Annual Information Form
Capital Power Corporation

For the year ended December 31, 2011

March 13, 2012
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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, 2011. 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).

Certain capitalized terms used herein, and not otherwise defined herein, are defined under "Definitions of Certain Terms".

This AIF provides material information about the business and operations of CPC. Any reference to CPILP refers to a publicly-traded limited partnership in which CPLP indirectly held an approximately 29% interest up to November 5, 2011. See "General Development of the Business – Company History – Sale of CPILP and Acquisition of Roxboro and Southport".

The "Risks and Risk Management" section of the Company's Management's Discussion and Analysis (MD&A) dated March 13, 2012 for the year ended December 31, 2011 is incorporated herein by reference and can be found on SEDAR at 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 or operating 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. By their nature, such statements are subject to significant risk, assumptions and uncertainties, which could cause Capital Power's actual results and experience to be materially different than the anticipated results. Forward-looking information or statements included in this AIF are provided to inform the Company’s shareholders and potential investors about management’s assessment of Capital Power’s future plans and operations. This information may not be appropriate for other purposes.

Forward-looking information in this AIF includes, among other things, information relating to: (i) expectations for the Company’s sources of funding, adequacy and availability of committed bank credit facilities and future borrowings; (ii) expectations regarding future growth and emerging opportunities in the Company’s target markets including the focus on certain technologies; (iii) expectations related to the Company’s future cash requirements including interest and principal repayments, capital expenditures and dividends; (iv) expectations regarding plant availability; (v) expectations regarding the timing of, funding of, and costs for existing, planned and potential development projects and acquisitions; (vi) the expected compliance costs under GHG regulations for Capital Power’s coal fired plants; (vii) expectations governing the implementation and operation of the dividend reinvestment plan for holders of Common Shares; and (viii) expectations regarding proposed new environmental regulations, including the timing of such regulations coming into force, and the impact of current and new environmental regulations on Capital Power’s compliance costs.

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 relate to: (i) electricity and other energy prices; (ii) performance; (iii) business prospects and opportunities including expected growth and capital projects; (iv) status of and impact of policy, legislation and regulations; and (v) effective tax rates.

Whether actual results, performance or achievements will conform to the Company’s expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results and experience to differ materially from the Company’s expectations. Such material risks
and uncertainties are: (i) power plant availability and performance including maintenance expenditures; (ii) changes in electricity prices in markets in which the Company operates; (iii) regulatory and political environments including changes to environmental, financial reporting and tax legislation; (iv) acquisitions and developments including timing and costs of regulatory approvals and construction; (v) ability to fund current and future capital and working capital needs; (vi) changes in energy commodity market prices and use of derivatives; (vii) changes in market prices and availability of fuel; and (viii) changes in general economic and competitive conditions. See “Risks and Risk Management” in CPC's MD&A for the year ended December 31, 2011 which section is incorporated herein by reference and is available on SEDAR for further discussion of these and other risks.

Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. 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.

"Atlantic Power" means Atlantic Power Corporation

"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 Corporation

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

"CCS" means carbon capture and storage

"Clover Bar" means Clover Bar Energy Centre

"Common LP Units" means common limited partnership units in the capital of the Partnership

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

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

"CPLPGP" or "General Partner" 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

"Exchangeable LP Units" means exchangeable common limited partnership units in the capital of the Partnership

"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 partnership units in the capital of the Partnership
"GWh" means gigawatt hours
"IPO" means Initial Public Offering
"IPP" means independent power producer
"ISO" means Independent System Operator
"ISO-NE" means the Independent System Operator for New England

"Limited Partnership Agreement" means the limited partnership agreement among CPC, 7181035 Canada Inc. (now Capital Power LP Holdings Inc.) and each person who is subsequently admitted to CPLP as a limited partner, dated May 29, 2009 as amended and restated as of July 9, 2009

"LP Units" means Common LP units and Exchangeable LP Units
"MTN" means medium term note
"MW" means megawatts
"MWh" means megawatt hour
"NI 51-102" means National Instrument 51-102 – Continuous Disclosure Obligations
"NI 52-110" means National Instrument 52-110 – Audit Committees
"NOVA" means Nova Chemicals Corporation
"OPA" means Ontario Power Authority
"PM" means particulate matter
"PPA" means power purchase agreement or power purchase arrangement, as applicable

"Prairie Mines" means Prairie Mines and Royalty Ltd.

"QF" means Qualifying Facility and is a term used to describe a category of cogeneration or small power generating facility that meets certain ownership, operating, and efficiency criteria established by FERC pursuant to the Public Utility Regulatory Policies Act of 1978. See "Regulatory Overview - United States"
"Reorganization" has the meaning ascribed thereto under "General Development of the Business - Initial Public Offering and Reorganization"

"SEDAR" means the System for Electronic Document Analysis and Retrieval, which can be accessed via the Internet at www.sedar.com

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

"Series 1 Shares" means the cumulative rate reset preference shares, series 1 issued by Capital Power Corporation

"Special Voting Shares" means special voting shares in the capital of Capital Power Corporation

"Special Limited Voting Share" means the special limited voting share in the capital of Capital Power Corporation

"Spectra" means Spectra Energy Corp.

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

"TransAlta" means TransAlta Corporation

"TransCanada" means TransCanada Corporation

"US" or "United States" means United States of America
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 address of the Company is located at Suite 1200, 10423 – 101 Street NW, Edmonton, Alberta, Canada, T5H 0E9.

ORGANIZATIONAL STRUCTURE

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

(1) As at December 31, 2011, EPCOR held 38.216 million Special Voting Shares of the Company, the one Special Limited Voting Share of the Company, and the one special limited voting share of Capital Power GP Holdings Inc. See "Description of Share Capital and Exchangeable LP Units".

(2) 29% Equity Interest as limited partner held through Capital Power LP Holdings Inc., a wholly-owned subsidiary of the Company.

(3) CP Regional Power Services Limited Partnership.
Capital Power L.P.

CPLP is a limited partnership established under the laws of the Province of Ontario. The general partner of CPLP is CPLPGP which is wholly-owned by the Company (subject to the one special limited voting share of CPLPGP held by EPCOR). See "Capital Structure". The board of directors of CPLPGP is the same as the Board of the Company. CPLP directly and indirectly holds the Company's assets and investments in the electrical power generation business.

As at December 31, 2011, EPCOR indirectly held 38.216 million Exchangeable LP Units of CPLP representing approximately 39% of the total number of outstanding partnership interests in CPLP. See "Material Contracts - Limited Partnership Agreement". As at December 31, 2011, the Company indirectly held 21.750 million GP Units of CPLP and 36.924 million Common LP Units of CPLP together representing approximately 61% of the total number of outstanding partnership interests in CPLP.

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

Capital Power is an IPP that was formed as part of the reorganization of the power generation businesses of EPCOR in July 2009. Capital Power develops, acquires and optimizes power generation from a wide range of energy sources. Its asset portfolio includes ownership in a number of operating facilities in Canada and the United States, an Alberta PPA and projects in various stages of construction and development. The significant events and conditions that have influenced the general development of Capital Power's business since inception are summarized below. Certain of these events and conditions and operational information on Capital Power's plants are discussed in greater detail under the heading "Business of Capital Power".

Recent Developments

MTN Offering

On February 21, 2012, CPLP issued $250 million principal amount of 4.85% senior unsecured MTN's due February 21, 2019 pursuant to a trust indenture (Trust Indenture) dated April 14, 2010 as supplemented by a third supplemental trust indenture dated February 21, 2012.

Sale of Atlantic Power Shares

On February 10, 2012, CPC completed the sale of its shares in Atlantic Power that were acquired on November 5, 2011 as part of the Atlantic Power acquisition of CPILP for proceeds of $52 million.

Launch of Dividend Reinvestment Plan

The Company launched a dividend reinvestment plan effective January 1, 2012. Eligible shareholders may elect to participate in the plan commencing with the Company's first quarter 2012 cash dividend on its Common Shares. The plan will provide eligible shareholders with an alternative to receiving their quarterly cash dividends on Common Shares. Under the plan, eligible shareholders may elect to accumulate additional Common Shares by reinvesting their quarterly cash dividends on the applicable dividend payment date in new Common Shares issued from treasury. Participation in the plan is optional. Those shareholders who do not enrol in the plan will still be entitled to receive their quarterly cash dividends on their Common Shares.

The Company reserves the right to limit the amount of new equity available under the plan on any particular dividend payment date. No assurances can be made that new Common Shares will be made available under the plan on a quarterly basis, or at all. Accordingly, participation may be prorated in
certain circumstances. If on any dividend payment date the Company determines not to issue any equity under the plan, or the availability of new Common Shares is prorated in accordance with the terms of the plan, then participants will be entitled to receive from the Company the full amount of their regular quarterly cash dividend for each share in respect of which the dividend is payable but cannot be reinvested under the plan in accordance with the applicable election.

**Company History**

**2011**

**Sale of CPIILP and Acquisition of Roxboro and Southport**

Until November 5, 2011, CPLP had a 49% voting interest and a 100% economic interest in CPI Investments Inc., a holding company that owned approximately 29% of the limited partnership units of CPIILP and 100% of the shares of CPI Income Services Ltd., the general partner of CPIILP. EPCOR owned the other 51% voting interest in CPI Investments Inc.

On November 5, 2011, Atlantic Power acquired, directly and indirectly, all of the outstanding shares of CPI Investments Inc. and all of the outstanding limited partnership units of CPIILP pursuant to a plan of arrangement under the *Canada Business Corporations Act*. In connection with the plan of arrangement, CPLP acquired CPIILP’s Roxboro and Southport plants in North Carolina (North Carolina Assets). Upon closing of the plan of arrangement, CPLP received $314 million in combined consideration for its ownership interest in CPIILP. The total consideration included $48 million of stock in Atlantic Power, $145 million of cash, and $121 million of North Carolina Assets. In addition, the Company’s management and operations contracts with CPIILP were terminated or assigned for consideration of $10 million to the Company and Atlantic Power entered into a transitional services agreement with the Company for a term of up to twelve months to facilitate and support the integration of CPIILP into Atlantic Power.

The Roxboro plant and Southport plant produce up to a combined total of 134 MWs of electrical output (based on current fuel mix) that is sold to Carolina Power & Light Company, a subsidiary of Progress Energy, Inc., under 10-year PPAs that expire in 2021. The Southport facility also sells steam to Archer Daniels Midland Company pursuant to a contract that expires in December 2014.

**Keephills 3**

On September 1, 2011, the 495 MW Keephills Unit 3 (Keephills 3) generating facility, located approximately 70 kilometres west of Edmonton, Alberta, was completed and achieved commercial operation. Capital Power’s share of the cost of the facility was approximately $949 million. Capital Power led the construction and TransAlta now operates the plant. Keephills 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. The sale of Capital Power’s share of Keephills 3 generation is managed as part of Capital Power’s Alberta electricity portfolio optimization activities.

**K2 Wind Power Project**

In July 2011, CPLP, Samsung Renewable Energy Inc., Pattern Renewable Holdings Canada ULC and K2 Wind Ontario Inc. formed an Ontario limited partnership called K2 Wind Ontario Limited Partnership. On August 3, 2011, K2 Wind Ontario Limited Partnership closed an agreement to acquire assets for the development, construction and operation of a 270 MW wind power project to be known as K2 Wind Power Project (K2). Subject to Ontario’s renewable energy approval process, construction is planned to start in 2013, with commercial operation in 2014. This project will supply Ontario with renewable energy under a 20-year PPA with the OPA.
Acquisition of Halkirk Wind Project

In June 2011, Capital Power announced that it had entered into an agreement to acquire 100% of the Halkirk Wind Project from Greengate Power Corporation. Commercial operation is expected in the last quarter of 2012. Halkirk's energy output will be sold into the deregulated wholesale electricity market and will be managed as part of Capital Power's Alberta electricity portfolio optimization activities. This project has a 20-year fixed price sales arrangement for the renewable energy certificates with Pacific Gas and Electric Company.

Bridgeport

On April 28, 2011, Capital Power closed a transaction to acquire Bridgeport Energy, LLC, which owns the Bridgeport Energy plant in Connecticut, at a purchase price of US$355 million plus working capital and other post-closing adjustments. The plant is a natural gas-fired, combined cycle power generation plant with a maximum capacity of 540 MW that dispatches its output into the ISO-NE. Bridgeport's energy, capacity and ancillary services output will be sold into the deregulated wholesale electricity market and is managed as part of Capital Power's New England electricity portfolio optimization activities.

Tiverton and Rumford

On April 29, 2011, Capital Power closed a transaction to acquire two generating facilities from Brick Power Holdings LLC at a purchase price of US$315 million plus working capital and other post-closing adjustments. One facility is located in Tiverton, Rhode Island and the other facility is 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. Tiverton and Rumford's energy, capacity and ancillary services output will be sold into the deregulated wholesale electricity market and is managed as part of Capital Power's New England electricity portfolio optimization activities.

2010

Island Generation Facility

In October 2010, Capital Power completed the acquisition of the Island Generation Facility (Island Generation), a 275 MW gas-fired combined cycle power plant located at Campbell River, BC. The purchase price for Island Generation was approximately $205 million. Island Generation is fully contracted to April 2022 under a tolling arrangement with BC Hydro.

Port Dover and Nanticoke Wind Project

In April 2010, the OPA selected Capital Power's Port Dover & Nanticoke wind development project for the award of a 20-year Ontario FIT contract. The 105 MW project has an expected cost of up to $340 million and is anticipated to enter commercial operation in the fourth quarter of 2013. Construction of the project is subject to regulatory approvals, including Ontario's renewable energy approvals process which is currently in progress for the project.

Quality Wind Project

In March 2010 BC Hydro announced that Capital Power's Quality Wind Project (Quality Wind) was selected for the award of an 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. Commercial operation is expected to commence by the end of 2012.
**Sale of interest in Battle River Power Syndicate Agreement**

In January 2010, Capital Power sold its remaining 15% interest in the Battle River Power Syndicate Agreement for cash proceeds of $64 million. This sale was pursuant to an agreement entered into in June 2006 whereby Capital Power agreed to sell its 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 facility commissioned the third natural gas turbine on the same site as the former Clover Bar Generating Station which is located in Edmonton, Alberta on the east side of the North Saskatchewan River. 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 oxides (NOx) per MWh than the old Clover Bar Generation Station.

**Initial Public Offering and Reorganization**

In July 2009, the Company issued 21.75 million Common Shares at a price of $23.00 per share in an IPO pursuant to an underwriting agreement with a group of underwriters. The proceeds from the IPO net of underwriter and issue costs were approximately $468 million. Concurrently with the completion of the IPO, CPLP acquired substantially all of the power generation assets of EPCOR through the following transactions:

- **Formation of CPLP:** CPC 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 CPC:** 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.

- **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. Capital Power Corporation 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 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 CPC 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, (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 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. 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, 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 is one of Canada's largest IPPs (as measured by revenue, total assets and capacity), with an existing portfolio of more than 3,300 MW of owned power generation capacity with an additional 371 MW of capacity owned through the Sundance PPA (Units 5 and 6) and 487 MW of owned capacity under construction. Capital Power's power generation fleet has a capacity weighted average facility age of 12 years and is diversified across three provinces and four US states. These factors, coupled with Capital Power's networked hub strategy and portfolio optimization management, position Capital Power to take advantage of market dynamics while mitigating exposures to regionally isolated declines or disruptions. See "Business of Capital Power - Power Generation - Portfolio Optimization".

As part of Capital Power's growth strategy, it is continually looking at opportunities in acquisitions and development projects to strengthen its regional footprints in its target markets. Opportunities in Canada are still being considered, however, Capital Power is presently focusing on growth opportunities in the US with emphasis on larger scale, fossil fuel-fired technologies. Renewable facilities and projects that are economically attractive and supportive of Capital Power's long-term contracting position are also being examined.

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. As of March 13, 2012, the Alberta commercial plants consist of ownership interests in five facilities representing approximately 946 MW of power generation capacity. The facilities generate electricity principally from coal, but also from natural gas, water flows and landfill gas.

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.

Capital Power seeks to maximize earnings from Alberta commercial plants by achieving high availability and production levels from the facilities and by actively managing the portfolio's commodity price exposure relative to market price views.
**Keephills Unit 3**

The Keephills 3 facility was successfully commissioned on September 1, 2011. The Keephills 3 facility represents 495 MW of new coal-fired generation capacity, of which Capital Power has a 50% ownership interest. Costs for Keephills 3, excluding mine capital, are being equally shared by its owners – 50% by Capital Power, which led construction, and 50% by TransAlta, which operates the plant. Keephills 3 achieves superior environmental performance through an advanced air-quality control system and supercritical boiler technology. It emits 24% less carbon dioxide (CO₂) and 60% to 80% less sulphur dioxide (SO₂), NOx and mercury in producing the same amount of power previously generated by the Wabamun units retired by TransAlta in 2010.

**Commercial Arrangement: Merchant Facility**

Keephills 3 was completed and achieved commercial operation in September 2011. The output is merchant. Capital Power's share of Keephills 3 generation is managed as part of Capital Power's Alberta electricity portfolio optimization activities.

**Fuel Supply**

Coal required for Keephills 3 is supplied by the adjacent Highvale coal mine, Canada's largest surface strip coal mine covering 12,140 hectares, owned by TransAlta and operated for them under contract by Prairie Mines. The Highvale coal mine supplies coal to the Keephills 3 joint venture, to TransAlta's other two units at the Keephills site and also to TransAlta's Sundance units. It is estimated that the Highvale coal mine contains sufficient recoverable reserves to supply the anticipated requirements for the life of the facility. TransAlta, as operator and manager of the Keephills 3 joint venture, is obligated to manage the fuel supply of Keephills 3 and provide coal to Keephills 3 under a coal supply agreement similar to what exists under the Genesee 3 joint venture. Under the Keephills 3 coal supply agreement, the joint venture pays for a pro-rata share of the Highvale mine costs and has also committed to fund specific operating and capital costs incremental to the coal requirements of Keephills 3.

**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 and has a gross generation capacity of 516 MW. Genesee 3 is a coal-fired generating unit which uses supercritical technology to achieve greater fuel efficiency, lower CO₂, NOx and SO₂ emissions per MW than conventional subcritical pulverized coal technologies. Genesee 3 emits approximately 24% less CO₂ in producing the same amount of power previously generated by the Wabamun units retired by TransAlta in 2010.

Genesee 3 returned to service on January 15, 2012 after experiencing a 65 day unplanned outage that occurred on November 11, 2011. The outage was due to the failure of one of the unit's primary protection systems which resulted in damage to turbine/generator bearings and rotor. An interim root cause failure report indicated that the damage was due to an electrical design issue.

**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.

**Fuel Supply**

Coal required for the Genesee power plants is supplied by the adjacent Genesee coal mine, making Genesee a mine-mouth operation. Coal is provided to the Genesee power plants under long-term, cost of
service supply agreements with the Genesee coal mine joint venture. The coal mine joint venture is a 50/50 joint venture between Capital Power and Prairie Mines, with Prairie Mines as the operator. Prairie Mines owns approximately 50% of the coal rights within the Genesee coal mine permit area, with Capital Power leasing the remaining 50% of the coal rights from the Government of Alberta under 15-year renewable lease terms. Capital Power holds substantially all surface rights within the Genesee coal mine permit area.

Capital Power believes the recoverable coal reserves that it holds the 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. 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.

**Joffre**

Joffre is a 480 MW natural gas-fired cogeneration plant, commissioned in 2000, which is located at the 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 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 on behalf of the joint venture and dispatches power for sale to the Alberta Power Pool that is surplus to the needs of the petrochemical complex.

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

An 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 subject to termination in accordance with the terms of the ESA including upon the commencement of decommissioning of the co-generation plant. NOVA makes cost-of-service payments comprised primarily of a natural gas fuel cost payment, an operating and 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. In January 2011, Unit 3 of Clover Bar experienced an unplanned outage due to blade damage in its high pressure compressor. The 100 MW unit came back online on June 17, 2011.
The repair was covered by GE warranty. Unit 2 experienced a forced outage on March 8, 2010 due to a mechanical failure in the main turbine section. This 100 MW unit came back online on September 22, 2010. The repair was covered by GE warranty. To limit the risk of future loss of production due to an unplanned outage, Capital Power is participating in GE's lease pool arrangement.

Commercial Arrangement: Merchant Facility

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.

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 TransCanada Corporation-Pipelines Limited provides transport service to the Clover Bar site.

Additional Alberta Facilities

As at December 31, 2011, Capital Power also had a 100% interest in Clover Bar Landfill Gas Plant, a 4.8MW facility located in Edmonton, Alberta that extracts methane from an adjacent landfill for its fuel source, commissioned in 2005.

Capital Power divested its interest in the following power generation facilities in Alberta in 2011:

- a 50% joint venture interest in Taylor Coulee Chute, a 13 MW hydro facility in Southern Alberta, co-owned with TransAlta commissioned in 2000. Capital Power's interest was divested in the third quarter of 2011; and
- a 99% interest in Weather Dancer, a 0.9 MW wind turbine located in Southern Alberta, commissioned in 2001. The Weather Dancer facility was divested in the second quarter of 2011.

Alberta Contracted Plants

Geneseen Unit 1 and Unit 2

The Alberta contracted plants, consisting of Geneseen Unit 1 and Unit 2, are coal-fired generating units with 852 MW of combined generation capacity located west of Edmonton near Warburg, Alberta. Geneseen Unit 1 and Unit 2 are considered baseload units, meaning they regularly run at or near full production capacity. Both units are 100% owned and operated by Capital Power, and are located on land owned by Capital Power.

Commercial Arrangement: Power Purchase Arrangement

Geneseen Unit 1 and Unit 2 are subject to a PPA with the Balancing Pool, which is in effect until December 31, 2020. Under the terms of the PPA, the Balancing Pool is entitled to the power produced by the generating units, up to their committed capacity. Generation in excess of committed capacity is managed as part of Capital Power's Alberta electricity portfolio optimization activities. 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.

Fuel Supply

See "Business of Capital Power - Power Generation - Alberta Commercial Plants - Genesee Unit 3 - Fuel Supply".

Ontario and British Columbia Contracted Plants

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

Kingsbridge

Kingsbridge is a 40 MW wind farm, developed and owned by Capital Power, located near Goderich, Ontario. The wind farm consists of twenty two 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 kilometres 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. The energy supply contract for the turbines commissioned in 2006 has a term of 20 years and terminates in March 2026. The energy supply contract for the turbine commissioned in 2001 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 producers.

Island Generation

Capital Power 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.
Island Generation is fully contracted to April 2022 under a tolling arrangement with BC Hydro. BC Hydro has full dispatch rights and 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.

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 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.

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%.

**North East US Commercial Plants**

**Tiverton and Rumford**

Acquired in April 2011, Tiverton and Rumford are highly efficient combined-cycle natural-gas-fired facilities located in Rhode Island and Maine, respectively. Tiverton has a capacity of 279 MW and Rumford has a capacity of 270 MW. Each facility uses a single-fuel GE 7FA power island, is an Exempt Wholesale Generator and has FERC authorization to sell capacity, energy and ancillary services at market-based rates.

**Commercial Arrangement: Merchant Facility**

Tiverton and Rumford began operations in 2000 and sell the output into the New England Power Pool. The output is merchant and is managed as part of Capital Power's portfolio optimization activities and networked hub of assets in the US Northeast.
Fuel Supply

Natural gas for the Tiverton facility is delivered from Spectra's Algonquin Gas Transmission System. Natural gas for the Rumford facility is delivered from TransCanada's Portland Natural Gas Transmission System. There are no term gas purchase agreements in place.

Bridgeport

Acquired in April 2011, Bridgeport is a 540 MW modern, efficient combined-cycle natural gas-fired facility located in Connecticut. The facility is equipped with two Siemens V84.3A gas combustion turbines and produces additional output from two Vogt/NEM Heat Recovery Steam Generators and one single-reheat condensing steam turbine. Electrical interconnection into the United Illuminating System is made via the Singer 345kV substation. The site has adequate space to expand the facility when market conditions warrant.

Commercial Arrangement: Merchant Facility

Bridgeport began operations in 1999 and dispatches into the Southwest Connecticut Zone of the ISO-NE market as part of the New England Power Pool System. The output is merchant and is managed as part of Capital Power's portfolio optimization activities and networked hub of assets in the US Northeast.

Fuel Supply

Natural gas is delivered through a lateral off the Iroquois Natural Gas Transmission System pursuant to firm transportation service agreements with Southern Connecticut Gas Company. There are no term gas purchase agreements in place.

North Carolina US Contracted Plants

North Carolina Facilities

In conjunction with the CPILP divestiture in November 2011, Capital Power acquired CPILP's Roxboro and Southport plants in North Carolina. See "General Development of the Business – Company History – Sale of CPILP and Acquisition of Roxboro and Southport". The Roxboro and Southport facilities have a capacity of 46 MW and 88 MW, respectively, based on the current fuel mixture of wood residuals, tire-derived fuel and coal. Enhancement projects undertaken at these facilities in 2009 and 2010 have reduced NOx emissions by approximately 45% and SO2 emissions by approximately 20% from previous levels. Particulate emissions are controlled by the use of engineered fabric filters which keep particulates from the plant well under state regulations.

Commercial Arrangement: Power Purchase Agreement

Both facilities provide all of their electrical output under 10-year PPAs expiring in 2021 to Carolina Power & Light Company, a subsidiary of Progress Energy, Inc. The Southport facility also sells steam to Archer Daniels Midland Company pursuant to a contract that expires in December 2014.

Fuel Supply

Both plants' fuel requirements are satisfied with a mixture of wood residuals, tire-derived fuel and coal. Coal is sourced with regional coal suppliers, tire-derived fuel and wood residuals are sourced from multiple local suppliers. Tire-derived fuel is procured under fixed-price contracts, and wood residuals are procured at fixed prices indexed to the transport distance from the facility and subject to a fuel charge.
## Generation Plant Summary

The following table provides details of Capital Power's generation plants, both in service or under construction:

<table>
<thead>
<tr>
<th>Category</th>
<th>Plant Name and Location</th>
<th>Type of Generating Plant</th>
<th>Year Commissioned or Target Date</th>
<th>Plant Generation Capacity (MW)</th>
<th>Capital Power Interest (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Alberta Commercial Plants</strong></td>
<td>Keephills 3, Keephills</td>
<td>Supercritical Coal</td>
<td>2011</td>
<td>495.0</td>
<td>247.5</td>
</tr>
<tr>
<td></td>
<td>Genesee 3, Warburg</td>
<td>Supercritical Coal</td>
<td>2005</td>
<td>516.0</td>
<td>258.0</td>
</tr>
<tr>
<td></td>
<td>Joffre Co-generation, Joffre</td>
<td>Gas-fired, combined cycle co-generation</td>
<td>2000</td>
<td>480.0</td>
<td>192.0</td>
</tr>
<tr>
<td></td>
<td>Clover Bar Energy Centre, Edmonton</td>
<td>Natural gas-fired</td>
<td>Unit 1 - 2008</td>
<td>43.4</td>
<td>43.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unit 2 &amp; 3 - 2009</td>
<td>200.0</td>
<td>200.0</td>
</tr>
<tr>
<td></td>
<td>Clover Bar Landfill, Edmonton</td>
<td>Land fill gas-fired</td>
<td>2005</td>
<td>4.8</td>
<td>4.8</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Alberta Commercial Plants</strong></td>
<td><strong>(1)(3)</strong></td>
<td></td>
<td></td>
<td><strong>945.7</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Alberta Contracted Plants</strong></td>
<td>Genesee Plant, Warburg</td>
<td>Coal-fired steam turbine</td>
<td>Unit 1 - 1994</td>
<td>422.0</td>
<td>422.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unit 2 - 1989</td>
<td>430.0</td>
<td>430.0</td>
</tr>
<tr>
<td><strong>Total Alberta Contracted Plants</strong></td>
<td><strong>(1)</strong></td>
<td></td>
<td></td>
<td><strong>852.0</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Ontario and BC Contracted Plants</strong></td>
<td>Kingsbridge I Wind Power Project, Goderich, Ontario</td>
<td>Wind turbine</td>
<td>2001</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2006</td>
<td>39.6</td>
<td>39.6</td>
</tr>
<tr>
<td></td>
<td>Miller Creek Pemberton, BC</td>
<td>Hydroelectric</td>
<td>2003</td>
<td>33.0</td>
<td>33.0</td>
</tr>
<tr>
<td></td>
<td>Brown Lake, near Prince Rupert, BC</td>
<td>Hydroelectric</td>
<td>1996</td>
<td>7.0</td>
<td>7.0</td>
</tr>
<tr>
<td></td>
<td>Island Generation, Campbell River, BC</td>
<td>Gas-fired, combined cycle</td>
<td>2002</td>
<td>275.0</td>
<td>275.0</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Ontario and BC Contracted Plants</strong></td>
<td><strong>(1)</strong></td>
<td></td>
<td></td>
<td><strong>355.3</strong></td>
<td></td>
</tr>
<tr>
<td>Northeast US Commercial Plants (4)</td>
<td>Tiverton, Rhode Island</td>
<td>Gas-fired, combined cycle</td>
<td>2000</td>
<td>279.0(5)</td>
<td>279.0</td>
</tr>
<tr>
<td>-----------------------------------</td>
<td>-----------------------</td>
<td>---------------------------</td>
<td>------</td>
<td>----------</td>
<td>-------</td>
</tr>
<tr>
<td>Rumford, Maine</td>
<td></td>
<td>Gas-fired, combined cycle</td>
<td>2000</td>
<td>270.0(5)</td>
<td>270.0</td>
</tr>
<tr>
<td>Bridgeport, Connecticut</td>
<td></td>
<td>Gas-fired, combined cycle</td>
<td>1999</td>
<td>540.0(5)</td>
<td>540.0</td>
</tr>
<tr>
<td><strong>Total Northeast US Commercial Plants</strong> (1)</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td><strong>1,089.0</strong></td>
</tr>
<tr>
<td>North Carolina Contracted Plants (6)</td>
<td>Roxboro</td>
<td>Coal, tire-derived fuel and wood waste CHP(7) facility</td>
<td>1987</td>
<td>46.0(8)</td>
<td>46.0</td>
</tr>
<tr>
<td>Southport</td>
<td></td>
<td>Coal, tire-derived fuel and wood waste CHP(7) facility</td>
<td>1987</td>
<td>88.0(8)</td>
<td>88.0</td>
</tr>
<tr>
<td><strong>Total North Carolina Contracted Plants</strong> (1)</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td><strong>134.0</strong></td>
</tr>
<tr>
<td>Under Construction</td>
<td>Quality Wind, Tumbler Ridge, BC</td>
<td>Wind Turbine</td>
<td>2012</td>
<td>142.0</td>
<td>142.0</td>
</tr>
<tr>
<td></td>
<td>Port Dover and Nanticoke Wind, Ontario</td>
<td>Wind Turbine</td>
<td>2013</td>
<td>105.0</td>
<td>105.0</td>
</tr>
<tr>
<td></td>
<td>Halkirk Wind Project, Alberta</td>
<td>Wind turbine</td>
<td>2012</td>
<td>150.0</td>
<td>150.0</td>
</tr>
<tr>
<td></td>
<td>K2 Wind Power Project, Ontario</td>
<td>Wind turbine</td>
<td>2014</td>
<td>270.0</td>
<td>90.0</td>
</tr>
<tr>
<td><strong>Total Under Construction</strong> (1)</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td><strong>487.0</strong></td>
</tr>
<tr>
<td>Total Capital Power (1)</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td><strong>3,863.0</strong></td>
</tr>
</tbody>
</table>

Notes:
(1) Represents Capital Power’s capacity as at March 13, 2012.
(2) Keephills 3 began commercial operations in the third quarter of 2011.
(3) Interest in Taylor Coulee Chute was divested in the third quarter of 2011 and Weather Dancer was divested in the second quarter of 2011.
(4) Northeast US commercial plants were acquired in the second quarter of 2011.
(5) Represents net winter capacity. Tiverton, Rumford and Bridgeport have nominal generation capacities of 265, 265, and 520 megawatts, respectively.
(6) North Carolina facilities were acquired in the fourth quarter of 2011.
(7) CHP means combined heat and power.
(8) Generation capacity utilizing current blended fuel mixture (wood product, tire-derived product and coal) versus the nameplate capacity of 54 MW and 109 MW for Roxboro and Southport respectively.
Power Purchase Arrangements

As of December 31, 2011, 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 Sundance plant is located 70 kilometers west of Edmonton, Alberta on the south shore of Wabamun Lake.

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

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

Production from Sundance (Units 5 and 6) is governed by its PPA until December 31, 2020. Coal for each plant is obtained from the adjacent Highvale coal mine. Capital Power's share of the Sundance PPA is managed as part of Capital Power's Alberta electricity portfolio optimization activities. 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 portion of the revenues related to the increased capacity of both units for the life of the PPA based on ownership interest.

Portfolio Optimization

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

Capital Power manages its output from its commercial plants, contracted plants with residual commodity exposure and acquired PPAs under its networked hub strategy. Capital Power sells and/or buys physical and/or financial forward contracts that are (mostly) non-unit specific, reducing exposure to plant specific availabilities. Capital Power also takes specific and limited positions in the electricity, natural gas, and emission markets outside of the Alberta and U.S. Northeast regions to develop capability to support Capital Power's growth strategy and to generate trading profits.

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

- manages price and volume risk in Capital Power's commodity portfolio;
- sets the generation unit offer strategy for electricity, capacity and ancillary services in order to optimize returns while managing potential exposure arising from generation and transmission risks, including unplanned outages;
acquires and schedules deliveries of natural gas supplies used to generate electricity;

derives earnings from wholesale trading of electricity, natural gas and emissions products in all deregulated North America markets, with the exception of Electric Reliability Council of Texas;

ensures compliance with existing and emerging market-based environmental regulations such as the GHG offset investments and purchases that are designed to proactively manage potential compliance risks and costs associated with GHG regulations; and

explores and researches electricity, natural gas and emissions markets to ensure preparedness for effective commodity portfolio management of Capital Power's growing commodity portfolio.

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) techniques 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 utilizes historical data and back testing to assess 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 Capital Power's risk management policies.

**Revenue and Volume**

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Twelve Months Ended December 31, 2011</th>
<th>Twelve Months Ended December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta commercial plants, acquired Sundance PPA and portfolio optimization</td>
<td>793</td>
<td>915</td>
</tr>
<tr>
<td>Alberta contracted plants</td>
<td>314</td>
<td>278</td>
</tr>
<tr>
<td>Ontario / BC contracted plants</td>
<td>51</td>
<td>21</td>
</tr>
<tr>
<td>North East US commercial plants and portfolio optimization</td>
<td>173</td>
<td>-</td>
</tr>
<tr>
<td>North Carolina US contracted plants(1)</td>
<td>14</td>
<td>-</td>
</tr>
<tr>
<td>CPILP plants(2)</td>
<td>447</td>
<td>525</td>
</tr>
<tr>
<td>Other portfolio activities</td>
<td>92</td>
<td>106</td>
</tr>
<tr>
<td>Corporate</td>
<td>22</td>
<td>27</td>
</tr>
<tr>
<td>Interplant category eliminations</td>
<td>(64)</td>
<td>(63)</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td><strong>1,842</strong></td>
<td><strong>1,809</strong></td>
</tr>
</tbody>
</table>
Revenues (unaudited $ millions)\(^{(1)}\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Twelve Months Ended December 31, 2011</th>
<th>Twelve Months Ended December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealized changes in fair value of CPLP's power and natural gas derivative instruments and natural gas held for trading(^{(2)})</td>
<td>(62)</td>
<td>(55)</td>
</tr>
<tr>
<td>Unrealized changes in fair value of CPILP's foreign exchange contracts(^{(2)})</td>
<td>(10)</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,770</strong></td>
<td><strong>1,762</strong></td>
</tr>
</tbody>
</table>

**Notes:**


2. Capital Power sold its interest in CPILP on November 5, 2011. See "General Development of the Business – Company History – Sale of CPILP and Acquisition of Roxboro and Southport".

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

**Electricity Generation (GWh)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Twelve Months Ended December 31, 2011</th>
<th>Twelve Months Ended December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alberta commercial plants (excluding Sundance PPA)</td>
<td>3,337</td>
<td>2,355</td>
</tr>
<tr>
<td>Alberta contracted plants</td>
<td>6,441</td>
<td>6,334</td>
</tr>
<tr>
<td>Ontario / BC contracted plants</td>
<td>349</td>
<td>516</td>
</tr>
<tr>
<td>North East US commercial plants</td>
<td>3,437</td>
<td>-</td>
</tr>
<tr>
<td>North Carolina US contracted plants(^{(1)})</td>
<td>95</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td><strong>13,659</strong></td>
<td><strong>9,205</strong></td>
</tr>
<tr>
<td>CPILP plants(^{(2)})</td>
<td>4,015</td>
<td>5,013</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>17,674</strong></td>
<td><strong>14,218</strong></td>
</tr>
</tbody>
</table>

**Notes:**


2. Capital Power sold its interest in CPILP on November 5, 2011. See "General Development of the Business – Company History – Sale of CPILP and Acquisition of Roxboro and Southport".
Capital Power Income L.P.

CPLP sold its interest in CPILP effective November 5, 2011. See "General Development of the Business – Company History – Sale of CPILP and Acquisition of Roxboro and Southport".

The following table lists the generating assets that Capital Power managed and operated on behalf of CPILP, until November 5, 2011:

<table>
<thead>
<tr>
<th>Category</th>
<th>Plant Name and Location</th>
<th>Type of Generating Plant</th>
<th>Year Commissioned</th>
<th>Nameplate Capacity (MW)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ontario</td>
<td>Calstock, Ontario</td>
<td>Enhanced bio-mass wood waste</td>
<td>2000</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td>Kapuskasing, Ontario</td>
<td>Enhanced combined cycle natural gas-fired</td>
<td>1997</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td>Nipigon, Ontario</td>
<td>Enhanced combined cycle natural gas-fired</td>
<td>1992</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td>North Bay, Ontario</td>
<td>Enhanced combined cycle natural gas-fired</td>
<td>1997</td>
<td>64</td>
</tr>
<tr>
<td></td>
<td>Tunis, Ontario</td>
<td>Enhanced combined cycle natural gas-fired</td>
<td>1995</td>
<td>69</td>
</tr>
<tr>
<td>BC</td>
<td>Williams Lake, BC</td>
<td>Bio-mass wood waste</td>
<td>1993</td>
<td>68</td>
</tr>
<tr>
<td></td>
<td>Mamquam, BC</td>
<td>Hydroelectric run-of-river</td>
<td>1996</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td>Moresby Lake (formerly Queen Charlotte), BC</td>
<td>Hydroelectric reservoir-based</td>
<td>1990</td>
<td>6</td>
</tr>
<tr>
<td>Northwest US</td>
<td>Manchief, Brush, Colorado</td>
<td>Simple cycle natural gas-fired</td>
<td>2000</td>
<td>301</td>
</tr>
<tr>
<td></td>
<td>Greeley, Colorado</td>
<td>Natural gas-fired CHP facility</td>
<td>1988</td>
<td>101</td>
</tr>
<tr>
<td></td>
<td>Frederickson, Pierce County, Washington State</td>
<td>Combined cycle natural gas-fired</td>
<td>2002</td>
<td>249(2)</td>
</tr>
<tr>
<td>Category</td>
<td>Plant Name and Location</td>
<td>Type of Generating Plant</td>
<td>Year Commissioned</td>
<td>Nameplate Capacity (MW)</td>
</tr>
<tr>
<td>----------</td>
<td>-------------------------</td>
<td>--------------------------</td>
<td>------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>California</td>
<td>Naval Station, San Diego, California</td>
<td>Dual-fuel (natural gas or No. 2 distillate fuel oil) CHP facility</td>
<td>1989</td>
<td>54</td>
</tr>
<tr>
<td></td>
<td>Naval Training Centre, San Diego, California</td>
<td>Dual-fuel (natural gas or No. 2 distillate fuel oil) CHP facility</td>
<td>1989</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>North Island, San Diego, California</td>
<td>Natural gas-fired CHP facility</td>
<td>1989</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td>Oxnard, California</td>
<td>Natural gas-fired CHP facility</td>
<td>1990</td>
<td>49</td>
</tr>
<tr>
<td></td>
<td>Kenilworth, New Jersey</td>
<td>Natural gas-fired CHP facility</td>
<td>1989</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>Morris, Illinois</td>
<td>Cogeneration natural gas-fired</td>
<td>1998</td>
<td>177</td>
</tr>
<tr>
<td>North Carolina</td>
<td>Roxboro, North Carolina</td>
<td>Coal, tire-derived fuel and wood waste CHP facility</td>
<td>1987</td>
<td>54(3)</td>
</tr>
<tr>
<td></td>
<td>Southport, North Carolina</td>
<td>Coal, tire-derived fuel and wood waste CHP facility</td>
<td>1987</td>
<td>109(3)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td>1,668</td>
</tr>
</tbody>
</table>

(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.

**Projects Under Construction and in Development**

As at March 13, 2012, the following projects are currently under construction or in development as described below:

**Quality Wind Project**

The Quality Wind Project is a 142 MW wind farm located about 20 km from the Tumbler Ridge 230 kV sub-station in Northeastern BC. It will use a combination of Vestas V-90 and V-100 turbines rated at 1.8MW each. The project has secured a 25-year EPA with BC Hydro, and is expected to be in
commercial operation in the fourth quarter of 2012. The project is expected to cost approximately $455 million. Construction is progressing on schedule with the majority of the roads and turbine foundations completed in 2011.

**Port Dover and Nanticoke Wind Project**

In April 2010, the OPA awarded the Port Dover & Nanticoke Wind development project a FIT contract to sell power. The 105 MW project is being proposed in an area in southern Ontario where Capital Power has optioned lands totalling 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 2013. Under the terms of the agreements, 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 Project**

The Company is partnering with TransAlta and Enbridge to develop one of the world’s largest carbon capture and storage (CCS) projects as part of Keephills 3. The CCS project, called Project Pioneer, will be designed to capture approximately one 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 the ECOENERGY Technology Initiative. The front end engineering and design study is underway and is expected to be completed in 2012.

**Halkirk Wind Project**

Halkirk Wind project is a 150 MW wind farm development in central Alberta with a 20-year PPA for the sale of renewable energy credits to Pacific Gas and Electric Company. The renewable energy credits have been approved by the California Public Utility Commission. The Halkirk Wind Project will incorporate 83 turbines to be supplied by Vestas. Commercial operation is expected in the last quarter of 2012 at a cost of approximately $357 million. Initial construction has commenced on the project site and access routes.

**K2 Wind Power Project**

K2 is a 270 MW wind power project that will be developed in the Township of Ashfield-Colborne-Wawanosh in southwestern Ontario. The project has an expected total capital cost of $874 million, most of which will be funded through project financing. K2 will have a 20-year PPA with the OPA. The completion of the project is subject to regulatory approvals. It is expected that construction will begin in 2013, with commercial operation in 2014.

At commencement of commercial operation, each of the three partners will have an equal economic interest in the project. Capital Power will contribute the project lease agreements and development work completed to August 3, 2011, while Samsung and Pattern will contribute the PPA and transmission access rights. Capital Power will continue to lead the provincial Renewal Energy Approval process for the project which it has been doing since 2006. Samsung will serve as the engineering procurement and construction contractor and the K2 partnership will finalize the turbine model and supplier.

**Competitive Environment**

The North American power generation industry is comprised of a large number of power producers. Capital Power typically competes against other IPPs and hybrid utilities (utilities with a merchant division) for the sale of energy and capacity, and for long-term contracts. In addition to these competitor types,
Capital Power competes against financial intermediaries (e.g., private equity, hedge funds and infrastructure funds) for asset acquisitions.

Capital Power's competitive environment is determined in large part by the types of power markets in which it operates. Capital Power has generation assets in deregulated wholesale power markets (Alberta and New England) and in regulated and partially-regulated wholesale power markets (BC, Ontario, and North Carolina). For an overview of the structure of these markets, see "Regulatory Overview."

In deregulated wholesale markets, Capital Power competes against other power producers by being efficient and reliable, enabling it to offer energy, and in the case of New England, generation capacity, into the market at a competitive price. Between its merchant generation facilities and the generation it controls through a power purchase agreement, Capital Power's merchant length in Alberta represents approximately 10% of the market's generating capacity. Capital Power accounts for approximately 3% of the total generation capacity in ISO New England.

In regulated and centrally-planned markets, such as Ontario, Capital Power competes for long-term power purchase agreements with credit-worthy counterparties, typically the incumbent utility or a government agency by (i) developing projects that meet counterparty requirements (for generation type, location and capacity); (ii) securing suitable sites; and (iii) focusing on being a low-cost developer and efficient operator. Capital Power's efforts to develop renewable power projects are concentrated in regulated markets. Capital Power also competes to acquire contracted assets or development projects. In addition to its current regulated markets, Capital Power expects to compete for contracted opportunities in the US southwest and in the eastern US.

**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.

Capital Power's assets are emitters of CO$_2$, NO$_x$, SO$_2$, mercury, and PM, and Capital Power 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.

Capital Power complies with regulatory requirements while reducing environmental impact. The following sets out environmental regulations that the Company anticipates has or may have a significant impact on its operations.

**Canadian Federal Government**

**Greenhouse Gas Regulation**

The draft Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity Regulations (the proposed Regulations) were published in the Canada Gazette, Part I on August 27, 2011 and public consultation was concluded on October 26, 2011. The proposed Regulations, made under the *Canadian Environmental Protection Act, 1999* (CEPA 1999), would apply a performance standard of 0.375 kilograms of CO$_2$ emissions per MWh per year, which is intended to represent the intensity level of natural gas combined cycle (NGCC) technology. The performance standard would apply to new coal-fired electricity generation units (defined as having a commissioning date of July 1, 2015 or later) and to old units that have reached the end of their useful life which is the later of (a) 45 years after the unit's
commissioning date and (b) the end of the unit’s power purchase agreement. The performance standard element of the proposed Regulations would come into effect on July 1, 2015.

These regulations are expected to have little if any impact on the Genesee units and Keephills 3 as the units are already commissioned and the useful lives of these units extends over several decades. However, it is not possible to predict whether the regulations will be adopted as proposed or at all.

**Air Emission Regulations**

The Government of Canada is considering regulations which may place stricter limits on NOx, SO2 and PM emissions from fossil-fired generating stations in Canada. Environment Canada, in conjunction with the provincial governments, industry and environmental non-government groups, is working on the development of a regulatory framework under the Air Quality Management System, to minimize emissions and establish nationwide performance standards for coal-fired and natural gas-fired generation units. The working group for coal-fired generating units agreed to emission standards for new units and continues its discussion for existing coal units. 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 (CO2es), per year. The Government of Alberta recognizes three mechanisms for compliance with this regulation: (i) operational or plant changes to reduce emission intensity; (ii) payment into the Government of Alberta Climate Change Emission Management Fund (currently set at $15 per tonne) for all emissions in excess of the emission intensity target; and (iii) purchase of GHG emissions offsets created from Alberta based projects. The SGER imposes a CO2e intensity reduction of 12% from the average CO2e emissions intensity based on the 2003 to 2005 period.

The approximate cost of compliance with the SGER for Genesee Units 1 and 2 is expected to be $7 million for the 2011 reporting period. These costs are recoverable from the PPA holder under the terms of the PPA. The cost of compliance is estimated to be approximately $7 million per year in the future, which will also be recoverable from the PPA holder. The cost of compliance with the SGER for Sundance Units 5 and 6 PPA is passed on to Capital Power, as the PPA buyer, in proportion to its ownership interest and will be approximately $6 million for the 2011 reporting period ($6 million for 2010). Genesee 3 was subject to GHG reduction targets under the SGER (following a three-year grace period) starting in 2009 at 2% and increasing at a rate of 2% per year to a maximum of 12%. Under the SGER, Genesee 3 is now subject to a CO2e intensity reduction target of 6%. The cost of compliance with the SGER for Genesee 3 is expected to be $0.5 million for the 2011 reporting period representing Capital Power’s 50% interest. The recently commissioned Keephills 3 plant is not subject to the SGER until 2014. Ancillary emissions associated with Keephills 3 commissioning were subject to the SGER in 2011 and the cost of compliance is expected to be approximately $0.12 million in the 2011 reporting period.

Capital Power is also required to reduce its share of Genesee 3’s GHG emissions by approximately 53% under Clause 10 of EUB Decision 2001-111 (Clause 10), 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 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 reduction requirements.
Capital Power will also be required to reduce its share of Keephills 3 GHG emissions pursuant to Clause 10. However, the AUC decision does not impose any new reduction targets or costs for Genesee 3 or Keephills 3. Offsets have been retired every year since Genesee 3 was commissioned and will continue to be retired to meet the future obligations of Genesee 3 and Keephills 3.

Capital Power has been acquiring offsets for almost a decade and has entered into more than 35 offset purchase agreements. It invested approximately $16 million in offsets in 2011 ($16 million invested in 2010). Compared to purchasing credits through the Climate Change and Emission Management Fund, Capital Power's offset investments and use of offsets to meet its retirement obligation under the SGER resulted in a savings of approximately $1.7 million in 2011.

The current SGER will expire September 1, 2014 and it is not clear whether the proposed federal GHG emission regulations will replace the SGER.

**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 NOx, SO2, PM and mercury for new coal-fired units or existing units at the end of their economic life. The Government of Alberta has not yet released the final policy but, 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.

Starting January 1, 2011, the Government of Alberta regulations require coal-fired plant operators, including Capital Power, to monitor mercury emissions and capture at least 70% of the mercury in the coal. During 2009 and 2010, CPC installed an activated carbon injection system and mercury Continuous Emission Monitoring System on Genesee Units 1, 2, and 3 to meet the regulatory requirements. Keephills 3 was also equipped with these systems.

**Ontario**

The Western Climate Initiative (WCI) is represented by four provinces (British Columbia, Ontario, Quebec and Manitoba). The WCI requires a 15% reduction in GHG emission levels by 2020, from those of 2005. WCI created WCI Inc., a non-profit corporation, to support the implementation of state and provincial greenhouse gas emissions trading programs. WCI Inc. includes officials from the provinces of Quebec and British Columbia, and the State of California but not the province of Ontario. The cap and trade system applicable to industrial facilities including electricity generation commenced on January 1, 2012 but compliance obligations under the program do not begin until January 2013. There is insufficient information to determine if Ontario will join WCI Inc. in developing a GHG-emissions trading program and any impact this may have on GHG trading prices.

**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 intends to harmonize its cap and trade program with the WCI. The cap and trade system applicable to industrial facilities, including electricity generation, commenced on January 1, 2012 and will replace the current fuel tax. The compliance obligations under the program do not begin until January 2013. The BC Government is conducting a study to evaluate the economic impact of cap and trade and carbon tax programs and has not yet provided the industry specific GHG reduction targets or other program details. Accordingly, there is insufficient information to assess the financial implication to Capital Power's operations.
United States

Greenhouse Gas Regulation

The U.S. Environmental Protection Agency (USEPA) and the State of California implemented mandatory GHG reporting requirements.

The USEPA regulates GHGs under the Clean Air Act (CAA) which requires 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. This regulation does not pose a risk of increased costs to Capital Power as long as its U.S. facilities do not undergo major modifications or significant operational changes.

California released the final cap and trade regulation to control GHGs aimed 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 became effective in January 2012. Capital Power does not have facilities in California and the program does not currently impact Capital Power’s trading activities.

Regional Greenhouse Gas Initiative (RGGI)

In 2008, ten states (Connecticut, Delaware, Maine, Massachusetts, Maryland, New Hampshire, New Jersey, New York, Rhode Island, and Vermont) launched the Regional Greenhouse Gas Initiative (RGGI), the first market-based regulatory program to reduce GHG emissions in the United States. The ten participating states have established a regional cap on CO₂ emissions from power plants and will require power plants to possess a tradable CO₂ allowance for each tonne of CO₂ they emit. Capital Power's three New England facilities (Rumford, Tiverton and Bridgeport) are subject to RGGI requirements. In 2011, CO₂ emissions from the three facilities resulted in compliance costs of $4 million.

Cross State Air Pollution Regulations

On July 6, 2011, the USEPA finalized the Cross-State Air Pollution Rule (CSAPR) which replaces EPA's 2005 Clean Air Interstate Rule (CAIR). CSAPR requires a reduction in the amount of NOx and SO₂ emissions from electric generating units that are transported to down-wind states, starting January 1, 2012. On December 30, 2011, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) stayed CSAPR. A court hearing is scheduled for April 2012. The D.C. Circuit's stay does not invalidate the rule but delays a decision on its implementation until a final court ruling is issued. It is expected that the EPA will continue to administer CAIR.

Since the D.C. Circuit stayed the CSAPR, the North Carolina facilities are not required to comply with CSAPR until the final court decision is issued. Although there is currently insufficient information to determine the future impact of CSAPR on the Company, if additional regulation is passed it is likely that the Company will be subject to increased costs. There is insufficient information to determine the timing of implementation or if there will be any changes to CSAPR.

National Emission Standards for Hazardous Air Pollutants

The USEPA released final National Emission Standards for Hazardous Air Pollutants for new and existing sources for Major Source Industrial, Commercial, and Institutional Boilers and Process Heaters (Boilers MACT) and Commercial/Industrial Solid Waste Incinerators (CISWI). The Boilers MACT falls under Section 112 of the CAA while CISWI falls under Section 129 of the CAA. Under the proposed Non Hazardous Secondary Materials (NHSM) rule, only scrap tires managed under established tire collection programs and resinated wood will be considered non-wastes. Facilities combusting non-wastes are regulated under Section 112 of the CAA, not Section 129 of the CAA. The two North Carolina facilities burn scrap tire and wood waste that are taken from an established tire collection program (non-waste),
therefore, the proposed NHSM rule will not have an impact on Capital Power's facilities in North Carolina and they will remain under Section 112 of the CAA.

*Once-Through Cooling (OTC) – Section 316 (b)*

EPA standards for cooling water intakes under Section 316(b) of the US *Clean Water Act* are expected to be released in July 2012. The new standards will require all power plants, new and old, to install best technology available for minimizing the adverse environmental impacts of cooling water intake structures and could impact Capital Power's Bridgeport facility. There are three components to the proposed regulation. First, most facilities would be subject to an upper limit on fish loss through impingement. The facility would determine which technology would be best suited to meeting this limit. Second, facilities that withdraw very large amounts of water (at least 125 million gallons per day) would be required to conduct studies to help their permitting authority determine whether and what site-specific entrainment mortality controls, if any, would be required. Third, new units at an existing facility that are built to increase the generating capacity of the facility would be required to reduce the intake flow to a level similar to a closed cycle, recirculation system. Capital Power is conducting studies at Bridgeport to assess fish impingement and entrainment as well as technological alternatives. This rule, if implemented, is expected to impact the Bridgeport facility. Until more details are known it is difficult to estimate the potential cost of compliance.

*Capital Power Initiatives*

Along with the initiatives disclosed in CPC's MD&A for the year ended December 31, 2011, Capital Power is also participating in other environmental initiatives.

Capital Power is a corporate sponsor of the University of Alberta and assisted with the launch of 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.

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 CO₂ from coal generation. The Genesee 3 and the Keephills 3 facilities use supercritical coal-burning technology which emit 24% less CO₂ in producing the same amount of power as the four Wabamun units recently retired by TransAlta.

*Health and Safety*

The development, construction, ownership and operation of Capital Power's generation assets carry an inherent risk of liability related to public health and worker health and safety.

Capital Power manages its health and safety risks through a company-wide health and safety management system and measures its health and safety performance against recognized industry and internal performance measures. Compliance audits are conducted by internal and external auditors to verify that the health and safety management system meets the regulatory requirements for the business.

*Personnel*

As at March 13, 2012, the total number of persons employed by Capital Power is 944. As at March 13, 2012, approximately 272 full-time, part-time, temporary and casual employees work in Capital Power's Canadian plant operations and 139 work in Capital Power's US plant operations. Personnel working at Capital Power's Canadian plants are employees of Capital Power Corporation. Personnel working at Capital Power's US plants are employees of CPLP. In connection with the sale of CPILP to Atlantic Power, 268 employees of CPC were transferred to Atlantic Power. See "General Development of the Business – Company History – Sale of CPILP and Acquisition of Roxboro and Southport".
There are four Canadian labour unions, which together represent approximately 37% of Capital Power's Canadian labour force and approximately 31% of Capital Power's overall work force. There is one US labour union which represents approximately 8% of Capital Power's US labour force and approximately 1% of Capital Power's overall work force. The 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; and
- the United Workers Union of America (UWUA) Local 470-1, which represents operations and maintenance employees; including instrumentation and control technicians, maintenance technicians and shift leads, production operators and warehouse technicians at the Bridgeport, Connecticut power plant.

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

<table>
<thead>
<tr>
<th>Bargaining Unit</th>
<th>Location</th>
<th>Effective Date</th>
<th>Expiry date</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSU 52</td>
<td>Edmonton, AB</td>
<td>December 26, 2010</td>
<td>December 17, 2011</td>
</tr>
<tr>
<td>IBEW Local 1007</td>
<td>Edmonton, AB</td>
<td>December 20, 2009</td>
<td>December 17, 2011</td>
</tr>
<tr>
<td>CEP Local 829</td>
<td>Edmonton, AB</td>
<td>December 26, 2010</td>
<td>December 14, 2013</td>
</tr>
<tr>
<td>CEP Local 1123</td>
<td>Campbell River, BC</td>
<td>May 1, 2009</td>
<td>April 30, 2012</td>
</tr>
<tr>
<td>UWUA Local 470-1</td>
<td>Bridgeport, CT</td>
<td>June 7, 2011</td>
<td>June 6, 2016</td>
</tr>
</tbody>
</table>

Collective bargaining has begun with IBEW Local 1007 and is expected to commence with CSU 52 in the second quarter of 2012. 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 Capital Power 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 current operations are subject. Environmental regulations affecting Capital Power's operations are discussed under "Business of Capital Power - Environmental Regulation".
Alberta

Since January 1, 1996, new generating capacity initiatives in Alberta have been undertaken by IPPs 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 Government of Alberta 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, including the Genesee 1 and 2 units owned by Capital Power. 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 Alberta Electric System Operator (AESO), based upon offers by generators to sell power. The Market Surveillance Administrator (MSA) is an independent entity responsible for monitoring and investigating the market behaviour of market participants, including AESO and the Balancing Pool, and enforcing compliance with all applicable legislation, regulations, and ISO and AUC rules. The Alberta Utilities Commission (AUC) oversees electricity industry matters including new power plant and transmission facilities, distribution and sale of electricity as well as retail natural gas. The AUC is also responsible for approving AESO rules and for determining penalties and sanctions on any participant found to have contravened market rules. The Energy Resources Conservation Board (ERCB) regulates oil, gas, oil sands and coal resources.

Under amendments to the Electric Utilities Act (EUA) introduced in 2009, the Government of Alberta can designate certain transmission projects as critical infrastructure and approve the need for such facilities. The EUA amendments also identified and described five projects deemed as critical transmission projects. The AUC remains responsible for reviewing and approving other aspects of critical transmission infrastructure projects.

On October 21, 2011, the Government of Alberta announced that it was reconsidering its approach to the two North-South transmission reinforcement projects that had been identified through Bill 50 as critical transmission infrastructure projects and that would increase transmission capacity between the Edmonton and Calgary regions. In light of the announcement of the review, the AUC suspended the separate proceedings it had initiated to consider the facilities applications that had been filed in respect of those two projects, which are known as the West Alberta Transmission Line (“WATL”) and East Alberta Transmission Line (“EATL”) projects.

The Minister of Energy established a four-member Critical Transmission Review Committee (CTRC) in December 2011, and the CTRC conducted meetings with public and industry stakeholders in January 2012. The CTRC’s final report and recommendations were provided to the Government of Alberta and released publicly on February 13, 2012. The CTRC found that the AESO’s forecasts showing a need to immediately reinforce the transmission grid to be reasonable, and recommended proceeding as soon as possible with development of the two high-voltage direct current (HVDC) transmission lines between Edmonton and Calgary. In these respects, the CTRC’s recommendations upheld Alberta’s transmission development framework and the objective of proactive transmission development in order to avoid congestion on the transmission system during normal operating conditions. The CTRC also recommended amending Bill 50 to remove the cabinet discretion to designate any future projects as “critical” and that the need and timing for such future projects would be subject to review and approval by the AUC.

On February 23, 2012, the Government of Alberta announced that it accepted the CTRC’s recommendations. The AUC subsequently advised in a letter on February 24, 2012 that it would be resuming the WATL and EATL facilities proceedings in light of the Government’s announcement.

The Government of Alberta also announced on February 23, 2012 its intention to establish an independent panel to review the variable, regulated rate option (“RRO”) and consider the ability to reduce volatility and costs for consumers on the variable default rate. Details regarding the scope and timelines for this inquiry have not been confirmed at this time.
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 Ontario Ministry of Energy takes a lead role in defining the electricity mix to be procured by the OPA which has the mandate to develop a detailed integrated power supply plan, to procure the electricity generation in that plan and to manage contracts for privately-owned generation. The Independent Electric System Operator (IESO) 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 (OEB).

Capital Power has ownership interests in three wind projects in Southern Ontario; one is in commercial operation and two are under development. The wind site, Kingsbridge 1 wind farm, is in operation and was developed pursuant to Ontario's Renewable Energy Supply program, which allowed for long term power purchase agreements for wind facilities. The two Ontario projects in development are Port Dover-Nanticoke and K2. These projects are being developed pursuant to a FIT program. The FIT program, originating from the 2009 Green Energy Act, provides standard program rules, standard contracts and standard pricing for classes of renewable energy. Ontario's Long-Term Energy Plan (LTEP), released at the end of 2010, called for an increase in renewable energy from wind, solar and bio-energy to 10,700 MW by 2018. The LTEP proposed to achieve that goal through transmission expansion, maximizing the use of the existing transmission system, and the continuation of FIT and micro FIT programs.

Given the speed of investment in wind projects under the FIT program, and the relative inflexibility of existing nuclear and hydro resources, the IESO is discussing with stakeholders a process through which wind resources would be dispatched down before either nuclear or hydro during conditions of surplus baseload generation. Stakeholder discussions continue under the IESO Renewable Integration (SE-91) process, but such a mechanism will likely impact wind resources in either RES or FIT type contracts as these resources are paid for the energy they produce and being dispatched down would serve to reduce production during events of surplus.

British Columbia

BC's electricity is provided primarily by BC Hydro, a Crown corporation that is regulated by the 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 British Columbia 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 requests for proposals from BC Hydro, which, if successful, result in long-term PPAs with BC Hydro.

BC Hydro 2012 – 2014 Revenue Requirements Application and BC Hydro Review Panel

In April 2011, the BC Government announced a review of BC Hydro in response to public concerns that had been expressed over the magnitude of proposed rate increases that were reflected in BC Hydro's 2012-2014 Revenue Requirements Application, which was filed March 1, 2011. The BC Hydro Review Panel report was issued in August 2011 and, with respect to the role of IPPs, was supportive of BC's Power Call process and noted that IPPs assist BC in meeting the goals of the Clean Energy Act and
energy self-sufficiency. Three recommendations were provided to increase the transparency, consistency and relevance of the evaluation criteria used for future power solicitations, and to better allocate certain risks between BC Hydro and IPPs while continuing to serve the public interest.

On November 24, 2011, BC Hydro filed an Amended 2012 – 2014 Revenue Requirements Application incorporating the recommendations of the BC Hydro Review Panel. BC Hydro noted in the Amended RRA that, since the enactment of the Clean Energy Act, the prospects for export sales being those required to meet self-sufficiency requirements had diminished considerably. Accordingly, BC Hydro would not continue to explore and investigate export market opportunities beyond those required for self-sufficiency purposes.

**BC Natural Gas and LNG Strategies and BC Hydro 2012 Integrated Resource Plan (IRP)**

On February 3, 2012, the BC Government announced a new natural gas strategy and a complementary strategy related to the development of a new liquefied natural gas (LNG) sector in British Columbia. The announcement stated that British Columbia will be home to the world’s first LNG export facilities that use clean energy and that, as new infrastructure is built and the industry expands, future energy needs will be served by local, clean energy, with B.C.’s natural gas used to support energy reliability if required.

As part of the natural gas and LNG strategies, and also in response to a recommendation of the BC Hydro Review Panel, the BC Government announced it would redefine BC’s existing self-sufficiency policy. Currently, BC Hydro is required to have, by 2016, enough B.C.-based energy to meet customer demand even in critical water conditions and, by 2020, an extra 3,000 GWh per year of insurance energy. The Province will now require BC Hydro to plan for average water conditions instead of historically-low water inflow conditions. The move to an average water planning basis will result in fewer long-term commitments to purchasing power. Moving forward, procurement of new clean power supplies will be based on increases in demand.

On February 7, 2012, BC Hydro advised that it is proceeding with completing a draft IRP that it expects to make available in the second quarter of 2012 for stakeholder comments. The final IRP will be completed and submitted to the BC Government by December 2012. The IRP could provide opportunities for Capital Power.

**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**

**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 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.
FERC mandates open access for transmission service in the US. A series of orders issued by FERC since 1996 have i) unbundled utilities’ transmission and generation services; ii) required those utilities to offer eligible entities open access to utility transmission facilities on a basis comparable to the utilities' own use of the facilities; and iii) set out standards for Regional Transmission Organizations (RTOs). RTO’s are voluntary organizations operated by Independent System Operators (ISOs) independent of market participants, that perform planning, operations, and transmission services on a regional instead of utility specific basis. ISOs/RTOs serve two thirds of the wholesale power markets in the U.S. The six FERC-approved RTO’s in the United States include: ISO-NE, New York ISO, PJM Interconnection, the Midwest ISO, the Southwest Power Pool and the California ISO. In addition, FERC approval is required for wholesale sales of power at market-based or cost-based rates. This approval is granted if FERC 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 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.

**Independent System Operators**

FERC has the authority to enforce the statutes it is responsible for implementing and the regulations it issues under those statutes. It is empowered 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, with the potential of criminal fines and imprisonment for violations, FERC is also responsible for certification of power plant facilities operating in the wholesale markets. The North American Electric Reliability Corporation (NERC) is the Electric Reliability Organization that establishes and enforces reliability standards applicable to all owners, operators and users of the bulk power system. NERC standards are reviewed by FERC and thus are subject to FERC’s enforcement authority.

**New England**

The six New England states (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont) are subject to a unified ISO-NE tariff. Capital Power currently owns generating plants in Connecticut, Maine and Rhode Island. FERC oversees and enforces the tariff and ISO-NE administers the tariff in conjunction with an independent market monitor. Thus, Capital Power and other market participants are subject to both the conditions of the regional tariff and all of the federal regulations listed above.

ISO-NE is responsible for centrally dispatching all of the power products sold into the markets and coordinating delivery of those products to purchasers. The ISO-NE tariff allows for three power product markets—energy, capacity and ancillary services.

ISO-NE energy market utilizes "Locational Marginal Prices" (LMPs), which reflect congestion and marginal loss components, in addition to energy, at hundreds of nodes throughout the system. The markets are run a day before the operating day, which are financially settled, and again in real time to accommodate any changes in supply and demand.

The capacity market also utilizes an auction, which takes place three years before the capacity delivery year. Successful resources obtain a capacity supply obligation for the pertinent delivery year and receive monthly payments based on the capacity supply obligation. Reconfiguration auctions are held annually and monthly in order to accommodate changes in the need for capacity. The ancillary services market compensates generators who provide operating reserves based on their submitted costs for providing energy, including start-up and no-load costs. Bilateral contracting is also allowed in the region, but must be scheduled through the ISO as the ISO has dispatch control over the transmission system.
ISO-NE and its NEPOOL recently filed with the FERC changes to the ISONE Forward Capacity Market (FCM) that will retain the floor price for the auction through the 2016 – 2017 period, and institute four zones for the region, rather than the two currently in place. Moreover, both ISO-NE and NEPOOL will commit to work on long-term FCM reforms beyond 2017. The outcome of this nine month process is uncertain as stakeholders hold diverse opinions on the appropriate outcomes.

North Carolina

North Carolina is not part of an RTO or ISO. All transactions are bilateral in the state and must be scheduled through the incumbent utility. Capital Power has two facilities in North Carolina, Southport and Roxboro, both of which burn a combination of coal, wood, and tire derived fuel under long-term PPAs with the utility Progress Energy Carolina. Both plants are QFs under the Public Utilities Regulation Act of 1978 that incentivizes energy efficiency though use of cogeneration and renewable energy for QFs under 30 MWs.

RISK FACTORS

A discussion of the risk factors relating to Capital Power and its business and operations can be found in the section entitled "Risks and Risk Management" in CPC's MD&A for the year ended December 31, 2011 which section is incorporated herein by reference and is available on SEDAR.

COMMON AND PREFERRED DIVIDENDS

Common Dividends

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.

The Company launched a dividend reinvestment plan effective January 1, 2012. See "General Development of the Business – Recent Developments".

Following the completion of the IPO in July 2009, the following dividends have been declared on the Common Shares:

<table>
<thead>
<tr>
<th>Dividends Declared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Declaration Date</td>
</tr>
<tr>
<td>17 Jul 09</td>
</tr>
<tr>
<td>25 Nov 09</td>
</tr>
<tr>
<td>19 Mar 10</td>
</tr>
<tr>
<td>30 Apr 10</td>
</tr>
<tr>
<td>3 Aug 10</td>
</tr>
<tr>
<td>24 Nov 10</td>
</tr>
</tbody>
</table>
Preferred Dividends

The Series 1 Shares 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 following dividends have been declared on the Series 1 Shares since the date of issuance of such shares:

<table>
<thead>
<tr>
<th>Declaration Date</th>
<th>Dividend per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>8 Mar 11</td>
<td>$0.315</td>
</tr>
<tr>
<td>29 Apr 11</td>
<td>$0.315</td>
</tr>
<tr>
<td>28 Jul 11</td>
<td>$0.315</td>
</tr>
<tr>
<td>23 Nov 11</td>
<td>$0.315</td>
</tr>
<tr>
<td>13 Mar 12</td>
<td>$0.315</td>
</tr>
</tbody>
</table>

(1) Initial quarterly dividend represents the period from December 16, 2010 (the date of issuance of the Series 1 Shares) to March 31, 2011.

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, 2011, there were 58.969 million Common Shares, 5 million Series 1 Shares, 38.216 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. 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 CPLP, 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 39% indirect interest in CPC held by EPCOR through its ownership of Exchangeable LP Units of CPLP.

**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 Series 1 Shares at a price of $25.00 per Series 1 Share for aggregate gross proceeds of $125 million.

The Series 1 Shares 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 (Series 2 Shares) 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". All of the Exchangeable LP Units and all of the Special Voting Shares are owned by EPCOR. Under the Exchange Agreement, holders agree 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 of directors of the Board as set forth below:

<table>
<thead>
<tr>
<th>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</th>
<th>Number of Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not less than 20%</td>
<td>Four (4)</td>
</tr>
<tr>
<td>Less than 20% but not less than 10%</td>
<td>Two (2)</td>
</tr>
</tbody>
</table>

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 of the Company 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 of Capital Power Corporation.

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 of Capital Power Corporation.

"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 the 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 whole voting rights are controlled by persons that own Exchangeable LP Units or persons who, for the 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 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 Capital Power Corporation 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 provision 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, Capital Power Corporation will redeem the related number of Special Voting Shares held by such holder. The number of Special Voting Shares that Capital Power Corporation will redeem will be equal to the number of the 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, 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. See "Material Contracts - Limited Partnership Agreement". As at December 31, 2011, the Company indirectly held 21.75 million GP Units and 36.924 million Common LP Units representing together approximately 61% of the total number of outstanding partnership units of CPLP, and EPCOR held 38.216 million Exchangeable LP Units representing approximately 39% of the total number of outstanding partnership units of CPLP.

Debt Issuance

On November 16, 2010, CPLP issued $300 million principal amount 5.276% senior unsecured MTNs due November 16, 2020 pursuant to Trust Indenture as supplemented by a first supplemental trust indenture dated November 16, 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 CPLP, 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%.

On December 16, 2010, after Capital Power Corporation completed its issuance of Series 1 Shares, Capital Power Corporation loaned $120.78 million to CPLP, pursuant to a Subordinated Debt Agreement. Under the terms of the Subordinated Debt Agreement, CPLP is permitted to defer payment of all or part of the interest owing to Capital Power Corporation for one or more periods of up to five consecutive years. In addition, CPLP 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.

On April 18, 2011, CPLP issued $300 million principal amount of 4.60% senior unsecured MTNs due December 1, 2015 pursuant to the Trust Indenture as supplemented by a second supplemental trust indenture dated April 18, 2011.

On June 15, 2011, Capital Power U.S. Financing LP, an indirect subsidiary of CPLP, closed a US$295 million private placement of senior notes (Senior Notes). The Senior Notes consist of two notes with 10 and 15-year terms. The 10-year Senior Note has a principal amount of US$230 million that matures in
June 2021 with a coupon rate of 5.21%. The 15-year Senior Note has a US$65 million principal amount and matures in June 2026 with a coupon rate of 5.61%. The Senior Notes prohibit CPLP from making distributions if an event of default has occurred and is continuing, or would reasonably be expected to result from the distribution.

On February 21, 2012, CPLP issued $250 million principal amount of 4.85% senior unsecured MTN’s due February 21, 2019 pursuant to the Trust Indenture as supplemented by a third supplemental trust indenture dated February 21, 2012.

**Capital Power GP Holdings Inc.**

The authorized capital of CPLPGP consists of an unlimited number of common shares, an unlimited number of Class "H" voting redeemable retractable preferred shares, an unlimited number of Class "I" non-voting redeemable retractable preferred shares and one special limited voting share. As at December 31, 2011, 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, 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.

**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. On June 28, 2011, S&P affirmed the BBB long term rating on CPLP and changed the outlook from stable to negative. The BBB 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. Outlooks typically have a six-month to two-year time frame and address trends or risks with the potential, but not the certainty, of raising or lowering a credit rating sometime over the next two years.

DBRS has assigned a BBB rating with a stable trend to CPLP's Senior Unsecured Debt. This rating 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.

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:

<table>
<thead>
<tr>
<th>Month</th>
<th>Share Price</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High  Low  Close</td>
<td>Traded</td>
</tr>
<tr>
<td>January</td>
<td>23.97  22.80  23.21</td>
<td>1,285,494</td>
</tr>
<tr>
<td>February</td>
<td>26.44  23.09  25.16</td>
<td>3,497,348</td>
</tr>
<tr>
<td>March</td>
<td>26.07  24.47  25.92</td>
<td>4,100,150</td>
</tr>
<tr>
<td>April</td>
<td>26.00  25.05  25.49</td>
<td>1,233,116</td>
</tr>
<tr>
<td>May</td>
<td>26.65  25.10  26.27</td>
<td>1,481,935</td>
</tr>
<tr>
<td>June</td>
<td>28.00  24.90  25.00</td>
<td>6,750,933</td>
</tr>
<tr>
<td>July</td>
<td>25.76  23.46  24.45</td>
<td>2,888,210</td>
</tr>
<tr>
<td>August</td>
<td>25.50  21.50  25.37</td>
<td>2,024,198</td>
</tr>
<tr>
<td>September</td>
<td>26.38  24.56  25.45</td>
<td>2,704,155</td>
</tr>
</tbody>
</table>
The Company's Series 1 Shares began trading on the Toronto Stock Exchange on December 16, 2010 under the symbol of CPX.PR.A. The following table sets forth the reported high and low trading prices and volumes for the periods indicated:

### Toronto Stock Exchange 2011 CPX.PR.A Trading Statistics

<table>
<thead>
<tr>
<th>Month</th>
<th>Share Price</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>October</td>
<td>25.78</td>
<td>24.02</td>
</tr>
<tr>
<td>November</td>
<td>25.50</td>
<td>22.88</td>
</tr>
<tr>
<td>December</td>
<td>25.39</td>
<td>23.30</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Month</th>
<th>Share Price</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>January</td>
<td>25.47</td>
<td>25.00</td>
</tr>
<tr>
<td>February</td>
<td>25.35</td>
<td>24.75</td>
</tr>
<tr>
<td>March</td>
<td>25.26</td>
<td>24.68</td>
</tr>
<tr>
<td>April</td>
<td>25.52</td>
<td>25.00</td>
</tr>
<tr>
<td>May</td>
<td>25.82</td>
<td>25.05</td>
</tr>
<tr>
<td>June</td>
<td>25.60</td>
<td>24.68</td>
</tr>
<tr>
<td>July</td>
<td>25.50</td>
<td>24.80</td>
</tr>
<tr>
<td>August</td>
<td>25.42</td>
<td>24.80</td>
</tr>
<tr>
<td>September</td>
<td>25.30</td>
<td>24.75</td>
</tr>
<tr>
<td>October</td>
<td>25.21</td>
<td>24.50</td>
</tr>
<tr>
<td>November</td>
<td>24.99</td>
<td>24.60</td>
</tr>
<tr>
<td>December</td>
<td>25.40</td>
<td>24.85</td>
</tr>
</tbody>
</table>

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## DIRECTORS AND OFFICERS

**Board of Directors**

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

<table>
<thead>
<tr>
<th>Name, Province / State and Country of Residence</th>
<th>Director Since</th>
<th>Office Held (1)(2) Committee Membership (3)</th>
<th>Principal Occupation During Past Five Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albrecht W.A. Bellstedt Canmore, Alberta, Canada Date of Birth: March 1949 Shares held: (4) Common Shares – 7090 Series 1 Shares - 4000</td>
<td>July 9, 2009</td>
<td>Director Committees: Corporate Governance, EH&amp;S</td>
<td>Professional Director from February 2007; prior thereto, Executive Vice President and General Counsel, TransCanada Corporation from January 1999.</td>
</tr>
<tr>
<td>Brian Bentz Vancouver, British Columbia, Canada Date of Birth: April 1943 Shares held: (4) Common Shares - 1000</td>
<td>July 9, 2009</td>
<td>Director Committees: EH&amp;S Keephills 3</td>
<td>Proprietor of Brian Bentz Consulting from May 2008; prior thereto, President, Oilsands and Mining, AMEC Americas Inc. from January 2006; prior thereto, various executive positions with AMEC Americas Inc. or its predecessors from October 1969.</td>
</tr>
<tr>
<td>Hugh Bolton Edmonton, Alberta, Canada Date of Birth: May 1938 Shares held: (4) Common Shares – 1000 Series 1 Shares - 4000</td>
<td>July 9, 2009</td>
<td>Director</td>
<td>Retired and Non-executive Chair of the Board of Directors of EPCOR Utilities Inc.</td>
</tr>
<tr>
<td>Name, Province / State and Country of Residence</td>
<td>Director Since</td>
<td>Office Held (1)(2) Committee Membership (3)</td>
<td>Principal Occupation During Past Five Years</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------</td>
<td>-------------------------------------------</td>
<td>-----------------------------------------</td>
</tr>
<tr>
<td>Richard Cruickshank (6) Edmonton, Alberta, Canada</td>
<td>July 9, 2009</td>
<td>Director Committees: Corporate Governance Keephills 3</td>
<td>Partner, Fraser Milner Casgrain LLP (law firm) since August 2000.</td>
</tr>
<tr>
<td>Philip Lachambre Edmonton, Alberta, Canada</td>
<td>July 9, 2009</td>
<td>Director Committees: EH&amp;S Audit</td>
<td>President of PCML Consulting Inc. from February 2007; prior thereto, Executive Vice President &amp; Chief Financial Officer, Syncrude Canada Inc. from January 1997.</td>
</tr>
<tr>
<td>Donald Lowry Edmonton, Alberta, Canada</td>
<td>July 9, 2009</td>
<td>Director and Chairman Committees: Corporate Governance Keephills Audit EH&amp;S</td>
<td>President and Chief Executive Officer, EPCOR Utilities Inc. from January 1998.</td>
</tr>
<tr>
<td>Brian MacNeill Calgary, Alberta, Canada</td>
<td>July 9, 2009</td>
<td>Director and Chair of non-EPCOR elect Directors Committee: Corporate Governance Keephills Audit EH&amp;S</td>
<td>Corporate director from January 31, 2011 to present; prior thereto, acting Chief Executive Officer for Oilsands Quest Inc. from September 2010 to January 31, 2011; prior thereto Chairman of the Board, Petro Canada Inc. from June 2000 to August 2009.</td>
</tr>
<tr>
<td>Allister McPherson Edmonton, Alberta, Canada</td>
<td>June 25, 2009</td>
<td>Director Committees: Keephills 3 Audit</td>
<td>Retired from November 2005; prior thereto, Executive Vice President, Canadian Western Bank from December, 2000.</td>
</tr>
<tr>
<td>Name, Province / State and Country of Residence</td>
<td>Director Since</td>
<td>Office Held (1)(2) Committee Membership (3)</td>
<td>Principal Occupation During Past Five Years</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>----------------</td>
<td>-------------------------------------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>Janice Rennie Edmonton, Alberta, Canada</td>
<td>July 9, 2009</td>
<td>Director Corporate Governance Audit</td>
<td>Professional Director from 2005; prior thereto, Senior Vice President, EPCOR Utilities Inc., September 2004 to September 2005.</td>
</tr>
<tr>
<td>Brian Vaasjo (7) Edmonton, Alberta, Canada</td>
<td>May 5, 2009</td>
<td>Director, President and Chief Executive Officer</td>
<td>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.</td>
</tr>
</tbody>
</table>

(1) The Board 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) Board Committees: (i) Audit Committee, (ii) Corporate Governance Compensation and Nominating Committee (Corporate Governance), (iii) Environmental Health and Safety Committee (EH&S), and (iv) Keephills 3 Project Oversight Committee (Keephills 3). Keephills 3 ceased to exist as a committee on November 23, 2011.
(4) Represents as of December 31, 2011 the number of Common Shares and Series 1 Shares beneficially owned, or controlled or directed, directly or indirectly, by such persons.
(5) As Chair, Mr. Lowry attends committee meetings in an ex-officio, non-voting capacity.
(6) 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.
(7) Mr. Vaasjo is not considered to be independent as he is the President and Chief Executive Officer of CPC.

The Board has determined that all of the directors, except for Messrs Vaasjo and Cruickshank, are independent within the meaning of applicable Canadian securities laws on the basis that they do not have any material direct or indirect relationship with the Company which could, in the view of the Board, be reasonably expected to interfere with the exercise of their independent judgment. Mr. Vaasjo is not considered independent as he is the President and Chief Executive Officer of the Company. Mr. Cruickshank is not considered independent as he is a partner in a law firm that provides legal advice and services to the Company.
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, 2011.

<table>
<thead>
<tr>
<th>Name, Province / State and Country of Residence</th>
<th>Officer Since</th>
<th>Office Held</th>
<th>Principal Occupation During the last 5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brian Vaasjo</td>
<td>May 1, 2009</td>
<td>President and Chief Executive Officer</td>
<td>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.</td>
</tr>
<tr>
<td>Stuart Lee</td>
<td>May 1, 2009</td>
<td>Senior Vice President and Chief Financial Officer</td>
<td>Senior Vice President and Chief Financial Officer of Capital Power Corporation from July 2009 and President of CPI Income Services Ltd. from July 2009 to November 2011; 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.</td>
</tr>
<tr>
<td>Kathryn Chisholm</td>
<td>May 1, 2009</td>
<td>Senior Vice President, General Counsel and Corporate Secretary</td>
<td>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.</td>
</tr>
<tr>
<td>Name, Province / State and Country of Residence</td>
<td>Officer Since</td>
<td>Office Held</td>
<td>Principal Occupation During the last 5 Years</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>---------------</td>
<td>-------------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>James Oosterbaan Edmonton, Alberta, Canada Date of Birth: February 1960 Shares Held(^{(1)}) Common Shares – 19,448</td>
<td>July 9, 2009</td>
<td>Senior Vice President, Operations &amp; Commodity Portfolio Management since January 4, 2011, prior thereto Senior Vice President, Commercial Services</td>
<td>Senior Vice President, Operations &amp; Commodity Portfolio Management, Capital Power Corporation, since January 2011; prior thereto, 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 Vice President, Merchant Operations, EPCOR Merchant and Capital from April 2004.</td>
</tr>
<tr>
<td>Bryan DeNeve Edmonton, Alberta, Canada Date of Birth: July 1965 Shares Held(^{(1)}) Common Shares – 1,605</td>
<td>January 4, 2011</td>
<td>Senior Vice President, Commercial Services</td>
<td>Senior Vice President, Commercial Services of Capital Power Corporation from January, 2011; prior thereto, Vice President, Business Development of Capital Power Corporation from July, 2009 until December, 2010; prior thereto, Vice President, Power Development for EPCOR Utilities Inc. from March, 2008 until June 2009; prior thereto, Vice President, Valuation &amp; Analytics for EPCOR Utilities Inc. from January, 2005 until February, 2008.</td>
</tr>
<tr>
<td>Darcy John Trufyn Edmonton, Alberta, Canada Date of Birth: July 1955 Shares Held(^{(1)}) Common Shares – 6,136</td>
<td>October 9, 2009</td>
<td>Senior Vice President, Capital Project Management</td>
<td>Senior Vice President, Construction, Engineering and Project 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.</td>
</tr>
<tr>
<td>Name, Province / State and Country of Residence</td>
<td>Officer Since</td>
<td>Office Held</td>
<td>Principal Occupation During the last 5 Years</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>--------------</td>
<td>-------------</td>
<td>--------------------------------------------</td>
</tr>
<tr>
<td>Leah Fitzgerald</td>
<td>July 9, 2009</td>
<td>Associate General Counsel &amp; Assistant Corporate Secretary since November 2010; prior thereto Director Ethics &amp; Assistant Corporate Secretary</td>
<td>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.</td>
</tr>
<tr>
<td>Edmonton, Alberta, Canada</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date of Birth: August 1967</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares Held&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Shares – 1,203</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yale Loh</td>
<td>March 8, 2011</td>
<td>Vice President and Treasurer</td>
<td>Vice President and Treasurer of Capital Power Corporation from March 2011; prior thereto, Treasurer of BC Hydro &amp; Power Authority from March 2006 until February 2011.</td>
</tr>
<tr>
<td>Edmonton, Alberta, Canada</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date of Birth: February 1967</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares Held&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common Shares - 0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>(1)</sup> Represents as of December 31, 2011 the number of Common Shares beneficially owned, or controlled or directed, directly or indirectly, by such persons.

As at December 31, 2011, 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, 31,118 Common Shares ($25.12 per share as at the close of trading on December 31, 2011 for a value of $781,684), which is less than 1% of the issued and outstanding Common Shares and 37,800 Series 1 Shares ($25.30 per share as at the close of trading on December 31, 2011 for a value of $956,340) which is less than 1% of the issued and outstanding Series 1 Shares.

As at December 31, 2011, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 111,168 Common Shares ($25.12 per share as at the close of trading on December 31, 2011 for a value of $2,792,540), which is less than 1% of the issued and outstanding Common Shares of the Company and 37,800 Series 1 Shares ($25.30 per share as at the close of trading on December 31, 2011 for a value of $956,340) which is less than 1% of the issued and outstanding Series 1 Shares. The information as to the beneficial ownership of the Common Shares and Series 1 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**

As of December 31, 2011, 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:
(i) 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

(ii) 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

(iii) 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.


Brian MacNeill is a director of Oil Sands Quest Inc., which in November of 2011 requested and obtained an order from the Alberta Court of Queen's Bench (the Court) providing creditor protection under the Companies’ Creditors Arrangement Act (Canada), which order was, at Oil Sands Quest Inc.’s subsequent request, extended by the Court until May 18, 2012, unless further extended as required and approved by the Court.

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 Canada Business Corporations 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).
LEGAL PROCEEDINGS AND REGULATORY ACTIONS

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

North Carolina PPA Arbitration

Prior to 2010, both the Roxboro and Southport facilities provided all of their electrical output under PPAs to Carolina Power & Light Company (CP&L), which became a subsidiary of Progress Energy, Inc. The PPAs expired December 31, 2009, but were extended pending resolution of arbitration before the North Carolina Utilities Commission (NCUC). CPILP filed for arbitration with the NCUC seeking long-term PPAs for the North Carolina facilities. The NCUC issued an Order on Arbitration on January 26, 2011, which provided direction on four fundamental issues. Ten year PPA's were entered into on June 2011, by the two North Carolina facilities with CP&L.

Hitachi

A subsidiary of CPLP 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 and Series 1 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)
- 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)

The following section provides a summary of these agreements. Copies of the above material agreements may be viewed on SEDAR at 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 and Preferred Dividends - Common Dividends" in this AIF and "Risks and Risk Management – Corporate Structure Risk" in the MD&A for the year ended December 31, 2011.

**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\(\frac{2}{3}\)% 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.

**Social Objectives Agreement**

Pursuant to the Social Objectives Agreement, the Company 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 Company 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 are set out in the Committee's Terms of Reference, provided in Appendix A to this AIF.

Composition of the Audit Committee

In 2011, the Audit Committee was composed of William Bennett (Chair), Philip Lachambre, Allister McPherson and Janice Rennie. As Chair of the Board of CPC, Donald Lowry also attends Audit Committee meetings in an ex-officio, non-voting capacity. The Board has determined that all members of the Audit Committee 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:

<table>
<thead>
<tr>
<th>AC Member</th>
<th>Relevant Education and Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>William Bennett</td>
<td>Mr. Bennett is presently semi-retired, and 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. Mr. Bennett has been a private investor since 1998, and a member of the Board of TD Bank Financial Group since 2005, where he currently serves on its Risk Committee and as its Audit Committee Chair. He holds an undergraduate degree in economics from Kenyon College and a Master of Business Administration from the University of Chicago. Mr. Bennett was a former director of Nuveen Investments Bond and Mutual Funds, where he served as Chair of the Audit Committee.</td>
</tr>
</tbody>
</table>
### AC Member | Relevant Education and Experience
---|---
Philip Lachambre | Mr. Lachambre has held many positions in the oil and gas, mining and construction sectors during his 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. Mr. Lachambre’s areas of responsibility have included corporate strategy, controllers, treasury, legal, government and regulatory affairs, EH&S, business development, stakeholder relations, human resources, procurement and contracts, and aboriginal affairs.  
Mr. Lachambre holds a Bachelor of Commerce degree from the University of Alberta and is a graduate of the Executive Management Program of the University of Western Ontario. Mr. Lachambre is also the Chair of the Audit Committee of Flint Energy Services Ltd. since 2008, and of the Audit Committee of GLM Industries LP since 2007.

Allister McPherson | Mr. McPherson joined Canadian Western Bank in March, 1997 and retired in November, 2005 having served as Executive Vice President from 2000. He was deputy provincial treasurer (Finance and Revenue) for the Province of Alberta from 1984 to 1996 and holds a Master of Science degree from the University of British Columbia.  
Mr. McPherson has served on the Audit Committee of EPCOR Utilities Inc. since 2008, as chair of The Churchill Corporation’s Audit Committee since 2009, and is currently an external member of the University of Alberta’s Investment Committee. He was past chair of the board of the Alberta Credit Union Deposit Guarantee Corporation, past director, vice chair and Audit Committee chair of the Edmonton Regional Airports Authority, and a past chair of the Endowment Fund Policy Committee of Alberta Finance.

Janice Rennie | Ms. Rennie is an independent director and business advisor. She has held senior management positions with a number of companies including, most recently, Senior Vice President of Human Resources and Organizational Effectiveness at EPCOR from 2004 to 2005. Ms. Rennie was also principal of Rennie & Associates which operated a 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. Ms. Rennie serves on the Audit Committee for West Fraser Timber Co. Ltd. (since 2004), the Audit Committee for Greystone Capital Management Inc. (since 2005), the Audit, Finance and Risk Committee of Methanex Corp. (since 2006), the Audit Committee of Teck Resources Ltd. (since 2007), the Audit Committee of Major Drilling Group International Inc. (since 2010), and on the Audit Committee of WestJet Airlines Ltd. (since 2012).

### 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)).

Policies and Procedures for the Engagement of Audit and Non-audit Services

Under its Terms of Reference, before Capital Power engages the external auditor for additional audit or non-audit services, the Audit Committee must pre-approve that engagement. If, for reasons of timing, pre-approval is not possible and it is not possible to wait until the next scheduled Audit Committee meeting, the Chair of the Audit Committee has the delegated authority to pre-approve non-audit services as long as the individual engagement fees are projected to be less than $100,000, subject to an annual maximum approval limit of $250,000. Any pre-approval must be reported to the Audit Committee for ratification at its next meeting. In 2011, the pre-approval by the Chair of the Audit Committee for $7,500 of additional non-audit services performed by KPMG to review the Company’s Oracle ERP system was ratified by the Audit Committee.

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, 2011 in respect of the Company and the Company’s subsidiaries were approximately $2.1 million as detailed below.

<table>
<thead>
<tr>
<th></th>
<th>Twelve Months Ended December 31, 2011 ($ Millions)</th>
<th>Twelve Months Ended December 31, 2010 ($ Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit Fees</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Audit Related Fees</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Tax fees</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>All Other fees</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2.1</strong></td>
<td><strong>1.9</strong></td>
</tr>
</tbody>
</table>

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.

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. Keephills 3 ceased to exist as a committee on November 23, 2011. 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, 2011 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 (This committee ceased to exist on November 23, 2011)

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 Company may be found on SEDAR at www.sedar.com and on the Company's website at 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, 2011.

The "Risks and Risk Management" section of the Company's MD&A dated •, 2012 for the period ended December 31, 2011 is incorporated herein by reference and is available on SEDAR.

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.

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APPENDIX "A"

AUDIT COMMITTEE

TERMS OF REFERENCE

1. OVERVIEW AND PURPOSE

(a) 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.

(b) 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:

(i) 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;

(ii) overseeing and monitoring the Corporation's financial reporting;

(iii) evaluating the Corporation's internal control systems for financial reporting;

(iv) overseeing the audit of the Corporation's financial statements;

(v) overseeing and monitoring the qualifications, independence and performance of the Corporation's external auditors;

(vi) maintaining direct lines of communication between the Corporation's external auditors, its internal auditing department, management and the Board;

(vii) evaluating the internal and external, and any special, audit processes; and

(viii) monitoring and evaluating the Corporation's financial risks.

(c) 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.
(d) The Committee will be the direct report for the external auditors, will evaluate their performance and will recommend their compensation to the Board.

2. STRUCTURE AND MEMBERSHIP

(a) 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.

(b) 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").

(c) 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.

(d) 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.

3. DUTIES AND RESPONSIBILITIES

The Committee will:

(a) 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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.
(f) As required, review management’s plans and strategies around investment practices, banking performance and treasury risk management.

(g) Assess management’s procedures to ensure compliance by the Corporation with its loan and indenture covenants and restrictions, if any.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) Review and recommend to the Board for approval the compensation paid to the external auditors on an annual basis.

(m) Review and pre-approve all non-audit services performed by the external auditors in relation to the Corporation and its subsidiaries. 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 Committee meeting, the Chair is delegated, on behalf of the Committee, to pre-approve the non-audit services when the individual engagement fees are projected to be less than $100,000, subject to an annual maximum approval limit of $250,000, and any such pre-approval will be reported to the Committee for ratification at its next meeting.

(n) 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:

(i) approving the auditors’ engagement letters;

(ii) approving the scope of the audit, including materiality, audit reports required, area of audit risk, timetable and deadlines;
(iii) 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;

(iv) reviewing the post-audit management letter together with management's responses;

(v) reviewing any other matters the external auditors bring to the attention of the Committee;

(vi) resolving disagreements with management regarding financial reporting;

(vii) reviewing accruals, reserves and estimates which could have a significant effect on financial results;

(viii) reviewing the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles ("GAAP"); and

(ix) 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.

(o) Review the rationale for any proposed change in auditors which is not initiated by the Committee or the Board.

(p) Review reports from external auditors respecting their internal quality control procedures, peer reviews and investigations by governmental or professional authorities.

(q) 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.

(r) 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.

(s) 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.

(t) Monitor compliance with the Corporation's Ethics Policy and ensure Management Compliance Certificates are received from management quarterly.

(u) Meet with the external auditors, at least annually and when requested by the external auditors, without management representatives present.

(v) Meet with the internal auditors, at least annually or as requested by the internal auditors, without management representatives present.
(w) 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.

(x) 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.

(y) 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.

(z) Receive and review all follow-up action or status reports relating to the non-financial recommendations of the external auditor, and the internal auditor.

(aa) 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.

(bb) Annually review the performance, budget and independence of the internal audit function and direct the CFO to make any changes necessary.

(cc) Establish procedures for receiving, retaining and responding to complaints relating to accounting, internal accounting controls or auditing matters, on a basis that protects the confidentially of the complainant.

(dd) Review and approve the hiring policies regarding employees and former employees of the present and former external auditors.

(ee) Periodically assess procedures for the review of disclosure of financial information, extracted or derived from the Corporation's financial statements.

(ff) 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.

(gg) Monitor and evaluate the Corporation's insurance programs.

(hh) Review with management and the external auditor any off-balance sheet arrangements and special purpose vehicle structures.

(ii) 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.

(jj) 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.
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(kk) Conduct all other matters required by law or stock exchange rules to be dealt with by an audit committee.

(ll) 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.

(mm) Conduct a regular, periodic self-assessment relating to Committee effectiveness and performance.

(nn) Report to the Board as required.

4. **MEETINGS**

(a) The Committee will meet at least quarterly and may call other meetings as required.

(b) 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.

(c) 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.

(d) 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.

(e) Meetings are chaired by the Committee Chair or in the Committee Chair's absence, by a member chosen by the Committee amongst themselves.

(f) 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.

(g) Except as provided in these terms of reference, the Chair of the meeting may establish rules of procedure to be followed at meetings.

(h) 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.

(i) 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
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.

Attendance at all or a portion of Committee meetings by staff, other directors, the auditors and others, will be determined by the Committee.

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.

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.