used by BC Hydro for planning purposes for firm energy. The Burrard Thermal Generating Station is to only be used for up to 900 MW of emergency back-up capacity.

BC Hydro then advised that it was proceeding to the next stage of the Clean Power Call. On March 11, 2010 BC Hydro announced the first group of 19 projects to be awarded electricity agreements under the Clean Power Call, of which Capital Power's Quality Wind was selected for the award of an EPA. See "Business of Capital Power Corporation - Power Generation - Projects Under Construction and in Development - Quality Wind Project". Following execution of the contracts, BC Hydro will submit the electricity purchase agreements to the BCUC for its review.

BC Hydro issued a report on August 3, 2010 advising that a total of 27 projects, including the Quality Wind Project, had been selected for the award of 25 EPAs, representing 3,266 GWh per year of firm energy and 1,168 MW of capacity.

### **2010 BC Clean Energy Act**

On April 28, 2010, the BC government announced a new Clean Energy Act. The new Act, which received Royal Assent on June 3, 2010, aims to aggressively accelerate and expand development of clean and renewable energy sources within the Province of BC to achieve energy self-sufficiency, job creation and GHG reduction objectives. Among the 16 specific energy objectives advanced by the Clean Energy Act are (i) measures to expand BC's publicly-owned electricity system, including both the transmission system as well as new public power projects at Mica Dam, Revelstoke Dam, and Site C; (ii) requiring BC Hydro to develop a long-term Integrated Resource Plan within 18 months of the Act coming into force; (iii) expediting BC Hydro's EPAs with renewable energy producers and the BCUC regulatory review of those contracts; (iv) re-integrating BC Transmission Company (BCTC) into BC Hydro; and, (v) providing a new role for BC Hydro to actively market and expand sales of BC clean power in export markets, and to contract with IPPs in support of new long-term export opportunities.

The re-integration of BCTC into BC Hydro became effective on July 5, 2010. In September 2010, BC Hydro initiated the process to develop the Integrated Resource Plan that must be filed by November 2011.

The long-term electricity planning framework and expanded opportunities for contracted power development for both BC domestic use and BC Hydro export purposes established through the Clean Energy Act could provide opportunities for the Company. The timing for regulatory approvals of any future EPAs between the Company and BC Hydro could also be expedited as a result of the streamlined expedited regulatory review processes to be established pursuant to the Clean Energy Act.

## **United States**

Capital Power's operations are subject to extensive regulation by US governmental agencies. Capital Power's projects are subject to US federal laws and regulations that govern, among other things, transactions by and with purchasers of power, including utility companies, the development and construction of generation facilities, the ownership and operations of generation facilities, and access to transmission. Generation facilities are also subject to US federal, state and local laws and regulations that govern, among other things, the geographical location, zoning, land use and operation of a project.

### **US Energy Industry Regulatory Matters**

#### *Federal Energy Regulatory Commission (FERC) Jurisdiction*

Unless otherwise exempt, any person that owns or operates facilities used for the wholesale sale or transmission of electric energy in interstate commerce is a public utility subject to FERC's jurisdiction. FERC has extensive ratemaking jurisdiction and other authority with respect to interstate wholesale sales and transmission of electric energy under the Federal Power Act (FPA) and with respect to certain interstate sales, transportation and storage of natural gas under the US Natural Gas Act of 1938 (NGA), as amended and the US Natural Gas Policy Act of 1978 (NGPA), as amended. FERC also maintains certain reporting requirements for public utilities and regulates, among other things, the disposition and acquisition of certain assets and securities, the holding of certain interlocking directorate positions, and the issuance of securities by public utilities.

#### *Transmission Service*

Issued in 1996, FERC Order No. 888 mandated the unbundling of utilities' transmission and generation services and required such utilities to offer eligible entities open access to utility transmission facilities on a basis comparable to the utilities' own use of the facilities. FERC Order No. 888 required public utility transmission owners to file open access transmission tariffs containing the terms and conditions under which they would offer transmission service, enabling independent generators and marketers to schedule and reserve capacity on those transmission facilities. In 2007, FERC Order No. 890 made a number of changes to open access implementation, including requiring an open, transparent and coordinated transmission planning process on both a local and regional basis.

In 1999, FERC issued Order No. 2000, which set out standards for ISOs and Regional Transmission Organizations (RTOs). These organizations are operated by an entity that is independent of market participants, and planning, operations, and transmission services are performed on a regional instead of utility specific basis. In addition, most ISOs and RTOs administer liquid day-ahead and real-time spot markets. Examples are PJM Interconnection, ISO-NE, NYISO, Midwest Independent Transmission System Operator and California ISO. In 2008, FERC Order No. 719 made incremental reforms to such markets, including requiring scarcity pricing to encourage demand response and other new resources.

#### *Market-Based Rate Authority*

Under the FPA and FERC's regulations (subject to certain exceptions for entities such as municipal utilities that are not public utilities under the FPA), an entity seeking to make wholesale sales of power at market-based or cost-based rates must obtain authorization from FERC. FERC grants market-based rate authorization if it finds that the seller and its affiliates lack market power in generation and transmission, that the seller and its affiliates cannot erect other barriers to market entry and the seller and its affiliates comply with certain affiliate restrictions. All of Capital Power's affiliates that own power plants in the US (except for those power plants that are qualifying facilities (QFs), as well as Capital Power's power marketer affiliates, are currently authorized by FERC to make wholesale sales of power at market-based rates. This authorization is subject to revocation by FERC if such companies fail to continue to satisfy FERC's current or future criteria for market-based rate authority or to modification if FERC restricts the ability of wholesale sellers of power to make sales at market-based rates.

#### *Mergers and Acquisitions*

FERC has FPA jurisdiction over certain sales, mergers, consolidations and acquisitions of public utility assets or securities, and over certain mergers and acquisitions involving holding companies and transmitting utilities or electric utility companies. In reviewing such matters, FERC reviews the effect of the transaction on competition, rates and regulation and ensures that there is no unlawful cross subsidization of affiliates by entities with captive customers.

### *Independent System Operators and Regional Transmission Organizations*

ISOs grew out of Orders Nos. 888 / 889 where FERC suggested the concept of an ISO as one way for existing tight power pools to satisfy the requirement of providing non-discriminatory access to transmission. Subsequently, in Order No. 2000, the Commission encouraged the voluntary formation of RTOs to administer the transmission grid on a regional basis throughout North America. With the exception of the southeast and northwest, most wholesale power markets in the lower 48 states of the US are controlled by RTOs operating under FERC jurisdiction. The organized markets under each of these RTOs have developed differently, each with their own variation of markets. The northeast region (PJM, ISO-NE and NYISO) is considered the more developed of the RTOs but each region has its own uniqueness of history, market participants, resources and state involvement. Market rules continue to evolve. The non-organized market regions of the northwest and southeast typically represent the old model of vertically integrated utilities and therefore the opportunities there are limited to bilateral contracts.

### *Reliability Standards*

Pursuant to the US Energy Policy Act of 2005, FERC finalized in February 2006 new rules regarding the certification of an Electric Reliability Organization and the procedures for the establishment, approval and enforcement of mandatory electric reliability standards. In July 2006, FERC certified North American Electric Reliability Corporation (NERC) as the Electric Reliability Organization to establish and enforce reliability standards applicable to all owners, operators and users of the bulk power system. NERC relies on regional reliability entities to enforce FERC and NERC standards with bulk power system owners, operators, and users through approved delegation agreements. Such regional entities are responsible for monitoring compliance of the registered entities within their regional boundaries, assuring mitigation of all violations of approved reliability standards and assessing penalties and sanctions for failure to comply.

### *FERC Enforcement Authority*

FERC has the authority to enforce the statutes it is responsible for implementing and the regulations it issues under those statutes. The US Energy Policy Act of 2005 conferred substantial enforcement authority on FERC, allowing it to impose civil penalties of up to US \$1 million per day per violation for violations of the NGA, NGPA and Part II of the FPA. This expanded penalty authority also applies to any entity that manipulates wholesale natural gas or electric markets by engaging in fraud or deceit in connection with jurisdictional transactions. In addition, these laws allow for the assessment of criminal fines and imprisonment for violations.

### *The Public Utility Regulatory Policies Act of 1978*

The Public Utility Regulatory Policies Act of 1978, as amended (PURPA) and FERC's regulations under PURPA provide certain incentives for the development of combined heat and power facilities and small power production facilities using alternative or renewable fuels, in part by establishing certain exemptions from the FPA and the US Public Utility Holding Company Act of 2005 for owners of QFs.

PURPA provides two primary benefits to QFs. First, all cogeneration facilities, geothermal and biomass small power production facilities, and small power production facilities 30 MW or smaller that are QFs are exempt from certain provisions of the FPA, the regulations of FERC thereunder and the US Public Utility Holding Company Act of 2005. Second, the FERC regulations promulgated under PURPA require that electric utilities purchase electricity generated by QFs that are directly, or under certain circumstances indirectly, connected to such electric utilities at a price based on the purchasing utilities avoided cost and that such utilities sell back up power to such QFs on a non-discriminatory basis. An electric utility may be entitled to relief from these mandatory purchase and sale obligations if, in the case of the mandatory purchase obligation, the utility can show that the QF has non-discriminatory access to a market that meets certain competitive conditions and, in the case of the mandatory sale obligation, if the utility can show that there are competing retail electric suppliers willing and able to sell and deliver electricity to the QF and there is no obligation under state law for the utility to make such power sales. The provisions for relief from the mandatory purchase and sale obligations do not affect contracts entered into or pending approval on or before August 8, 2005.

Under FERC's regulations, QFs are subject to FERC's rate making authority under the FPA and are required to obtain market-based rate authority in order to sell power at market-based rates, except for sales of energy or capacity: (i) made by QFs that have a generating capacity of 20 MW or less; (ii) made pursuant to a contract executed on or before March 17, 2006; or (iii) made pursuant to state-approved avoided cost rates.

### *Public Utility Holding Company Act of 2005*

In August 2005, the passage of US Energy Policy Act of 2005 repealed the Public Utility Holding Company Act of 1935 and enacted the US Public Utility Holding Company Act of 2005, effective February 2006, which primarily addresses FERC's access to the books and records of holding companies. Any entity that is a holding company solely with respect to QFs, exempt wholesale generators or foreign utility companies, such as Capital Power, is exempt from FERC's books and records

requirements and any accounting, record-retention and reporting requirements contained in the US Public Utility Holding Company Act of 2005 and FERC's regulations promulgated thereunder.

## RISK FACTORS

A discussion of the risk factors relating to Capital Power and its business and operations can be found in the section entitled "Business Risks" in the Company's 2010 Year End MD&A dated March 8, 2011, which is filed on SEDAR.

## COMMON DIVIDEND

The Board has authorized the declaration and payment of an annual dividend of \$1.26 per Common Share, to be paid to holders of Common Shares on a quarterly basis. The payment of dividends is not guaranteed, however, and the amount and timing of any future dividends will be at the discretion of the Board after taking into account such factors as the Company's financial condition, results of operations, distributions from CPLP, current and anticipated cash needs, the requirements of any future financing agreements and other factors that the Board may deem relevant.

Following the completion of the IPO in July 2009, the following dividends were declared:

### Dividends Declared

Declaration Date	Dividend per Share
17 Jul 09	\$0.315
25 Nov 09	\$0.315
19 Mar 10	\$0.315
30 Apr 10	\$0.315
3 Aug 10	\$0.315
24 Nov 10	\$0.315

## CAPITAL STRUCTURE

### Capital Power Corporation

The Company's authorized share capital consists of an unlimited number of Common Shares, an unlimited number of Preference Shares issuable in series, an unlimited number of Special Voting Shares and one Special Limited Voting Share. As of December 31, 2010, there were 30.981 million Common Shares, 5 million Cumulative Rate Reset Preference Shares, Series 1, 47.416 million Special Voting Shares and one Special Limited Voting Share outstanding.

### Common Shares

Holders of Common Shares are entitled to one vote for each Common Share held on a ballot vote at all meetings of shareholders of the Company except meetings at which or in respect of matters on which only holders of another class of shares are entitled to vote separately as a class. Except as otherwise provided in the Articles of the Company or required by law, the holders of Common Shares vote together with the holders of Special Voting Shares as a single class. Holders of Common Shares are entitled to receive, subject to the rights of the holders of another class of shares, any dividend declared by the Company and the remaining property of the Company on the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary. Notwithstanding the foregoing, the Company may not issue or distribute to all or substantially all of the holders of Common Shares: either (i) Common Shares or (ii) rights or securities of the Company exchangeable for or convertible into or exercisable to acquire any Common Shares, unless contemporaneously therewith the Company issues or distributes Special Voting Shares or rights or securities of the Company exchangeable for or convertible into or exercisable to acquire Special Voting Shares on the same terms *mutatis mutandis* and in the same proportion.

The Common Shares may not be subdivided, consolidated, reclassified or otherwise changed unless contemporaneously therewith the Special Voting Shares are subdivided, consolidated, reclassified or otherwise changed in the same proportion or same manner.

Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* (MI 61-101) provides a number of circumstances in which a transaction between an issuer and a related party may be subject to valuation and minority approval requirements. An exemption from such requirements is available when the fair market value of the transaction is not more than 25% of the market capitalization of the issuer. Capital Power Corporation (CPC) has been granted exemptive relief from the



requirements of MI 61-101 that, subject to certain conditions, permits it to be exempt from the minority approval and valuation requirements for transactions that would have a value of less than 25% of CPC's market capitalization, if EPCOR's indirect equity interest in CPC, through its ownership of Exchangeable LP Units of Capital Power L.P., is included in the calculation of CPC's market capitalization. As a result, the 25% threshold, above which the minority approval and valuation requirements apply, is increased to include the approximately 60.5% indirect interest in CPC held by EPCOR through its ownership of Exchangeable LP Units of Capital Power L.P.

### **Preference Shares**

The Preference Shares may at any time and from time to time be issued in one or more series. Subject to the *Canada Business Corporations Act*, the Board may fix, before the issue thereof, the number of Preference Shares of each series, the designation, rights, privileges, restrictions and conditions attaching to the Preference Shares of each series, including, without limitation, any voting rights, any right to receive dividends (which may be cumulative or non cumulative and variable or fixed) or the means of determining such dividends, the dates of payment thereof, any terms and conditions of redemption or purchase, any conversion rights, any rights on the liquidation, dissolution or winding up of the Company, and any sinking fund or other provisions.

The Preference Shares of each series will, with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, rank on a parity with the Preference Shares of every other series and be entitled to preference over the Common Shares and any other shares ranking junior to the Preference Shares with respect to priority in payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding up of the Company.

On December 16, 2010 the Company issued 5,000,000 Cumulative Rate Reset Preference Shares, Series 1 of the Company at a price of \$25.00 per Series 1 Share for aggregate gross proceeds of \$125 million.

The Series 1 Shares will pay fixed cumulative dividends of \$1.15 per share per annum, yielding 4.60% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the initial five-year period ending December 31, 2015. The dividend rate will reset on December 31, 2015 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 2.17%. The Series 1 Shares will be redeemable by the Company on December 31, 2015 and on December 31 every five years thereafter.

The holders of Series 1 Shares will have the right to convert their shares into Cumulative Floating Rate Preferred Shares, Series 2 of the Company, subject to certain conditions, on December 31, 2015 and on December 31 of every fifth year thereafter. The holders of Series 2 Shares will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board, at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate and 2.17%.

### **Special Voting Shares**

Special Voting Shares were issued in relation to the Exchangeable LP Units for the purpose of providing voting rights with respect to the Company to the holders of Exchangeable LP Units. See "General Development of the Business - Initial Public Offering and Reorganization". Under the Exchange Agreement, holders agreed not to transfer Special Voting Shares separately from the related Exchangeable LP Units except for certain permitted transfers among affiliates. See "Material Contracts - Exchange Agreement".

Holders of Special Voting Shares have the right, voting separately as a class, at any meeting of shareholders of the Company at which directors are to be elected, provided that, as at the record date established for the purpose of determining shareholders entitled to vote at the meeting, the holders of Special Voting Shares collectively beneficially own the requisite number of Exchangeable LP Units, to nominate and elect the number of directors to the Board set forth below:

**Proportion of outstanding Common Shares and Common Shares issuable upon exchange of outstanding Exchangeable LP Units represented by aggregate number of Exchangeable LP Units and Common Shares collectively beneficially owned by the holders of Special Voting Shares**

	<b>Number of Directors</b>
Not less than 20%	Four (4)
Less than 20% but not less than 10%	Two (2)

Holders of Special Voting Shares are entitled at any time, subject to applicable law, voting separately as a class, to remove any one or more of the directors elected by the holders of Special Voting Shares and to nominate and elect successor director(s) to replace the individual(s) previously elected. If there exists or occurs a vacancy on the Board with respect to a

director elected or entitled to be elected by the holders of Special Voting Shares, the vacancy will be filled by an individual who is nominated and elected by the holders of Special Voting Shares, voting separately as a class.

If the holders of Special Voting Shares collectively beneficially own an aggregate number of Exchangeable LP Units and Common Shares that represents less than 10% of the aggregate number of outstanding Common Shares and Common Shares issuable upon exchange of Exchangeable LP Units as at the record date established for the purpose of determining shareholders entitled to vote at a meeting, then each Special Voting Share will entitle the holder thereof to that number of votes on a ballot vote at the meeting that is equal to the Vote Per Share (as defined below), and the holders of Special Voting Shares will vote together with the holders of Common Shares as a single class for the election of directors.

Except as provided above, the holders of the Special Voting Shares do not, in that capacity, have the right to vote for the election of directors.

“Vote Per Share” means, at any time, the amount that is equal to the quotient, rounded down to the nearest 0.0001, obtained when: (x) the “Maximum Exchange Number” at that time is divided by (y) the number of Special Voting Shares outstanding at that time.

“Maximum Exchange Number” means, at a time, the number that is equal to the lesser of: (x) the number of Common Shares for which the Exchangeable LP Units outstanding at that time are then exchangeable; and (y) the largest whole number that, when added to the aggregate number of votes attached to all of the Common Shares outstanding at that time owned or whose voting rights are controlled by persons that own Exchangeable LP Units or persons who, for purposes of the *Income Tax Act* (Canada) (the Tax Act) do not deal at arm’s length with an owner of Exchangeable LP Units, does not exceed 49% of the aggregate number of votes attached to all of the Common Shares and the Special Voting Shares outstanding at that time.

With respect to all other matters, except matters on which only holders of another class of shares are entitled to vote separately as a class, each Special Voting Share will entitle the holder thereof to that number of votes on a ballot vote at any meeting of shareholders of the Company that is equal to the Vote Per Share, and the holders of Special Voting Shares will vote together with the holders of Common Shares as a single class.

The Special Voting Shares are subject to anti-dilution provisions providing that adjustments will be made to the Special Voting Shares in the event of a change to the Common Shares, or distribution of either Common Shares or rights or securities exercisable to acquire Common Shares to holders of the Common Shares.

If a holder of Exchangeable LP Units exchanges some or all of its Exchangeable LP Units pursuant to the Limited Partnership Agreement and the Exchange Agreement, the Company will redeem the related number of Special Voting Shares held by such holder. The number of Special Voting Shares that the Company will redeem will be equal to the number of Common Shares issuable upon the exchange of such Exchangeable LP Units owned by such holder. The Special Voting Shares will be redeemed at a price per share equal to \$0.000001.

### ***Special Limited Voting Share***

The authorized number of Special Limited Voting Shares is limited to one. See “Corporate Structure - Capital Power Corporation”. The holder of the Special Limited Voting Share is entitled to receive notice of, to receive materials relating to, and to attend any meeting of Capital Power’s shareholders; however, the holder of the Special Limited Voting Share is not, in such capacity, entitled to vote at any shareholder meeting except as provided by law or as described below.

The articles of the Company provide that any amendment to the articles of the Company to change the place in which the “Head Office” (as defined in the articles) is located to a place other than the City of Edmonton in the Province of Alberta or to change in any way the definition of “Head Office” and the related definitions set out in the articles, or any merger, amalgamation, arrangement, reorganization, liquidation or sale of all or substantially all of the property of the Company or similar transaction pursuant to which the resulting corporation or other successor to the Company or its business is not required to: (i) have its Head Office located in the City of Edmonton; (ii) have a definition of “Head Office” as set out in the articles; or (iii) have a Special Limited Voting Share in the capital of the resulting corporation or other successor to the Company having the same rights and restrictions as those relating to the Special Limited Voting Shares issued to the holder of the Special Limited Voting Share, must be approved by the holder of the Special Limited Voting Share, voting separately as a class, in addition to approval of the holders of the Common Shares and Special Voting Shares voting together as a class or as otherwise required by law. In addition, the jurisdiction of incorporation of the Company may not be changed, by continuance or otherwise; no amendment to the articles to increase the maximum number of authorized Special Limited Voting Shares may be made; the rights, privileges, restrictions and conditions of the Special Limited Voting Share may not be amended; no exchange or creation of a right of exchange or right to acquire Special Limited Voting Shares may be effected; and no transaction, including any amendment to the articles, to effect an exchange, reclassification or cancellation of the Special Limited Voting Share may be undertaken, without the approval by the holder of the Special Limited Voting Share, voting separately as a class.

The articles of the Company define “Head Office” to mean the office or offices at which: (i) the majority of the Company’s senior “Executive Officers”, which consist of the persons carrying out as a substantial part of their duties any of the functions of the chief executive officer, chief operating officer, chief financial officer, president, any executive vice-president, senior vice-president or general counsel of the Company, which majority shall include the chief executive officer, are located and from which they carry out the majority of their functions, and (ii) the majority of the “Executive Officers” are located and from which they carry out the majority of their functions (such majority including the Chief Executive Officer and the senior Executive Officers referred to in clause (i) above). The term “Executive Officers” is defined in the articles to include the senior Executive Officers referred to above; and (to the extent different from such senior Executive Officers) the persons, whether employed by the Company or any of its subsidiary entities, carrying out as a substantial part of their duties any of the functions of the chief executive officer, chief operating officer, chief financial officer, president, any executive vice-president or senior vice-president or general counsel, with respect to a substantial portion of the businesses carried on by the Company and its subsidiary entities, taken as a whole. The articles further require that the registered office of the Company be located in the City of Edmonton.

The Special Limited Voting Share carries no right for the holder to receive dividends. The holder of the Special Limited Voting Share has the right to receive, subject to any payment or distribution to holders of Preference Shares, in preference to the holders of Common Shares and on a *pari passu* basis with the holders of Special Voting Shares, the amount of \$1.00 from the remaining property and assets of the Company upon the voluntary or involuntary liquidation, dissolution or winding-up of the Company.

### **Capital Power L.P.**

Under the limited partnership agreement governing CPLP (Limited Partnership Agreement), CPLP may issue various classes of partnership interests designated as GP Units, Common LP Units and Exchangeable LP Units. As at December 31, 2010, the Company indirectly holds 21.75 million GP Units and 9.209 million Common LP Units representing approximately 27.8% and 11.7%, respectively, of the total number of outstanding partnership units of CPLP, and EPCOR holds 47.416 million Exchangeable LP Units representing approximately 60.5% of the total number of outstanding partnership units of CPLP. See “Material Contracts - Limited Partnership Agreement”.

### **Debt Issuance**

On November 16, 2010, the Partnership issued \$300 million principal amount 5.276% senior unsecured MTNs due November 16, 2020 pursuant to a Trust Indenture dated April 14, 2010. The Trust Indenture does not limit the aggregate principal amount of MTNs that may be issued thereunder. Additional MTNs maturing at varying dates and bearing interest at different rates, in each case as determined by the Partnership, may be issued under the Trust Indenture. Under the Trust Indenture, the Partnership must maintain a debt-to-capitalization ratio of not more than 75%.

Upon closing of the Series 1 Shares, the Company loaned to the Partnership an amount equivalent to the net proceeds raised under the Preferred Share Offering pursuant to a Subordinated Debt Agreement. Under the terms of the Subordinated Debt Agreement, the Partnership will be permitted to defer payment of all or part of the interest owing to the Company for one or more periods of up to five consecutive years. In addition, the Partnership shall not pay or declare distributions on any of its outstanding partnership units at any time when interest owing under the Subordinated Debt Agreement is being deferred by it.

### **Capital Power GP Holdings Inc.**

The authorized capital of CPLPGP consists of an unlimited number of common shares and one Special Limited Voting Share. As at December 31, 2010, the Company owns all of the common shares of CPLPGP, and EPCOR holds the one Special Limited Voting Share.

The rights, privileges, restrictions and conditions of the Special Limited Voting Share of CPLPGP are substantially similar to those of the Special Limited Voting Share of the Company *mutatis mutandis*. See “Capital Structure - Capital Power Corporation - Special Limited Voting Share”. The holder of the Special Limited Voting Share is entitled to receive notice of, and to attend any meeting of, CPLPGP shareholders; however, the holder of the Special Limited Voting Share is not, in such capacity, entitled to vote at any shareholder meeting except as provided by law. The articles of CPLPGP require that its registered office be located in the City of Edmonton. The Special Limited Voting Share carries no right for the holder to receive dividends. The holder of the Special Limited Voting Share has the right to receive, subject to any payment or distribution to holders of prior ranking shares, in preference to the holders of common shares of Special Limited Voting Share, the amount of \$1.00 from the remaining property and assets of CPLPGP upon the voluntary or involuntary liquidation, dissolution or winding-up of CPLPGP.

## **CPI Investments Inc.**

The authorized capital of CPI Investments Inc. consists of an unlimited number of Class A Shares and an unlimited number of Class B Shares. As at December 31, 2010, EPCOR holds 51 Class A Shares of CPI Investments Inc. and CPLP holds 49 Class B Shares of CPI Investments Inc. See "Material Contracts - CPI Investments Inc. Shareholder Agreement".

### ***Class A Shares***

Class A Shares of CPI Investments Inc. carry no right for the holder to receive dividends or to receive any remaining property and assets of CPI Investments Inc. upon the voluntary or involuntary liquidation, dissolution or winding-up of CPI Investments Inc. other than \$1.00 per Class A Share in preference to the holders of Class B Shares. Holders of Class A Shares, except where otherwise provided by law, vote together with holders of Class B Shares as one class at all meetings of shareholders of CPI Investments Inc. Each Class A Share entitles the holder to one vote per Class A Share.

### ***Class B Shares***

Holders of Class B Shares of CPI Investments Inc. are entitled to receive dividends as and when declared by CPI Investments Inc.'s board of directors and, upon the voluntary or involuntary liquidation, dissolution or winding-up of CPI Investments Inc., the holders of Class B Shares are entitled to share rateably in the remaining property and assets of CPI Investments Inc. available for distribution, after payment of liabilities and any payment or distribution to holders of Class A Shares. Holders of Class B Shares, except where otherwise provided by law, vote together with holders of Class A Shares as one class at all meetings of shareholders of CPI Investments Inc., and are entitled to one vote per Class B Share.

## **Ratings**

The following credit rating agencies have assigned the following credit ratings to the preferred shares of the Company and debt obligations of CPLP:

### ***Preferred Share Ratings***

The Series 1 Shares have been given a Canadian scale preliminary rating of P-3 (high) by Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P). Such P-3 (high) rating is the ninth highest of twenty ratings used by S&P in its Canadian preferred share rating scale. According to S&P, a P-3 (high) rating indicates that, although the obligation is less vulnerable to non-payment than other speculative issues, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

The Series 1 Shares have been given a rating of Pfd-3 (low) with a stable trend by DBRS Limited (DBRS). The Pfd-3 (low) rating is the third highest of six rating categories used by DBRS for preferred shares. According to DBRS, preferred shares rated Pfd-3 (low) are of adequate credit quality. While protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. DBRS further subcategorizes each rating by the designation of "high" and "low" to indicate where an entity falls within the rating category. The absence of either a "high" or "low" designation indicates the rating is in the middle of the category. The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed.

### ***Debt Ratings***

S&P has assigned CPLP a Corporate Credit rating of BBB with a stable outlook. This rating is the fourth highest rating of S&P's ten corporate credit ratings, which range from AAA to D. The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories. A BBB Corporate Credit rating exhibits adequate capacity to meet financial commitments, but is more subject to adverse economic conditions.

DBRS has assigned a BBB rating with a stable trend to CPLP's Senior Unsecured Debt and is the fourth highest rating of DBRS's ten rating categories for long-term debt obligations, which range from AAA to D. DBRS also uses "high" and "low" subcategories on ratings from AA to C to indicate the relative standing of the securities being rated within a particular rating category. Long-term debt rated BBB is of adequate credit quality. The capacity for the payment of financial obligations is considered acceptable; however it may be vulnerable to future events.

### ***Ratings Summary***

Credit ratings are intended to provide investors with an independent assessment of the credit quality of an issue or an issuer of securities and such ratings do not address the suitability of a particular security for a particular investor. The ratings assigned to a security may not reflect the potential impact of all risks on the value of the security. A rating is not a recommendation to

buy, sell or hold securities and may be subject to revision or withdrawal at any time by the rating organization.

## MARKET FOR SECURITIES

### Trading Price and Volume

The Company's Common Shares trade on the Toronto Stock Exchange under the symbol of CPX. The following table sets forth the reported high and low trading prices and volumes for the periods indicated:

#### Toronto Stock Exchange 2010 CPX Trading Statistics:

Month	Share Price			Volume
	High	Low	Close	Traded
January	21.85	20.98	21.35	1,283,097
February	21.83	20.97	21.40	1,462,263
March	23.00	21.24	22.50	4,861,844
April	23.00	22.16	22.49	1,302,208
May	23.00	21.76	22.51	2,213,018
June	23.39	22.00	22.14	895,953
July	23.62	21.75	23.40	651,020
August	23.48	22.26	22.50	730,761
September	24.20	22.40	24.10	994,255
October	24.84	23.25	23.75	934,721
November	24.76	23.62	24.20	769,490
December	24.67	23.44	23.65	1,742,509

The Corporation's Series 1 Preferred Shares began trading on the Toronto Stock Exchange on December 16th, 2010 under the symbol of CPX.PR.A. The offering of 5.0 million Cumulative Rate Reset Preference Shares, Series 1 Shares was sold to investors at a price of \$25.00 per share.

The following table sets forth the reported high and low trading prices and volumes for the periods indicated:

#### Toronto Stock Exchange 2010 CPX.PR.A Trading Statistics:

Month	Share Price			Volume
	High	Low	Close	Traded
December 16 -31	26.00	24.85	25.15	487,483

*Remainder of page intentionally left blank*

## DIRECTORS AND OFFICERS

### Board of Directors

The names, place of residence, principal occupation, period of service as a member of the Board of Directors, membership in Board committees, and attendance are set forth in the following table:

Name, Province / State and Country of Residence	Director Since	Office Held, Board and Committee Meeting Attendance <sup>(1) (2) (9)</sup>	Principal Occupation During Past Five Years
Albrecht W.A. Bellstedt <sup>(4)(6)(7)</sup> Canmore, Alberta, Canada Shares held: 7,090 <sup>(5)</sup> Date of Birth: March 1949	July 9, 2009	Director 13 of 13 Board 4 of 4 Corporate Governance 3 of 3 EH&S	Professional Director from February 2007; prior thereto, Executive Vice President and General Counsel, TransCanada Corporation from January 1999.
William Bennett <sup>(3)(4)(7)</sup> Chicago, Illinois, USA Shares held: 1,000 <sup>(5)</sup> Date of Birth: October 1946	July 9, 2009	Director 13 of 13 Board 6 of 6 Audit 3 of 3 EH&S	Semi Retired; a Corporate Director and a Private Investor since 1998.
Brian Bentz <sup>(4)(7)(8)</sup> Vancouver, British Columbia, Canada Shares held: 1,000 <sup>(5)</sup> Date of Birth: April 1943	July 9, 2009	Director 13 of 13 Board 3 of 3 EH&S 4 of 4 Keephills 3	Proprietor of Brian Bentz Consulting from May 2008; prior thereto, President, Oilsands and Mining, Amec Americas Inc. from October 1969.
Hugh Bolton <sup>(4)</sup> Edmonton, Alberta, Canada Shares held: 1,000 <sup>(5)</sup> Date of Birth: May 1938	July 9, 2009	Director 13 of 13 Board	Retired and Non-executive Chair of the Board of Directors of EPCOR Utilities Inc.
Richard Cruickshank <sup>(6)(8)(11)</sup> Edmonton, Alberta, Canada Shares held: 1,000 <sup>(5)</sup> Date of Birth: July 1950	July 9, 2009	Director 12 of 13 Board 4 of 4 Corporate Governance 4 of 4 Keephills 3	Partner, Fraser Milner Casgrain LLP (law firm) since August 2000.
Philip Lachambre <sup>(3)(4)(7)</sup> Edmonton, Alberta, Canada Shares held: 1,028 <sup>(5)</sup> Date of Birth: December 1951	July 9, 2009	Director 12 of 13 Board 3 of 3 EH&S 6 of 6 Audit	President of PCML Consulting Inc. from February 2007; prior thereto, Executive Vice President & Chief Financial Officer, Syncrude Canada Inc. from January 1997.
Donald Lowry <sup>(4)</sup> Edmonton, Alberta, Canada Shares held: 2,000 <sup>(5)</sup> Date of Birth: September 1951	July 9, 2009	Director and Chairman 13 of 13 Board 4 of 4 Corporate Governance <sup>(10)</sup> 3 of 4 Keephills 3 <sup>(10)</sup> 3 of 6 Audit <sup>(10)</sup> 0 of 3 EH&S <sup>(10)</sup>	President and Chief Executive Officer, EPCOR Utilities Inc. from January 1998.
Brian MacNeill <sup>(4)(6)</sup> Calgary, Alberta, Canada Shares held: 5,000 <sup>(5)</sup> Date of Birth: July 1939	July 9, 2009	Lead Director 13 of 13 Board 4 of 4 Corporate Governance	Corporate Director for Oilsands Quest Inc. from September 2010; prior thereto Chairman of the Board, Petro Canada Inc. from June 2000 to August 2009.
Allister McPherson <sup>(3)(4)(8)</sup> Edmonton, Alberta, Canada Shares held: 5,000 <sup>(5)</sup> Date of Birth: September 1943	June 25, 2009	Director 13 of 13 Board 4 of 4 Keephills 3 6 of 6 Audit	Retired from November 2005; prior thereto, Executive Vice President, Canadian Western Bank from March, 1997.

Name, Province / State and Country of Residence	Director Since	Office Held, Board and Committee Meeting Attendance <sup>(1) (2) (9)</sup>	Principal Occupation During Past Five Years
Robert Phillips <sup>(4)(6)(8)</sup> Vancouver, British Columbia, Canada Shares held: 3,000 <sup>(5)</sup> Date of Birth: January 1951	June 25, 2009	Director 13 of 13 Board 4 of 4 Corporate Governance 4 of 4 Keephills 3	President, R.L. Phillips Investments Inc. from January 2001; prior thereto, President and Chief Executive Officer, BCR Group of Companies from March 2001 to July 2004.
Janice Rennie <sup>(3)(4)(6)</sup> Edmonton, Alberta, Canada Shares held: 1,000 <sup>(5)</sup> Date of Birth: June 1957	July 9, 2009	Director 12 of 13 Board 4 of 4 Corporate Governance 6 of 6 Audit	Professional Director from 2005; prior thereto, Senior Vice President, EPCOR Utilities Inc., September 2004 to September 2005.
Brian Vaasjo <sup>(12)</sup> Edmonton, Alberta, Canada Shares held: 20,000 <sup>(5)</sup> Date of Birth: August 1955	May 1, 2009	Director, President and Chief Executive Officer 13 of 13 Board	President and Chief Executive Officer, Capital Power Corporation from July 2009; prior thereto, Executive Vice President, EPCOR Utilities Inc. from April 2005; prior thereto, Executive Vice President and President, Energy Division, EPCOR Utilities Inc. from July 2001.

- (1) The Board of Directors does not have an executive committee
- (2) Directors will hold office for a term expiring at the conclusion of the next annual meeting of shareholders of Capital Power or until their successors are elected or appointed and will be eligible for re-election
- (3) Member of the Audit Committee
- (4) Independent Director under applicable Canadian securities law
- (5) Represents as of December 31, 2010 the number of Common Shares beneficially owned, or controlled or directed, directly or indirectly, by such persons
- (6) Member of the Corporate Governance, Compensation and Nominating Committee (Corporate Governance)
- (7) Member of the Environment, Health and Safety Committee (EH&S)
- (8) Member of the Keephills 3 Project Oversight Committee
- (9) Meeting attendance is determined from January 1, 2010 to December 31, 2010
- (10) As Chair, Mr. Lowry attends committee meetings in an ex-officio, non-voting capacity
- (11) Mr. Cruickshank is not considered to be independent as he is a partner of a law firm that provides legal advice and services to Capital Power
- (12) Mr. Vaasjo is not considered to be independent as he is the President and Chief Executive Officer of the Company

The Board has determined that all of the directors, except for Messrs Vaasjo and Cruickshank, are independent, as that term is defined in National Instrument 58-101 – Disclosure of Corporate Governance Practices (NI 58-101). Under NI 58-101, a director is independent if he or she would be independent within the meaning of independence under Section 1.4 of National Instrument 52-110 – Audit Committees (NI 52-110). Under NI 52-110, a director is independent if he or she has no direct or indirect material relationship with the Company. A material relationship is a relationship which could, in the view of the Board, be reasonably expected to interfere with the exercise of a director's independent judgment. The Board has determined that Messrs. Vaasjo and Cruickshank are not independent for the purpose of NI 58-101 on the basis that Mr. Vaasjo is the President and Chief Executive Officer of the Company and Mr. Cruickshank is a partner in a law firm that provides services to Capital Power. The Board has determined that each of the other directors is independent for the purpose of NI 58-101 on the basis that he or she does not have any relationship with the Company which could reasonably be expected to interfere with the exercise of his or her independent judgment.

### Executive Officers

Capital Power's officers are appointed by, and serve at the discretion of the Board. The following table sets forth the names, place of residence, and position with Capital Power of each person who is an executive officer of Capital Power as at December 31, 2010.

<b>Name, Province / State and Country of Residence</b>	<b>Officer Since</b>	<b>Office with the Company During the last 5 Years</b>
Brian Vaasjo Edmonton, Alberta, Canada Shares Held: 20,000 <sup>(1)</sup> Date of Birth: August 1955	May 1, 2009	President and Chief Executive Officer, Capital Power Corporation from July 2009; prior thereto, Executive Vice President, EPCOR Utilities Inc. from April 2005; prior thereto, Executive Vice President and President, Energy Division, EPCOR Utilities Inc. from July 2001.
Stuart Lee Sherwood Park, Alberta, Canada Shares Held: 7,597 <sup>(1)</sup> Date of Birth: June 1964	May 1, 2009	Senior Vice President and Chief Financial Officer of Capital Power Corporation and President of CPI Income Services Ltd. from July 2009 to present; prior thereto, Chief Financial Officer of EPCOR Power Services Ltd. (now CPI Income Services Ltd.) from September 2005 and Vice President and Controller of EPCOR Utilities Inc. from July 2003 to July 2009.
Kate Chisholm Edmonton, Alberta, Canada Shares Held: 2,532 <sup>(1)</sup> Date of Birth: May 1963	May 1, 2009	Senior Vice President, General Counsel and Corporate Secretary of Capital Power Corporation from July 2009 to present; prior thereto, Senior Vice President, General Counsel and Corporate Secretary of EPCOR Utilities Inc. from May 2005; prior thereto, Associate General Counsel of EPCOR Utilities Inc. from September 2004.
John Patterson Edmonton, Alberta, Canada Shares Held: 1,392 <sup>(1)</sup> Date of Birth: June 1946	June 4, 2009	Vice President and Treasurer, Capital Power Corporation from July 2009; prior thereto, Vice President and Treasurer, EPCOR Power Services Ltd., EPCOR Power L.P. and subsidiaries from April 2007 and Vice President and Treasurer, EPCOR Utilities Inc. and subsidiaries from November 2005; prior thereto, Assistant Treasurer, EPCOR Utilities Inc. and subsidiaries from January 2000.
Graham Brown <sup>(2)</sup> Edmonton, Alberta, Canada Shares Held: 3,510 <sup>(1)</sup> Date of Birth: January 1953	July 9, 2009	Senior Vice President, Operations, Capital Power Corporation from July 2009; prior thereto, Senior Vice President, EPCOR USA Inc. from May 2008; prior thereto, Vice President, Operations, EPCOR USA Inc. from January 2007; prior thereto, Director Eastern, EPCOR Regional from September 2005; prior thereto, Production Manager, Ontario Power Generation from 2003.
James Oosterbaan <sup>(3)</sup> Edmonton, Alberta, Canada Shares Held: 15,226 <sup>(1)</sup> Date of Birth: February 1960	July 9, 2009	Senior Vice President, Commercial Services, Capital Power Corporation from July 2009; prior thereto, Senior Vice President, EPCOR Merchant and Capital and EPCOR Alberta from April 2005; prior thereto Senior VP, Merchant Operations, EPCOR Merchant and Capital from April 2004.
Darcy John Trufyn <sup>(4)</sup> Edmonton, Alberta, Canada Shares Held: 466 <sup>(1)</sup> Date of Birth: July 1955	October 13, 2009	Senior Vice President, Construction, Engineering and Construction Management, Capital Power Corporation from October 2009; prior thereto, Senior Vice President, Construction, Worley Parsons Canada from June 2006; prior thereto, President and Chief Executive Officer, Lockerbie and Hole Inc. from May 2000.
Leah Fitzgerald Edmonton, Alberta, Canada Shares Held: 1,143 <sup>(1)</sup> Date of Birth: August 1967	August 11, 2009	Associate General Counsel and Assistant Corporate Secretary, Capital Power Corporation from November 2010; prior thereto Director, Ethics and Assistant Corporate Secretary, Capital Power Corporation, from July 2009; prior thereto, Chief Compliance Officer, EPCOR Utilities Inc. from October 2007; prior thereto, Associate, Field LLP (law firm) from July 2006; prior thereto, Associate, Brownlee LLP (law firm) from September 2002.

(1) Represents as of December 31, 2010 the number of Common Shares beneficially owned, or controlled or directed, directly or indirectly, by such persons



- (2) Mr. Brown retired effective January 4, 2011 from his position as Senior Vice President, Operations of the Company
- (3) Mr. Oosterbaan was appointed Senior Vice President, Operations & Commodity Portfolio Management of the Company effective January 4, 2011
- (4) Mr. Trufyn is an "executive officer" pursuant to NI 51-102, but is not an officer of Capital Power appointed by the Board of Directors. Mr. Trufyn has been employed by the Company since October 13, 2009.

As at December 31, 2010, the directors of the Company who are not also executive officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly, 28,104 Common Shares (\$23.65 per share as at the close of trading on December 31, 2010 for a value of \$664,660), which is less than 1% of the issued and outstanding Common Shares.

As at December 31, 2010, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 79,970 Common Shares (\$23.65 per share as at the close of trading on December 31, 2010 for a value of \$1,891,291), which is less than 1% of the issued and outstanding Common Shares of the Company. The information as to the beneficial ownership of the Common Shares, not being within the knowledge of the Company, has been confirmed by the directors and executive officers individually.

### **Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Except as noted below, and to the knowledge of the Company, no director, executive officer or controlling security holder of the Company is, or within the ten years prior to the date hereof, has been, a director or executive officer of any other issuer that, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or
- (b) was subject to an event that resulted, after the person ceased to be a director or executive officer, in the corporation being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days; or
- (c) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Albrecht Bellstedt was a trustee of Atlas Cold Storage Income Trust when the Ontario Securities Commission issued a cease trade order in December 2003 against Atlas Cold Storage Income Trust, its trustees, and officers and directors of its operating subsidiaries. The cease trade order was issued as a result of the requirement to file restated financial statements in respect of two preceding fiscal years. The order was vacated in the first quarter of 2004 when the restated financial statements were filed.

Albrecht Bellstedt ceased being a director of Sun Times Media Group, Inc. (formerly Hollinger International Inc.) in June of 2008, and Sun Time Media Group, Inc. went into Chapter 11 bankruptcy protection under the US Bankruptcy Code in 2009.

### **Conflicts of Interest**

Certain directors and officers of the Company are associated with other reporting issuers or other corporations which may give rise to conflicts of interest. In accordance with corporate laws, directors who are a party to, are a director or officer of a party to, or have a material interest in any person who is a party to a material contract or material transaction or a proposed material contract or material transaction with the Company are required, subject to certain exceptions, to disclose that interest and generally abstain from voting on any resolution to approve the contract or transaction. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Company.

Conflicts, if any, will be subject to the procedures and remedies available under the *Canadian Business Corporation Act* (CBCA). The CBCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the CBCA.

Donald Lowry is President and Chief Executive Officer of EPCOR Utilities Inc. Hugh Bolton is a director and Chairman of the Board of EPCOR Utilities Inc. Allister McPherson and Robert Phillips are also directors of EPCOR Utilities Inc. Given EPCOR's ownership interest in the Company, the possibility exists for conflicts of interest to arise between EPCOR and the Company (examples of when such conflict of interest could possibly arise include, but are not limited to, a sell down by EPCOR of its ownership interest in the Company or a reduction by the Company of its dividend).

## PROMOTER

EPCOR was considered a promoter of Capital Power within the meaning of Canadian provincial securities legislation by virtue of its initiative in founding the business of the Company. See "General Development of Business - Initial Public Offering and Reorganization".

As of December 31, 2010 EPCOR holds 47.416 million Exchangeable LP Units of CPLP, which represent 100% of the Exchangeable LP Units. EPCOR also holds 47.416 million Special Voting Shares and one Special Limited Voting Share of the Company. EPCOR also holds one Special Limited Voting Share of CPLPGP. EPCOR holds 100% of each of these classes of shares. The voting rights attached to the Special Voting Shares of the Company are limited to 49% of the votes attached to all outstanding Common Shares and Special Voting Shares taken together. The Special Limited Voting Shares of the Company and CPLPGP owned may only vote as a class in connection with certain amendments to the articles of the Company and CPLPGP. EPCOR also owns 51 Class A Shares of CPI Investments Inc. Additional details with respect to these classes of securities are described under "Capital Structure".

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management is not aware of any existing or contemplated legal proceedings material to the Company to which it is a party or to which its property is the subject except as described below.

### ***North Carolina PPA Arbitration***

CPLP filed for arbitration with the NCUC and is seeking long-term PPAs for its North Carolina facilities. The NCUC issued an Order on Arbitration on January 26, 2011, which provided direction on four fundamental issues. See "Business of Capital Power – Power Generation – Capital Power Income L.P. – North Carolina Facilities".

### ***Hitachi***

The Company has commenced legal proceedings against Hitachi Canada Ltd. and Hitachi, Ltd. (Japan) for recovery of damages caused by a blade failure in one of its Genesee 3 turbines on October 10, 2008, which caused the plant to be off-line for 39 days. The final quantum of damages sought in that law suit is still to be determined.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares is Computershare Trust Company of Canada at its principal offices in Calgary, Alberta and Toronto, Ontario.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer or principal holder of securities or any associate or affiliate of the foregoing has, or has had, since the date of incorporation, any material interest in any transaction, or in any proposed transactions that has materially affected or will materially affect the Company or been indebted to the Company, except for routine indebtedness, other than as set forth in the AIF. See "General Development of the Business - Initial Public Offering and Reorganization" and "Material Contracts".

EPCOR, through EPDC, is the largest voting shareholder of the Company and, pursuant to its right to elect up to four directors of the Company under its Special Voting Shares; four of the twelve directors of the Company are directors or officers of EPCOR.

EPCOR has advised the Company that it intends to act only as an investor in and not as a manager of the Company, and that EPCOR intends to direct or exercise the voting rights attached to the Special Voting Shares and Special Limited Voting Share, as such. EPCOR has further advised the Company that it intends to eventually sell all or a substantial number of the Common Shares underlying its Exchangeable LP Units, subject to market conditions, its requirements for capital and other circumstances that may arise in the future.

EPCOR holds the one issued and outstanding Special Limited Voting Share. The Special Limited Voting Share confers on the holder the right to vote separately as a class in connection with certain amendments to the articles of the Company, including an amendment to change or permit the change of the location of the head office of the Company from the City of Edmonton, Alberta. EPCOR has undertaken to its sole shareholder, the City of Edmonton, that it will not dispose of or otherwise relinquish any rights it has under the Special Limited Voting Share without the consent of the City of Edmonton.

## MATERIAL CONTRACTS

The following are the only material contracts, other than those contracts entered into in the ordinary course of business, which Capital Power has entered into since its incorporation on May 1, 2009 and within the most recently completed financial year.

- Amended and Restated Limited Partnership Agreement of CPLP among Capital Power, 7181035 Canada Inc. and each person who is admitted to the partnership as a limited partner; dated May 29, 2009 as amended and restated as of July 9, 2009 (Limited Partnership Agreement)
- Master Separation Agreement between EPCOR and Capital Power dated June 25, 2009 (Master Separation Agreement)
- Share Transfer Agreement between Capital Power and EPCOR dated June 30, 2009 (Share Transfer Agreement)
- Asset Transfer Agreement between EPDC, CPLP and Capital Power dated June 30, 2009 (Asset Transfer Agreement)
- Cooperation Agreement between EPCOR and Capital Power dated July 9, 2009 (Cooperation Agreement)
- Registration Rights Agreement between EPCOR and Capital Power dated July 9, 2009 (Registration Rights Agreement)
- Exchange Agreement among Capital Power, CPLP, Capital Power GP Holdings Inc., EPDC and each person who, from time to time, is a holder of Exchangeable LP Units dated July 9, 2009 (Exchange Agreement)
- CPI Investments Inc. Shareholders Agreement between EPCOR and CPLP dated July 9, 2009 (CPI Investments Inc. Shareholders Agreement)
- Social Objectives Agreement among EPCOR, 7166575 Canada Inc. and The City of Edmonton dated May 5, 2009 (Social Objectives Agreement)
- Back-to-Back Credit Agreement between CPLP and EPCOR dated July 9, 2009 (Back-to-Back Credit Agreement)
- Underwriting Agreement among Capital Power, EPCOR and the Underwriters dated June 25, 2009 in respect of the IPO. See "General Development of the Business - Initial Public Offering and Reorganization"

The following section provides a summary of the principal agreements between EPCOR and Capital Power and / or CPLP. Copies of the above material agreements may be viewed on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Limited Partnership Agreement**

#### ***General Partner of CPLP***

The general partner of CPLP is CPLPGP, a wholly-owned subsidiary of the Company. In its capacity as general partner of CPLP, CPLPGP is authorized and obliged to manage, control, administer and operate the business and affairs of CPLP, to make all decisions regarding the business of CPLP and to bind CPLP in respect of any such decisions, subject to certain limitations contained in the Limited Partnership Agreement. CPLPGP is required to exercise its powers and discharge its duties honestly, in good faith with a view to the best interests of CPLP and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

#### ***Restrictions on the Authority of CPLPGP***

The authority of CPLPGP, as general partner, is limited in certain respects under the Limited Partnership Agreement. CPLPGP is precluded from, without the prior approval of the holders of Common LP Units and Exchangeable LP Units, voting together, given by special resolution: (i) issuing or accepting, recognizing or registering the transfer of any limited partnership units of CPLP, unless such issuance or transfer has been effected in compliance with the Limited Partnership Agreement; and (ii) waiving any default on the part of a general partner or releasing a general partner from any claims in respect thereof. For these purposes, limited partnership units held by the Company, CPLPGP or their subsidiaries will not be entitled to vote.

### **Partnership Units**

Under the limited partnership agreement governing CPLP, CPLP may issue various classes of partnership interests, designated as GP Units, Common LP Units and Exchangeable LP Units, for such consideration and on such terms and conditions as may be determined by the general partner of CPLP, subject to the provisions of the Limited Partnership Agreement.

The GP Units, Common LP Units and Exchangeable LP Units are entitled to participate in distributions of CPLP on an equal per-unit basis. Certain fundamental matters must be approved by special resolution of the holders of Common LP Units and Exchangeable LP Units, voting together as a class, including: (i) a consolidation, subdivision or reclassification of limited partnership units; and (ii) a waiver of a default by the general partner or release of the general partner from any claims in respect thereof. Other matters must be approved by special resolution of the holders of Common LP Units, including: (i) removal of the general partner; (ii) dissolution, termination, wind up or other discontinuance of CPLP; (iii) sale, exchange or other disposition of all or substantially all of the business or assets of CPLP; (iv) amendments to the Limited Partnership Agreement; and (v) merger or consolidation involving CPLP. However, amendments to the rights, privileges, restrictions and conditions of a class of limited partnership units must be approved by special resolution of the holders of that class of limited partnership units, voting separately as a class.

As contemplated in the Exchange Agreement, Exchangeable LP Units are exchangeable for Common Shares of the Company at the option of the holder on a one-for-one basis (subject to customary anti-dilution protections) at any time, subject to the limitation that the maximum number of Common Shares for which Exchangeable LP Units may be exchanged at any time is the largest whole number of Common Shares that, when added to the aggregate number of Common Shares outstanding at that time owned or whose voting rights are controlled by persons who own Exchangeable LP Units or persons who, for purposes of the Tax Act do not deal at arm's length with an owner of Exchangeable LP Units, does not exceed 49% of the aggregate number of Common Shares that would be outstanding immediately following such exchange. Following any such exchange, each Exchangeable LP Unit acquired by the Company will automatically be converted into a Common LP Unit. Each of the Exchangeable LP Units is accompanied by a Special Voting Share. See "Capital Structure - Capital Power Corporation - Special Voting Shares".

### **Distributions**

It is anticipated that CPLP will make cash distributions, as determined by CPLPGP, to its partners on a quarterly basis, and in any event on or before the scheduled date for payment by the Company of dividends to holders of Common Shares. Distributions are not, however, guaranteed and will be at the discretion of CPLPGP. See "Common Dividend" in this AIF and "Business Risks - Dependence on CPLP, Operating Subsidiaries and CPILP Risk" in the MD&A.

### **Allocation of Net Income and Losses**

The income for tax purposes of CPLP for a particular fiscal year will be allocated to each partner by multiplying the total income for tax purposes of CPLP allocated to all partners by a fraction, the numerator of which is the aggregate of the distributions paid or payable or allocated to that partner with respect to that fiscal year and the denominator of which is the aggregate of the amount or value of the distributions paid or payable or allocated to all partners by CPLP with respect to that fiscal year. The amount of income for tax purposes allocated to a partner may be more or less than the amount of cash distributed by CPLP to that partner.

Income and loss of CPLP for accounting purposes is allocated to each partner in the same proportion as income or loss is allocated for tax purposes.

If, with respect to a given fiscal year, no distribution is paid or payable or allocated to the partners, or CPLP has a loss for tax purposes, one-twelfth of the income or loss, as the case may be, for tax purposes of CPLP for that fiscal year will be allocated to the partners at the end of each month ending in that fiscal year in the proportion that the number of limited partnership units and / or GP Units held at each of those dates by that partner bears to the total number of limited partnership units and GP Units issued and outstanding at each of those dates.

### **Limited Liability**

CPLP will operate in a manner so as to ensure, to the greatest extent practicable, the limited liability of the limited partners. Limited partners may lose their limited liability in certain circumstances. If limited liability of the limited partners is lost due to the negligence of CPLPGP, CPLPGP will indemnify the limited partners against all costs and damages suffered or incurred by the limited partners to the extent that their liability is not limited as intended by the Limited Partnership Agreement.

### **Transfer of Partnership Units**

No limited partner may transfer any of the limited partnership units owned by it except to persons and in the manner expressly permitted in the Limited Partnership Agreement, limited partnership units may not be transferred to a person who is a "non-resident" of Canada or is not a "Canadian partnership" for purposes of the Tax Act and the regulations thereunder (the Regulations). No holder of Exchangeable LP Units is permitted to transfer such Exchangeable LP Units other than as provided in the Limited Partnership Agreement and the Exchange Agreement or in exchange for Common Shares in accordance with the terms of the Exchange Agreement, unless either: (i) such transfer would not require that the transferee make an offer to holders of Common Shares to acquire Common Shares on the same terms and conditions under applicable securities laws, if such Exchangeable LP Units were converted into Common Shares at the then applicable exchange ratio; or (ii) if such transfer would require that the transferee make such an offer to holders of Common Shares to acquire Common Shares on the same terms and conditions under applicable securities laws, the transferee acquiring such Exchangeable LP Units makes a contemporaneous identical offer for Common Shares (in terms of price, timing, proportion of securities sought to be acquired and conditions and at the then applicable exchange ratio in effect under the Exchange Agreement) and does not acquire such Exchangeable LP Units unless the transferee also acquires a proportionate number of Common Shares actually tendered to such identical offer.

### **Master Separation Agreement**

The Master Separation Agreement contains the key provisions related to the separation of the business of Capital Power Corporation from EPCOR and the transfer of the power generation business from EPCOR to Capital Power Corporation pursuant to the Reorganization. All of Capital Power Corporation's and EPCOR's covenants and agreements in the Master Separation Agreement will survive indefinitely, subject to applicable laws. Certain of the principal provisions of the Master Separation Agreement relate to:

- The ownership and transfer of assets, including the separation of Capital Power Corporation's assets and assumption of liabilities from EPCOR through transfer agreements that Capital Power Corporation and / or CPLP have entered into with EPCOR. The assets constituting the business of Capital Power were transferred to Capital Power Corporation and CPLP on an "as is", "where is" basis without any representations or warranties, express or implied, as to its condition, quality, merchantability or fitness and Capital Power Corporation and / or CPLP, as applicable, bear the economic and legal risks if any conveyance proves to be insufficient to vest good and marketable title in such transferee;
- Capital Power indemnifying EPCOR, each of EPCOR's controlled subsidiaries, and each of their respective directors, officers, employees, consultants, advisers and agents from all losses they may suffer relating to, arising out of, or in respect of certain circumstances or events, whether such losses arise or accrue prior to, on or following the closing of the Reorganization, including Capital Power's business or future business or any liabilities arising out of or related to such business or Capital Power's assets;
- EPCOR indemnifying Capital Power, each of Capital Power's controlled subsidiaries, and each of their respective directors, officers, employees, consultants, advisers and agents from all losses they may suffer relating to, arising out of, or in respect of certain circumstances or events, whether such losses arise or accrue prior to, on or following the closing of the Reorganization, including EPCOR's business or future business or any liabilities arising out of or related to such business or EPCOR's assets (excluding any liability arising out of the business of Capital Power); and
- Non-competition and non-solicitation of employees such that Capital Power will not, for a period of three years from the date of that agreement, directly or indirectly, engage in any business competitive with EPCOR's business, as conducted upon closing of the Reorganization, and EPCOR will not, for a period of three years from the date of that agreement, directly or indirectly, engage in any business competitive with Capital Power's business, as conducted at the time of closing of the Reorganization.

### **Share Transfer Agreement**

The Share Purchase Agreement provided for the purchase by Capital Power from EPCOR of all of the issued and outstanding shares of CPLPGP. The purchase price for the shares of CPLPGP was approximately \$468 million, payable in cash.

### **Asset Transfer Agreement**

The Asset Transfer Agreement provided for the contribution by EPDC to CPLP of substantially all of the assets of EPDC.

The purchase price for the assets contributed to CPLP was approximately \$2,254 million, approximately \$468 million in cash, the issuance of 56.625 million Exchangeable LP Units, representing an approximate 72.2% equity interest in CPLP (together

with the issuance by Capital Power Corporation of 56.625 million accompanying Special Voting Shares) and \$896 million by a loan from EPCOR under the Back-to-Back Credit Agreement described below.

### **Cooperation Agreement**

The Cooperation Agreement provides for, among other things, certain governance, tax and financial reporting matters by Capital Power to EPCOR. The Cooperation Agreement deals with (among other things):

- Certain governance matters including:
  - setting the size of the Board of Directors at: (i) a minimum of nine directors so long as EPCOR has the right to nominate and elect four directors pursuant to the rights attached to the Special Voting Shares and five directors so long as EPCOR has the right to nominate and elect two directors pursuant to the rights attached to the Special Voting Shares and (ii) a maximum of 12 directors;
  - requiring committees of the Board of Directors, including an audit committee; corporate governance, compensation and nominating committee; and environmental, health and safety committee;
  - establishing quorum for meetings of the Board of Directors: (i) as a majority of the number of directors, subject to the Canadian residency requirements of the *Canada Business Corporations Act*; (ii) so long as EPCOR's interest in the outstanding Common Shares is not less than 10% (after giving effect to the exchange of the Exchangeable LP Units held by EPCOR), that a majority of the directors in attendance shall be directors not elected by EPCOR; and (iii) so long as EPCOR's interest in the outstanding Common Shares is not less than 20% (after giving effect to exchange of the Exchangeable LP Units held by EPCOR), at least one of the directors is elected by EPCOR; and
  - providing that within 30 days of receipt of a written request by any two directors of the Board of Directors, a meeting of holders of Common Shares is to be called by the Corporation.
- Certain tax-related matters including restrictions with respect to amending / changing tax returns for periods prior to the completion of the IPO and requirements to provide notice of audit adjustments; and
- Financial reporting matters including providing EPCOR with financial and other information and data with respect to Capital Power in sufficient time to allow EPCOR to meet its financial and legal obligations.

The Cooperation Agreement does not limit the ability of EPCOR to exercise its rights attached to the Special Voting Shares, Special Limited Voting Share and Special Limited GP Voting Share. The Corporation has agreed to not, directly or indirectly, undertake any acquisition or investing activity that would be material to the Corporation, on a consolidated basis, except in or through CPLP, CPI Investments Inc. or their respective subsidiaries. Unless terminated earlier by written agreement of the parties, the Cooperation Agreement will terminate when EPCOR owns less than 10% of the outstanding Common Shares, after giving effect to the exchange of the Exchangeable LP Units to be held by EPCOR.

### **Registration Rights Agreement**

The Registration Rights Agreement provides EPCOR with the right to require Capital Power to qualify Common Shares held by EPCOR, including Common Shares issuable upon the exchange of Exchangeable LP Units, for distribution: (i) by prospectus filed with the applicable Canadian securities regulatory authorities; and / or (ii) by registration statements filed with the United States Securities and Exchange Commission. In addition, the Registration Rights Agreement provides:

- EPCOR with the right to require Capital Power to include Common Shares held by EPCOR, including Common Shares issuable upon exchange of Exchangeable LP Units, in future offerings undertaken by Capital Power by way of prospectuses that it may file with applicable Canadian securities regulatory authorities or registration statements that Capital Power may file with the United States Securities and Exchange Commission. These rights are subject to various conditions and limitations;
- Capital Power is obliged to indemnify EPCOR for any misrepresentation in a prospectus under which EPCOR's Common Shares were sold (other than in respect of any information provided by EPCOR for inclusion in the prospectus); and
- EPCOR's right to require Capital Power to qualify Common Shares held by EPCOR, including Common Shares issuable upon the exchange of Exchangeable LP Units, for distribution as described above, is, under the terms of the Registration Rights Agreement, subject to a number of limitations, including, but not limited to, the right of Capital Power to postpone any such distribution if the Board acting in good faith determines that any such distribution should not be made at the particular time, or continued, because such distribution would materially adversely affect any proposed financing, acquisition, corporate reorganization, amalgamation, merger or other transaction involving Capital Power or any of its subsidiaries that is material to Capital Power and its subsidiaries taken as a whole. Capital

Power may postpone any such distribution until the earlier of (i) 5 days after the business reason for the decision by the Board ceases to exist, or (ii) 90 days after the Board makes such good faith determination.

The Registration Rights Agreement (other than the indemnity provisions) will terminate upon the earlier of: (i) the date that EPCOR owns less than 10% of the outstanding Common Shares, after giving effect to the exchange of the Exchangeable LP Units; and (ii) July 1, 2024.

### **Exchange Agreement**

Under the Exchange Agreement, Capital Power has granted the holders of Exchangeable LP Units the right to require Capital Power to exchange Exchangeable LP Units for Common Shares on a one-for-one basis at any time, subject to customary anti-dilution protections and adjustment provisions, and to a limitation on the maximum number of Common Shares for which Exchangeable LP Units may be exchanged at any time. See “Material Contracts - Limited Partnership Agreement”. Capital Power agreed to not issue or distribute rights, options or warrants to the holders of all or substantially all of the then outstanding Common Shares entitling them to subscribe for or purchase Common Shares, evidences of indebtedness or assets of Capital Power, unless the equivalent of such Common Shares, rights, options, warrants, securities, evidences of indebtedness or other assets are simultaneously issued or distributed to holders of Exchangeable LP Units. Capital Power agreed to not issue any additional Special Voting Shares following completion of the Reorganization without the prior written consent of holders of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding Exchangeable LP Units.

The exchange rights under the Exchange Agreement may be assigned by the holders of Exchangeable LP Units, in whole or in part, in connection with a transfer of Exchangeable LP Units; provided, however, that each holder of Exchangeable LP Units will agree that it will not transfer Special Voting Shares separately from the Exchangeable LP Units to which they relate, except to an affiliate in accordance with the terms and conditions of the Exchange Agreement.

### **CPI Investments Inc. Shareholder Agreement**

CPLP and EPCOR hold 49 Class B Shares and 51 Class A Shares in the capital of CPI Investments Inc., respectively. Pursuant to the CPI Investments Inc. Shareholder Agreement, CPLP and EPCOR agreed that: (i) the board of directors of CPI Investments Inc. shall consist of three directors; and (ii) EPCOR is entitled to nominate one person for election to the board of directors of CPI Investments Inc. See “Capital Structure - CPI Investments Inc.”

### **Social Objectives Agreement**

Pursuant to the Social Objectives Agreement, the Corporation agreed to maintain its head office (as defined in the agreement) in the City of Edmonton in the Province of Alberta and in addition, the Corporation must maintain at least 350 employees based in the City of Edmonton for a period of 25 years following completion of the IPO. See “Capital Structure - Capital Power Corporation - Special Limited Voting Share”.

### **Back-to-Back Credit Agreement**

In connection with the Reorganization, CPLP issued \$896 million of long-term indebtedness to EPCOR pursuant to the Back-to-Back Credit Agreement. The indebtedness of CPLP to EPCOR mirrors existing indebtedness of EPCOR under debt issued by EPCOR to the public, which is to be repaid on the originally-scheduled maturity dates of such mirrored debt ranging from 2010 to 2018, and bears interest at rates corresponding to the interest rates of each component of the mirrored debt ranging from 5.80% to 6.95%. The indebtedness of CPLP to EPCOR also includes an amount sufficient to meet existing obligations of EPCOR related to indebtedness of the City of Edmonton assumed by EPCOR, which will be repaid in accordance with an amortization schedule.

On or after December 2, 2012, if EPCOR no longer owns, directly or indirectly, at least 20% of the outstanding limited partnership units in CPLP, then EPCOR may require repayment of all or any portion of the outstanding principal amount under the credit agreement and accrued interest. If the principal amount required to be repaid is less than \$200,000,000, then such principal amount and accrued interest shall be payable 180 days after EPCOR gives notice requiring repayment, and, if the principal amount required to be paid is \$200,000,000 or more, then such principal amount and accrued interest shall be payable 365 days after EPCOR gives notice requiring repayment. The long-term debt payable to EPCOR requires CPLP to meet certain financial covenants and contemplates certain events of default including the acquisition of more than 50% of the voting equity of CPLP or of CPLPGP.

## **INTERESTS OF EXPERTS**

The Company's Auditors are KPMG LLP, Chartered Accountants, 10125 – 102 Street, Edmonton, Alberta T5J 3V8. KPMG LLP has confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

## AUDIT COMMITTEE

### **Audit Committee Mandate**

The responsibilities and duties of the Audit Committee (AC) are set out in the Committee's Terms of Reference, provided in Appendix A to this document.

### **Composition of the Audit Committee**

The Audit Committee is currently composed of William Bennett (Chair), Philip Lachambre, Allister McPherson and Janice Rennie. As Chair of the Board, Donald Lowry also attends Audit Committee meetings in an ex-officio, non-voting capacity. The Board has determined that all members of the AC are "independent" and "financially literate" as such terms are defined under applicable Canadian securities law and mandated under the Board terms of reference. See "Directors and Officers". The Board based the determination regarding financial literacy on the education and breadth and depth of experience of each Audit Committee member, as summarized in the following table:

<b>AC Member</b>	<b>Relevant Education and Experience</b>
William Bennett	<p>Mr. Bennett is Chair of the AC. Mr. Bennett is presently semi-retired and has held numerous positions as a corporate director. He is currently a director of TD Bank Financial Group and of TD Bank US Holding Co. Mr. Bennett is the former president and chief executive officer of Draper &amp; Kramer, Inc., a Chicago-based financial services and real estate company. Previously, he served as executive vice president and chief credit officer of First Chicago Corp. and its principal subsidiary, the First National Bank of Chicago. He has been a private investor since 1998.</p> <p>Mr. Bennett holds an undergraduate degree in economics from Kenyon College and a Master of Business Administration from the University of Chicago. He was a former director of Nuveen Investments Bond and Mutual Funds and currently serves on several non-profit boards in the US, including Kenyon College, DePaul University, YMCA of Metropolitan Chicago, Lincoln Park Zoo, Sprague Memorial Institute and The Lincoln Academy of Illinois.</p>
Philip Lachambre	<p>Mr. Lachambre is currently President of PCML Consulting Inc., a position he has held since February, 2007. Mr. Lachambre has held many positions in the oil and gas, mining and construction sectors during his thirty-nine year career, thirty-one of which were at Syncrude Canada Inc. where he was appointed to the position of Executive Vice President and Chief Financial Officer in 1997, which he held until his retirement in 2007. His areas of responsibility have included corporate strategy and business planning, controllers, treasury and pension, legal and regulatory affairs, corporate environment, health and safety, mine closure and reclamation, business development, government and public affairs, investor and stakeholder relations, human resources, procurement and contracts, information services and technology, aboriginal affairs, corporate aviation and housing construction, property management and maintenance.</p> <p>Mr. Lachambre holds a Bachelor of Commerce degree from the University of Alberta, is a Certified Professional Purchaser, and is a graduate of the Executive Management Program of the University of Western Ontario. Mr. Lachambre is also active in a number of local community organizations and boards, including the boards of Flint Energy Services Ltd., GLM Industries LP and the University Hospital Foundation.</p>
Allister McPherson	<p>Mr. McPherson served as Executive Vice President of Canadian Western Bank from March, 1997 until his retirement in November, 2005 and was deputy provincial treasurer (Finance and Revenue) for the Province of Alberta from 1984 to 1996. He holds a Master of Science degree from the University of British Columbia.</p> <p>Mr. McPherson is currently an external member of the University of Alberta's Investment Committee, a director of The Churchill Corporation, a director of EPCOR Utilities Inc. and a member of the Edmonton Regional Advisory Board of the Alberta Motor Association. He is a past chair of the board of the Alberta Credit Union Deposit Guarantee Corporation, a past director and vice chair of the Edmonton Regional Airports Authority, a past governor of Northern Alberta Institute of Technology, and a past chair of the Endowment Fund Policy Committee of Alberta Finance.</p>
Janice Rennie	<p>Ms. Rennie is an independent director and business advisor. She has held senior management positions with a number of companies including, most recently, as Senior Vice President of Human Resources and Organizational Effectiveness at EPCOR Utilities Inc. from 2004 to 2005. Ms. Rennie was also Principal of Rennie &amp; Associates, which operated a</p>



AC Member	Relevant Education and Experience
	<p>number of business interests and she has served as President of Research Technology Management Inc. and of Bellanca Developments Ltd., and as Senior Vice President of Princeton Developments Ltd., all private companies. She has served as Corporate Director for various for-profit and not-for-profit organizations. She currently serves on the boards of Greystone Capital Management Inc. (private), Methanex Corporation, West Fraser Timber Co. Ltd., Teck Resources Limited and Major Drilling International Inc. In addition, Ms. Rennie has served on the boards of the Alberta Stock Exchange, Canadian Hotel Income Properties REIT, EPCOR, EPCOR Preferred Equity Inc., NOVA Chemicals Inc., Research Technology Management Inc., bclMC Hotel Group, Weldwood of Canada Limited and Matrikon Inc.</p> <p>Ms. Rennie attended the University of Alberta where she received her Bachelor of Commerce (with distinction), Chartered Accountant designation and thereafter was made a fellow of the Alberta Institute of Chartered Accountants.</p>

### **Reliance on Exemptions**

The Company relied upon the exemption in Section 3.2(2) of NI 52-110 for the period between the filing of its prospectus and the completion of its IPO ending July 9, 2009. Otherwise, at no time since the commencement of Capital Power's most recently completed financial period has Capital Power relied on the exemptions in Section 2.4 of NI 52-110 (*De Minimis Non-audit Services*), Section 3.4 of NI 52-110 (*Events outside Control of Members*), Section 3.5 of NI 52-110 (*Death, Disability or Resignation of Audit Committee Member*), Subsection 3.3(2) of NI 52-110 (*Controlled Companies*), Section 3.6 of NI 52-110 (*Temporary Exemption for Limited and Exceptional Circumstances*), Section 3.8 of NI 52-110 (*Acquisition of Financial Literacy*) or an exemption from NI 52-110, in whole or in part, granted under Part 8 of NI 52-110 (*Exemptions*).

### **Polices and Procedures for the Engagement of Audit and Non-audit Services**

Under its Terms of Reference, the Audit Committee is required to pre-approve all non-auditing services to be performed by the external auditors in relation to the Company and its subsidiaries. Annually, the external auditors will submit their work plan to the Audit Committee, including the nature and scope of any audit-related advisory services (as requested by management) planned for the upcoming year. That plan is reviewed and pre-approved by the Audit Committee. Once pre-approved, management has the authority to schedule such services. Any unplanned audit-related advisory services or other advisory services are presented for pre-approval at the regularly scheduled meetings of the Audit Committee. If, due to timing issues, the pre-approval of non-audit services must be expedited and it is not practical to wait until the next scheduled Audit Committee meeting, the Chair of the Audit Committee has the delegated authority, on behalf of the Audit Committee, to pre-approve non-audit services. Any such decisions will be reported to the Committee at its next meeting. In 2010, one pre-approval of non-audit services for an amount up to \$25,000 by the Chair was ratified at the Audit Committee that occurred after the pre-approval.

### **Auditor's Fees**

KPMG LLP has served as the Company's auditors since its incorporation. Fees accrued by KPMG LLP to the Company for the year ended December 31, 2010 in respect of the Company and the Company's subsidiaries were approximately \$1.9 million as detailed below. Fees do not include KPMG LLP for fees related to CPILP.

	Twelve Months Ended December 31, 2010	Six Months Ended December 31, 2009
	(\$ Millions)	(\$ Millions) <sup>(1)</sup>
Audit Fees	1.6	1.4
Audit Related Fees	0.1	-
Tax fees	-	-
All Other fees	0.2	-
<b>Total</b>	1.9	1.4

(1) 2009 figures have been restated to reflect fees on an accrual basis. Previously they were disclosed on a cash basis.

**Audit fees** – Audit fees billed are for professional services rendered for the audit and review of the financial statements of the Company or services provided in connection with statutory and regulatory filings, providing comfort letters associated with securities documents and the IPO.

**Audit-related fees** – Audit-related fees are for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported under audit fees listed above.

*Tax fees* – Tax fees are tax-related services for review of tax returns, assistance with questions on tax audits, and tax planning.

*All other fees* – All other fees are fees for services other than audit fees, audit-related fees and tax fees, including advisory services related to implementation of International Financial Reporting Standards and potential financing activities.

### **Other Committees**

Apart from the Audit Committee, the Board of Directors has established: (i) the Corporate Governance, Compensation and Nominating Committee to oversee matters relating to corporate governance, compensation and nomination; (ii) the Environmental, Health and Safety Committee to oversee matters relating to the impact of the Company's operations on the environment and on workplace health and safety; and (iii) the Keephills 3 Project Oversight Committee to oversee the construction of Keephills 3. Mr. Lowry, the Chair of the Board, is a non-voting ex-officio member of all committees. The members of these committees as at December 31, 2010 were as follows:

#### Corporate Governance, Compensation and Nominating Committee

Mr. Albrecht Bellstedt, Chair  
Mr. Richard Cruickshank  
Mr. Brian MacNeill  
Mr. Robert Phillips  
Ms. Janice Rennie  
Mr. Don Lowry (ex-officio)

#### Environment, Health and Safety Committee

Mr. Brian Bentz, Chair  
Mr. Albrecht Bellstedt  
Mr. William Bennett  
Mr. Philip Lachambre  
Mr. Don Lowry (ex-officio)

#### Keephills 3 Project Oversight Committee

Mr. Robert Phillips, Chair  
Mr. Brian Bentz  
Mr. Richard Cruickshank  
Mr. Allister McPherson  
Mr. Don Lowry (ex-officio)

## **ADDITIONAL INFORMATION**

Additional information relating to the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.capitalpower.com](http://www.capitalpower.com)

Additional financial information is provided in the Company's annual audited consolidated financial statements and MD&A for the period ended December 31, 2010.

The "Business Risks" section of the Company's MD&A dated March 8, 2011 for the period ended December 31, 2010 and filed on SEDAR is incorporated herein by reference.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensations plans, if applicable, is contained in the Company's information circular for its most recent annual meeting of securityholders that involved the election of directors.

*Remainder of page intentionally left blank*

## APPENDIX A — AUDIT COMMITTEE TERMS OF REFERENCE

### A. OVERVIEW AND PURPOSE

1. The Audit Committee (the “Committee”), except to the extent otherwise provided by law, is responsible to the Board of Directors (the “Board”) of Capital Power Corporation (the “Corporation”). The Committee provides assistance to the Board in fulfilling its oversight responsibility to shareholders of the Corporation, the investment community and others in relation to the integrity of the Corporation’s financial statements, financial reporting processes, systems of internal accounting and financial controls, the risk identification assessment conducted by Management and the programs established by Management and the Board in response to such assessment, the internal audit function and the external auditors’ qualifications, independence, performance and reports to the Corporation. In addition, the Committee monitors, evaluates, advises or makes recommendations, in accordance with these terms of reference and any other directions of the Board, on matters affecting the financial and operational control policies and practices relating to the Corporation, including the external, internal or special audits thereof.
2. Management is responsible for preparing the interim and annual financial statements of the Corporation and for maintaining a system of risk assessment and internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The Committee is responsible for reviewing management’s actions and has the authority to investigate any activity of the Corporation. The primary responsibilities of the Committee include:
  - a) assessing the processes related to identification of the risks and effectiveness of the Corporation’s control environment, as they relate to the production of financial statements and other publicly disclosed financial information;
  - b) overseeing and monitoring the Corporation’s financial reporting;
  - c) evaluating the Corporation’s internal control systems for financial reporting;
  - d) overseeing the audit of the Corporation’s financial statements;
  - e) overseeing and monitoring the qualifications, independence and performance of the Corporation’s external auditors;
  - f) maintaining direct lines of communication between the Corporation’s external auditors, its internal auditing department, management and the Board;
  - g) evaluating the internal and external, and any special, audit processes; and
  - h) monitoring and evaluating the Corporation’s financial risks.
3. The Committee will have unrestricted access to the Corporation’s personnel and documents, including its internal auditors, and will be provided with the resources required to carry out its responsibilities. The Committee is authorized to retain, at the expense of the Corporation, independent outside advisors and consultants as it sees fit to assist it in carrying out its duties and responsibilities.
4. The Committee will be the direct report for the external auditors, will evaluate their performance and will recommend their compensation to the Board.

### B. STRUCTURE AND MEMBERSHIP

1. The Committee will be composed of such number of directors as may be specified by the Board from time to time, which number will be not less than three.
2. At the first meeting of the Board following the Corporation’s annual general meeting, Committee Members (“Committee Members”) and the Committee Chair will be appointed by the Board on the

recommendation of the Corporate Governance, Compensation and Nominating Committee (the “CGCN Committee”).

3. All Committee Members will be independent and unrelated, as set forth in all applicable securities laws and regulations or the rules or guidelines of any stock exchange on which the securities of the Corporation are listed for trading (including, without limitation, National Instrument 52-110 Audit Committees or “NI 52-110”, as implemented by the Canadian Securities Administrators and as amended or replaced from time to time), and have no relationship with the Corporation that may materially interfere with the ability of each Committee member to act with a view to the best interests of the Corporation.
4. All Committee Members will be financially literate (as such term is defined in NI 52-110). At least one member of the Committee will have a professional accounting designation or equivalent financial expertise as determined by the Board.

### **C. DUTIES AND RESPONSIBILITIES**

The Committee will:

1. Review the Corporation’s annual audited financial statements including the notes thereto, management’s discussion and analysis, earnings press releases and annual information forms before such documents are submitted to the Board for approval, including any report or opinion to be rendered in connection therewith, and make recommendations as to their approval by the Board.
2. Review, and make recommendations for subsequent approval by the Board, the Corporation’s quarterly financial statements including the notes thereto, management’s discussion and analysis and earnings press releases of the Corporation.
3. Review with management, the external auditors and, if necessary, internal and external legal counsel, any material litigation, claim, compliance issue, or regulatory or other contingency that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these will be, or have been, disclosed in the Corporation’s financial statements.
4. Review on a quarterly basis with the CFO and General Counsel, and if necessary, external legal counsel, the status of all material litigation, claims, compliance programs, or regulatory or other contingencies faced by the Corporation.
5. Review, or establish procedures for the review of, all public disclosure documents containing audited, unaudited or forward-looking financial information before release by the Corporation, including any prospectus, management information circulars, offering memoranda, annual reports, management certifications, management’s discussion and analysis, annual information forms and press releases.
6. As required, review management’s plans and strategies around investment practices, banking performance and treasury risk management.
7. Assess management’s procedures to ensure compliance by the Corporation with its loan and indenture covenants and restrictions, if any.
8. Monitor the appropriateness of the accounting policies and practices and financial reporting used by the Corporation, review any actual and prospective significant changes to such accounting policies and practices financial reporting to be adopted by the Corporation and review and assess any new or proposed developments in accounting and reporting standards that may affect or have an impact on the Corporation.
9. Review and recommend the nomination of the external auditors to the Board for appointment by the shareholders at the Corporation’s annual general meeting. In connection therewith, the Committee will review the experience and qualifications of the external auditors’ senior personnel who are providing audit services to the Corporation and the quality control procedures of the external auditors.

10. Review and discuss with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to determine the independence of the Corporation's external auditors, including, without limitation (i) requesting, receiving and reviewing, at least annually, a formal written report from the external auditors delineating all relationships that may reasonably bear on the independence of the external auditors with respect to the Corporation; and (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors. Following receipt and review of the external auditors' report and discussion with the external auditors, recommending that the Board, in response to the relationships or services disclosed in the report, take appropriate action to satisfy itself of the external auditors' independence.
11. Discussing with the Board whether, due to the passage of time or for other reasons, it would be appropriate to change the Corporation's external auditors or the audit engagement partner and, after consultation with appropriate management, recommending either that the external auditors be changed or retained for each future fiscal year.
12. Review and recommend to the Board for approval the compensation paid to the external auditors on an annual basis.
13. Review and pre-approve all non-audit services performed by the external auditors in relation to the Corporation and its subsidiaries.
14. Oversee the work of the external auditor, including reviewing and approving the planning of the annual audit and reviewing the results thereof with the external auditors, including:
  - a) approving the auditors' engagement letters;
  - b) approving the scope of the audit, including materiality, audit reports required, area of audit risk, timetable and deadlines;
  - c) reviewing with the external auditors the quality, not just the acceptability, of the accounting principles applied in the Corporation's financial reporting and the degree of aggressiveness or conservatism of the Corporation's accounting principles and underlying estimates;
  - d) reviewing the post-audit management letter together with management's responses;
  - e) reviewing any other matters the external auditors bring to the attention of the Committee;
  - f) resolving disagreements with management regarding financial reporting
  - g) reviewing accruals, reserves and estimates which could have a significant effect on financial results;
  - h) reviewing the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles ("GAAP"); and
  - i) reviewing interim review engagement reports

The Corporation's external auditors are ultimately accountable to the Board and the Committee as representatives of the shareholders of the Corporation, and will report directly to the Committee.

15. Review the rationale for any proposed change in auditors which is not initiated by the Committee or the Board.
16. Review reports from external auditors respecting their internal quality control procedures, peer reviews and investigations by governmental or professional authorities.
17. Obtain and review annually, prior to the completion of the external audit: (a) a report from the external auditors describing: (i) all critical accounting policies used by the Corporation in the preparation of its annual and interim financial statements; (ii) all alternative treatments of financial information within GAAP that have been discussed with management; (iii) the ramifications of the use of such alternative

- treatments; and (iv) the treatment preferred by the external auditors; and (b) all other material written communications.
18. Obtain reasonable assurance from discussions with and/or reports from management and reports from external and internal auditors that the Corporation's accounting systems are reliable and that the prescribed internal controls are operating effectively.
  19. Assess whether management has implemented policies ensuring that the Corporation's financial risks are identified and that controls are adequate, in place and functioning properly. In connection therewith, as part of the financial risk assessment, management will prepare tax compliance and planning strategies annually for review by the Committee, including a review of any tax reserves.
  20. Monitor compliance with the Corporation's Ethics Policy and ensure Management Compliance Certificates are received from management quarterly.
  21. Meet with the external auditors, at least annually and when requested by the external auditors, without management representatives present.
  22. Meet with the internal auditors, at least annually or as requested by the internal auditors, without management representatives present.
  23. Review and ensure that appropriate liaison and cooperation exists where necessary between the external auditors and the internal auditors, and provide a direct line of communication between the external and internal auditors, the Committee and the Board.
  24. Review the responses of management to information requests from government or regulatory authorities in respect of filing documents required under securities legislation, which may affect the financial reporting of the Corporation.
  25. Review and approve the annual internal audit plan, including the mandate, staffing, scope and objectives of the internal audit department, and receive and review all financial internal audit reports issued in relation thereto.
  26. Receive and review all follow-up action or status reports relating to the non-financial recommendations of the external auditor, and the internal auditor.
  27. Obtain such information and explanations regarding the accounts of the Corporation as the Committee may consider necessary and appropriate to carry out its duties and responsibilities.
  28. Annually review the performance, budget and independence of the internal audit function and direct the CFO to make any changes necessary.
  29. Establish procedures for receiving, retaining and responding to complaints relating to accounting, internal accounting controls or auditing matters, on a basis that protects the confidentiality of the complainant.
  30. Review and approve the hiring policies regarding employees and former employees of the present and former external auditors,
  31. Periodically assess procedures for the review of disclosure of financial information, extracted or derived from the Corporation's financial statements.
  32. Review and monitor quarterly results of financial and commodity exposure management activities, including foreign currency and interest rate risk strategies, counterparty credit exposure and the use of derivative instruments, and ensure that they are appropriately reflected in the Corporation's financial reporting.
  33. Monitor and evaluate the Corporation's insurance programs.
  34. Review with management and the external auditor any off balance sheet arrangements and special purpose vehicle structures.

35. Review disclosure made to the Committee by the President and CEO, the CFO and the General Counsel of a violation of applicable securities laws, a breach of a fiduciary duty under applicable laws or a similar violation by the Corporation or by any officer, director, employee or agent of the Corporation, which has been reported to the Committee, and determine whether an investigation is necessary regarding any such violation and report to the Board.
36. Receive, review and consider the annual and interim certificates provided by the President and CEO and CFO of the Corporation pursuant to National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, as implemented by the Canadian Securities Administrators and as amended or replaced from time to time, along with reports from the Corporation's Disclosure Committee regarding the design and effectiveness of the Corporation's disclosure controls and internal controls over financial reporting.
37. Conduct all other matters required by law or stock exchange rules to be dealt with by an audit committee.
38. Review annually these Terms of Reference and recommend any required material changes to the Corporate Governance, Compensation and Nominating Committee for further recommendation to the Board.
39. Conduct a regular, periodic self-assessment relating to Committee effectiveness and performance.
40. Establish and maintain a financial reporting protocol regarding Capital Power Income L.P.
41. Report to the Board as required.

**D. MEETINGS**

1. The Committee will meet at least quarterly and may call other meetings as required.
2. The minutes of the Committee meetings will accurately record the decisions reached and will be distributed to Committee Members, and, as directed by the Committee, to other Board members, the Senior Vice President and Chief Financial Officer (the "CFO") and others.
3. Committee meetings may be called by the Committee Chair or by a majority of the Committee Members. In addition, the Committee Chair will call a meeting upon request of the external auditors. The Committee Chair will be a voting member and questions will be decided by a majority of votes.
4. Meetings may be called with 24 hours' notice, which may be waived, before or after the meeting, by Committee Members. Attendance at a meeting will be deemed to be waiver of notice of the meeting, except where the Committee member attends the meeting for the express purpose of objecting to the transaction of business on the grounds that the meeting has not been duly called. All Committee Members are entitled to receive notice of every meeting.
5. Meetings are chaired by the Committee Chair or in the Committee Chair's absence, by a member chosen by the Committee amongst themselves.
6. Agendas will be set by the Committee Chair with such assistance as the Committee Chair may request from the President and CEO, Senior Vice President, General Counsel and Corporate Secretary, CFO and auditors, and will be circulated with the materials for consideration at the meeting by the Committee Chair or the Corporate Secretary to all Committee Members and, if directed by the Committee Chair, to the Chair of the Board, the President and CEO, the Senior Vice President, General Counsel and Corporate Secretary and the Senior Vice President and CFO, no later than the day prior to the date of the meeting. However, it should be standard practice to deliver the agenda and draft materials for consideration at the meeting at least five business days prior to the proposed meeting except in unusual circumstances.
7. Except as provided in these terms of reference, the Chair of the meeting may establish rules of procedure to be followed at meetings.

8. Meetings may be conducted with the participation of a member by telephone which permits all persons participating in the meeting to hear or communicate with each other. A member participating in a meeting by that means is deemed to be present at the meeting.
9. The powers of the Committee may be exercised by vote at a meeting at which a majority of the Committee Members are present or by a resolution in writing signed by all Committee Members who would have been entitled to vote on the resolution at a meeting of the Committee. In the case of an equality of votes, the person acting as Chair of the Committee meeting will not be entitled to a second or casting vote.
10. A resolution in writing may be signed and executed in separate counterparts by Committee Members and the signing or execution of a counterpart will have the same effect as the signing or execution of the original. An executed copy of a resolution in writing or counterpart thereof transmitted by any means of recorded electronic transmission will be valid and sufficient.
11. Attendance at all or a portion of Committee meetings by staff, other directors, the auditors and others, will be determined by the Committee.
12. The Corporate Secretary, or such other person as may be designated by the Committee, will keep minutes of the proceedings of all meetings of the Committee, which following Committee approval, will, subject to determination by the Committee otherwise, be available to any member of the Board. All minutes will be circulated to the Lead Director and the Chair of the Board. With the exception of "in camera" items, minutes will be circulated to those receiving the agenda. Minutes will be retained by the Corporate Secretary.
13. The Committee may delegate its power and authority to individual Committee Members, where the Committee determines it is appropriate to do so in order for necessary decisions to be made between meetings of the Committee and where such delegation is permitted by law. Any such decisions will be reported to the Committee at its next meeting