Capital Power

Notice of 2014 annual meeting of shareholders

April 25, 2014

Management proxy circular

March 10, 2014

Capital Power

Established in July 2009, Capital Power Corporation is a growth-oriented North American independent power producer headquartered in Edmonton, Alberta. We develop, acquire, operate and optimize power generation from a variety of energy sources. We own more than 2,600 megawatts of power generation capacity at 14 facilities across North America. An additional 490 megawatts of owned generation capacity is under construction or in advanced development in Alberta and Ontario.

Our shares are traded on the Toronto Stock Exchange under the symbol *CPX*. Capital Power was named one of Canada's "Best 50 Corporate Citizens" in 2011, 2012 and 2013 by Corporate Knights.

Visit our website for more information (www.capitalpower.com).

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Letter to shareholders

March 10, 2014

Dear shareholder,

The board and management of Capital Power Corporation invite you to attend our 2014 annual meeting of shareholders (annual meeting) at 1:00 p.m. (Mountain Daylight Time) on April 25, 2014 at the Art Gallery of Alberta in Edmonton, Alberta.

Attached is the formal notice of the meeting and the management proxy circular, which explains the items of business that will be covered at the meeting and provides important information about voting and other matters to help you decide how to vote your shares.

You can attend the meeting and vote in person, or you can vote by proxy. Attending the meeting gives you an opportunity to meet the management team and members of the board of directors, hear first-hand about our performance and developments in 2013, and ask any questions.

If you can't attend the meeting, we'll have a live audio webcast on our website (www.capitalpower.com). We'll also post a transcript and archive the webcast on our website after the meeting.

If you have questions, you may contact our Investor Relations department at 1 (866) 896-4636 or investor@capitalpower.com.

We look forward to seeing you at the meeting, and please remember to vote.

Sincerely,

Donald Lowry
Chairman of the board

Brian Vaasjo
President and Chief Executive Officer

Notice of 2014 annual meeting of shareholders

You're invited to attend the 2014 annual meeting of shareholders of Capital Power Corporation:

When: Friday, April 25, 2014
1:00 p.m. Mountain Daylight Time

Where: Art Gallery of Alberta
2 Sir Winston Churchill Square
Edmonton, Alberta

We'll cover the following items of business:

- receive our consolidated financial statements for the year ended December 31, 2013 and the auditors' report
- elect directors
- appoint the auditors with compensation to be fixed by the board on the recommendation of the audit committee
- vote on our approach to executive compensation
- transact any other business.

The management proxy circular provides detailed information about the business of the meeting and the voting process.

You're entitled to vote at the meeting if you owned common shares or special voting shares of Capital Power Corporation at the close of business on March 14, 2014. You can vote by proxy or vote in person at the meeting.

Take some time to read the management proxy circular to learn more about the meeting, and please remember to vote.

By order of the board,

B. Kathryn Chisholm, Q.C.
Corporate Secretary
Capital Power Corporation
Edmonton, Alberta

March 10, 2014

Management proxy circular

This management proxy circular (circular) has been prepared to assist those shareholders who owned common shares or special voting shares of Capital Power at the close of business on March 14, 2014 (record date). As a shareholder of record, you're entitled to attend our 2014 annual meeting and vote your shares, in person or by proxy. You can still vote your shares if you can't attend the meeting. A live audio webcast of the meeting will be available on our website, and we'll post a transcript of the meeting and archive the webcast on our website after the meeting.

Management is soliciting your proxy for the meeting. We pay all costs for soliciting proxies.

We plan to begin mailing the circular and other meeting materials to shareholders of record on or about March 19, 2014. Also, shareholders may access an electronic copy of the circular on our website on March 19, 2014.

Information in this circular is as of March 10, 2014, unless otherwise indicated.

All dollar amounts are in Canadian dollars unless we've stated otherwise.

In this document:

- *we*, *us*, *our* and *Capital Power* mean Capital Power Corporation
- *you* and *your* mean the shareholder or holder of our common shares or special voting shares
- *shares* or *common shares* mean common shares of Capital Power.

Our principal and head office is in Edmonton, Alberta:

Capital Power Corporation
12th Floor
10423 - 101 Street
Edmonton, Alberta
Canada T5H 0E9

We've decided to continue to use the notice and access model for delivering meeting materials to both our registered and beneficial shareholders. Registered shareholders still receive a form of proxy, and beneficial shareholders still receive a voting instruction form, allowing them to vote at the annual meeting, but receive a notice with information about how they can access copies of the circular electronically rather than receiving printed copies. This alternative means of delivery is more environmentally friendly because it will help reduce paper and printing and mailing costs. These documents will be available on SEDAR (www.sedar.com) and our website (www.capitalpower.com).

HOW TO OBTAIN PAPER COPIES OF THE MEETING MATERIALS

Registered and beneficial shareholders may request paper copies of the circular, at no cost to them, at any time up to one year from the date the circular was filed on SEDAR.

Requests by registered shareholders may be made by telephone at any time prior to the meeting by dialing 1.866.962.0498 (within North America) and 1.514.982.8716 (outside of North America) and entering the control number located on the proxy form or notice provided to registered shareholders and following the instructions provided.

Requests by beneficial shareholders may be made to our Investor Relations Department at any time prior to the meeting by dialing 1.866.896.4636 (within North America) or by e-mail at investor@capitalpower.com.

Requests by registered or beneficial shareholders to receive a paper copy of the circular in advance of the deadline for completing and returning proxies or voting instruction forms and the meeting date of April 25, 2014 must be received by April 10, 2014.

After the meeting, requests may be made by telephone by calling 1.866.896.4636.

Please note that if you request a paper copy of the circular, you will not receive a new form of proxy or voting instruction form so you should retain the form sent to you in order to vote.

1. About the shareholder meeting

Voting

WHO CAN VOTE

The table below shows our authorized share capital and the number of shares outstanding as of the date of this circular:

Our share capital	Authorized #	# Outstanding
Common shares	unlimited	81,319,607
Special voting shares	unlimited	18,841,000
Special limited voting share	1	1
Preferred shares	unlimited, issued in series	19,000,000

You can vote if you owned common or special voting shares of Capital Power as of the close of business on March 14, 2014. Each common share and special voting share entitles the owner to one vote (see *Special voting shares*, below for more information).

The voting process is different depending on whether you own your shares as a registered or non-registered (beneficial) shareholder (see page 6).

Principal shareholder

Capital Power was formed in July 2009 as part of the reorganization of the power generation businesses of EPCOR Utilities Inc. (together with its subsidiaries, EPCOR).

EPCOR is a principal shareholder because it has an approximately 19% interest in Capital Power as of March 10, 2014. It holds all of our outstanding special voting shares and 18,841,000 exchangeable common limited partnership units (exchangeable LP units) in Capital Power L.P., a limited partnership that owns our assets and investments in the electrical power generation business.

According to the terms of our agreement with EPCOR, EPCOR can exchange its exchangeable LP units for the same number of our common shares, which are issued from treasury at the time of the exchange.

The exchangeable LP units are discussed in more detail in Capital Power L.P.'s limited partnership agreement and an exchange agreement between Capital Power, Capital Power L.P., Capital Power GP Holdings Inc. and EPCOR Power Development Corporation. You can find more information about the exchangeable LP units in Capital Power L.P.'s 2013 annual information form (AIF), available on our website (www.capitalpower.com) and on SEDAR (www.sedar.com).

Special voting shares

Each of EPCOR's exchangeable LP units is accompanied by a special voting share in Capital Power.

These shares currently give EPCOR the right to nominate and elect directors as a class, separate from those elected by the holders of our common shares, as shown in the table below:

Share ownership	Number of directors
10% to less than 20%	2

EPCOR's ownership interest is now less than 20% following the closing of its secondary offering on October 10, 2013. EPCOR now has the right to nominate and elect only two directors to the board.

When EPCOR exchanges the exchangeable LP units for common shares, the same number of special voting shares are retired.

As of March 10, 2014, EPCOR owns approximately 19% of our total common shares outstanding and common shares that can be issued in exchange for its exchangeable LP units. When EPCOR owns less than 10%, it loses the right to nominate directors and vote as a separate class, and votes together with holders of common shares to elect directors.

Holders of special voting shares and common shares vote together on all items of business except nominating and electing directors.

Special limited voting share
As of March 10, 2014, EPCOR owns the one special limited voting share outstanding. This share does not have voting rights in respect of this meeting.

Preferred shares
Holders of preferred shares only have voting rights if:
- it's required by law
- it's to satisfy conditions attached to the class of shares
- we have not paid dividends for eight quarters and the shareholder meeting occurs during the period when the dividends are in arrears.

You can find more information about the rights, privileges and restrictions of our different classes of shares and exchangeable LP units in our 2013 AIF.

HOW TO VOTE

You can vote by proxy, or by attending the meeting and voting in person. Voting by proxy means you're giving someone else (your proxyholder) the authority to vote for you at the meeting, and it's the easiest way to vote.

You can choose anyone to be your proxyholder. The person does not need to be a shareholder, but your shares will only be voted if your proxyholder attends the meeting and votes for you. Print the person's name in the space provided on the proxy form. If you vote by proxy but do not specify a proxyholder, the Capital Power representatives named on the proxy form will act as your proxyholder.

Your proxyholder must vote your shares according to your instructions. If you do not specify your voting instructions, your proxyholder can vote as they see fit. If you do not specify your voting instructions and the Capital Power representatives named on the proxy form are acting as your proxyholder, they will vote ***for*** each item of business.

If there are any changes to the items of business, or if any new items are proposed, your proxyholder has the authority to vote as they like. The Capital Power representatives will vote on any new or amended items using their best judgment.

Transfer agent and registrar
Computershare Trust Company of Canada (Computershare) is our transfer agent and registrar. Computershare receives, counts and tabulates the proxies on our behalf. They keep the votes confidential and only inform us of the voting results.

Registered shareholders
You're a registered shareholder if your shares are registered directly in your name with our registrar and transfer agent, Computershare.
Computershare has a list of all registered shareholders as of the record date. You can check the list at the meeting or at their office during regular business hours:
Computershare Trust Company of Canada
530 8th Avenue SW, Suite 600
Calgary, Alberta T2P 3S8

Vote by proxy
Online — go to www.investorvote.com and follow the instructions on screen. You'll need your control number, which appears at the bottom of your proxy form.

By phone — Call 1.866.732.8683 toll-free using a touch-tone phone, and follow the prompts in English or French. You'll need your control number, which appears at the bottom of your proxy form.

By mail — Follow the instructions on the proxy form, complete it, then sign and date it, and mail it in the envelope provided to:
Computershare Trust Company of Canada
Attention: Proxy Department
135 West Beaver Creek, PO Box 300
Richmond Hill, Ontario L4B 4R5

Computershare must receive your completed proxy form by 1 p.m. Mountain Daylight Time (MDT) on April 23, 2014 for your vote to be counted. If the meeting is adjourned, they must receive your completed proxy form at least 48 hours before the new meeting time. The Chair of the meeting can waive or extend the time limit for depositing proxies at his or her discretion without notice.

If your shares are registered in more than one name, everyone who is registered must sign the proxy form. If the shares are registered in a name that is not your own, or the name of a company, you must provide proof that you're authorized to sign the form. If you have questions about the required documents, contact Computershare at 1.800.564.6253.

Vote in person
If you plan to attend the meeting and vote in person, do not send us the proxy form. Register with a Computershare representative when you arrive at the meeting.

If you change your mind
If you've already sent a completed proxy form and want to revoke it, you can:

- submit another proxy form with a later date,
- send us a notice in writing, or
- give your written notice to the chairman of the meeting before the meeting begins.

Send your new completed proxy form to:
Computershare Trust Company of Canada
Attention: Proxy Department
135 West Beaver Creek, PO Box 300
Richmond Hill, Ontario L4B 4R5

Computershare must receive your revocation by **1 p.m. MDT** on **April 24, 2014** to revoke your previous proxy form. If the meeting is adjourned, they must receive your revocation at least 24 hours before the new meeting time.

Alternatively, you (or your authorized representative) can write to our Corporate Secretary explaining that you want to revoke your previous proxy form:
Corporate Secretary
Capital Power Corporation
12th Floor
10423 - 101 Street
Edmonton, Alberta T5H 0E9

Our Corporate Secretary must receive your letter by **4 p.m. MDT** on **April 24, 2014.** If the meeting is adjourned, she must receive it by **4 p.m. MDT** on the last business day before the new meeting time.

Non-registered shareholders
You're a non-registered (beneficial) shareholder if your shares are held in an account in the name of a nominee (like a bank, securities broker, trustee, trust company or other institution). Most of our shareholders are non-registered shareholders.

If you are a non-registered shareholder, you can vote your shares through your nominee or in person at the meeting. You can also give someone else the authority to attend the meeting and vote for you (see above).

Vote through your nominee
Complete the voting instruction form sent to you and then sign and return it as indicated on the form. Your nominee will follow your voting instructions and vote on your behalf. You can also vote by phone or through the internet by following the instructions on your voting instruction form. Please ensure that you provide your voting instructions on or before the time noted in the voting instruction form.

Vote in person
If you plan to attend the meeting and vote in person, do not put your voting instructions on the voting instruction form. Instead, write your name in the space provided and then sign and return it, making sure you follow the instructions on the form carefully.

Your vote will only be counted if you attend the meeting and vote in person. Register with a Computershare representative when you arrive at the meeting.

If you change your mind
If you've already provided voting or proxyholder instructions, contact your nominee for information about how to revoke them.

Business of the meeting

Receive the financial statements

Our consolidated financial statements for the year ended December 31, 2013 and the auditors' report will be tabled at the annual meeting and are included in our 2013 annual report. Copies will be available at the meeting and on our website (www.capitalpower.com) and on SEDAR (www.sedar.com), or you can request a copy from our Corporate Secretary, Capital Power Corporation, 12th Floor, 10423 - 101 Street, Edmonton, Alberta T5H 0E9.

Elect Directors

As a holder of common shares, you will vote on electing nine directors to the board.

As the holder of all of our special voting shares outstanding, EPCOR has the right to nominate and elect two additional directors (see *Special voting shares* on page 5 for more information). As permitted by the *Canada Business Corporations Act* and Capital Power's articles of incorporation, EPCOR may nominate and elect its two directors by way of a written resolution.

Directors will serve until the next annual meeting, or until their successors are elected or appointed. All of the nominated directors currently serve on our board. The director profiles starting on page 10 give you detailed information about their skills and experience, their 2013 attendance record, share ownership and membership on other public company boards.

Directors nominated by Capital Power

Nine nominated directors have been proposed by the Corporate Governance, Compensation and Nominating Committee and approved by the board:

Donald Lowry
Albrecht Bellstedt
Brian Bentz
Richard Cruickshank
Brian Vaasjo
William Bennett
Philip Lachambre
Doyle Beneby
Peggy Mulligan

Directors nominated by EPCOR

Hugh Bolton
Allister McPherson

Appoint the auditors

You'll vote on appointing our external auditors. The Audit Committee and the board propose that KPMG LLP (KPMG) be appointed as auditors and serve until the next annual meeting. The Audit Committee recommends KPMG's compensation to the board for its review and approval.

KPMG has been our auditor since the initial public offering in 2009. The table below shows the fees billed by KPMG for the fiscal years ended December 31, 2012 and 2013.

($ millions)	**2013**	**2012**
Audit fees Include audit and review of financial statements, services related to statutory and regulatory filings and providing comfort letters associated with securities documents	**$ 1.2**	**$ 1.8**
Audit-related fees Include assurance and related services that are not reported under audit fees	-	-
Tax fees Include reviewing tax returns, answering questions about tax audits, and tax planning	-	-
All other fees Include advice on the review and control of the implementation of the Enterprise Resource Planning (ERP) project	-	**0.2**
Total	**$ 1.2**	**$ 2.0**

Vote on our approach to executive compensation
You'll vote on our approach to executive compensation (see *Executive compensation* beginning on page 35.)

You'll vote ***for*** or ***against***:

RESOLVED, on an advisory basis and not to diminish the role and responsibilities of the board of directors, that the shareholders accept the approach to executive compensation disclosed in Capital Power's management proxy circular delivered before its 2014 annual meeting of shareholders.

About voting results

A majority of votes must be voted *for* any item of business to receive shareholder approval.

We report the voting results for each item of business within five days of the annual meeting, and file the report on SEDAR (www.sedar.com).

This is an advisory vote and the results are non-binding on the board. The board is fully responsible for its decisions about executive compensation, and will consider the results of the vote when reviewing compensation matters and making policy decisions in the future. We want the board to be accountable to you, so this is your opportunity to express your views on this important matter.

We held our first *say on pay* vote in 2012, and received over 99% approval from shareholders. We held our second say on pay vote in 2013, and received 98.9% approval from our shareholders.

If we receive a significant number of votes against, the board will meet with shareholders to understand their concerns. The board will also release a summary of the significant comments they received, and explain any resulting changes to our executive compensation. The board will release the report as soon as practical, ideally within six months of the vote and before the release of next year's circular.

Transact other business
You'll also vote on any other items of business that may properly be brought before the meeting. We're not aware of any other matters that may be brought before the meeting.

About the nominated directors

Our articles state that the board must have between three and 12 directors. The board has nominated nine directors to be elected by holders of common shares. EPCOR has nominated two additional directors as holder of special voting shares (see *Special voting shares* on page 5 for more information).

All of the nominated directors currently serve on our board. The board has a strong mix of experience in corporate governance and the Canadian and United States power generation industry. We believe that each nominated director is willing and able to serve on the board for a one-year term. If any of them is unable to serve, your proxyholder can vote for another nominated director unless you've indicated that your vote is to be withheld.

The board has determined that 9 of the 11 nominated directors (>81%) are independent as defined by Canadian securities laws, meaning they do not have a material relationship with Capital Power that might reasonably be expected to interfere with their ability to make an independent judgment. Brian Vaasjo is not independent because he is our President and CEO. Richard Cruickshank is not independent because he is a partner of a law firm that provides us with legal services.

OUR POLICY ON MAJORITY VOTING

The board adopted a majority voting policy for directors in February 2010 that requires:

- individual (not slate) voting for all non-EPCOR elect directors
- all directors to receive a majority of the votes cast for their election, otherwise they must offer to resign immediately.

If a nominated director does not receive a majority of votes, the Corporate Governance, Compensation and Nominating Committee will review the voting results, note any extraordinary circumstances and recommend to the board whether to accept the resignation or take other action. The director does not participate in these discussions.

The board must issue a news release explaining its decision within 90 days after the election results are certified.

This policy does not apply to contested director elections.

DIRECTOR PROFILES

The following profiles include information about each nominated director, including their skills, background and experience and list other public company boards of which they're members. We've also included their attendance for our 2013 board meetings, committee meetings and director education events, last year's voting results and details about their share ownership.

Holdings of Capital Power common shares and deferred share units (DSUs) are as of March 10, 2014 and based on $24.63, the closing price of our common shares on the TSX on March 10, 2014, and include reinvested dividends and dividend equivalents. Non-employee directors are not entitled to receive options.

Brian Vaasjo does not receive DSUs or other director compensation because he is compensated in his role as President and Chief Executive Officer (see *Executive compensation* beginning on page 35 for more information).

None of the nominated directors have any loans from Capital Power or any of our subsidiaries. All information is as at March 10, 2014 unless indicated otherwise.

Directors nominated by Capital Power

Donald Lowry (62) (Chairman of the board)

Independent | Director since July 2009 | Edmonton, AB

Donald Lowry has been self-employed as a professional director since March 2013. Previously, Mr. Lowry served as President and CEO of EPCOR, a position he held since January 1998. Prior to joining EPCOR, Mr. Lowry spent more than 20 years in the telecommunications industry, including six years as President and Chief Operating Officer of TELUS Communications Inc.

Mr. Lowry graduated from the University of Manitoba with a Bachelor of Commerce degree (Honours), followed by a Master of Business Administration degree. He is a graduate of the Harvard Advanced Management Program and the Banff School of Management.

Mr. Lowry is past chair of the Canadian Electricity Association, the non-executive chair of Canadian Oil Sands Limited, and serves as a director on several other boards, including Stantec Inc., Hydrogenics Corporation, Canadian Water Network and is chair of the 2014 ITU World Triathlon Grand Final Edmonton. He was recognized in 2010 as Alberta Venture's Business Person of the Year and in 2014 as the Alberta Chamber of Resources Person of the Year, 2013.

Experience
Public board, deal/M&A/IPO/hostile defence, regulatory/government/ public affairs, operations/engineering/ maintenance/construction, human resources/compensation, Alberta power markets

Industry
Power, oil & gas infrastructure, other resources/ industries

Government relations
Alberta, Canada (federal)

Seniority
Private CEO, senior functional

Geographic diversity
Edmonton

Public board interlocks
none

Board and committee membership	Meeting attendance
Board (Chair)	14 of 15 (93.3%)[1]
Audit Committee (ex-officio non-voting)	6 of 6 (100%)
Corporate Governance, Compensation and Nominating Committee (ex-officio non-voting)	6 of 6 (100%)
Health, Safety and Environment Committee (ex-officio non-voting)	3 of 3 (100%)

Securities and DSUs held			
Common shares	4,000	Total common shares and DSUs	5,388
DSUs	1,388	Total market value common shares and DSUs	$133,246

Other public directorships: Canadian Oil Sands Limited (Chair), Melcor Real Estate Investment Trust, Stantec Inc., Hydrogenics Corporation (4)

Albrecht Bellstedt (64) (Chair of the non-EPCOR elect directors)

Independent | Director since July 2009 | Canmore, AB

Albrecht Bellstedt has been self-employed as a professional director since February 2007. Previously, Mr. Bellstedt served as Executive Vice President and General Counsel of TransCanada Corporation and a predecessor corporation. Prior to that, he was a transactional lawyer in private practice for 27 years.

Mr. Bellstedt currently serves on a number of corporate boards and has served on a number of not-for-profit boards (including the Alberta University Hospital Foundation, the Edmonton Symphony Orchestra and the Banff Centre).

Experience
Public board, deal/M&A/IPO/hostile defence, regulatory/legal, Alberta power markets

Industry
Power, oil & gas infrastructure

Background
Lawyer

Seniority
Senior functional, partner

Geographic diversity
Calgary

Public board interlocks
The Churchill Corporation (see page 18)

Board and committee membership	Meeting attendance
Board	15 of 15 (100%)
Corporate Governance, Compensation and Nominating Committee (chair)	6 of 6 (100%)
Health, Safety and Environment Committee	3 of 3 (100%)

Securities and DSUs held			
Common shares	7,090	Total common shares and DSUs	26,436
DSUs	19,346	Total market value common shares and DSUs	$651,120

Voting results 2012			
Votes in favour	24,613,626 (99.72%)	Votes withheld	67,931 (0.28%)

Other public directorships: Canadian Western Bank, The Churchill Corporation (Chair) (2)

Albrecht was a trustee of Atlas Cold Storage Income Trust (Atlas) in December 2003 when the Ontario Securities Commission issued a cease trade order against Atlas and its insiders pending the filing of restated financial statements for two previous fiscal years. The restated financial statements were filed and the order was withdrawn in April 2004. Albrecht was no longer a director of Sun Times Media Group, Inc. (formerly Hollinger International Inc.) as of June 2008. Sun Times Media Group, Inc. went into Chapter 11 bankruptcy protection under the U.S. Bankruptcy Code in 2009.

CEO = Chief Executive Officer | CFO = Chief Financial Officer | M&A = mergers and acquisitions | IPO = initial public offering

[1] Mr. Lowry did not participate in a board meeting at which his appointment to serve out his term as director, following his resignation on October 10, 2013, was discussed and decided. You can find more information about Mr. Lowry's resignation and re-appointment on page 21 under the heading *Governance – About the board*.

Doyle Beneby (54)

Independent | Director since April 27, 2012 | San Antonio, TX, USA

Doyle Beneby is the President and Chief Executive Officer of CPS Energy, the largest municipally-owned gas and electric utility in the U.S., a position he has held since August 2010. Mr. Beneby has over 20 years' experience in various aspects of the electrical power industry.

Prior to joining CPS Energy, he served at Exelon Corporation from 2003 to 2010 in various roles, most recently, as Senior Vice President of Exelon Power and President of Exelon Corporation from 2009 to 2010. From 2008 to 2009, Mr. Beneby served as Vice President, Generation Operations for Exelon Corporation, and prior to that and from 2005 to 2008, Mr. Beneby served as Vice President, Electric Operations for PECO, a subsidiary of Exelon Corporation.

Mr. Beneby holds a Master of Business Administration from the University of Miami, and a Bachelor of Science from Montana Technical College.

Experience
Public board, deal/M&A/IPO/hostile defence, regulatory/government/ public affairs, human resources/compensation, operations/engineering/ maintenance/construction

Industry
Power, other resources/industries

Background
Engineer

Seniority
Public CEO, private CEO

Geographic diversity
USA

Public board interlocks
none

Board and committee membership	Meeting attendance
Board	15 of 15 (100%)
Audit Committee	5 of 6 (83.3%)
Health, Safety and Environment Committee	3 of 3 (100%)

Securities and DSUs held			
Common shares	0	Total common shares and DSUs	6,311
DSUs	6,311	Total market value common shares and DSUs	$155,445

Voting results 2012			
Votes in favour	24,612,800 (99.72%)	Votes withheld	68,757 (0.28%)

Other public directorships: none

William Bennett (67)

Independent | Director since July 2009 | Chicago, IL, USA

William Bennett is presently semi-retired but remains a director of a number of boards, including The Toronto-Dominion Bank and TD Bank, N.A. Mr. Bennett has held numerous positions as a director and previously, he served as President and Chief Executive Officer of Draper & Kramer Inc. and prior to that, Executive Vice President and Chief Credit Officer of First Chicago Corp. and its principal subsidiary, the First National Bank of Chicago. 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, and currently serves on the boards of several non-profit organizations in the U.S., including DePaul University (also vice chair), YMCA of Metropolitan Chicago, Lincoln Park Zoo, Sprague Memorial Institute (also president) and The Lincoln Academy of Illinois.

Experience
Public board, deal/M&A/IPO/hostile defence, regulatory/legal

Background
CFO/financial expert

Seniority
Private CEO

Geographic diversity
USA

Public board interlocks
The Toronto-Dominion Bank
(see page 18)

Board and committee membership	Meeting attendance
Board	14 of 15 (93.3%)
Audit Committee (chair)	6 of 6 (100%)
Health, Safety and Environment Committee	3 of 3 (100%)

Securities and DSUs held			
Common shares	1,000	Total common shares and DSUs	22,993
DSUs	21,993	Total market value common shares and DSUs	$566,316

Voting results 2012			
Votes in favour	24,596,547 (99.66%)	Votes withheld	85,010 (0.34%)

Other public directorships: The Toronto-Dominion Bank (1)

Brian Bentz (70)

Independent | Director since July 2009 | Vancouver, BC

Brian Bentz is a business consultant and proprietor of Brian Bentz Consulting. Mr. Bentz retired in 2008 after a 38 year career in the engineering and project management industry, during which time he held several executive positions including: President, Oilsands and Mining, of Amec Americas Inc.; President, Project Investments Americas and Director of Business Development in the United Kingdom; member of the board for AMEC Project Investments Limited; President, Special Projects Group, Agra Inc.; and President and CEO of Simons International Corporation.

Mr. Bentz has served as a director of several corporations and currently acts as a director of MacDonald, Dettwiler and Associates Ltd., Trinidad Drilling Ltd., Partnerships BC and the Vancouver Airport Authority.

Mr. Bentz has been a Chartered Accountant since 1969 (FCA) and holds a Bachelor of Science degree from the University of British Columbia.

Board and committee membership	Meeting attendance
Board	15 of 15 (100%)
Health, Safety and Environment Committee (chair)	3 of 3 (100%)

Securities and DSUs held			
Common shares	1,000	Total common shares and DSUs	18,768
DSUs	17,768	Total market value common shares and DSUs	$462,262

Voting results 2012			
Votes in favour	24,608,126 (99.70%)	Votes withheld	73,431 (0.30%)

Other public directorships: MacDonald, Dettwiler and Associates Ltd., Trinidad Drilling Ltd. (2)

Experience
Public board, deal/M&A/IPO/hostile defence, regulatory/government/ public affairs, health, safety and environment, human resources/compensation, operations/engineering/ maintenance/construction

Industry
Oil & gas infrastructure, other resources/industries

Background
CFO/financial expert, accountant

Seniority
Private CEO, senior functional

Geographic diversity
BC

Public board interlocks
none

Richard Cruickshank (63)

Non-independent | Director since July 2009 | Edmonton, AB

Richard Cruickshank is a senior partner with Dentons Canada LLP (formerly Fraser Milner Casgrain LLP), a member of the international law firm Dentons formed in March 2013 by SNR Denton, Salans LLP and Fraser Milner Casgrain LLP, and prior to that had been a senior partner with Fraser Milner Casgrain LLP since 2000. Prior to the merger of Cruickshank Karvellas with Fraser Milner Casgrain LLP in 2000, Mr. Cruickshank served as managing partner and a member of the executive committee for most of its 20 year history.

Mr. Cruickshank has practiced law for 38 years primarily in the corporate and tax areas and has extensive experience in structuring executive compensation, retirement and security based compensation plans and advising pension plan trustees on governance and compliance matters. He has been recommended in Best Lawyers in Canada for the years 2009 through 2013 as a leading lawyer in Mergers and Acquisitions and Tax Law (Corporate).

Mr. Cruickshank attended Brown University and the University of Winnipeg from which he received a Bachelor of Arts (Economics) followed by his LL.B. from the University of Manitoba.

Board and committee membership	Meeting attendance
Board	14 of 15 (93.3%)
Corporate Governance, Compensation and Nominating Committee	6 of 6 (100%)

Securities and DSUs held			
Common shares	1,000	Total common shares and DSUs	26,542
DSUs	25,542	Total market value common shares and DSUs	$653,727

Voting results 2012			
Votes in favour	21,447,519 (86.90%)	Votes withheld	3,234,038 (13.10%)

Other public directorships: none

Experience
Deal/M&A/IPO/hostile defence, human resources/compensation, regulatory/legal, pensions

Background
Lawyer

Seniority
Partner

Geographic diversity
Edmonton

Public board interlocks
none

Experience
Public board, regulatory/government/public affairs, health, safety and environment, human resources/compensation, operations/Engineering/maintenance/construction, regulatory/legal

Industry
Power, oil & gas infrastructure, other resources/industries

Background
CFO/financial expert, procurement/contracts

Government relations
Alberta, Canada (federal)

Seniority
Senior functional

Geographic diversity
Edmonton

Public board interlocks
none

Philip Lachambre (62)

Independent | Director since July 2009 | Edmonton, AB

Philip Lachambre is currently President of PCML Consulting Inc., a position he has held since February, 2007. Mr. Lachambre held many positions in the oil and gas, mining and construction sectors during his 40-year career, 31 years of which were at Syncrude Canada Inc. where he was Executive Vice President and Chief Financial Officer from 1997 until his retirement in 2007. He was also a director of Flint Energy Services Ltd. until 2012. Mr. Lachambre has had many areas of responsibility across numerous departments including corporate strategy, controllers, treasury, legal, government and regulatory affairs, EH&S, business development, stakeholder relations, human resources, procurement and contracts, information technology and aboriginal affairs.

Mr. Lachambre holds a Bachelor of Commerce degree from the University of Alberta, is a Supply Chain Management Professional (SCMP), and is a graduate of the Executive Management Program of the University of Western Ontario. Mr. Lachambre is also active in a number of local community organizations and boards.

Board and committee membership	Meeting attendance
Board	15 of 15 (100%)
Audit Committee	6 of 6 (100%)
Health, Safety and Environment Committee	3 of 3 (100%)

Securities and DSUs held			
Common shares	10,720	Total common shares and DSUs	28,570
DSUs	17,850	Total market value common shares and DSUs	$703,681

Voting results 2012			
Votes in favour	24,614,672 (99.73%)	Votes withheld	66,885 (0.27%)

Other public directorships: none

Experience
Public board, deal/M&A/IPO/hostile defence, regulatory/government/public affairs, health, safety and environment, human resources/compensation, regulatory/legal, pensions, financial/commodity trading

Industry
Power, other resources/industries

Background
CFO/financial expert, accountant, procurement/contracts

Government relations
Ontario

Seniority
Senior functional, partner

Geographic diversity
Ontario

Public board interlocks
none

Peggy Mulligan (55)

Independent | Director since April 27, 2012 | Mississauga, ON

Peggy Mulligan has been a member of the board of Ontario Power Generation Inc., an Ontario Crown corporation with over 19,000 MW of nuclear, thermal and hydroelectric generating capacity, since 2005. Ms. Mulligan serves or has served on OPG's Human Resources & Compensation (Chair), Governance, Risk Oversight (Past Chair) and Audit Committees. Ms. Mulligan is also currently a member of the boards of Energent Incorporated (a privately owned energy management solution company) and The Ladies Professional Golf Association where she serves as chair of the audit committees.

Ms. Mulligan previously served as Executive Vice President and CFO of Valeant Pharmaceuticals International, Inc. (formerly Biovail Corporation) from 2008 until December 2010, where she led the implementation of Biovail's new strategic focus, and co-led the merger of Valeant and Biovail. From 2005 until 2007 she served as Executive Vice President, CFO and Treasurer of Linamar Corporation, with accountability for financial reporting and compliance, enterprise risk management, treasury, taxation, M&A and internal audit.

Ms. Mulligan holds a B. Math (Honours) from the University of Waterloo, has been a chartered accountant since 1981 and was named a Fellow of the Institute of Chartered Accountants of Ontario in 2003.

Board and committee membership	Meeting attendance
Board	15 of 15 (100%)
Audit Committee	6 of 6 (100%)
Corporate Governance, Compensation and Nominating Committee	6 of 6 (100%)

Securities and DSUs held			
Common shares	10,000	Total common shares and DSUs	16,311
DSUs	6,311	Total market value common shares and DSUs	$401,745

Voting results 2012			
Votes in favour	24,613,056 (99.72%)	Votes withheld	68,501 (0.28%)

Other public directorships: none

Brian Vaasjo (58)

President and CEO | Not independent | Director since May 2009 | Edmonton, AB

Brian Vaasjo has been the President and CEO of Capital Power since July, 2009. Prior thereto, he was Executive Vice President of EPCOR, and was President of EPCOR's Energy Division. At EPCOR, he was responsible for regional power generation (including clean coal initiatives), water operations and the growth of EPCOR's competitive power and water businesses across North America, as well as development and acquisition. He was President of Capital Power Income L.P. (CPILP) from September 2005 until July 2009 and Chairman of the Board of its general partner from July 2009 to November 2011.

Mr. Vaasjo spent 19 years with the Enbridge Group of Companies and played a substantial role in several important acquisitions, developments and public offerings. He has a Master of Business Administration, is a Fellow of the Society of Management Accountants, and has been on the boards of several non-profit organizations.

Experience
Public board, deal/M&A/IPO/hostile defence, regulatory/government/ public affairs, regulatory/legal, Alberta power markets

Industry
Power, oil & gas infrastructure

Background
CFO/financial expert, accountant

Government relations
Alberta, Canada (federal)

Seniority
Public CEO, senior functional

Geographic diversity
Edmonton

Public board interlocks
none

Board and committee membership	Meeting attendance[2]
Board	15 of 15 (100%)
Audit Committee	6 of 6 (100%)
Corporate Governance, Compensation and Nominating Committee	6 of 6 (100%)
Health, Safety and Environment Committee	3 of 3 (100%)

Securities, DSUs and options held			
Common shares	66,330	Total common shares and DSUs	66,330
DSUs	n/a	Total market value common shares and DSUs	$1,633,708

As of March 10, 2014, Brian Vaasjo holds 49,785 PSUs and 1,029,559 stock options.

Voting results 2012			
Votes in favour	24,490,682 (99.23%)	Votes withheld	190,875 (0.77%)

Other public directorships: none

Directors nominated by EPCOR

EPCOR's approximately 19% interest gives it the right to nominate and elect two directors as a class, separate from those elected by the holders of our common shares. See *Special voting shares* on page 5 for more information.

Hugh Bolton (75)

Independent | Director since July 2009 | Edmonton, AB

Hugh Bolton is the non-executive Chair of the board of EPCOR. Prior to his appointment as chair of the EPCOR board on January 1, 2000, and after his retirement as Chairman & Chief Executive Partner of Coopers & Lybrand Canada, Chartered Accountants on January 1, 1998, Mr. Bolton continued as a financial consultant with PricewaterhouseCoopers until December 2000. Mr. Bolton also currently serves as a director of EPCOR, Canadian National Railway Company, Teck Resources Limited, WestJet Airlines Ltd., and The Toronto-Dominion Bank.

Mr. Bolton holds an undergraduate degree in economics from the University of Alberta. He is a Chartered Accountant and Fellow of the Alberta Institute of Chartered Accountants. In 2006, he was honoured as a Fellow of the Institute of Corporate Directors. In 2010 he received a "Lifetime Achievement Award" from the Alberta Institute of Chartered Accountants.

Experience
Public board, human resources/compensation, regulatory/legal, Alberta power markets, deal/M&A/IPO/hostile defence, health, safety and environment

Industry
Power

Background
CFO/financial expert, accountant

Government relations
Alberta, BC

Seniority
Private CEO, Partner

Geographic diversity
Edmonton, BC, USA

Public board interlocks
The Toronto-Dominion Bank
(see page 18)

Board and committee membership	Meeting attendance
Board	15 of 15 (100%)

Securities held			
Common shares	1,000	Total common shares and DSUs	26,542
DSUs	25,542	Total market value common shares and DSUs	$653,727

Other public directorships: Canadian National Railway Company, Teck Resources Limited, WestJet Airlines Ltd., The Toronto-Dominion Bank (4)

[2] Mr. Vaasjo attends Audit Committee, Corporate Governance, Compensation and Nominating Committee and Health, Safety and Environment Committee meetings as a guest and in his capacity as President and CEO of Capital Power.

Experience
Public board, deal/M&A/IPO/hostile defence, regulatory/government/public affairs, human resources/compensation, regulatory/legal, Alberta power markets

Industry
Power

Background
CFO/financial expert

Government relations
Alberta

Seniority
Senior functional

Geographic diversity
Edmonton

Public board interlocks
The Churchill Corporation
(see page 18)

Allister McPherson (70)

Independent | Director since June 2009 | Edmonton, AB

Allister 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 is currently a director and member of the audit committees of two corporations, including EPCOR, and an external member of the University of Alberta's Investment Committee. He is 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, past governor of Northern Alberta Institute of Technology, past chair of the Endowment Fund Policy Committee of Alberta Finance and past member of the Edmonton Regional Advisory Board and Investment Committee of the Alberta Motor Association.

Board and committee membership	Meeting attendance
Board	15 of 15 (100%)
Audit Committee	6 of 6 (100%)

Securities held			
Common shares	6,500	Total common shares and DSUs	24,268
DSUs	17,768	Total market value common shares and DSUs	$597,727

Other public directorships: The Churchill Corporation (1)

MEETING ATTENDANCE AND COMMITTEE MEMBERSHIPS

We expect our directors to attend all board meetings and all of their committee meetings. The Corporate Governance, Compensation and Nominating Committee reviews the attendance records to ensure each director has attended at least 80% of the meetings. If attendance falls below this level and there are no extenuating circumstances, the committee will discuss the situation and recommend to the board whether the director should resign.

Donald Lowry attends committee meetings as an ex-officio and non-voting member. Some directors also attend other committee meetings as guests, as noted below.

	Board meetings		Meetings of directors nominated by Capital Power (non-EPCOR elect directors)		Committee meetings: Audit		Corporate Governance, Compensation and Nominating		Health, Safety and Environment	
Donald Lowry	14 of 15 (chair)	93.3%	2 of 2	100%	6 of 6	100%	6 of 6	100%	3 of 3	100%
Albrecht Bellstedt	15 of 15	100%	11 of 11 (chair)	100%			6 of 6 (chair)	100%	3 of 3	100%
Doyle Beneby	15 of 15	100%	11 of 11	100%	5 of 6	83.3%			3 of 3	100%
William Bennett	14 of 15	93.3%	11 of 11	100%	6 of 6 (chair)	100%			3 of 3	100%
Brian Bentz	15 of 15	100%	11 of 11	100%					3 of 3 (chair)	100%
Hugh Bolton	15 of 15	100%								
Richard Cruickshank	14 of 15	93.3%	11 of 11	100%			6 of 6	100%		
Philip Lachambre	15 of 15	100%	11 of 11	100%	6 of 6	100%			3 of 3	100%
Allister McPherson	15 of 15	100%			6 of 6	100%				
Peggy Mulligan	15 of 15	100%	11 of 11	100%	6 of 6	100%	6 of 6	100%		
Brian Vaasjo	15 of 15	100%	11 of 11	100%	6 of 6	100%	6 of 6	100%	3 of 3	100%

Notes

- Donald Lowry voluntarily resigned from the board on October 10, 2013 and was re-appointed by the board to continue serving as a director and as chair of Capital Power until this meeting of the shareholders. Mr. Lowry did not participate in the board meeting at which his appointment to serve out his term as director, following his resignation, was discussed and decided. Following Mr. Lowry's re-appointment to the board, he attended 2 meetings of the non-EPCOR elect directors as his re-appointment was effected by the board and not by virtue of any voting rights attached to EPCOR's special voting shares. You can find more information about Mr. Lowry's resignation and re-appointment on page 21 under the heading *Governance – About the board.*
- Brian Bentz was appointed to the Corporate Governance, Compensation and Nominating Committee in November 2013 after all meetings for that committee in 2013 had been held. As a result, Mr. Bentz did not attend meetings of that committee in 2013, as he was not a member at the times the meetings were held.
- Robert Phillips voluntarily resigned from the board on October 10, 2013. You can find more information about Mr. Phillips' resignation on page 21 under the heading *Governance – About the board*.
- Brian Vaasjo attends committee meetings as a guest and in his capacity as President and CEO of Capital Power.

OTHER DIRECTORSHIPS

Several of our directors serve together on other company boards.

Name	The Toronto-Dominion Bank	The Churchill Corporation
Albrecht Bellstedt		✓ (Chairman)
William Bennett	✓	
Hugh Bolton	✓	
Allister McPherson		✓

Notes

- Although EPCOR is a reporting issuer, its shares are not listed for trading on any stock exchange. As Chairman of the board, Hugh Bolton serves with Allister McPherson on EPCOR's Audit Committee.
- The Toronto-Dominion Bank — William Bennett and Hugh Bolton serve together on the Audit Committee (which William Bennett chairs) and the Risk Committee.
- The Churchill Corporation — As Chairman of the board, Albrecht Bellstedt is a non-voting member of all board committees. He serves with Allister McPherson on the Audit Committee (which Allister McPherson chairs) and the Governance and Nominating Committee.

DIRECTOR EDUCATION

The table below lists the conferences and other sessions we provided to our directors in 2013. You can find more information about education and ongoing development of directors on page 24.

Date	Event	Description	Attendees	
February	Trading Desk Tour		Doyle Beneby	
	Alberta Market Overview	Presentation by Bryan DeNeve, SVP Corporate Development & Commercial Services	Donald Lowry Albrecht Bellstedt Doyle Beneby Brian Bentz Hugh Bolton	Richard Cruickshank Philip Lachambre Allister McPherson Peggy Mulligan Brian Vaasjo
April	Electricity Market	Presentation by The Honourable Ken Hughes, Minister of Energy for the Province of Alberta	Donald Lowry Albrecht Bellstedt Doyle Beneby William Bennett Brian Bentz Hugh Bolton	Richard Cruickshank Philip Lachambre Allister McPherson Peggy Mulligan Brian Vaasjo
May	Power and Utility M&A Environment	Presentation by Craig Edgar & Ray Spitzley, Morgan Stanley	Donald Lowry Albrecht Bellstedt Doyle Beneby William Bennett Brian Bentz Hugh Bolton	Richard Cruickshank Philip Lachambre Allister McPherson Peggy Mulligan Brian Vaasjo
	Shepard Energy Centre Tour		Donald Lowry Albrecht Bellstedt Doyle Beneby William Bennett Brian Bentz Hugh Bolton	Richard Cruickshank Philip Lachambre Allister McPherson Peggy Mulligan Brian Vaasjo
July	Dodd Frank	Presentation by Zoltan Nagy-Kovacs, Senior Counsel and Jim Morrison, Chief Compliance Officer	Donald Lowry Albrecht Bellstedt Doyle Beneby William Bennett Brian Bentz	Richard Cruickshank Philip Lachambre Allister McPherson Peggy Mulligan Brian Vaasjo
October	Capital Markets Update	Presentation by Harold Holloway, TD Securities	Donald Lowry Albrecht Bellstedt Doyle Beneby	Peggy Mulligan Brian Vaasjo
November	Commodity Portfolio Management Overview and Deliverables	Presentation by Jason Comandante, VP Commodity Portfolio Management	Donald Lowry Albrecht Bellstedt Doyle Beneby William Bennett Brian Bentz Hugh Bolton	Richard Cruickshank Philip Lachambre Allister McPherson Peggy Mulligan Brian Vaasjo

Directors receive materials before each board meeting that include background information about items to be considered at the meeting. Directors are also encouraged to attend externally hosted education and Capital Power contributes to the cost.

Skills matrix

The Corporate Governance, Compensation and Nominating Committee uses a skills matrix to identify and track the key skills and areas of strength that the board believes are important for overseeing our business, management and our future growth.

The committee reviews the skills matrix at least once a year to assess whether the size and composition of the board are appropriate for our needs. It also uses the skills matrix to develop a list of potential candidates for nomination or appointment to the board in the future based on their skills and experience and an initial interview. This evergreen list of potential board directors is comprised of people the committee believes would be appropriate to join the board when there is a vacancy, and who would fill gaps in or complement the current skills matrix, and comply with our independence criteria for the board and its committees. The committee may also hire a search firm to identify potential candidates.

Shareholders elect directors at the annual meetings; however, the board may appoint additional directors between annual meetings to fill vacancies.

The table below shows the skills in each area and the number of directors who have these skills. You can learn more about each director's skills and experience in the director profiles beginning on page 10.

	Total	D. Lowry	A. Bellstedt	D. Beneby	W. Bennett	B. Bentz	H. Bolton	R. Cruickshank	P. Lachambre	A. McPherson	P. Mulligan	B. Vaasjo
Experience												
Public board	10	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓
Alberta power markets	5	✓	✓				✓			✓		✓
Deal/M&A/IPO/Hostile Defence	10	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓
Regulatory/Government/Public affairs	7	✓		✓		✓			✓	✓	✓	✓
Health, safety and environment	4					✓	✓		✓		✓	
Human resources/Compensation	8	✓		✓		✓	✓	✓	✓	✓	✓	
Pensions	2							✓			✓	
Operations/Engineering/Maintenance/ Construction	4	✓		✓		✓			✓			
Regulatory/Legal	8		✓		✓		✓	✓	✓	✓	✓	✓
Financial/Commodity trading	1										✓	
Technology Development & Deployment	0											
Industry												
Power	8	✓	✓	✓			✓		✓	✓	✓	✓
Oil and gas infrastructure	5	✓	✓			✓			✓			✓
Other resources/Industries	5	✓		✓		✓			✓		✓	
Background												
CFO/Financial expert	7				✓	✓	✓		✓	✓	✓	✓
Accountant	4					✓	✓				✓	✓
Engineer	1			✓								
Lawyer	2		✓					✓				
Investment banker	0											
Procurement/Contracts	2								✓		✓	
Government relations												
Alberta	5	✓					✓		✓	✓		✓
British Columbia	1						✓					
Ontario	1										✓	
Canada (federal)	3	✓							✓			✓
USA	0											
Seniority												
Public CEO	2			✓								✓
Private CEO	5	✓		✓	✓	✓	✓					
Senior functional	7	✓	✓			✓			✓	✓	✓	✓
Partner	4		✓				✓	✓			✓	
Geographic diversity												
Edmonton	6	✓					✓	✓	✓	✓		✓
Calgary	1		✓									
British Columbia	2					✓	✓					
Ontario	1										✓	
USA	3			✓	✓		✓					

2. Governance

Governance at Capital Power

We're committed to responsible corporate governance. We believe that effective governance is a major contributor to long term performance and investor confidence.

Our corporate governance practices are consistent with the following, as adopted by the Canadian Securities Administrators:

- National Policy 58-201 — Corporate Governance Guidelines (NP 58-201)
- National Instrument 58-101 — Disclosure of Corporate Governance Practices (NI 58-101)
- National Instrument 52-110 — Audit Committees (NI 52-110)
- National Instrument 52-109 — Certification of Disclosure in Issuers' Annual and Interim Filings (CSox)
- Form 58-101F1 — Corporate Governance Disclosure (58-101F1)

This section incorporates the corporate governance disclosure required by Form 58-101F1. We've also adopted a comprehensive corporate governance policy which is available on our website (www.capitalpower.com).

Management also assessed our financial reporting procedures this year and concluded that we are in compliance as of December 31, 2013.

GOVERNANCE HIGHLIGHTS

✓	Voting is by individual director, we have a majority voting policy and we disclose the voting results on all items of business within five business days of a shareholder meeting
✓	We maintain separate chair and CEO positions so the board can function independently and monitor management's decisions and actions and effectively oversee our affairs
✓	The majority of our board (>81%) is independent
✓	The Chair of the board and the chair of the Capital Power nominated directors (chair of the non-EPCOR elect directors) are independent
✓	The board has developed clear position descriptions for the Chair of the board, chair of the non-EPCOR elect directors, each committee and the CEO
✓	Our Audit Committee is 100% independent
✓	Four of the five members of our Corporate Governance, Compensation and Nominating Committee are independent
✓	Directors must meet share ownership requirements within five years of joining the board (three times their annual cash and equity retainer in Capital Power DSUs and/or common shares). Capital Power's executive officers must also meet share ownership requirements (see page 40 for more information on the share ownership requirements for executive officers)
✓	Our board has a formal, written mandate
✓	Directors meet regularly without management present (in-camera)
✓	We expect 100% attendance of our directors. The Corporate Governance, Compensation and Nominating Committee reviews the attendance record to ensure directors have attended at least 80% of board meetings and their respective committee meetings
✓	The board has adopted a written code of business conduct and ethics, and monitors our compliance with it
✓	The board oversees strategic planning, risk management, succession planning and leadership development
✓	We conduct an advisory vote on executive compensation, giving shareholders a say on pay
✓	We adopted an incentive claw back policy and anti-hedging policy, further aligning the interests of executives and shareholders
✓	We have orientation and continuing education programs for our directors
✓	We maintain a skills matrix to assist in planning, developing and managing the skills and competencies of the board
✓	Board and committee director assessments are conducted every year

About the board

The board is responsible for our stewardship. It provides independent leadership for overseeing our business so we grow and sustain profits responsibly.

The board is actively engaged, supervises our business and affairs, and is specifically responsible for:
- management oversight and strategic planning
- enterprise risk management
- shareholder engagement.

The board ensures that management's plans and activities are consistent with our values, and support our vision to be recognized as one of North America's most respected, reliable and competitive independent power producers.

Our corporate values
- We are passionate about our business and safety.
- We act with integrity.
- We work together.
- We are accountable.
- We create and enhance shareholder value.

On October 10, 2013, EPCOR's ownership interest was reduced to less than 20% of our total common shares outstanding and common shares that can be issued in exchange for exchangeable LP units. Donald Lowry and Robert Phillips, as EPCOR-elect directors, voluntarily tendered their resignations on that date. Subsequently, the board resolved to reappoint Donald Lowry to continue serving as a director and as chair of the board until this meeting of shareholders.

Independence

Nine of our directors (>81%) are independent according to the standards of independence established under Section 1.2 of NI 58-101. Brian Vaasjo and Richard Cruickshank are not considered independent because of their positions as noted below.

Nominated directors	Independent	Not independent
Donald Lowry	✓	
Albrecht Bellstedt	✓	
Doyle Beneby	✓	
William Bennett	✓	
Brian Bentz	✓	
Hugh Bolton	✓	
Richard Cruickshank		✓ (Partner of a law firm that provides us with legal services, though he does not personally provide us with legal services)
Philip Lachambre	✓	
Allister McPherson	✓	
Peggy Mulligan	✓	
Brian Vaasjo		✓ (President and CEO of Capital Power)

An independent, non-executive director chairs our board. The board met fifteen times in 2013. The directors met without management at every regularly scheduled meeting (for a total of 6 such meetings). You'll find the board's terms of reference in Appendix A. The board does not meet without Mr. Cruickshank present. However, the board believes that open and candid discussion among its independent directors is facilitated by our independent chairs of the board and of the non-EPCOR elect directors.

Separate chair and CEO positions

We maintain separate Chair and CEO positions, each with their own position descriptions (or terms of reference). The Chair leads, manages and organizes the board with a strategic focus and presides over its meetings while encouraging strong participation and commitment from all directors. The Chair also works with the CEO to develop and maintain productive stakeholder relationships, and to ensure that the board represents shareholders' interests.

Donald Lowry is the Chair of the board and independent of Capital Power, but he was president and CEO of EPCOR, our major shareholder, until March 6, 2013. As a result, we also have a chair of the non-EPCOR elect directors, who is independent of EPCOR. The non-EPCOR elect directors oversee issues where EPCOR-elect directors may have a conflict, such as sell-downs of EPCOR's equity interest in Capital Power or changes to Capital Power's dividends.

As a result of Donald Lowry's resignation from, and subsequent reappointment to, the board, the chair of the board is no longer a nominee of EPCOR. However, the position of chair of the non-EPCOR elect directors will be maintained until the the later of October 1, 2015, and one year from the date as of which EPCOR no longer holds common shares of Capital Power and exchangeable LP units of Capital Power L.P. equal to 10% of our total common shares outstanding and common shares that can be issued in exchange for its exchangeable LP units (provided that EPCOR's ownership of common shares and common shares that can be issued in exchange for its exchangeable LP units drops below 10% on a date that occurs before October 1, 2015). Albrecht Bellstedt is the current chair of the non-EPCOR elect directors, and has served in this role since May 2012.

The Corporate Governance, Compensation and Nominating Committee recommends, and the board nominates, director candidates based on the skills matrix, their character and leadership strengths and other key qualities like breadth of experience, insight and knowledge, financial and compensation literacy, and business judgment. The nomination must be confirmed by the Capital Power nominated directors.

The terms of reference for the Chair of the board, chair of the non-EPCOR elect directors, each committee, individual directors and the President and CEO include detailed position descriptions and are available on our website (www.capitalpower.com).

Ethics

Our ethics policy applies to all permanent and temporary employees and members of our board of directors. Everyone must read, understand and comply with the policy, and executives must certify their compliance with the policy quarterly. Our ethics policy is on our website (www.capitalpower.com), or you can ask the Corporate Secretary to send you a copy (see page 8).

The board has oversight and control over the policy including governance over all material changes to the ethics policy.

Board

The board is responsible for overseeing our compliance with the laws that apply to us. The board receives regular reports on compliance, including reports of any ethical breach, and management's follow-up activities and strategies to mitigate risk.

Senior officers

Senior officers must certify compliance quarterly. The President and CEO and Senior Vice-President and Chief Financial Officer certify our quarterly and annual financial statements and related management's discussion and analysis (MD&A), and our AIF, for filing with the Canadian Securities Administrators.

Reporting a concern

We've worked hard to foster a culture where anyone can speak openly about ethical concerns. Employees can raise a concern with their manager or a member of senior management, or report a concern or possible violation anonymously through our Integrity Hotline.

Our Integrity Hotline is available 24 hours a day, seven days a week (call 1.866.363.8028 or go to www.CPCEthics.com). A third party operates the hotline on our behalf to ensure confidentiality.

Investigating ethical complaints

We investigate complaints promptly and thoroughly. This may involve reviewing various records and interviewing the accused and others to corroborate the facts.

We try to keep every complaint, investigation and resolution as confidential as possible, and take corrective action as appropriate. A written report is completed on every investigation process and the outcome and maintained on file.

Material interests

Under the terms of reference, a director must disclose to us in writing any material interest he or she has in a material contract with us, whether or not it is a current or proposed contract, or have the interest entered in the minutes of the board meeting, including its nature and extent. The director must refrain from participating in any discussion or vote on the matter. In practice, a director with a material interest recuses himself from the board meeting when a discussion or vote takes place on such a matter.

Disclosure and insider trading policy

We must comply with laws and regulations when publicly disclosing important information about Capital Power, and all insiders must comply with insider trading and reporting requirements. We last updated our disclosure and insider trading policy in 2012. It governs the dissemination of information to the public and guides our decisions and actions in providing clear and complete disclosure in a timely manner, in compliance with all securities regulations.

Our disclosure committee consists of senior managers and reports to the Audit Committee, and is responsible for reviewing all proposed disclosure before it is released publicly. Our ethics policy covers confidentiality and protecting trade secrets and other proprietary information.

Ethics training

All of our employees must participate in ethics training every two years.

ROLE AND RESPONSIBILITIES

The board is responsible for overseeing our compliance with laws and regulations. It approves all matters required under the *Canada Business Corporations Act* and other legislation that applies to us, and our articles and by-laws.

The board can delegate the review and approval of issues to its standing committees, however, most committee recommendations must be approved by the entire board.

The board explicitly delegates certain powers to management by written policy and subject to specific limits. Examples include:

- contract execution and spending authority policy
- financial exposure management policy
- investment policy.

Oversight and strategic planning

The board is responsible for overseeing our strategic and corporate planning, an annual process that is designed to:

- maximize shareholder value
- ensure that we operate consistently with our values
- assess the opportunities and risks of our business.

As President and CEO, Brian Vaasjo leads the executive team and is responsible for Capital Power's strategic direction, sound management and performance.

Management follows a comprehensive planning process for developing our strategy, corporate plan and budget.

First quarter	Management begins the process for the following year by carrying out the following: • assesses industry trends • prepares commodity and economic forecasts • reviews how well it executed its strategy in the previous year • decides whether or not the strategy must be modified • determines what modifications to the strategy are necessary (if any) • adjusts its plans and objectives to execute the strategy • prepares a long-range financial forecast
Second quarter	Management uses the inputs to develop our strategy and corporate plan, which contains our objectives, activities, forecasts and a risk assessment, and submits the draft strategy and corporate plan to the board (generally in May). The board and management meet for a two-day, off-site planning session to discuss the strategic plan. Management highlights the risks and solicits feedback from the board and any proposed changes to the strategy and tactics.
Third quarter	Management reviews the feedback and makes changes to the strategy and corporate plan. It submits the revised strategy and corporate plan to the board for approval, generally at its July meeting.
Fourth quarter	In November, management updates its financial forecasts based on recent events, updated commodity forecasts and the current budget. Corporate performance measures are also established for the following year based on the approved budget. Management establishes the budget based on the approved strategy and plan, and submits it to the board for approval.

Enterprise risk management

Effectively managing risk is critical to maximizing shareholder value. We believe that risk management is everyone's responsibility, from the board to individual employees.

Our enterprise risk management (ERM) program is based on the ISO 31000 International Standard for Risk Management, and uses a systematic approach to identify, treat, report and monitor risk. Risk assessment practices are embedded in our four key corporate processes (strategic and long term planning, business development, commodity portfolio management, and operational planning and budgeting), so we can identify risks that could prevent us from achieving our strategic and business objectives and develop strategies to mitigate those risks. This includes assessing specific risk areas, including unpredictable or unusual risks as well as emerging risks to our business.

We expect everyone to understand the risks that fall within their areas of responsibility and to manage these risks within approved risk tolerances.

Open communication is a key part of the process. We need our people to share the best available information (quantitative and qualitative), drawing from historical data, experience, stakeholder feedback, observation, forecasts and their expert judgment.

The board reviews and approves our risk tolerances, ERM policy, risk management processes and accountabilities every year.

The President and CEO is ultimately accountable for managing our risks and approving the ERM framework. He manages ERM through the executive team, which consists of his direct reports.

The director of risk management has day-to-day responsibility for the ERM framework, and reports to the CFO. The director presents a risk report to the board twice a year and quarterly reports to senior management with updates to the board as required.

Succession planning and leadership development
We maintain succession plans for the CEO and senior management to support our future growth and to retain our talent. The Corporate Governance, Compensation and Nominating Committee reviews the plans at least once a year and reports them to the board.

The committee also oversees our performance management and talent development programs to ensure that we are developing our management talent to support our business needs.

ORIENTATION AND ONGOING DEVELOPMENT

We believe in the importance of orientation for new directors and continuing education for ongoing development of the skills and knowledge of the board.

The board adopted a director orientation and education policy that includes:
- guidelines for new directors
- types of education and orientation information for directors
- educational opportunities
- site visits
- conferences, symposiums and seminars.

Orientation
New directors receive information about their duties and obligations and our business and operations, as well as minutes and other documents from recent board meetings. They also receive a corporate governance manual prepared by management that includes our articles, by-laws and other board documents. Directors are responsible for familiarizing themselves with the content before their first board meeting.

New directors also spend a day with management and attend an orientation session to develop a basic understanding of Capital Power and our business before their first board meeting.

We may also provide additional information tailored to a new director's needs and interests, information on our current activities, and any other information that a new director requests.

We encourage new directors to attend committee meetings as an ex-officio member to broaden their understanding of different aspects of our business and governance in general.

Ongoing development
Management regularly gives articles, papers and in-house seminars on issues relevant to Capital Power, our business, and the legal and regulatory environment. Directors are responsible for reviewing the materials, attending the seminars, and staying up to date on relevant issues through the media and other public information sources.

We also offer site visits, including tours of facilities and plants we own. Directors are responsible for attending these whenever possible.

Directors can attend conferences, industry symposiums and other seminars and we will reimburse them 50% of the cost (including travel expenses), as long as the CEO or chair of the Corporate Governance, Compensation and Nominating Committee believes that attending the event would benefit us and pre-approves it, and the director submits original receipts with the expense claim.

The Corporate Governance, Compensation and Nominating Committee recommends additional education opportunities for directors for the annual strategic planning sessions. You can learn more about our program in 2013 on page 18.

ASSESSMENT AND TENURE

The Corporate Governance, Compensation and Nominating Committee is responsible for board assessment, which involves assessing individual directors, committees, committee chairs, the board chair and overall board effectiveness. The process generally alternates between confidential questionnaires and formal one-on-one interviews by the board chair. Occasionally assessments are facilitated by an independent third party. The committee consults with the board every year to decide on the format.

The Corporate Secretary administers the questionnaire, which is completed anonymously so directors can be candid. The independent third party interview process, when used, is also anonymous, but allows the questioner to pursue particular areas of focus or investigation as they arise, including the performance of the chair and other individual directors. Although not anonymous, the one-on-one interviews between the chair and each director allow the chair to have a frank discussion about key areas of interest, including director performance, continued tenure, and areas of focus for the coming year.

In 2013, the committee and the board decided to conduct the annual board assessment through the use of a confidential questionnaire and one-on-one interviews by the board chair.

You can read more about the annual evaluation process in our corporate governance policy on our website (www.capitalpower.com).

Retirement policy

We don't have a mandatory retirement age or term limits for directors because the board was only established in 2009. The board gained two new directors in 2012 and two EPCOR-elect directors resigned from the board in 2013, one of whom was subsequently reappointed to the board, for net turnover of one director in 2013. See *Governance – About the board* on page 21 for more information about the EPCOR-elect directors.

We make decisions on director retirement on a case-by-case basis, and do not believe that age is a good indicator of a person's effectiveness. The Corporate Governance, Compensation and Nominating Committee and the board assess the board's effectiveness by reviewing the performance of the board, each committee and individual directors.

SHAREHOLDER ENGAGEMENT

Maintaining a dialogue with shareholders is important, especially on topics like governance and compensation practices.

Shareholders can attend the annual meeting and pose questions to the board and management. They can also learn more about Capital Power through the following:

- quarterly earnings conference calls with analysts and institutional investors
- an annual investor day for analysts and institutional investors with presentations by our executives
- executive presentations at institutional and industry conferences
- quarterly investor road shows in Canada and the United States.

We also receive feedback through:

- analyst and institutional shareholder participation in perception studies that are administered by a third party
- our advisory vote on our approach to executive compensation
- a dedicated address for email inquiries and a toll-free investor phone line
- a confidential ethics hotline and website for shareholders and the public to report a concern.

See the investor relations section of our website for more information (www.capitalpower.com).

SHAREHOLDER PROPOSALS

If you want to submit a shareholder proposal for us to consider including in the circular and proxy form for our 2015 annual meeting of shareholders, we must receive it by December 12, 2014, as required under the *Canada Business Corporations Act*, the corporate statute that governs Capital Power. We expect our 2015 annual meeting of shareholders to be held on or about April 24, 2015. Send your proposal to the Corporate Secretary, Capital Power Corporation, 12th Floor, 10423 – 101 Street, Edmonton, Alberta, Canada T5H 0E9.

Board committees

The board has three standing committees:

- Audit
- Corporate Governance, Compensation and Nominating
- Health, Safety and Environment.

The board can also establish ad hoc committees whenever appropriate.

The Corporate Governance, Compensation and Nominating Committee reviews the composition of each committee after each annual meeting. It looks at director independence, director qualifications and individual skills and experience when it constitutes each committee, ensuring that each one has the necessary expertise to provide effective oversight and carry out its responsibilities. Each committee has its own terms of reference, which it reviews and approves every year. These are posted on our website (www.capitalpower.com). You can find more information about each director in the director profiles beginning on page 10.

AUDIT COMMITTEE

You can find information about this committee in our 2013 AIF and the terms of reference for the committee in Appendix A to our 2013 AIF which is posted on our website (www.capitalpower.com) and on SEDAR (www.sedar.com).

Members	William Bennett (chair) Doyle Beneby, Philip Lachambre, Allister McPherson, Peggy Mulligan Donald Lowry (ex-officio, non-voting member)
Independent	100%
Qualifications	All members are financially literate as defined by Canadian securities laws and regulations: • William Bennett has an undergraduate degree in economics and an MBA, CFO experience and served as the chair of the audit committee for an investment firm. • Doyle Beneby has CEO and other senior executive experience and also has an MBA. • Philip Lachambre is a former CFO, has other senior executive experience and has served as the chair of the audit committee for a public issuer and private company. • Allister McPherson is a former Deputy Provincial Treasurer for the Province of Alberta and a member of the audit committee of two other public companies. • Peggy Mulligan is a former CFO of two public companies, has a bachelor of mathematics degree and is a chartered accountant and a Fellow of the Institute of Chartered Accountants of Ontario. All have been members since our inception, except for Doyle Beneby and Peggy Mulligan who joined the committee in May 2012.
Key responsibilities	The committee provides assistance to the board in fulfilling its oversight responsibility to shareholders of Capital Power, the investment community and others in relation to the integrity of Capital Power'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 Capital Power. In addition, the committee monitors, evaluates, advises or makes recommendations on matters affecting the financial and operational control policies and practices relating to Capital Power, including the external, internal or special audits thereof. The committee's terms of reference are available on our website (www.capitalpower.com)
Key activities and priorities in 2013	• reviewed our public disclosure documents for the year ended December 31, 2013 (annual report, audited financial statements, MD&A, AIF, management proxy circular, quarterly financial statements and MD&A) and recommended them to the board for approval • monitored the external auditors (approved the audit plan, scope, budget and engagement letters), reviewed the interim and year-end audit reports, and recommended them to the board for approval • monitored the internal auditors (approved the audit plan, and reviewed the quarterly and annual audit status reports and quarterly commodity risk reports) • monitored risk management and internal controls (reviewed interim and annual certification of filings under CSox, our procedures for accounting and auditing complaints, quarterly litigation and ethics reports, and management compliance certificates) • reviewed our prospectus supplements related to a public offering of preferred shares by Capital Power and a secondary offering by EPCOR of common shares and recommended them to the board for approval

Pre-approval policies and procedures

The committee must pre-approve any non-audit services to be provided by the external auditors. If because of time constraints the committee is unable to give pre-approval, the committee chair has authority to pre-approve additional services up to $100,000 per service and a maximum of $250,000 per year, as long as he reports them at the next committee meeting for ratification.

In 2013, neither the committee nor the committee chair pre-approved non-audit related services.

The committee met 6 times in 2013, and met without management present at every meeting that was held in person. The committee also meets with the external auditor and with the internal auditor without management present at every meeting that is held in person.

CORPORATE GOVERNANCE, COMPENSATION AND NOMINATING COMMITTEE

Members	Albrecht Bellstedt (chair) Richard Cruickshank, Peggy Mulligan, Brian Bentz Donald Lowry (ex-officio, non-voting member)
Independent	80% (Richard Cruickshank is not independent but is a valuable member of the committee with extensive experience in structuring executive compensation, retirement and security-based compensation plans, as set out below and in his profile on page 13.)
Qualifications	All members have expertise in human resources management and, with the exception of Brian Bentz were involved in developing our current compensation policies and programs: • Albrecht Bellstedt serves on a number of corporate boards, was a lawyer, was a senior executive and general counsel for a major Canadian energy infrastructure company, and was legal advisor to various public company boards from 1974 to 2007. • Richard Cruickshank has practised law for 37 years and has extensive experience structuring compensation plans and advising pension plan trustees on governance and compliance matters. • Peggy Mulligan has senior executive experience and serves on the governance committee of a major Crown corporation. • Brian Bentz has senior executive experience, is a chartered accountant, and serves or has served on the human resources, governance or compensation committees of two public issuers and a Crown corporation. All have been members of the committee since our inception, except for Peggy Mulligan who joined the committee in May 2012 and Brian Bentz who joined the committee in November 2013. Robert Phillips resigned as a director and a member of the committee on October 10, 2013.
Key responsibilities	The purpose of the committee is to: • review and recommend to the board the establishment and maintenance of appropriate structures, processes and policies required within Capital Power to address governance issues and maintain compliance with recognized corporate governance guidelines • make recommendations regarding the board's effectiveness and to identify and recommend individuals to the board for nomination as board members, other than directors nominated by EPCOR • review and determine matters affecting personnel and compensation and key compensation and human resources policies for Capital Power, so that such policies provide total compensation which is competitive in the market The committee's terms of reference are available on our website (www.capitalpower.com).

Key activities and priorities in 2013	*Board composition, development and compensation*
	• reviewed the director skills matrix and committee structure and membership
	Corporate governance
	• reviewed and recommended for board approval:
	  • our governance and compensation disclosure and the overall circular
	  • our advance notice by-law, which was subsequently confirmed by our shareholders at our 2013 annual meeting of shareholders
	• reviewed our compensation policies and practices, including management's key messages for compensation disclosure and risk management
	• reviewed terms of reference of the of the board, all committees, the Chair, the non-EPCOR elect chair, individual directors and CEO
	• assessed director, board and committee performance
	Compensation and benefits
	• reviewed and recommended for board approval the CEO's 2014 annual objectives and base salary and short and long-term incentive awards for executives
	• reviewed and approved management's recommendations for collective bargaining mandates, short-term incentive plan awards and performance share unit awards to non-executives, and our 2014 performance measures for the short-term incentive plan
	• reviewed the governance of our pension and other benefit plans and the executive compensation program
	• reviewed and recommended for board approval proposed changes to the total compensation program for executives in 2014, including a revised peer group for executive compensation benchmarking, an addition to the performance peer group, a 0% to 200% payout range for performance share units (PSUs) granted in 2014, a PSU payout curve, a revised PSU payout measurement period, adoption of an accounting methodology as the valuation methodology for options granted in 2014, a change to the share ownership guidelines with respect to compliance pricing, a voluntary deferred share unit program for executives for the deferral of all or part of executives' short-term incentive awards, and a short-term

	incentive circuit breaker (for more information regarding changes to the executive compensation program in 2014, please see page 37) • reviewed and approved proposed changes to the total compensation program for non-executives in 2014 The committee also reviewed the governance and compensation disclosure in the AIF and this circular and recommended it to the board for approval.

The committee met 6 times in 2013, and met without management present at every meeting that was held in person and at which minutes were recorded.

Independent compensation consultant

The committee has an independent compensation consultant policy that sets out guidelines for the relationship between the committee, management and the independent consultant. The policy is available on our website (wwww.capitalpower.com).

The committee hired Hugessen Consulting Inc. as its independent compensation consultant in 2010. See page 42 for details about their services and fees.

The committee has retained an independent consultant for executive compensation matters because it recognizes the importance of receiving third party advice. This helps ensure that the committee's decisions and recommendations are appropriate for Capital Power and are consistent with market practices.

The consultant is responsible to the committee and must keep all matters confidential. It must also advise the committee chair of any potential conflicts of interest. The committee's consultant has never undertaken any work for management.

Towers Watson continues to act as management's consultant and will continue to provide management with consulting advice and administrative support on compensation, pensions and benefit matters.

HEALTH, SAFETY AND ENVIRONMENT COMMITTEE

Members	Brian Bentz (chair) Albrecht Bellstedt, Doyle Beneby, William Bennett, Philip Lachambre Donald Lowry (ex-officio, non-voting member)
Independent	100%
Qualifications	All members are knowledgeable about our health, safety and environment programs and policies. They are also skilled or experts in sustainable business practices, including health, safety, environment and social responsibility, and have other expertise relevant to the committee mandate: • Brian Bentz spent 38 years in engineering and project management and held senior executive positions for the development and execution of projects in the energy and mining sector and is a director of several public companies. • Albrecht Bellstedt was a lawyer and has experience as a senior executive in the power and energy infrastructure business and serves on a number of other boards. • Doyle Beneby has extensive senior executive operational experience with a utility and several energy companies in the U.S. • William Bennett has extensive board experience and has CFO experience. • Philip Lachambre has experience in environment, health, safety and regulatory areas and has held senior executive positions with companies in the energy, mining and construction sectors.

Key responsibilities	The committee:
	• oversees matters relating to the impact of our operations on the environment and on the workplace health and safety of employees and contractors, including:
	  • reviewing our strategies, goals and policies for the three areas and revising them as appropriate
	  • conducting due diligence
	  • monitoring our performance in these areas
	The committee's terms of reference are available on our website (www.capitalpower.com)

Key activities and priorities in 2013	• reviewed the following:
	  • our overall performance in health, safety and the environment, including training, compliance and trends
	  • risk management and audit activities related to this area
	  • our annual disclosure on the environment, health and safety, which was recommended to the board for approval
	• monitored and reported to the board on current, pending or threatened material legal or regulatory actions by or against Capital Power
	• monitored changes and proposed changes to environmental laws and regulations
	• monitored our progress with implementing a world class safety program
	• reviewed our 2013 corporate responsibility report, which complies with the guidelines set out by the Global Reporting Initiative (GRI), the international standard for sustainable development reporting. A copy is posted on our website (www.capitalpower.com).

The committee met 3 times in 2013, and met without management present at every meeting.

3. Compensation

Director compensation

Compensation discussion and analysis

APPROACH TO COMPENSATION

Our director compensation is designed to attract and retain the most qualified people to serve on our board. It recognizes the size and complexity of the power industry, director compensation paid by a comparator group of companies, and the importance of share ownership to align the interests of directors and shareholders.

Brian Vaasjo does not receive any director compensation because he is an employee of Capital Power and is compensated in his role as President and Chief Executive Officer (CEO).

Donald Lowry did not receive any compensation as a director or our board chair while he was a member of the board who was employed, nominated and elected by EPCOR. However, as of October 1, 2013, Mr. Lowry was no longer compensated by EPCOR and he began receiving compensation from Capital Power.

Share ownership

The board believes in aligning the interests of directors and shareholders, and the Corporate Governance, Compensation and Nominating Committee instituted share ownership guidelines in 2009, requiring directors to hold at least three times the total value of their annual cash and equity retainer. They must meet the requirement within five years of the date they were appointed or elected to the board.

As of March 10, 2014, eight of the nominated directors meet the requirement (see page 34).

See the director profiles beginning on page 10 for the details of their individual holdings.

DECISION-MAKING PROCESS

We set the director fee schedule in 2009 as part of the plans for our initial public offering.

Benchmarking

Director compensation is benchmarked against a comparator group of companies that are similar in size and complexity.

The comparator group is made up of companies that are publicly traded, primarily based in Alberta, classified as energy or utility companies, and earn revenue of between $1 billion and $10 billion, and has not changed with respect to compensation paid from 2009 to 2013.

In early 2014, Capital Power undertook a review of its director compensation, including a review of the director compensation comparator group. Effective April 25, 2014, the director compensation comparator group will be the same as the comparator group used for the purpose of benchmarking executive compensation, which is described on page 40.

ELEMENTS OF COMPENSATION

Director compensation includes annual retainers, attendance fees and a modest travel allowance if a director cannot travel to and from a board or committee meeting within the same day. The annual equity retainer is paid in deferred share units (DSUs) to promote share ownership and align the interests of directors and shareholders.

The table below shows our director fee schedule for 2013 (unchanged from 2009). Donald Lowry was, until March 6, 2013, President and CEO of EPCOR, our major shareholder, and this directorship and his role as Chair of the board were considered to be part of his duties. As a result, he did not receive the chair's annual retainer or annual equity retainer until after he retired from EPCOR and after EPCOR ceased to compensate him for his service as a director and Chair of the board.

Component	Amount
Chair retainer	
Annual chair retainer	$150,000/year
Annual chair equity retainer (paid in DSUs)	$135,000/year
Annual non-EPCOR elect chair retainer	$45,000/year
Annual non-EPCOR elect chair equity retainer (paid in DSUs)	$100,000/year
Director retainer	
Annual retainer	$35,000/year
Annual equity retainer (paid in DSUs)	$80,000/year
Committee retainer	
Audit Committee chair annual retainer	$10,000/year
Corporate Governance, Compensation and Nominating Committee chair annual retainer	$7,500/year
Annual retainers for other committee chairs	$5,000/year
Attendance fees (in person or via teleconference)	
Board meetings	$1,500/meeting
Committee meetings	$1,500/meeting
Travel fees	
Travel allowance	$500/round trip

Notes

Committee retainer

Effective April 25, 2014, committee retainers will increase as follows:

- Audit Committee chair annual retainer – $16,000/year
- Corporate Governance, Compensation and Nominating Committee chair annual retainer – $16,000/year
- Annual retainer for other committee chairs – $10,000/year

Attendance fees

Effective April 25, 2014, the Chair of the board will no longer receive attendance fees for participating in committee meetings.

DSU plan

In addition to the annual equity retainer, directors can elect to receive all or a portion of the annual cash retainer, committee retainer and/or committee chair retainer in DSUs.

Retainers are paid quarterly. DSUs are credited to directors as notional units which have the same downside risk and upside opportunity as common shares but do not have a dilutive effect. We calculate the number of DSUs to be granted by dividing the amount of the retainer by the average closing price of our common shares on the TSX for the five trading days immediately preceding the grant date. Using a five-day average is common practice among Canadian public companies and may be a better indication of share price at the time than using the share price from a single day.

DSUs vest immediately and cannot be redeemed until a director voluntarily resigns or retires from the board, is not re-elected or dies. DSUs earn dividend equivalents as additional whole or partial notional units at the same rate as dividends paid on our common shares.

DSUs are redeemed for cash using the average closing price of our common shares on the TSX for the five trading days immediately before the redemption date.

We can amend the plan at any time as long as a change does not adversely affect the rights of directors to receive DSUs or any previously granted without their consent, unless the change is required by law.

2013 details

DIRECTOR COMPENSATION TABLE

The table below shows the type of compensation directors earned in 2013.

It does not include Brian Vaasjo as he does not receive director compensation because he is an employee of Capital Power and is compensated in his role as President and CEO.

Doyle Beneby and William Bennett received their compensation in US dollars.

Name	Fees earned ($)	Share-based awards ($)	Option-based awards ($)	Non-equity incentive plan compensation ($)	Pension value ($)	All other compensation ($)	Total compensation ($)
Albrecht Bellstedt	93,000	100,000	–	–	–	4,500	191,500
Doyle Beneby	66,500	80,000	–	–	–	5,500	152,000
William Bennett	76,500	80,000	–	–	–	5,000	161,500
Brian Bentz	67,000	80,000	–	–	–	5,000	152,000
Hugh Bolton	57,500	80,000	–	–	–	2,000	139,500
Richard Cruickshank	69,500	80,000	–	–	–	3,500	147,000
Philip Lachambre	74,000	80,000	–	–	–	3,500	151,500
Donald Lowry	57,000	33,750	–	–	–	–	84,750
Allister McPherson	63,500	80,000	–	–	–	500	144,000
Peggy Mulligan	71,000	80,000	–	–	–	5,000	156,000
Robert Phillips	46,597	61,935	–	–	–	2,000	110,532

Notes

Compensation was pro-rated for some directors:

- Robert Phillips voluntarily resigned from the board on October 10, 2013. His compensation for the fourth quarter of 2013 was pro-rated to October 10, 2013.
- Donald Lowry began to earn compensation on October 1, 2013, as he has no longer been compensated by EPCOR for his service as a director and chair of the board of Capital Power from that date onwards.

Fees earned
See the table below for a breakdown of the total fees earned.

Share-based awards
Represents the annual equity retainer paid in DSUs. The number of DSUs granted is determined by dividing the amount of the retainer paid in DSUs by the simple average closing price for our common shares on the TSX for each of the five trading days immediately preceding the grant date.

All other compensation
Represents the travel allowance paid to directors unless otherwise noted:

- Amounts for Albrecht Bellstedt, Doyle Beneby, William Bennett, Brian Bentz, Richard Cruickshank, Philip Lachambre and Peggy Mulligan include $3,000 in fees related to the non-EPCOR elect directors meetings that took place in the first and fourth quarters of 2013.

BREAKDOWN OF FEES EARNED

The table below shows the breakdown of fees earned by directors in 2013. Three directors served as committee chairs and received a retainer for that role:

- Albrecht Bellstedt (Corporate Governance, Compensation and Nominating Committee as well as Chair of the non- EPCOR elect directors)
- William Bennett (Audit Committee)
- Brian Bentz (Health, Safety and Environment Committee).

Doyle Beneby and William Bennett received their compensation in US dollars.

Directors can elect to receive all or a portion of the annual cash retainer, committee retainer and/or committee chair retainer in DSUs. Attendance fees are only paid in cash.

						Attendance fee ($)	
Name	**Total fees earned ($)**	**Annual director retainer ($)**	**Annual committee chair retainer ($)**	**% of annual retainer earned paid in cash**	**% of annual retainer earned paid in DSUs**	**Board meetings**	**Committee meetings**
Albrecht Bellstedt	93,000	45,000	7,500	100%	0%	22,500	12,000
Doyle Beneby	66,500	35,000	–	100%	0%	22,500	9,000
William Bennett	76,500	35,000	10,000	100%	0%	19,500	12,000
Brian Bentz	67,000	35,000	5,000	100%	0%	22,500	4,500
Hugh Bolton	57,500	35,000	–	0%	100%	22,500	–
Richard Cruickshank	69,500	35,000	–	0%	100%	21,000	7,500
Philip Lachambre	74,000	35,000	–	100%	0%	22,500	10,500
Donald Lowry	57,000	37,500	–	100%	0%	7,500	6,000
Allister McPherson	63,500	35,000	–	100%	0%	22,500	6,000
Peggy Mulligan	71,000	35,000	–	100%	0%	22,500	13,500
Robert Phillips	46,597	27,097	–	0%	100%	15,000	4,500

Notes

Compensation was pro-rated for some directors:

- Donald Lowry began to earn compensation on October 1, 2013, as he has no longer been compensated by EPCOR for his service as a director and chair of the board of Capital Power from that date onwards.
- Robert Phillips voluntarily resigned from the board on October 10, 2013. His compensation for the fourth quarter of 2013 was pro-rated to October 10, 2013.

% of annual retainer earned

- In the second quarter William Bennett changed his election regarding his annual base director retainer to 100% cash, from 50% cash and 50% DSUs.
- In the fourth quarter Philip Lachambre changed his election regarding his annual base director retainer to 100% cash, from 30% cash and 70% DSUs.

SHARE OWNERSHIP

The table below is based on $24.63, the closing price of our common shares on the TSX on March 10, 2014, and includes reinvested dividends.

Equity ownership of directors

As at March 10, 2014

Name	Total common shares and DSUs (#)	Value ($)	As a % of ownership requirement (%)	Meets ownership requirement	Deadline to meet ownership requirement
Albrecht Bellstedt	26,436	651,120	142	yes	July 9, 2014
Doyle Beneby	6,311	155,445	45	in progress	April 27, 2017
William Bennett	22,993	566,316	151	yes	July 9, 2014
Brian Bentz	18,768	462,262	128	yes	July 9, 2014
Hugh Bolton	26,542	653,727	189	yes	July 9, 2014
Richard Cruickshank	26,542	653,727	189	yes	July 9, 2014
Philip Lachambre	28,570	703,681	204	yes	July 9, 2014
Donald Lowry	5,388	133,246	16	in progress	October 1, 2018
Allister McPherson	24,268	597,727	173	yes	June 25, 2014
Peggy Mulligan	16,311	401,745	116	yes	April 27, 2017

Notes

- Common shares purchased directly in the market by the directors are valued at the greater of book value or fair market value to determine if directors meet the ownership requirements at the deadline.
- Donald Lowry began to earn compensation on October 1, 2013, as he has no longer been compensated by EPCOR for his service as a director and chair of the board of Capital Power from that date onwards.

Share-based awards

The following table sets out information regarding DSUs outstanding as at December 31, 2013.

	Share-based awards (DSUs)			
Name	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested ($)	Number of shares or units of shares that have vested (#)	Market value or payout value of vested share-based awards not paid out or distributed ($)
Albrecht Bellstedt	0	0	18,046	384,380
Doyle Beneby	0	0	5,407	115,169
William Bennett	0	0	20,856	444,233
Brian Bentz	0	0	16,694	355,582
Hugh Bolton	0	0	23,998	511,157
Richard Cruickshank	0	0	23,998	511,157
Philip Lachambre	0	0	16,775	357,308
Donald Lowry	0	0	0	0
Allister McPherson	0	0	16,694	355,582
Peggy Mulligan	0	0	5,407	115,169
Robert Phillips	0	0	24,625	524,513

Notes

- Directors do not receive stock options.
- DSUs vest in full when credited to directors.
- *Number of shares or units of shares that have vested* includes reinvested dividends
- *Market value or payout value of vested share-based awards not paid out or distributed* is based on $21.30, the closing price of our common shares on the TSX on December 31, 2013.

Executive compensation

Letter to shareholders

Dear shareholder,

The board is holding its third 'say on pay' advisory vote on executive compensation to ensure Capital Power's approach is appropriate and fair. While we received over 98% approval from shareholders last year, we believe it's important to continue to receive direct feedback from shareholders on this important matter.

Where to find it

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Executive compensation at Capital Power is designed to be competitive, linked to performance and aligned with effective risk management. The Corporate Governance, Compensation and Nominating Committee sets the strategy for executive compensation, focusing on short, medium and long-term performance goals so Capital Power achieves its business priorities and enhances value for shareholders. A target compensation mix is set for each executive. The mix is based on the executive's position, the executive's relative ability to influence our business results, and competitive practices. Incentive awards are at risk because they are not guaranteed. These incentive awards also account for the largest portion of the mix. The President and CEO has 68% of pay at risk which is divided between 24% of pay delivered in annual incentives which are aligned with operational and financial performance objectives and 44% in long-term incentives (options and performance share units) which are aligned with sustained shareholder value creation. The other named executive officers have between 51% to 61% of pay at risk with 19% to 23% of pay delivered in annual incentives and 30% to 39% of pay delivered in long-term incentives. Executives must also meet share ownership requirements so they have a vested interest in the company and their interests are aligned with those of our shareholders.

Priorities in 2013

As a committee, we devoted a significant portion of our work plan in 2013 to governance matters, monitoring developments in compensation and best practices and seeking advice from our independent consultant to ensure the committee's priorities were sound and decisions were appropriate and support the future growth of the company. These include:

- Conducting a comprehensive review of Capital Power's executive compensation programs. The approved changes improve the pay-for-performance alignment, increase the level of risk associated with below target performance, and create a stronger link between compensation program outcomes and the shareholder experience. Further details are included under *Program Changes for 2014* (see page 37);
- Reviewing compliance with respect to Capital Power's pension and savings plans and investment performance in accordance with the committee's obligations; and
- Reviewing CEO and executive team succession management plans.

As a committee, we fully recognize that our decisions and actions must reflect integrity and accountability — core values at Capital Power — and support the efforts of the executive team to help Capital Power achieve its vision to be recognized as one of North America's most respected, reliable and competitive independent power generators.

Program changes for 2014 (see page 37)

Changes have been made to the executive compensation benchmark peer group for 2014 to better align with organizations of comparable size and for which Capital Power competes for executive talent.

For the short-term incentive plan (STIP) , we have made incremental changes to the plan as a more significant redesign was completed in 2012 for 2013. Starting in 2014 for executives, we have refined the individual measures of the plan by increasing the weighting on business objectives to 30%, and by articulating a "circuit-breaker" to clarify a policy whereby zero incentive awards will be paid when a threshold level of funds from operations (FFO) is not achieved.

The board has approved a long-term incentive grant for 2014 which consists of 50% of the targeted value in performance share units (PSUs) and 50% in stock options. Significant changes to the long-term incentive plan have been approved for 2014. Changes include: the removal of the performance collar on PSUs; establishing a new payout range of 0% to 200%; the adoption of an averaging period to measure relative TSR; and a change in valuation methodology from Towers Watson's binomial methodology to accounting values.

2013 performance (see page 52)

Corporate FFO and safety measures exceeded targeted expectations. The Port Dover and Nanticoke Wind project came in under budget and ahead of schedule. There was significant commercial activity and further committed capital associated with the Shepard Energy Centre and Genesee 4 & 5 development projects. There were strategic realignments with the divestiture of the three New England facilities, the closure of the merchant trading business outside of Alberta, and the corresponding realignment of corporate resources and reduction in general and administrative costs.

Compensation highlights

Base salaries for the Senior Vice President, Corporate Development and Commercial Services and the Senior Vice President, Operations, Engineering and Construction will increase by 6.25% in 2014. These adjustments were based on management's executive compensation review. The President and CEO, Senior Vice President, Finance and CFO, and Senior Vice President, Legal and External Relations will not receive a base salary adjustment in 2014 as their base salaries are already competitively positioned.

Company performance is reflected in the 2013 STIP payments for the named executive officers. Overall, the total performance result for executives was above target, resulting in a payout factor of 127% of target at a fully successful level.

PSUs granted to executives in 2011 vested on January 1, 2014. Our total shareholder return (TSR) was 3% over the three-year performance period, which was above the 25th percentile and below the 50th percentile of the TSR of our peers. Since performance against TSR over the performance period fell between ranges, the payout multiplier was interpolated on a straight-line basis, which resulted in a final payout multiplier of 57% and our executives realizing 69% of the original grant value of their PSUs granted in 2011.

Committee oversight and discretion (see page 45)

As a committee, we have the discretion to adjust payout levels for both the short and long term incentive plans and for individuals to take into account any unusual factors or extenuating circumstances that are beyond the executive's control and result in an incentive award that inappropriately overpays or underpays, or creates an unintentional result. This discretion also applies to the "circuit-breaker" for executive compensation approved for 2014, whereby zero incentive awards will be paid when a threshold level of FFO is not achieved.

Since Capital Power's inception in 2009, the committee has not adjusted any payouts under any of our short-term incentive plans.

Mitigating risk (see page 51)

As a committee, we consider compensation risk in every compensation decision or recommendation we make to ensure our decisions and actions as a committee are consistent with Capital Power's policies and practices and appropriate based on market conditions and peer practices.

The anti-hedging policy and incentive claw back policy also ensure that executives and other employees conduct themselves appropriately.

Looking ahead

This committee is experienced, knowledgeable and committed, and we are working hard to do what is right for Capital Power and its shareholders to support its future growth and benefit all stakeholders. We look forward to engaging in more dialogue with shareholders over the coming year.

You can contact the committee or the board through the Corporate Secretary, Capital Power Corporation,12th floor,
10423 – 101 Street, Edmonton, Alberta T5H 0E9.

Sincerely,

Albrecht Bellstedt
Chair, Corporate Governance, Compensation and Nominating Committee

Richard Cruickshank Peggy Mulligan Brian Bentz

Program changes for 2014

In 2013, the committee conducted a comprehensive review of Capital Power's executive compensation programs to ensure that they continue to be aligned with our growth strategy, market and best practices, and good governance principles. Since it has been four years from our IPO we wanted to ensure that the design of our pay programs reflected our current short- and long-term business priorities, and to create a strong link between compensation program outcomes and the shareholder experience.

Overall, the changes improve the pay-for-performance alignment of our executive compensation programs by increasing the performance emphasis and level of risk associated with below target performance. Both our short- and long-term incentive plans now have stronger performance minimums, and if our performance is below these levels, no award could be paid.

As a first step, we reviewed some of the foundational assumptions of our programs, including the peer group against which we design our executive compensation programs and benchmark our pay levels. We made significant changes to the peer group for 2012, but since that time, the market shifted and the overall size of the companies in that group had increased. Based on a review of companies that we compete against for executive talent, we developed a set of criteria which includes comparably-sized companies (e.g., with revenues from $250 million to $5 billion, or approximately 0.25x to 4.0x our revenue) from the following industries:

- Utility and related companies from across Canada (16 of 27)
- Publicly-traded energy services and exploration and production companies from Alberta (6 of 27)
- General industry companies with headquarters in Edmonton (5 of 27)

The group of 27 companies (16 added and 3 removed) is well balanced from various perspectives, including size, industry and region. Overall, Capital Power is positioned around the median of the peer group in terms of revenue, enterprise value and assets. While the peer group represents the broader labour market for our executives, the committee may also review market data for various sub-sets of the full peer group or from third party compensation surveys to better understand market competitive pay levels for each executive's more specific labour market.

Over the past few years, we have made a number of changes to our peer group, but it is important to note that these changes better align the size of the companies in the peer group to the size of our company with a corresponding decrease in market pay levels. As an example, the most recent changes to the peer group reduced the median market pay, on average, by 9%. In addition, our target pay levels continue to be positioned, on average, below market median.

For the short-term incentive plan, we have made incremental changes to the plan as a more significant redesign was completed for 2013. Starting in 2014 for executives, we have:

- Refined the individual measures of the plan by increasing the weighting on business objectives to 30% and removing the people objectives component to place a greater emphasis on key strategic objectives
- Clarified the process in which the business objectives are developed and reviewed to better align with our business planning process
- Articulated a "circuit-breaker" to clarify a policy whereby zero incentive awards will be paid when a threshold level of funds from operations is not achieved, except for the compensation related to the safety component of the incentive. Notwithstanding this circuit breaker guideline, the committee may still use informed judgment and discretion when determining the level of incentives that may be paid for all components of the short-term incentive when the minimum circuit-breaker level is not met or as the committee deems appropriate in the circumstances.

In the design of the long-term incentive plan, we have made a number of changes to support a stronger pay-for-performance relationship. These include:

- Changing the payout range of the performance share units to 0%-200% of target (from 50%-150% of target) so that they are fully at risk and truly performance-oriented
- Maintaining the current long-term incentive mix for executives (50% stock options and 50% of the new performance share units)
- Changing the current long-term incentive mix for non-executives (25% stock options, 25% performance share units and 50% restricted share units from 25% stock options and 75% performance share units with the 50% minimum floor) to maintain alignment with the executives while increasing the retention value of these awards.

In terms of the design of the performance share units, we have made further changes to increase the perceived value of the awards while maintaining alignment with shareholders and long-term value creation. These include:

- Validating the peer group against which we measure relative total shareholder return (TSR). There are a limited number of direct performance peers, but we believe that the current group, subject to one addition, best represents other Canadian companies with similar business and operational strategies. The group primarily consists of other power companies that have strong dividend yields, low betas, and manage long-life infrastructure assets

- Adopting an averaging period to measure relative TSR based on 20% per year and 40% on 3-year performance. Payouts will continue to be made at the end of the 3-year performance period based on the average performance multiplier over the four measurement periods and our share price at the end of the period. This is designed to reduce the variability associated with a point-to-point TSR measurement, to address the change to a fully at-risk performance share unit with payouts from 0% to 200% of target, and to provide participants with increased certainty on performance throughout the period. Combined with annual grants and overlapping performance periods, the performance share units will continue to focus management on sustained long-term performance. Over the long-term, payouts using averaging periods are expected to be consistent with our current 3-year performance period, except that the averaging periods reduce the variability in payouts within and between cycles
- Setting the payout multiplier at 0% for less than 25th percentile performance relative to our peers, 50% for the 25th percentile (threshold), 100% for the 50th percentile (target) and 200% for the 75th percentile (maximum), with interpolation between these points. The threshold was set at 50% based on market practice and an analysis that considers the impact of the averaging period such that the likelihood of threshold performance in all of the four measurement periods within each performance share unit grant is low. The maximum payout opportunity was increased to 200% to offset the increased risk associated with a 0% payout opportunity when compared to a 50% minimum in the previous plan. The potential payouts under the plan were stress-tested under various scenarios, demonstrating alignment of the payouts with our relative performance against our peers
- Changing the methodology of how we value long-term incentives for compensation purposes from Towers Watson's binomial valuation methodology to accounting values. This change is consistent with market practice, it simplifies the process and our disclosure, and creates better alignment with the values used for financial reporting purposes. While the value of our long-term incentive awards will increase in next year's disclosure, we do not anticipate a material change in the number of stock options and performance share units awarded to each executive. We have also increased the option floor ratio to 15% (of the grant price) to better align with accounting values among our peer companies and to moderate the number of options granted.

Finally, we reviewed the share ownership guidelines to help align the interests of our executives with those of our shareholders. Our review concluded that our guidelines are within the market range and our executives are on-track to be in compliance by their date based on the vesting of the 2011 performance share units and with individual commitments to purchase additional shares, as needed. Notwithstanding this, we have also made a couple of changes to assist in share ownership, including:

- Adopting a voluntary deferred share unit plan which will allow executives to defer all or a portion of their annual incentive awards, capped at the level required to comply with their guidelines, in order to assist them in building their ownership levels on a tax effective basis
- Measuring compliance and the value of shareholdings using the higher of cost or market price in order to reduce the year-over-year variability in the total value of shareholdings and to reflect the illiquid nature of their holdings.

The review was made through an iterative process between the committee, management and our independent advisor, and we believe that it creates a sustainable compensation program supporting long-term value creation for management and our shareholders.

Compensation discussion and analysis

This compensation discussion and analysis (CD&A) discusses executive compensation for 2013 for our five most highly compensated executives (our *named executives*):

- Brian Vaasjo, President and CEO
- Stuart Lee, Senior Vice President, Finance and CFO
- Brian DeNeve, Senior Vice President, Corporate Development and Commercial Services
- B. Kathryn Chisholm, Q.C., Senior Vice President, Legal and External Relations
- Darcy Trufyn, Senior Vice President, Operations, Engineering and Construction

In this CD&A, all references to *committee* mean the board's Corporate Governance, Compensation and Nominating Committee, which has reviewed and approved the contents of this section.

APPROACH TO COMPENSATION

Philosophy and objectives

Our executive compensation is designed to pay for performance. We use direct and indirect compensation to create a total compensation package that is competitive with the Canadian energy and utility industry and companies that are similar to us in size and scope.

Our program aims to achieve three key objectives:

- Attract and retain high performing employees
- Link compensation with our business strategy and objectives
- Align total compensation with the interests of shareholders

The committee sets our strategy for executive compensation. It focuses on short, medium and long-term performance goals and the need for executives to have an ownership stake in Capital Power so we achieve our business priorities and enhance our value for shareholders.

Benchmarking

We benchmark our executive compensation against a comparator group of companies that we compete with for executive talent. The companies are publicly traded, primarily based in Alberta, classified in the energy and utility industries, and earn revenue between $1 billion and $5 billion.

The following table provides a look at the industries that our comparator group companies operate in as well as other relevant metrics:

				($ millions)
Company	**Primary industry**	**Total revenue**	**Total enterprise value**	**Total assets**
AltaGas Ltd.	Oil & Gas Storage & Transportation	$1,581	$6,471	$3,542
ARC Resources Ltd.	Oil & Gas Exploration & Production	$1,219	$8,070	$5,324
ATCO Ltd.	Multi-Utilities & Unregulated Power	$3,991	$12,053	$12,453
Crescent Point Energy Corp.	Oil & Gas Exploration & Production	$1,829	$15,307	$8,734
Emera Inc.	Electric Utilities	$2,064	$8,766	$6,924
Enerplus Corporation	Oil & Gas Exploration & Production	$1,118	$3,709	$5,723
Fortis Inc.	Electric Utilities	$3,747	$14,104	$13,562
Inter Pipeline Fund	Oil & Gas Storage & Transportation	$1,152	$9,504	$4,768
Just Energy Group Inc.	Multi-Utilities & Unregulated Power	$2,953	$2,206	$1,590
Keyera Corp.	Oil & Gas Refining, Marketing & Transportation	$2,569	$4,534	$2,234
Pembina Pipeline Corporation	Oil & Gas Storage & Transportation	$1,677	$10,743	$3,339
Pengrowth Energy Corporation	Oil & Gas Exploration & Production	$1,176	$4,259	$5,645
Penn West Petroleum Ltd.	Oil & Gas Exploration & Production	$3,006	$9,111	$15,584
TransAlta Corp.	Electric Utilities	$2,663	$9,063	$9,760
25th percentile		$1,208	$4,465	$3,492
50th percentile		$1,947	$8,914	$5,684
75th percentile		$2,966	$11,071	$10,433
Capital Power Corporation	**Electric Utilities**	**$1,766 44p**	**$4,814 28p**	**$4,743 33p**

The committee and external consultants review the comparator group every year to make sure the composition is relevant.

For 2014 the executive compensation comparator group will include the following 27 companies:

Algonquin Power & Utilities Corp.	Inter Pipeline Fund
AltaGas Ltd.	Just Energy Group Inc.
ATB Financial Inc.	Keyera Corp.
ATCO Ltd.	Lightstream Resources Ltd.
AutoCanada Inc.	Northland Power Inc.
Bonavista Energy Corporation	Parkland Fuel Corporation
Canadian Western Bank	Pembina Pipeline Corporation
Emera Incorporated	Pengrowth Energy Corporation
Enerplus Corporation	Precision Drilling Corporation
ENMAX Corp.	Stantec Inc.
Ensign Energy Services Inc.	Superior Plus Corp.
EPCOR Utilities Inc.	TransAlta Corporation
Fortis Inc.	Veresen Inc.
Gibson Energy Inc.	

Based on the committee's input the comparator group was refined for 2014 to address the following concerns:

- Sensitivities associated with the inclusion of exploration and production companies. The committee did not want to avoid all exploration and production companies, as they represent part of the labour market in Alberta, but did want to see the emphasis reduced within the comparator group.
- There was some comfort around the inclusion of energy services companies, but the weighting within the comparator group needed to be reviewed to ensure it was appropriate.
- There was increased comfort with the inclusion of other Edmonton-based companies that may be seen as potential comparators for executive talent.

We obtain market data from publicly available proxy circulars and third party compensation surveys to compare executive base salaries and short and long-term incentive awards for positions that are similar in scope and responsibility.

Each compensation element, and overall total direct compensation, is targeted at the median of the comparator group. The resulting total direct compensation (base salary and short and long-term incentives) will produce above median compensation in the event of superior corporate and individual performance or below median compensation in the event of expectations not being met.

Share ownership guidelines

We require executives to own shares in Capital Power to align their interests with those of our shareholders. Minimum requirements increase by level of executive, and they must meet the requirements within five years of being appointed to the position:

Level of executive	As a multiple of base salary
President and CEO	3 x
Senior Vice President, Finance and CFO	2 x
All other executives	1 x

Share ownership is based on the number of common shares held by the executive plus any unvested PSUs granted under our long-term incentive (LTI) plan, valued at the minimum (50%) on an after tax basis. We include PSUs because executives can use the proceeds from their PSU payout to buy common shares to meet their share ownership requirements. PSUs granted in 2014 and beyond, which will have a 0% to 200% payout range, will not be included in calculating ownership levels. Option grants do not count towards an executive's minimum ownership requirement.

The table below shows the common shares and PSUs each named executive held at December 31, 2013. Total unvested PSUs includes dividend equivalents and is based on $21.30, the closing price of our common shares on the TSX on December 31, 2013. The estimated value of the unvested PSUs represents the minimum payout value (50%) on an after tax basis (using a marginal tax rate of 39%).

Name	Total common shares (#)	Total unvested PSUs (#)	Value ($)	Total common shares and unvested PSUs held as a percentage of ownership requirement (%)	Meets ownership requirement	Deadline to meet the requirement
Brian Vaasjo	66,330	77,834	2,019,874	93	in progress	July 1, 2014
Stuart Lee	22,667	26,387	682,647	89	in progress	July 1, 2014
Bryan DeNeve	10,439	13,136	317,314	102	yes	January 4, 2016
Kathryn Chisholm	10,403	15,302	329,042	103	yes	July 1, 2014
Darcy Trufyn	13,997	14,412	414,018	129	yes	October 13, 2014

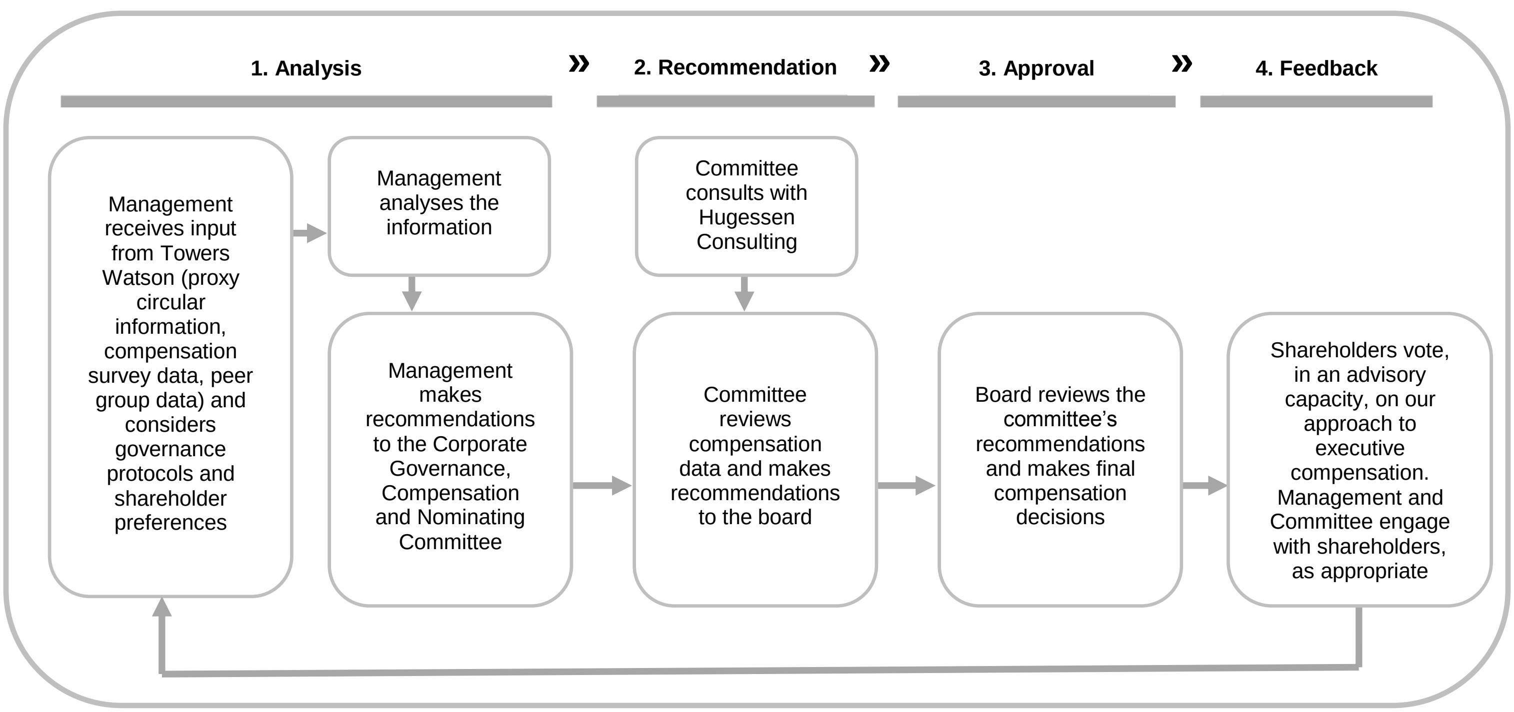
We have an anti-hedging policy that prohibits insiders from engaging in any transaction in which they could benefit, directly or indirectly, if the value of any Capital Power security falls. In addition, any employee or director that has a minimum share ownership requirement is prohibited from encumbering those interests.

We do not require our executives to maintain their share ownership after they retire from Capital Power.

In November 2013, the committee approved management's recommendation to adopt a deferred share unit (DSU) plan that allows executives to voluntarily defer all or a portion of their annual short-term incentive award into DSUs. The DSU plan will help facilitate share ownership by providing executives a way to acquire share units on a pre-tax basis. The voluntary DSU deferral program will be capped at the level required by executives to comply with their guidelines. Similarly to the DSUs for the directors, executives cannot access the value of their DSUs until they leave the Company.

The committee also approved the use of the higher of cost or market price when measuring compliance and the value of shareholdings. This change to the calculation will aid in reducing year-over-year variability in the total value of shareholdings and reflects the illiquid nature of the executives' holdings. The above table reflects this change.

DECISION–MAKING PROCESS



All executive compensation decisions are based on a formal process that involves human resources management, the committee and the board. Management's external consultant (Towers Watson) and the committee's independent compensation consultant (Hugessen Consulting) also provide input.

Analysis
Compensation planning is integrated with the annual business planning and budgeting process. Financial and operational targets are set based on the overall strategic plan and business priorities for the year.

Human resources management researches the market with input from Towers Watson that includes data from proxy circulars filed with Canadian securities commissions, compensation survey data and peer group analysis.

Management assesses the information and makes recommendations to the committee.

Recommendation
The committee reviews the compensation strategy and program design to make sure they align with our business needs. It reviews the total compensation of the CEO and other named executives against market data and recommends any changes to compensation levels to the board. The committee approves the overall salary budget for the year and the design of the STIP.

The committee also reviews the CEO's performance and his individual performance assessments of the other executives, and recommends the executive STIP awards to the board. It also reviews and approves the total payout of the STIP and the measures for the LTI plan to make sure they reinforce our key priorities.

Independent advice
The committee has retained an independent consultant for executive compensation matters because it recognizes the importance of receiving third party advice. This helps ensure that the committee's decisions and recommendations are made in an objective and arms-length manner in addition to being appropriate for Capital Power and consistent with market practices.

The consultant provides independent advice on:
- CEO compensation
- Peer groups for executive and director compensation as well as performance assessment
- The performance framework
- Considerations related to levels of compensation in the competitive market provided by management and its advisor
- Other compensation and related governance matters included within the committee's mandate.

The consultant is responsible to the committee and must keep all matters confidential. It must also advise the committee chair of any potential conflicts of interest.

In 2011, the board adopted a policy that sets out broad guidelines for the independent consultant relationship. The policy limits the consultant's exposure to management and requires the committee to pre-approve any work plan undertaken with management, among other things. The committee's consultant has never undertaken any work for management. Hugessen Consulting has been the committee's consultant for the past three years. The table below shows the fees paid to them for the last two years.

	2013	2012
Executive compensation fees	$210,043	$99,910
All other fees	$0	$0
Total	**$210,043**	**$99,910**

Management can retain its own consultant for human resources matters, and has retained Towers Watson since our inception.

Approval
The board reviews the committee's recommendations and approves all decisions on executive compensation.

ELEMENTS OF COMPENSATION

Total direct compensation includes base salary and short and long-term incentive awards.

A target compensation mix is set for each executive. The mix is based on level and role, the individual's relative ability to influence our business results and competitive practices. Incentive awards are *at risk* because they are not guaranteed — they also account for the largest portion of the mix.

Compensation mix

Name	Base salary (%)	Short-term incentive (%)	Long-term incentives (%)	Total (%)
Brian Vaasjo	32	24	44	100
Stuart Lee	39	22	39	100
Bryan DeNeve	48	21	31	100
Kathryn Chisholm	49	19	32	100
Darcy Trufyn	47	23	30	100

The next table describes each element in more detail.

Component	Objective	What it rewards
Base salary	Provide a competitive base level of fixed compensation based on responsibilities, scope and market data	Experience, expertise, knowledge and scope of responsibilities
Short-term incentive	Provide compensation that is based on achieving annual performance targets that support our overall strategic direction	Achievement of annual corporate objectives and individual performance goals
Long-term incentive	Provide equity-based compensation for sustaining mid to long-term performance and aligns the interests of executives and shareholders Used to retain executives longer term	Achievement of mid to long-term performance results and growth in share price

Base salary

Base salaries are targeted at the median of the compensation comparator group, and are based on the responsibilities of each position, individual experience, expertise and knowledge when compared with the market, individual performance and internal equity.

Short-term incentive

The STIP is designed to provide a competitive annual bonus based on corporate and individual performance while reinforcing our focus on strong leadership. The plan focuses on the achievement of corporate results and incents participants to meet or exceed individual business-specific objectives and clearly defined business-related leadership expectations, and measures the leadership of each individual and the consistency of their behaviours with corporate values.

Target awards are set for each position as a percentage of base salary, and are targeted at the median of the comparator group for executive positions with similar responsibilities. The table below shows the target incentive for each named executive for 2013.

			As a % of base salary
Name	Minimum (%)	Target (%)	Maximum (%)
Brian Vaasjo	0	75	150
Stuart Lee	0	55	110
Bryan DeNeve	0	45	90
Kathryn Chisholm	0	40	80
Darcy Trufyn	0	50	100

STIP awards are based on performance over the 2013 calendar year and are paid out in March 2014.

Performance measures and weightings

Performance under the STIP is based on the following measures and weightings for the executive group:

Performance measure	Weighting	
Corporate measures		Corporate measures have a threshold, target and stretch value for each metric. There will be no payout for the corporate measures if performance is below threshold.
Funds from operation (FFO)	60%	
Safety	10%	

Performance	Payout (as a % of STIP target value)
Threshold (minimum)	50%
Target	100%
Stretch (maximum)	200%

Performance measure	Weighting	
Individual measures		Individual measures are assessed through the performance management process. Performance against business objectives and people objectives will be measured and rated against a five-point scale that determines the payout:
Business objectives	20%	
People objectives	10%	

Rating	Payout (as a % of STIP target value)
Unacceptable	0%
Stronger performance required	50%
Fully successful	100%
Frequently exceeds expectations	150%
Outstanding	200%

The maximum payout is capped at 200% of target.

The following requirements must be met for an individual to receive the maximum payout:

- *Stretch* results for corporate performance
- *Outstanding* performance against business objectives
- *Outstanding* performance against people objectives.

Payout formula

The target incentive opportunity for each position is a percentage of base salary. Performance is assessed against each measure and its weighting. Results against each of the four performance measures are added together to determine the final STIP award:

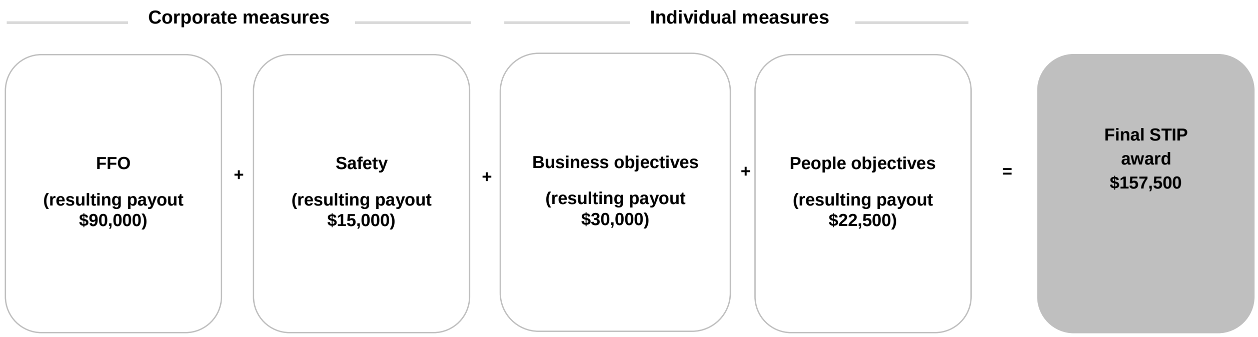
Corporate measures				**Individual measures**				
Base salary x Target incentive x **FFO weighting** **x** **FFO result**	+	Base salary x Target incentive x **Safety weighting** **x** **Safety result**	+	Base salary x Target incentive x **Business objectives weighting** **x** **Business objectives weighting result**	+	Base salary x Target incentive x **People objectives weighting** **x** **People objectives result**	=	**Final STIP award $**

The example on the next page shows how the final STIP award is determined under the new plan based on the following assumptions:

- Base salary – $300,000
- Target incentive – 50%

Performance assumptions

- Funds from operation (FFO) result – Target
- Safety result – Target
- Business objectives result – Fully successful
- People objectives – Frequently exceeds expectations



In November 2013, the committee approved the inclusion of a circuit breaker whereby zero incentive awards will be paid when a threshold level of funds from operations is not achieved, except for the compensation related to the safety component of the incentive. Notwithstanding this circuit breaker guideline, the committee may still use informed judgment and discretion when determining the level of incentives that may be paid for all components of the short-term incentive when the minimum circuit breaker level is not met or as the committee deems appropriate in the circumstances.

The committee also approved a refinement in the individual measures of the plan for executives. Specifically, the weighting on business objectives will be increased to 30% and the people objectives component will be eliminated. The change in individual measures was made to place a greater emphasis on the key strategic objectives that the Company wants executives to focus on and achieve.

The 2014 STIP awards that will be paid out in March 2015 will reflect the inclusion of a circuit breaker and the change in weighting to the individual measures as described above.

Committee oversight and discretion
The committee has the discretion to adjust payout levels for the overall plan and for individuals to take into account any unusual factors or extenuating circumstances that are beyond the executive's control and result in an incentive award that inappropriately overpays or underpays, or creates an unintentional result. The committee has not exercised its discretion to date.

Long-term incentive
We grant a long-term incentive (LTI) award to:

- Align the interests of our executives and shareholders
- Motivate executives to deliver strong mid and long-term performance
- Retain executives over the long term.

The award typically consists of two components — 50% of the targeted value in performance share units (PSUs) and 50% in stock options.

We can also grant restricted share units (RSUs), stand-alone stock appreciation rights (SARs) and tandem SARs under the LTI plan, but have not done so to date.

Awards are granted annually, generally at the target value based on the grant levels approved by the committee and recommended to the board for approval. The committee stress tests the LTI award using different performance scenarios to test the expected values of the award and assess the competitiveness of total compensation relative to the compensation peer group.

The size of the grant is based on the target award and grant level approved by the committee and the board.

The committee assesses the CEO's performance and recommends his LTI award to the board for its review and approval. The CEO prepares recommendations for the other plan participants based on their level of responsibility, performance and market competitiveness. He submits these to the committee which then recommends the awards to the board for its review and approval.

The committee and the board do not consider grants from previous years when determining new awards.

Board oversight and discretion
The board has the discretion to amend or discontinue the LTI plan at any time, subject to compliance with the requirements of the TSX.

Performance share units

Form of award	Notional share-based awards
Who participates	Executives and senior management
Dividends	Dividend equivalents (at the same rate as dividends paid on our common shares)
Vesting	Cliff vest at the end of three years, on January 1
Payout	Cash (or shares issued from treasury at the board's discretion)
Assignment	Generally cannot be transferred unless it is to the participant's spouse (as beneficiary), or a personal holding corporation or family trust that the participant controls for the benefit of his or her children or grandchildren (if they are minors) after the participant dies. Outstanding PSUs are for the benefit of and are binding on the beneficiary
Termination	*Resignation/termination for cause* – all PSUs are forfeited *Termination without cause* – vesting of PSUs is pro-rated to the end of the last full month worked preceding the date of termination and based on actual performance to the end of the quarter preceding the date of termination *Retirement/death* – vesting of PSUs is pro-rated to the end of the last full month worked preceding the date of termination and based on actual performance to the end of the quarter preceding the date of termination (for retirement) or target performance (for death)

PSUs focus on relative performance, using TSR, defined as growth in share price (including reinvested dividends) to measure our performance against our peers.

Payout formula

Number of PSUs granted (plus reinvested dividends) X **Payout multiplier** (based on relative TSR) X **Share price** (based on the volume-weighted average closing price as traded on each of the 30 trading days preceding the vesting day)(1) = **Actual PSU award** ($)

(1) The definition of share price was updated in conjunction with the 2013 PSU grant and beyond. Prior to this, share price was defined as the simple average closing price as traded on each of the five trading days preceding the vesting date.

The actual payout or realized value is based on our TSR ranking and our share price at the end of the three-year performance period. The award is generally expected to be paid out in cash.

Performance peer group

Our performance peers are companies with similar business characteristics that we compete with for investment capital.

All of the companies in the performance peer group are publicly-traded Canadian companies classified as power producers or utilities with enterprise values greater than $1 billion, with strong dividend yields and low volatility (as measured through a company's beta, namely the measure of volatility relative to the market as a whole).

The following table provides a listing of the companies used to measure our TSR performance for the 2011, 2012 and 2013 PSU grants:

Company	2011 PSU grant	2012 PSU grant	2013 PSU grant
Algonquin Power & Utilities Corp.	x	x	x
AltaGas Ltd.		x	x
Atlantic Power Corporation	x	x	x
Brookfield Renewable Energy Partners L.P.	x	x	x
Canadian Utilities Limited	x	x	x
Emera Incorporated	x	x	x
Enbridge Inc.	x		
Fortis Inc.	x	x	x
Innergex Renewable Energy Inc.		x	x
Northland Power Inc.	x	x	x
TransAlta Corporation	x	x	x
TransCanada Corporation	x	x	x
Veresen Inc.		x	x

There are a limited number of comparable peer organizations in Canada that have the same commodity exposure as Capital Power. As a result, we anticipate that performance relative to the performance peers will be impacted by our position within the commodity cycle.

The difference between the executive compensation comparator group and the performance peer group reflects the different purposes of each of the groups, namely benchmarking executive pay versus benchmarking company performance. The executive compensation comparator group represents the market for executive talent while the performance peer group represents companies that share similar risks and opportunities and are operational and strategic competitors.

Independent consultants and the committee review the peer group every year to make sure it stays relevant.

In November 2013, the performance peer group was reviewed to determine whether it was still deemed appropriate. The objective was to find the right external benchmarks that represent the competitors for investor dollars and operating peers with comparable risks and opportunities. There are a limited number of direct performance peers, but we believe that the current group, subject to one addition, best represents other Canadian companies with similar business and operational strategies. To complete the group Capstone Infrastructure Corporation was added because it is a dividend paying power producer that is a peer company cited by investment analysts and those used by Capital Power's peers.

The payout of the PSU awards granted in 2014 will be based on the following performance peer group:

Algonquin Power & Utilities Corp.
AltaGas Ltd.
Atlantic Power Corporation
Brookfield Renewable Energy Partners L.P.
Canadian Utilities Limited
Capstone Infrastructure Corporation
Emera Incorporated
Fortis Inc.
Innergex Renewable Energy Inc.
Northland Power Inc.
TransAlta Corporation
TransCanada Corporation
Veresen Inc.

Payout multiplier

The table below shows the TSR rankings and corresponding payout multipliers for the formula:

If we achieve a TSR ranking of:	Then the payout multiplier is
75th percentile or higher	150% of target
50th percentile (median)	100% of target
25th percentile or lower	50% of target

The payout multiplier is interpolated on a straight-line basis if performance falls between ranges.

The committee set a minimum payout multiplier of 50% of the target award because we do not have a long trading history and there are a limited number of comparable peer organizations that have the same level of commodity price exposure. The payout range of 50 to 150% was used for the grants of the 2011, 2012 and 2013 PSU awards and provides a variable payout aligned with our performance relative to the performance peers.

In November 2013, the committee approved a change to the PSU payout range to support a stronger pay-for-performance relationship and to reflect our longer trading history and evolving business strategy. For the 2014 grant and beyond we will remove the floor and increase the maximum for the PSUs (from 50% to 150% to 0% to 200%) and develop a payout curve that incorporates a threshold. The table below shows the TSR rankings and corresponding payout multipliers for the formula:

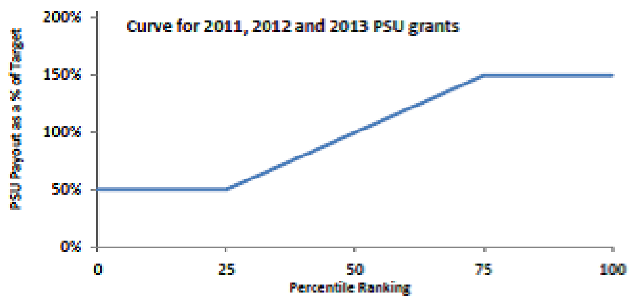
If we achieve a TSR ranking of:	Then the payout multiplier is
75th percentile or higher	200% of target
50th percentile (median)	100% of target
25th percentile	50% of target
Below the 25th percentile	0% of target

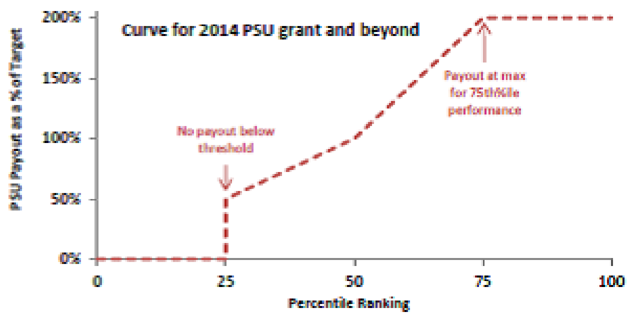
The payout multiplier is interpolated on a straight-line basis if performance falls between ranges.

Averaging period

In November 2013, the committee approved an averaging period to measure relative TSR based on 20% per year and 40% on three-year performance to be adopted for PSUs that are granted in 2014 and beyond. Payouts will continue to be made at the end of the three-year performance period based on the average performance multiplier over the four measurement periods and our share price at the end of the period. This is designed to reduce the variability associated with a point-to-point TSR measurement, to address the change to a fully at-risk performance share unit with payouts from 0% to 200% of target, and to provide participants with increased certainty on performance throughout the period. Combined with annual grants and overlapping performance periods, the PSUs will continue to focus management on sustained long-term performance. Over the long-term, payouts using averaging periods are expected to be consistent with our current three-year performance period, except that the averaging periods reduce the variability in payouts within and between cycles. The threshold of the payout curve was set at 50% based on market practice and an analysis that considered the impact of the averaging period such that the likelihood of threshold performance in all of the four measurement periods within each PSU grant is low. The maximum payout opportunity was increased to 200% to offset the increased risk associated with a 0% payout opportunity when compared to a 50% minimum in the previous plan. The potential payouts under the plan were stress-tested under various scenarios, demonstrating alignment of the payouts with our relative performance against our peers.

The following illustration depicts the change in the PSU payout curve going forward:





Stock options

Stock options promote a focus on increasing our absolute share price over the longer term.

We've made five grants of stock options since our inception in 2009, a one-time grant under the 2009 plan and subsequent grants under our current plan.

The one-time grant under the 2009 plan replaced the value of outstanding 2006, 2007, 2008 and 2009 EPCOR phantom options held by EPCOR employees who joined Capital Power in 2009. The exercise price was at least the same as the IPO price when the options were granted on July 8, 2009. No additional grants will be made under this plan.

The exercise price for stock options granted under the current plan is the closing price of our common shares on the TSX on the day immediately preceding the grant date (the fair market value).

	Current plan	Differences under the 2009 plan
Form of award	The right to purchase our common shares at a price that is at least the fair market value on the grant date	Same as current plan
Participants	Executives and senior management	Employees who held EPCOR phantom options
Vesting	One-third each year beginning on the first anniversary of the grant date (unless stated otherwise when the options are granted)	One-third each year beginning on January 1, 2010

	Current plan	Differences under the 2009 plan
Term	Expire after seven years (or less as stated when the options are granted) If the expiry date falls during a black-out period, the expiry date is extended to 10 days after the black-out period ends	Expire after seven years
Payout	Based on when the participant exercises the options The participant only realizes a value if the share price is higher than the exercise price when they exercise the options	Same as current plan
Assignment	Generally cannot be transferred, unless it's to the participant's spouse (as beneficiary), or a personal holding corporation or family trust that the participant controls for the benefit of his or her children or grandchildren (if they are minors) after the participant dies. Any outstanding options are for the benefit or and are binding on the participant's beneficiary	Same as current plan
Termination	*Resignation/termination for cause/termination without cause* - unvested options are forfeited and vested options expire up to 30 days after termination *Retirement/death* – all options expire up to 12 months after termination and continue to vest during that period	*Resignation/termination without cause* - unvested options are forfeited and vested options expire up to 90 days after termination *Termination for cause* – unvested and vested options are forfeited *Retirement/death* – unvested options are forfeited and vested options expire up to 12 months after termination

The committee and the board believe that stock options form an important component of a competitive compensation package for executives and senior managers. They help attract and retain strong talent and motivate them to execute our business strategy successfully.

The board recognizes the need to strike a proper balance between a long-term compensation program for management employees that aligns their interests with those of shareholders, and potential shareholder concerns about dilution from the ongoing granting and exercising of stock options.

Stock option valuation
A 12% binomial floor value ratio was used for the 2013 grant. This was based on many factors including results produced by the Towers Watson binomial valuation model and the average share price volatility of companies in the performance peer group. The higher binomial value ratio was more in line with our peers and helped manage dilution by reducing the number of options granted and better reflecting the underlying value of these awards.

In November 2013, the committee approved a change from Towers Watson's binomial valuation model to accounting values. This change is consistent with market practice, it simplifies the process and our disclosure, and creates better alignment with the values used for financial reporting purposes. While the value of our long-term incentive awards will increase in next year's disclosure, we do not anticipate a material change in the number of stock options and performance share units awarded to each executive.

We have also increased the option floor ratio to 15% (of the grant price) to better align with accounting values among our peer companies and to moderate the number of options granted.

Amending or terminating the plans
We must receive shareholder approval to make any of the following changes:
- increase the maximum number of shares that can be granted under the plan
- reduce the exercise price below the market price of the shares on the grant date
- cancel and re-issue an award under different terms which has the effect of reducing the exercise price of the award
- increase the limits of the number of common shares (including the impact of exchangeable LP units) that can be reserved for issue to insiders or to any participant
- reduce the exercise price of an outstanding award
- extend the term beyond seven years
- extend the term of any outstanding awards
- allow a participant to assign their options to someone not currently allowed under the plan
- change the definition of persons eligible to participate in the plan.

The board can make housekeeping or administrative changes as set out in the plan documents if they meet the TSX requirements. The board can also terminate the plans at any time.

Any changes do not affect the rights that participants have already accrued.

Share reserve

The plans limit the number of common shares that may be reserved for issue:

- up to 10% of the total common shares issued and outstanding and common shares that can be issued for the exchange of exchangeable LP units in one year to all insiders
- up to 5% of the total common shares issued and outstanding and common shares that can be issued for the exchange of exchangeable LP units to any participant.

The number of common shares reserved for issue for stock options awarded to insiders represents approximately 1.9% of the common shares outstanding and common shares that can be issued for the exchange of exchangeable LP units (99,730,878 as at December 31, 2013).

A total of 7,094,506 common shares can be issued under the plans as at December 31, 2013.

For additional discussion of our equity compensation plans, please see page 60.

ASSESSING PERFORMANCE

Our executive compensation is designed to pay for performance, rewarding individuals for results that meet or exceed our corporate objectives and business strategy within the risk tolerances approved annually by the board.

The Business Planning and Review (BPR) process is Capital Power's integrated business planning, risk management, budgeting and performance management process. The planning stream of the BPR process is designed to:

- align departmental business plans with our corporate plan and strategy
- promote cross-functional coordination
- increase accountability for deliverables and cross-functional commitments
- link plans with resources through integration with the budget process.

The business planning process starts with the development of the CEO's business plan. In it there are a number of key initiatives that support the long term corporate strategy and a number of interim deliverables or milestones, most of which are delegated to the Senior Vice Presidents. These delegated deliverables become the Senior Vice Presidents' deliverables, for which they identify and delegate, as appropriate, interim deliverables. The business planning process follows this cascading approach down to all managerial positions.

The BPR system provides a framework to ensure that executive and managerial positions are working in concert to move Capital Power in the desired direction, ultimately focused on supporting our overall vision and corporate strategy.

The STIP provides competitive annual bonuses that reflect corporate and individual performance against business plan deliverables. Corporate measures focus on corporate results and create joint accountability among the executives. Individual performance objectives allow for the differentiation of payouts based on individual contributions. Individual performance is assessed relative to how well each executive meets their annual individual deliverables in their business plan while demonstrating leadership competencies and our corporate values.

LTI promotes a focus on increasing our share price in both absolute and relative terms. In absolute terms, share performance directly affects the value that executives can realize from their PSU and stock option holdings. In relative terms, higher or lower share performance relative to that of our performance peer group will result in higher or lower payouts from PSU holdings. This emphasis on longer-term performance, with the value directly tied to share price, is intended to align executive interests with those of our shareholders over a longer time horizon. Adhering to the business plans and accomplishing the key initiatives that support our corporate strategy can result in appreciation in our share price.

Risk management

The board establishes acceptable levels of risk, and these govern our business decisions and risk management policies. Compensation risk is factored into every compensation decision or recommendation the committee makes to ensure decisions and actions are consistent with our policies and practices and appropriate based on market conditions and peer practices. The committee also conducts a compensation risk assessment every November. It reviews our compensation structure, policies and practices and the key risks affecting our business and independent power producers generally, and presents its findings to the board.

The committee looked at risk in the following key areas in 2013, and concluded that none of our current compensation practices are reasonably likely to have a material adverse effect on Capital Power. The table below describes the findings in more detail:

Operations risk	• We mitigate operations risk by using a combination of measures and weights to assess corporate performance under the short-term incentive plan. • *Funds from operations* (FFO) is the primary measure under annual incentive plan for all employees (70% weighting for executives and 30% for operations staff). Another 30% of corporate performance is based on total operating margin per plant for operations staff. • Performance is also assessed using plant specific measures, like successful maintenance outages or other activities that support plant availability.
Acquisition and development risk	• Business development activities may not affect the FFO in the years the activities are specifically undertaken, but it will affect FFO in each of the following years. FFO discourages the acquisition or development of plants that will not make a strong contribution to our results. • 40% of the short-term incentive award for construction personnel is based on whether construction and maintenance projects are delivered on time and on budget (30% is based on FFO). • 40% of the corporate component for the business development team under the short-term incentive plan is based on FFO. • Annual performance measures for our business development employees relate to the quality of business acquisitions, as measured by accretion to our earnings per share attributable to each acquisition or development project.

Derivatives and energy trading risk	• We manage our exposure to electricity, natural gas and foreign exchange spot prices: ◦ Members of our commodity portfolio management team (CPM) participate in a separate short-term incentive payment program (MSTIP) so we can attract and retain this specialized skill and ensure that compensation for traders is competitive with the commodity trading market. MSTIP participants earn higher incentives for superior performance and a smaller award for inferior performance. They share a portion of incremental profit created by the team (defined as all economic value created that exceeds the budget target amounts for which they're accountable). CPM management conducts individual and team performance assessments and allocates the pool accordingly with advice from human resources. • Risk taking is limited: ◦ The incremental profit has a cap, and the components used to determine the profit are reviewed by our finance and commodity risk management departments. ◦ The CPM Senior Vice President and Vice President do not participate in MSTIP. They participate in the annual short-term incentive plan (FFO is the primary measure for corporate performance) and the LTI plan, which has a longer-term focus. ◦ The commodity risk management group reviews all trades and reports directly to the CFO, and participates in the short-term incentive plan. Participants have individual performance measures related to managing the risks associated with commodity trading.
Disclosure risk	• Each individual who contributes directly to our public disclosure has a personal performance measure to avoid any material restatement. • Each member of the management team must certify quarterly that he or she has disclosed to their executive (for senior managers) or the board (for executives) every significant event or condition that could materially affect Capital Power or our results and updated them appropriately. • Our incentive claw back policy applies to everyone at Capital Power.

To further mitigate compensation risk, the board adopted two key policies on compensation risk in 2011 on the committee's recommendation. These policies are contained in our Corporate Governance Policy which can be found on our website (www.capitalpower.com).

Anti-hedging policy
Our anti-hedging policy prohibits insiders from engaging in trading activities that would allow them to benefit from a decrease in the value of our securities. It also prohibits employees and directors from encumbering their shares.

Incentive claw back policy
The incentive claw back policy allows us to recoup incentive compensation awards in certain situations.

All executives must reimburse us their incentive compensation, regardless of individual wrongdoing, if we have to restate our financial and other results and it leads to a lower payment than otherwise would have been made. Other employees must reimburse us if they were involved in misconduct contributing to the need to restate our financial or other results.

Any reimbursement is in addition to any legal actions taken by Capital Power, law enforcement agencies or regulators.

The committee also considers risk when making any compensation recommendation to the board, and can use its discretion to adjust payout levels for the compensation plans and for individuals.

COMPENSATION DECISIONS FOR 2013

The board, on the committee's recommendation, approved the following decisions on executive compensation for performance in 2013.

Base salary

Base salaries for the named executive officers with the exception of the President and CEO increased by approximately 4.0% in 2013. These adjustments were based on management's executive compensation review. The President and CEO did not receive a base salary adjustment in 2013 as his base salary was already competitively positioned.

Base salaries for the Senior Vice President, Corporate Development and Commercial Services and the Senior Vice President, Operations, Engineering and Construction will increase by 6.25% in 2014. These adjustments were based on management's executive compensation review. The President and CEO, Senior Vice President, Finance and CFO, and Senior Vice President, Legal and External Relations will not receive a base salary adjustment in 2014 as their base salaries are already competitively positioned.

2013 STIP award

	Base salary		Target incentive		Corporate performance results + Individual performance results		2013 STIP award
Brian Vaasjo	$725,000	x	75%	x	(96.91% + 45.00%)	=	$771,620
Stuart Lee	$385,000	x	55%	x	(96.91% + 45.00%)	=	$300,488
Bryan DeNeve	$310,000	x	45%	x	(96.91% + 45.00%)	=	$197,961
Kathryn Chisholm	$320,000	x	40%	x	(96.91% + 35.00%)	=	$168,841
Darcy Trufyn	$320,000	x	50%	x	(96.91% + 45.00%)	=	$227,051

Corporate performance

Performance measure	Weighting	Target	Result	Performance assessment
Financial				
Funds from operations (FFO) • cash provided by operating activities (IFRS-defined term), less changes in operating working capital	60%	$395 million	$419 million	Above target
Corporate safety				
Total recordable injury frequency rate (TRIF) • total number of recordable injuries per 100 workers per year	3.3%	1.04	0.96	Above target
Training • the completion rate of mandatory safety training as tracked through ClarityNet	3.3%	90%	98%	Above target
Incident investigation and follow-up • safety incidents are investigated in accordance with the Capital Power Incident Management Process • this metric measures the completion rate of corrective actions by a target date as specified in the incident report	3.3%	90%	100%	Stretch

Notes

$414 million was used for STIP purposes which reflected removal of an item from reported FFO that did not reflect cash flow performance.

Individual performance

Named executive	Business objectives rating	People objectives rating	Comments
Brian Vaasjo President and CEO	Frequently exceeds expectations	Frequently exceeds expectations	Mr. Vaasjo achieved Frequently exceeds expectations on both Business and People (Leadership) Objectives. Business Objectives relating to capital expenditures, power trading, operating costs, forced outages, institutional ownership and safety were all exceeded. In 2013 the Executive teams demonstrated excellent Leadership through a substantial review of strategy and process activities. The planning, execution and communication of this initiative was excellent. The resulting changes were widely endorsed by shareholders and achieved a substantial reduction in annualized costs while reducing risk to the corporation.
Stuart Lee Senior Vice President, Finance and CFO	Frequently exceeds expectations	Frequently exceeds expectations	Mr. Lee achieved Frequently exceeds expectations on both Business and Leadership Objectives. Business objectives associated with system implementation, costs, timing of quarter end closings and institutional ownership were all exceeded. See comment on Leadership Objectives under Brian Vaasjo.

Named executive	Business objectives rating	People objectives rating	Comments
Bryan DeNeve Senior Vice President, Corporate Development and Commercial Services	Frequently exceeds expectations	Frequently exceeds expectations	Mr. DeNeve achieved Frequently exceeds expectations on both Business and Leadership Objectives. Business Objectives relating to partnership negotiations, costs, power trading and transaction proceeds were all exceeded. See comment on Leadership Objectives under Brian Vaasjo.
Kathryn Chisholm Senior Vice President, Legal and External Relations	Fully successful	Frequently exceeds expectations	Ms Chisholm achieved Fully successful on Business Objectives and achieved Frequently exceeds expectations on her Leadership Objectives. See comment on Leadership Objectives under Brian Vaasjo.
Darcy Trufyn Senior Vice President, Operations, Engineering and Construction	Frequently exceeds expectations	Frequently exceeds expectations	Mr. Trufyn achieved Frequently exceeds expectations on both Business and Leadership Objectives. Business objectives for forced outages, costs, capital expenditures, completion of the Port Dover and Nanticoke project and safety were all exceeded. See comment on Leadership Objectives under Brian Vaasjo.

Payment of 2011 PSU awards

PSU awards are at-risk compensation. The named executives realized 69% of the grant value of the 2011 PSU awards when they vested on January 1, 2014.

	# of PSUs	Payout multiplier	Share price	Payout
	2011 grant plus reinvested dividends	based on relative TSR	average on the TSX for five trading days preceding January 1, 2014	realized value
Brian Vaasjo	24,711	57%	$21.28	$299,735
Stuart Lee	7,128	57%	$21.28	$86,460
Bryan DeNeve	4,297	57%	$21.28	$52,121
Kathryn Chisholm	5,103	57%	$21.28	$61,897
Darcy Trufyn	4,602	57%	$21.28	$55,820

Relative TSR

TSR measures the change in value of an investment over a period of time, representing the return that an investor receives from changes in share price and dividends paid.

We calculated TSR for the period ending December 31, 2013 for the 2011 PSU grant as follows:

- Starting and ending share price – share price is the simple average closing share price of the 30 trading days prior to the start and end of the measurement period, which reduces the possible impact of short-term share price fluctuations at the beginning and end of the performance period. For the 2011 PSU grant we calculate the starting share price from November 18, 2010 to December 31, 2010 and the ending share price from November 18, 2013 to December 31, 2013.
- Reinvested dividends – dividends are reinvested on the dividend payment date.
- Performance peer group – the following 10 companies were used to measure our TSR performance for the 2011 PSU grant:

Algonquin Power & Utilities Corp.	Enbridge Inc.
Atlantic Power Corporation	Fortis Inc.
Brookfield Renewable Energy Partners L.P.	Northland Power Inc.
Canadian Utilities Limited	TransAlta Corporation
Emera Incorporated	TransCanada Corporation

Our TSR was 3.0%, which was in between the 50th percentile of 31.4% and the 25th percentile of -1.5%. This resulted in a payout multiplier of 57%.

See *Performance share units* on page 46 for details on our PSU plan.

2014 LTI award

On March 12, 2014, the board approved a grant of PSUs and stock options to the named executives and other eligible participants.

PSUs will vest on January 1, 2017 and the realized value will depend on our relative TSR against the performance peer group and our volume-weighted average closing share price on the 30 trading days preceding the vesting date.

The realized value of the option award depends on our share price over time and when the executive exercises the options. Options vest one third each year beginning on the first anniversary of the grant date and expire after seven years.

CEO look back analysis

Executive compensation includes cash and equity-based compensation with terms varying from one year for annual base salary and the short-term incentive plan, and from three to seven years for our long-term incentives.

Compensation under our incentive programs is variable, or at-risk, to motivate executives to deliver strong corporate and individual performance. Equity-based compensation also adds another element of risk and motivation because executives can realize a higher value of their long-term incentives the stronger our shares perform over time.

The table below gives a compensation look back for Brian Vaasjo, our President and CEO, since our inception. It compares the grant date value of compensation awarded to Brian Vaasjo for his performance as President and CEO with the actual value that he has received from his compensation during his tenure.

The compensation that Mr. Vaasjo has realized is 27% below the expected amount of the compensation that the committee intended to award him.

	Total direct compensation awarded	Actual total direct compensation value as of December 31, 2013	% difference	Total shareholder return
2009	$1,770,055	$1,159,423	66%	14%
2010	$2,170,731	$1,638,692	75%	21%
2011	$2,556,592	$1,955,165	76%	4%
2012	$2,148,072	$1,418,950	66%	-7%
2013	$2,511,620	$2,018,775	80%	-2%
		Weighted average	73%	-95%

Notes

Total direct compensation awarded
Includes salary, actual short-term incentive and grant date fair value of long-term incentives awarded at year end in respect of performance during the year.

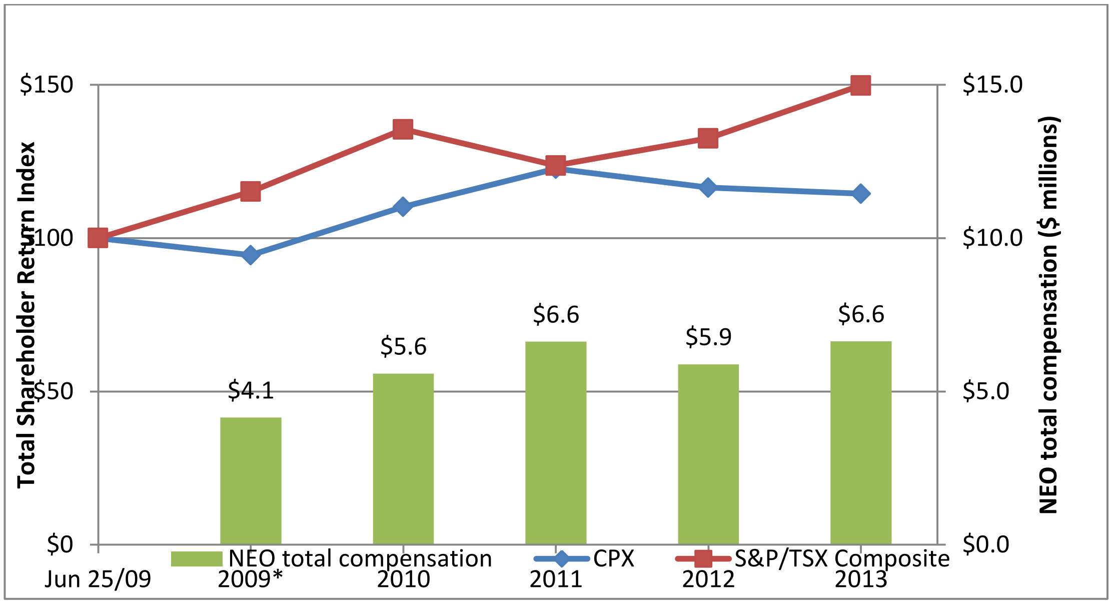
Actual total direct compensation value as of December 31, 2013
Includes salary, actual short-term incentive, the value at maturity of share units granted (or current value for units that are outstanding), the value of stock options exercised during the period, and the in-the-money value of stock options that remain outstanding.

Total shareholder return
Is calculated for the following time periods:
- June 25, 2009 to December 31, 2013 for 2009
- January 1, 2010 to December 31, 2013 for 2010
- January 1, 2011 to December 31, 2013 for 2011
- January 1, 2012 to December 31, 2013 for 2012
- January 1, 2013 to December 31, 2013 for 2013

SHARE PERFORMANCE

The graph below compares the performance of our common shares to the S&P/TSX Composite Index and total compensation paid to our named executives for our last four fiscal years.

The performance assumes a $100 investment in our common shares (CPX) at the $23.00 Initial Public Offering price and reinvestment of dividends, and a $100 investment in the S&P/TSX Composite Index at market close on June 25, 2009, which is the last close prior to the initial trading day of CPX shares.



* Represents partial year compensation for July 1 - December 31, 2009.

	Jun 25, 2009	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	Dec 31, 2013
Capital Power (CPX)	$100	$94	$110	$123	$116	$114
S&P/TSX Composite Index	$100	$115	$135	$124	$133	$150

Total compensation as shown in the graph and in the summary compensation table is the sum of the following elements:

- base salary
- short-term incentive
- grant date fair value of long-term incentive awarded
- pension
- all other compensation.

The fluctuations in total compensation values since 2010 can be largely attributed to year-over-year variations in short-term incentive awards for the named executives. In 2011 and again in 2013, payouts under the short term incentive plan exceeded target values.

Executive compensation will be affected by our share performance over the long term because a significant portion is equity based, aligning the interests of executives and shareholders. While the grant date fair value of our PSU and stock option grants do not vary with corporate or share performance, payouts are directly tied to our share performance. For PSUs, a higher or lower performance relative to that of our performance peer group will result in higher or lower payments. For stock options, there is a direct correlation between our share price performance and the actual gains realized by our executives.

2013 details

SUMMARY COMPENSATION TABLE

The table below shows the compensation each named executive received for the fiscal years ended December 31, 2013, 2012, and 2011. Brian Vaasjo does not receive compensation as a director of Capital Power.

					Non-equity incentive plan compensation				
Name and principal position	**Year**	**Salary ($)**	**Share-based awards ($)**	**Option-based awards ($)**	**Annual incentive plans ($)**	**Long-term incentive plans ($)**	**Pension value ($)**	**All other compensation ($)**	**Total compensation ($)**
Brian Vaasjo President and CEO	2013	725,000	507,500	507,500	771,620	–	138,760	84,567	2,734,947
	2012	702,692	507,500	507,500	430,380	–	295,254	104,002	2,547,329
	2011	712,923	448,500	448,500	946,669	–	275,953	67,163	2,899,708
Stuart Lee Senior Vice President, Finance and CFO	2013	382,308	187,500	187,500	300,488	–	166,804	52,518	1,277,118
	2012	362,538	180,000	180,000	148,407	–	163,186	59,787	1,093,919
	2011	354,577	129,375	129,375	358,380	–	95,543	44,960	1,113,210
Bryan DeNeve Senior Vice President, Corporate Development and Commercial Services	2013	301,923	91,000	91,000	197,961	–	224,737	48,074	954,695
	2012	253,231	78,000	78,000	144,648	–	208,103	45,810	807,791
	2011	239,113	78,000	78,000	167,136	–	82,987	37,608	682,844
Kathryn Chisholm Senior Vice President, Legal and External Relations	2013	315,962	99,125	99,125	168,841	–	111,051	48,945	843,049
	2012	298,827	95,875	95,874	96,563	–	114,339	51,289	752,767
	2011	286,635	92,625	92,625	205,438	–	69,803	47,242	794,367
Darcy Trufyn Senior Vice President, Operations, Engineering and Construction	2013	317,308	100,750	100,750	227,051	–	12,135	64,118	822,112
	2012	279,165	86,775	86,775	161,433	–	11,910	56,820	682,878
	2011	260,200	83,525	83,525	232,424	–	11,485	52,865	724,024

Notes

Salary

In February 2014, the board approved the following base salaries for 2014:

- Brian Vaasjo — $725,000
- Stuart Lee — $385,000
- Bryan DeNeve— $330,000
- Kathryn Chisholm — $320,000
- Darcy Trufyn — $340,000

Share-based awards

Amounts are the grant date fair value of the PSU awards using Towers Watson's binomial lattice valuation methodology, discounted for the vesting restrictions and adjusted for the payout range. The committee uses this methodology to determine the grant levels because it is also used in Towers Watson's competitive market analysis.

The table below shows the difference between the grant date fair value and the accounting fair value reported in our financial statements:

	2013		2012		2011	
	Binomial lattice	**Accounting**	**Binomial lattice**	**Accounting**	**Binomial lattice**	**Accounting**
Fair value	$18.67	$21.71	$20.88	$24.28	$21.36	$24.84

Option-based awards

Amounts are the grant date fair value of the stock option award using Towers Watson's binomial lattice valuation methodology. While this methodology is similar to the one used to calculate the accounting fair value reported in our financial statements, some of the underlying assumptions are different, as shown in the table below. In 2013, we adopted a minimum option valuation factor of 12% (of grant value). The actual binomial lattice value in 2013 was less than 12%; therefore, the floor value was adopted for the 2013 grants.

	2013		2012		2011	
	Binomial lattice	**Accounting**	**Binomial lattice**	**Accounting**	**Binomial lattice**	**Accounting**
Volatility	15.96%	14.4%	18%	14%	18%	16%
Dividend yield	5.45%	5.79%	5.46%	5.192%	5.46%	5.06%
Expected life	4.5 years	4.5 years	4.5 years	4.5 years	4.5 years	4.5years
Risk-free rate	1.35%	1.25%	2.45%	1.34%	2.45%	2.3%

	2013		2012		2011	
	Binomial lattice	**Accounting**	**Binomial lattice**	**Accounting**	**Binomial lattice**	**Accounting**
Vesting discount	5% per year	0%	5% per year	0%	5% per year	0%
Fair value	$2.61	$1.31	$2.14	$1.52	$2.17	$2.14

Annual incentive plans

- Amounts are the actual STIP awards earned for that year and paid in March of the following year.

Pension value

- 2013 pension value represents compensatory changes from January 1, 2013 to December 31, 2013. The 2013 pension value reflects changes in the obligation due to actual salary experience during 2013 and includes service cost based on a 4.50% increase in pensionable earnings for 2013 and a 4.25% per annum increase thereafter.
- 2012 pension value represents compensatory changes from January 1, 2012 to December 31, 2012. The 2012 pension value reflects changes in the obligation due to actual salary experience during 2012 and includes service cost based on a 4% increase in pensionable earnings per annum.
- 2011 pension value represents compensatory changes from January 1, 2011 to December 31, 2011. The 2011 pension value reflects changes in the obligation due to actual salary experience during 2011 and includes service cost based on a 4% increase in pensionable earnings per annum.

All other compensation

2013 amounts include:

- an executive business allowance of $25,000 and employer contributions to the savings plan of $36,250 for Brian Vaasjo
- an executive benefit allowance of $14,000, an executive business allowance of $15,000 and employer contributions to the savings plan of $19,116 for Stuart Lee
- an executive benefit allowance of $14,000, an executive business allowance of $15,000 and employer contributions to the savings plan of $15,096 for Bryan DeNeve
- an executive benefit allowance of $14,000, an executive business allowance of $15,000 and employer contributions to the savings plan of $15,798 for Kathryn Chisholm
- an executive benefit allowance of $14,000, an executive business allowance of $15,000 and employer contributions to the savings plan of $15,866 for Darcy Trufyn

Darcy Trufyn received a payment of $24,966 on January 31, 2013 that represents an entitlement under the defined contribution component of the Capital Power Supplemental Retirement Plan for service accrued in 2010, 2011 and 2012. Amounts paid were $7,909 in 2010, $8,030 in 2011 and $9,027 in 2012. The payment attributed to service in 2013 which has not yet been paid is $14,595.

INCENTIVE PLAN AWARDS

Outstanding share based and option based awards

The table below shows each named executive's outstanding incentive plan awards as of December 31, 2013.

	Option-based awards				Share-based awards		
Name	Number of securities underlying unexercised options (#)	Option exercise price ($)	Option expiration date	Value of unexercised in-the-money options ($)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested ($)	Market value or payout value of vested share-based awards not paid out or distributed ($)
Brian Vaasjo	237,600	23.00	July 8, 2016	0			0
	171,060	22.50	March 9, 2017	0			0
	206,591	24.90	March 21, 2018	0	24,345	259,274	0
	231,701	24.27	March 19, 2019	0	26,843	285,878	0
	182,607	21.76	March 14, 2020	0	26,646	283,780	0
Stuart Lee	59,200	23.00	July 8, 2016	0			0
	47,160	22.50	March 9, 2017	0			0
	59,593	24.90	March 21, 2018	0	7,022	74,784	0
	82,180	24.27	March 19, 2019	0	9,520	101,388	0
	67,466	21.76	March 14, 2020	0	9,845	104,849	0
Bryan DeNeve	33,700	23.00	July 8, 2016	0			0
	11,086	22.50	March 9, 2017	0			0
	35,929	24.90	March 21, 2018	0	4,233	45,081	0
	35,611	24.27	March 19, 2019	0	4,125	43,931	0
	32,743	21.76	March 14, 2020	0	4,778	50,886	0
Kathryn Chisholm	84,700	23.00	July 8, 2016	0			0
	28,528	22.50	March 9, 2017	0			0
	42,665	24.90	March 21, 2018	0	5,027	53,538	0
	43,772	24.27	March 19, 2019	0	5,071	54,006	0
	35,667	21.76	March 14, 2020	0	5,204	55,423	0
Darcy Trufyn	31,580	22.50	March 9, 2017	0			0
	38,474	24.90	March 21, 2018	0	4,533	48,276	0
	39,617	24.27	March 19, 2019	0	4,590	48,884	0
	36,252	21.76	March 14, 2020	0	5,289	56,328	0

Notes

- *Value of unexercised in-the-money options* — the difference between the closing price of our common shares on the TSX on December 31, 2013 of $21.30 per share and the option exercise price, times the number of outstanding vested and unvested stock options.
- *Number of shares or units of shares that have not* vested — includes reinvested dividends.
- *Market or payout value of share-based awards that have not vested* — the closing price of our common shares on the TSX on December 31, 2013 of $21.30 per share multiplied by 50% of the number of PSUs that have not vested. The values in this column represent the minimum payout value.
- *Market value or payout value of vested share-based awards not paid out or distributed* — on December 31, 2013 no PSUs had vested. The named executives realized 69% of the grant value of the 2011 PSU awards when they vested on January 1, 2014. Therefore no PSU awards that have vested have not been paid or distributed.

Incentive plan awards – value vested or earned during the year

Name	Option-based awards – Value vested during the year ($)	Share-based awards – Value vested during the year ($)	Non-equity incentive plan compensation – Value earned during the year ($)
Brian Vaasjo	0	280,461	771,620
Stuart Lee	0	77,313	300,488
Bryan DeNeve	0	18,166	197,961
Kathryn Chisholm	0	46,763	168,841
Darcy Trufyn	0	51,778	227,051

Notes

- *Option-based awards – Value vested during the year* — the difference between the closing price of our common shares on the TSX on December 31, 2013 of $21.30 per share and the weighted average option exercise price multiplied by the number of stock options that vested during the year.
- *Share-based awards – Value vested during the year* — values shown are 2010 PSU awards that vested on January 1, 2013 and were paid to the named executives on March 1, 2013.
- *Non-equity incentive plan compensation – Value earned during the year* — values shown are STIP awards. Capital Power does not have a long-term non-equity incentive plan.

Stock options

None of the named executives exercised any stock options in 2013.

EQUITY COMPENSATION PLANS

We adopted our two equity compensation plans for executives and employees — the 2009 plan and the LTI plan — before our initial public offering in 2009 and did not need shareholder approval under the TSX requirements. The initial public offering prospectus disclosed the two equity compensation plans.

At our 2012 annual meeting, shareholders approved an increase in the maximum number of shares reserved for issue under the two stock option plans. The new limit is 7,094,506 (an increase of 2,094,506), representing approximately 7.1% of the common shares outstanding and common shares that can be issued for the exchange of exchangeable LP units as at December 31, 2013. The board estimates the increase will allow future grants of stock options until the end of 2014, and give us more time to assess the effectiveness of the program and review our needs relating to long-term incentive awards in the future.

Of the total number of common shares that can be issued under the LTIP plan, 740,304 options were issued under the current LTI plan in 2013. No options may be issued under the 2009 plan.

The table below gives details about the equity compensation plans as at December 31, 2013. *Common shares outstanding* is the number of common shares outstanding and common shares that may be issued to exchange outstanding exchangeable LP units.

Plan category	Number of securities to be issued upon exercise of outstanding stock options (a)		Weighted average exercise price of outstanding stock options (b)	Number of securities remaining available for future issue (excluding securities reflected in column (a)) (c)		Total stock options outstanding and available for grant (a) + (c)	
	% of common shares outstanding	#		% of common shares outstanding	#	% of common shares outstanding	#
Equity compensation plans approved by security holders	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Equity compensation plans not approved by security holders	4.2%	4,202,424	$23.43	2.3%	2,246,969	6.5%	6,449,393
Total	4.2%	4,202,424	$23.43	2.3%	2,246,969	6.5%	6,449,393

Note

- Stock options were granted for 2,183,100 common shares under the 2009 plan, and 4,881,375 common shares under the current plan. Of the total granted, stock options for 2,216,938 common shares have been cancelled, and stock options for 645,113 common shares have been exercised.

The table below shows the stock option overhang, dilution and run rate. A significant amount of the outstanding stock options are from the one-time grant under the 2009 plan at the time of our inception (see Stock options on page 48 for details).

Rate	Description	2013	2012	2011
Overhang	• the total potential dilution from stock options • the total number of stock options outstanding plus the number of shares available for future issue, divided by the number of common shares outstanding and common shares that may be issued to exchange outstanding exchangeable LP units	2.92%	4.03%	2.82%
Dilution	• the current dilution from stock options • the total number of stock options outstanding divided by the number of common shares outstanding and common shares that may be issued to exchange outstanding exchangeable LP units	0.66%	1.07%	0.90%
Run rate	• shows the size of annual stock option grants and indicates how quickly the stock option reserve is being used • the total number of stock options issued in a year, divided by the number of common shares outstanding and common shares that may be issued to exchange outstanding exchangeable LP units	0.74%	1.47%	1.49%

In November 2012, the committee approved a change to the mix of LTIs for the 2013 award at the management level to better manage dilution. In 2013, the LTI award for management consisted of two components: 75% of the targeted value in PSUs and 25% in stock options. Prior to this the mix was 50% PSUs and 50% stock options. We expect that this change will reduce the annual run rate in 2013 and beyond.

In November 2013, the committee approved a change to the mix of LTIs for the 2014 award at the management level to maintain alignment with the executives while increasing the retention value of these awards. In 2014, the LTI award for management will consist of three components: 25% of the targeted value in PSUs, 25% in stock options and 50% in restricted share units. Dilution levels will continue to be managed as the mix continues to include the same portion of stock options as in 2013.

The table below is a summary of the stock options granted by the board since our inception:

Year	Number of common shares to be issued for stock options previously granted	As a percentage of common shares outstanding and common shares to be issued on exchange of outstanding exchangeable LP units at year-end (run rate)
2009	2,183,100	2.79% (one-time grant in 2009)
2010	1,246,046	1.58%
2011	1,445,457	1.49%
2012	1,449,568	1.47%
2013	740,304	0.74%

Copies of the plan documents are available on SEDAR (www.sedar.com). See also *Stock options* on page 48.

RETIREMENT BENEFITS

Pension and other benefits help provide long-term financial security and retain executives.

We have a defined benefit plan and a defined contribution plan for Canadian employees. US employees may participate in our 401(k) plan.

Canadian management employees are also eligible to participate in our supplemental retirement plan if their pension benefits under either plan are limited because of the maximum pension or contribution limits defined in the *Income Tax Act* (Canada) (Income Tax Act).

Defined benefit plan

Our defined benefit plan is the Local Authorities Pension Plan (LAPP), a multi-employer, contributory pension plan for employees of municipalities, hospitals and other public entities in Alberta, governed by the *Public Sector Pension Plans Act* (Alberta) and subject to the limits of the Income Tax Act. Brian Vaasjo, Stuart Lee, Bryan DeNeve and Kathryn Chisholm participate in this plan.

Benefits are based on the average of the best five consecutive years of pensionable earnings and years of service. Pensionable earnings are equal to base salary plus actual bonus, up to a maximum of 20% of base salary (beginning January 1, 2004) limited for each year of service after 1991 to the maximum annual accrual under the Income Tax Act.

The benefit formula is 1.4% of the average of the best five consecutive years' annual pensionable earnings up to the average Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan, plus 2% of the average of the best five consecutive years' annual pensionable earnings in excess of the five-year average YMPE. The benefit formula is multiplied by years of service up to a maximum of 35 years.

Employee and employer contribution rates are explained in the plan rules, and adjusted from time to time by the plan's board of trustees based on recommendations from the plan's actuary.

In 2013, members were required to contribute 9.43% up to the YMPE plus 13.47% of pensionable earnings in excess of the YMPE, and employers contributed 10.43% up to the YMPE and 14.47% of pensionable earnings in excess of the YMPE.

Participants can receive an unreduced pension when they turn 65 or have 85 points (age plus years of service). The pension is reduced by 3% for each year that the combination of the individual's age and years of service is less than 85 or for each year the participant is younger than 65, whichever provides the lower reduction. No pension is paid if a participant has not completed two years of service.

The pension is indexed annually to 60% of the increase in the Alberta consumer price index.

The table below shows the reconciliation of the accrued benefit obligation for each named executive. The compensatory change reflects:

- the current employer service cost for the supplemental retirement plan (SRP)
- any change in the SRP obligation because of an unexpected increase in compensation during the period
- any change in the obligation because of plan changes
- changes in employer contributions.

The actual increase in compensation may be different from the expected increase used in actuarial assumptions, and will also vary among the named executives and from year to year.

Name (a)	Number of years of credited service (#) (b)	Annual benefits payable ($) At year end (c1)	Annual benefits payable ($) At age 65 (c2)	Opening present value of defined benefit obligation ($) (d)	2013 Compensatory changes ($) (e)	2013 Non-compensatory changes ($) (f)	Closing present value of defined benefit obligation ($) (g)
Brian Vaasjo	15.5833	326,644	480,253	4,219,784	138,760	141,940	4,480,820
Stuart Lee	10.4452	103,360	256,737	1,151,310	166,804	(58,279)	1,240,171
Bryan DeNeve	11.2922	73,790	182,155	789,704	224,737	(62,160)	932,617
Kathryn Chisholm	9.3142	72,854	185,617	723,435	111,051	(40,994)	773,828

Notes

Number of years of credited service

- Brian Vaasjo — the amount reflects credited service under the LAPP and 14 years of credited service under the SRP.
- Stuart Lee, Bryan DeNeve and Kathryn Chisholm — their amounts reflect credited service under the LAPP and SRP.

Annual benefits payable

- *At year end* — the accrued defined benefit pension under the SRP and, if applicable, the LAPP as at December 31, 2013 and payable at normal retirement age of 65 based on highest average earnings, average YMPE and pensionable service as at December 31, 2013. An unreduced pension is payable at the earliest of age 65 or 85 points.
- *At age 65* — the amount payable on retirement at age 65, assumes continued service accrual to age 65 and that the highest average earnings and estimated CPP, at age 65, remain unchanged from December 31, 2013.

Opening present value of defined benefit obligation

- We calculate the defined benefit obligation and the service cost for the supplementary pension plan using the same methods and assumptions used to determine accounting information disclosed in our financial statements. Accounting entries for the LAPP are recognized on a defined contribution basis; therefore, only company contributions to the LAPP are included in compensatory changes. As a result, columns (d), (e) and (f) do not sum up to column (g).

2013 Compensatory changes

- We calculate the defined benefit obligation and the service cost for the supplementary pension plan using the same methods and assumptions used to determine accounting information disclosed in our financial statements. Accounting entries for the LAPP are recognized on a defined contribution basis; therefore, only company contributions to the LAPP are included in compensatory changes. As a result, columns (d), (e) and (f) do not sum up to column (g).
- Includes $19,664 in employer contributions to the LAPP.

Closing present value of defined benefit obligation

- We calculate the defined benefit obligation and the service cost for the supplementary pension plan using the same methods and assumptions used to determine accounting information disclosed in our financial statements. Accounting entries for the LAPP are recognized on a defined contribution basis; therefore, only company contributions to the LAPP are included in compensatory changes. As a result, columns (d), (e) and (f) do not sum up to column (g).

Defined contribution plan

Contributions to the defined contribution plan are based on pensionable earnings up to the annual limits imposed under the Income Tax Act. Participants contribute 5% of pensionable earnings, and we contribute either 5%, 6.5% or 8% of pensionable earnings depending on the participant's years of service.

Darcy Trufyn participates in this plan. The table below is a reconciliation of the accumulated value as at the end of the last two years. The compensatory change is the employer contribution we made on his behalf.

Name (a)	Accumulated value at Dec 31, 2012 ($) (b)	2013 Compensatory changes ($) (c)	Accumulated value at Dec 31, 2013 ($) (d)
Darcy Trufyn	77,378	12,135	121,479

The plan was amended in late 2010 to allow executive participants to suspend their membership and transfer the account balance to a locked-in retirement savings vehicle. We pay a lump sum equivalent to what would have been paid into the plan if they had continued to participate, after deducting any payroll withholding or other taxes.

Executive participants have the right to resume participation in the plan in the future. Company contributions will also resume, but only for future service as of the date the suspension is lifted.

Supplemental retirement plan

All of the named executives participate in our supplemental retirement plan (SRP), which is non-registered, unfunded and non-contributory. It provides benefits that cannot be provided under our Canadian pension plans because of maximum pension or contribution limits under the Income Tax Act.

Pensionable earnings include base salary and target bonus.

If a named executive was a member of the EPCOR supplemental pension plan (SPP) before our inception in July 2009, the terms of the plan are the same and we have assumed all obligations from EPCOR relating to entitlements accrued under their SPP. The SRP provides a defined benefit pension that is equal to 2% of the average pensionable earnings in excess of an earnings threshold, multiplied by years of service after January 1, 2000, and has the same early retirement and indexing provisions as our defined benefit plan. All of the named executives participate in the defined benefit SRP except for Darcy Trufyn.

For new hires after July 2009, the SRP provides benefits that exceed the contribution limits of the Income Tax Act and are on a defined contribution basis. Darcy Trufyn participates in the defined contribution SRP.

An executive who chooses to withdraw from the defined contribution plan is still eligible to participate in the SRP for earnings that exceed the pension maximum or contribution limits of the Income Tax Act.

401(k) plan

Participants make voluntary, pre-tax contributions of eligible compensation, less any withholding taxes. Contributions are limited to a maximum of US$17,500 in 2013, not including up to US$5,500 in catch-up contributions for employees who are 50 or older.

Eligible compensation includes total salary and wages during the year as reported on the W-2, including pre-tax contributions to the plan. Annual compensation exceeding US$250,000, as adjusted for cost of living increases, is not included.

We match 100% of the employee's pre-tax contributions, up to a maximum of 5% of compensation. Every year we also make a contribution matching 100% of elective deferrals in excess of 5% that do not exceed 7% of a participant's compensation. We also have the option every year to make an additional matching contribution and/or additional employer contribution on behalf of each eligible participant.

Interest credited on 401(k) accounts is the rate of return on investment options selected by the participant.

None of the named executives participate in the 401(k) plan.

OTHER BENEFITS

Other benefits support employee wellbeing and are based on the executive's scope of responsibilities.

We review the plans periodically to assess their competitiveness and whether they continue to meet our business and human resources objectives.

Health and welfare benefits

Benefit plans are designed to protect the health of employees and their dependents, and cover them in the event of death or disability. Executives participate in the same benefits program as our other full-time employees.

Executive benefit allowance

In addition to health and welfare benefits, Canadian-based executives also receive an executive benefit allowance to offset their costs. The allowance is paid biweekly.

Executive business allowance

Executives receive an annual taxable allowance to offset the cost of various business related expenses like memberships and other out-of-pocket costs associated with performing their duties.

Financial planning allowance

Brian Vaasjo is eligible to receive an annual financial planning allowance of up to $5,000. The other named executives are eligible to receive an annual financial planning allowance of up to $3,500.

Savings plan

Our savings plan allows all Canadian-based, non-unionized employees to contribute up to 10% of their base salary towards a range of investment options, including our common shares. Participation is voluntary.

We match employee contributions up to a maximum of 5% of base salary.

TERMINATION AND CHANGE OF CONTROL

We have employment agreements with each named executive. See Appendix B for a description of the compensation and benefits for each named executive if their employment is terminated.

The table below shows the amounts that would be paid if the named executive had been terminated on December 31, 2013 because of a double trigger change of control (which requires both a change of control and termination of the executive for good reason):

Name	Length of service for calculating the severance payment	Estimated severance ($)	Estimated value of vested stock options ($)	Estimated value of PSUs ($)	Total ($)
Brian Vaasjo	24 months	2,615,500	0	828,932	3,444,432
Stuart Lee	19 months	990,771	0	281,022	1,271,792
Bryan DeNeve	20 months	797,500	0	139,898	937,398
Kathryn Chisholm	19 months	755,250	0	162,966	918,216
Darcy Trufyn	16 months	678,667	0	153,488	832,154

Notes

Estimated value of vested stock options
The difference between $21.30, the closing price of our common shares on the TSX on December 31, 2013, and the weighted average option exercise price, times the number of outstanding vested and unvested stock options.

Estimated value of PSUs
The estimated value of all outstanding vested and unvested PSUs based on $21.30, the closing price of our common shares on the TSX on December 31, 2013, multiplied by 50% of the number of outstanding vested and unvested PSUs. These values represent the minimum payout value.

4. Other information

Copies of the circular and our most recent AIF and annual report (which includes our management's discussion and analysis and consolidated financial statements for the year ended December 31, 2013) are available free of charge:

- go to our website (www.capitalpower.com), or
- request a copy from our Corporate Secretary, Capital Power Corporation, 12th Floor, 10423 – 101 Street, Edmonton, Alberta T5H 0E9.

Our disclosure documents and any reports, statements or other information we file with Canadian Securities Administrators or other similar regulatory authorities are available on SEDAR (www.sedar.com).

We want your feedback

We work hard to maintain a comprehensive investor communications program, and welcome your feedback on our website, disclosure documents and other corporate information, including our:

- annual report
- annual information form
- quarterly reports
- management proxy circular
- presentations and webcasts
- dividend history
- ethics policy
- investment overview
- corporate responsibility report
- community investment
- consultation initiatives

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The board has approved the contents of this circular and has authorized us to send it to all shareholders of record.

By order of the board,

B. Kathryn Chisholm, Q.C.
Corporate Secretary
Capital Power Corporation
Edmonton, Alberta

March 10, 2014

Appendix A

Board of Directors – Terms of Reference

I. INTRODUCTION

A. The Board of Directors (the "Board") has the power to manage, or supervise the management of, the business and affairs of Capital Power Corporation (the "Corporation") except as limited or restricted by the Canada Business Corporations Act (the "Act") and the Corporation's Articles and By-laws.

B. The Corporation hereby adopts these terms of reference for the Board, which set out the specific responsibilities to be discharged by the Board. The purpose of these terms of reference is to assist the Board in annually assessing its performance.

C. The President and Chief Executive Officer (the "CEO") and Management formulate strategies and plans and present them to the Board for approval. The Board approves the goals of the business, the objectives and policies within which it is managed, and then assumes a stewardship role and evaluates Management performance. Reciprocally, the CEO keeps the Board fully informed of the Corporation's progress towards the achievement of its goals and of all material deviations from the goals or objectives and policies established by the Board in a timely and candid manner.

II. BOARD COMPOSITION

A. The Board will consist of a minimum of 3 and a maximum of 12 Directors.

B. A majority of the members of the Board will be independent pursuant to National Policy 58-201 Corporate Governance Guidelines (as implemented by the Canadian Securities Administrators and as amended from time to time) ("NP 58-201").

C. The Board should consist of professional and competent members with an appropriate mix of skills and abilities to ensure that the Board carries out its duties and responsibilities in the most effective manner and that the Corporation meets its legal, financial and operational objectives.

D. The Directors will be elected at the annual general meeting of the Corporation each year and will hold office until their successors are duly elected or appointed.

III. RESPONSIBILITIES

All of the following responsibilities are undertaken within the parameters and restrictions established by the Act, the Articles, and the By-laws.

A. Managing the Affairs of the Board

The Board supervises the management of the affairs of the Board by establishing committees (the "Committees") to provide more detailed review of important areas of responsibility, delegating certain of its authorities to Management, reserving certain powers to itself and making certain recommendations to the shareholders. This process includes:

i) appointing Committees and/or advisory bodies, which at a minimum shall be comprised of an Audit Committee, a Corporate Governance, Compensation and Nominating Committee (the "CGCN Committee") and a Health, Safety and Environmental Committee;

ii) delegating responsibilities to, and seeking the advice of, the Committees and establishing and periodically reviewing/approving their respective terms of reference;

iii) approving terms of reference for the Chair, Non-EPCOR Elect Chair and Individual Directors;

iv) implementing processes to evaluate the performance of the Board, the Committees and the Directors in fulfilling their respective responsibilities;

v) on the recommendation of the CGCN Committee, implementing processes for new Director orientation and ongoing Director development;

vi) appointing the Secretary;

vii) on the recommendation of the CGCN Committee, implementing effective governance processes to fulfill its responsibility for oversight and control;

viii) making recommendations to the shareholders in the following areas:

a) on the recommendation of the CGCN Committee, director nominees, other than the nominees of EPCOR Utilities Inc.;

b) on the recommendation of the Audit Committee, the appointment of the external auditors; and

c) any special business items to be addressed by the shareholders that may be brought forward by the Board or the Corporation from time to time;

ix) delineating the authority to be retained by the Board and that to be delegated to the Committees and the CEO;

x) publishing a corporate governance statement annually, describing how each of the principles of good governance in NP 58-201 (or its successor) is put into practice;

xi) at least annually, assessing the management, development and effective performance of the Board, including reviewing and considering any amendments to be made to these terms of reference; and

xii) considering as a Board and not delegating to any Committee:

a) any submission to the shareholders of the Corporation of a question or matter requiring the approval of the shareholders;

b) the filling of a vacancy among the Directors or the Corporation's auditor or the appointment of additional Directors;

c) the issuance of securities, including shares of a series, except as authorized by the Board;

d) the declaration of dividends;

e) the purchase, redemption or any other form of acquisition of shares issued by the Corporation;

f) the payment of a commission to any person in consideration of the purchase or agreement to purchase shares of the Corporation from the Corporation or from any other person, or the procurement or agreement to procure purchasers for any shares of the Corporation;

g) approval of the annual audited financial statements, quarterly financial statements and quarterly reports, management proxy circulars, takeover bid circulars, directors' circulars, prospectuses, annual information forms and other disclosure documents required to be approved by the directors of a corporation under securities laws, regulations or rules of any applicable stock exchange; or

h) the adoption, amendment or repeal of the By-laws.

B. Strategy and Plans

The Board has the responsibility to:

i) participate with Management in developing and adopting the Corporation's strategic planning process including:

a) providing input to Management on emerging trends and issues;

b) reviewing and approving, on an annual basis, Management's strategic plans (long term business plans), which will take into account, among other things, the opportunities and risks of the business of the Corporation; and

c) reviewing and approving, on an annual basis, the Corporation's financial objectives, plans and actions, including significant capital allocations and expenditures;

ii) approve annual capital and operating budgets which support the Corporation's ability to meet the objectives established in the strategic plan; and

iii) monitor the Corporation's progress towards its goals, and to revise and alter its direction through Management in light of changing circumstances.

C. Management and Human Resources

With the assistance of the CGCN Committee, the Board will be responsible for:

i) the appointment, termination and succession of the CEO;

ii) approving CEO compensation;

iii) approving terms of reference for the CEO;

iv) monitoring CEO performance and reviewing CEO performance at least annually, against agreed upon written objectives;

v) providing advice and counsel to the CEO in the execution of the CEO's duties;

vi) approving compensation and benefits for directors;

vii) approving decisions relating to senior Management, including the:

a) appointment and termination of executive officers; and

b) compensation and benefits for executive officers;

viii) satisfying itself as to the integrity of the CEO and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the Corporation;

ix) ensuring succession planning programs are in place, including programs to train, develop and monitor senior Management;

x) approving certain matters relating to all employees, including:

a) the overarching compensation policy/program for employees;

b) new benefit programs or material changes to existing programs; and

c) material benefits granted to retiring employees outside of benefits received under approved pension and other benefit programs;

xi) satisfying itself as to the oversight and governance of, and approving all material amendments to, the Corporation's pension plans;

xii) ensuring there are adequate procedures for the Board to be apprised on a timely basis of concerns relating to unethical behavior, fraudulent activities or violation of the Corporation's policies.

D. Business and Risk Management

The Board has the responsibility to:

i) with the assistance of the Audit Committee, monitor corporate financial performance against the operating and capital plans, including assessing operating results to evaluate whether the Corporation's business is being properly managed and meeting its objectives;

ii) ensure Management identifies the principal risks of the Corporation's business and implements appropriate systems to manage these risks;

iii) receive, at least annually, reports from Management and, where applicable, from the Committees, on matters relating to, among others, ethical conduct, environmental management, employee health and safety, human rights, and related party transactions;

iv) understanding principal risks and determine whether the Corporation achieves a proper balance between risk and returns, and that Management ensures that systems are in place to address the risks identified; and

v) with the assistance of the Audit Committee, assess and monitor management control systems, including evaluating and assessing information provided by Management and others (e.g., internal and external auditors) about the effectiveness of management control systems.

E. Financial and Corporate Issues

The Board has the responsibility to:

i) with the assistance of the Audit Committee, at least annually, provide oversight of a review to ensure the implementation and integrity of the Corporation's internal control and management information systems;

ii) with the assistance of the Audit Committee, monitor operational and financial results;

iii) on the recommendation of the Audit Committee, approve annual and quarterly financial statements, and approve the release thereof by Management;

iv) declare dividends from time to time;

v) approve debt financing, banking resolutions and significant changes in banking relationships;

vi) review coverage, deductibles and key issues regarding corporate insurance policies;

vii) approve commitments that may have a material impact on the Corporation; and

viii) approve the commencement or settlement of litigation that may have a material impact on the Corporation.

F. Shareholder and Corporate Communications

The Board has the responsibility to take all reasonable steps to:

i) ensure the Corporation has in place effective communication processes with shareholders and major stakeholders;

ii) with the assistance of the Audit Committee, ensure that the financial performance of the Corporation is adequately reported to the shareholders, other security holders and regulators on a timely and regular basis;

iii) on the recommendation of the Audit Committee, ensure the financial results are reported fairly and in accordance with generally accepted accounting principles; and

iv) ensure the timely reporting of any other developments that have a significant and material impact on the value of the Corporation.

G. Policies and Procedures

The Board has the responsibility to take all reasonable steps to:

i) with the assistance of the CGCN Committee (where applicable), approve and monitor compliance with all significant policies and procedures by which the Corporation is operated;

ii) with the assistance of the CGCN Committee, direct Management to ensure the Corporation operates at all times within applicable laws and regulations and to the highest ethical and moral standards;

iii) on recommendation from the relevant Committee, review and approve significant new corporate policies or material amendments to existing policies (including, for example, policies regarding business conduct, conflict of interest and the environment);

iv) with the assistance of the CGCN Committee, develop and adopt corporate governance principles and guidelines for the Corporation and review such corporate governance guidelines annually; and

v) with the assistance of the CGCN Committee, adopt and monitor a written code of business conduct and ethics applicable to all directors, officers and employees of the Corporation addressing:

a) conflicts of interest and the procedures to be established and monitored for identifying and dealing with conflicts of interest;

b) protection and proper use of corporate assets and opportunities;

c) confidentiality of corporate information;

d) fair dealing with the Corporation's security holders, customers, suppliers, competitors and employees;

e) compliance with applicable laws, rules and regulations; and

f) reporting of any illegal or unethical behaviour.

IV. GENERAL LEGAL OBLIGATIONS OF THE BOARD OF DIRECTORS

A. The Board is responsible for directing Management to ensure legal requirements have been met, and documents and records have been properly prepared, approved and maintained.

B. The Act includes the following as legal requirements for Directors:

i) to act honestly and in good faith with a view to the best interests of the Corporation;

ii) to exercise the care, diligence and skill that reasonably prudent people would exercise in comparable situations; and

iii) to act in accordance with the obligations contained in the Act, and any other relevant legislation, regulations and policies, and the Corporation's Articles and By-laws.

V. MEETINGS

A. Meet at least four times per year and, wherever feasible, receive meeting materials at least five (5) business days in advance of meetings and review meeting materials prior to attending each meeting.

Appendix B

Employment Contracts −Termination and Change of Control Benefits

The table below summarizes the treatment of the named executives' compensation and benefits if they are no longer employed by Capital Power. Note that the severance provisions for Brian Vaasjo differ from those for the other named executives. *Change of control* and *termination without cause/resignation* are based on adverse changes to the terms of employment.

	Resignation	Retirement	Death	Termination without cause	Termination for cause	Double trigger change of control
Salary and benefits	All salary and benefits programs end.					
STIP	Annual STIP payment is forfeited.	Annual STIP payment is paid at target on a pro rata basis.			Annual STIP payment is not paid.	Annual STIP payment is paid at target and included in severance
Stock options	All unvested options under the 2009 plan and the LTI plan are forfeited. Vested options granted under the 2009 plan expire on the original expiry date or 90 days after termination of employment, whichever is earlier. Vested options granted under the LTI plan expire on the original expiry date or 30 days after termination of employment, whichever is earlier.	All unvested options under the 2009 plan are forfeited. Vested options expire on the original expiry date or 12 months after termination of employment, whichever is earlier. Unvested options under the LTI plan continue to vest and can be exercised for 12 months following termination of employment before they expire. Vested options expire on the original expiry date or 12 months after termination of employment, whichever is earlier.		All unvested options under the 2009 plan and the LTI vest. Vested options granted under the 2009 plan expire on the original expiry date or 90 days after termination of employment, whichever is earlier. Vested options granted under the LTI plan expire on the original expiry date or 30 days after termination of employment, whichever is earlier.	All unvested and vested options under the 2009 plan are forfeited. All unvested options under the LTI plan are forfeited. Vested options expire on the original expiry date or 30 days after termination of employment, whichever is earlier.	All unvested options under the 2009 plan and the LTI plan vest. Vested options granted under the 2009 plan expire on the original expiry date or 90 days after termination of employment, whichever is earlier. Vested options granted under the LTI plan expire on the original expiry date or 30 days after termination of employment, whichever is earlier.
PSUs	All PSUs are forfeited.	Vesting of PSUs under the LTI plan's 2011, 2012 and 2013 grants are pro-rated to the end of the last full month worked preceding the date of termination and based on actual performance to the end of the quarter preceding the date of termination. Payouts occur within 90 days of the date of termination.	Vesting of PSUs under the LTI plan's 2011, 2012 and 2013 grants are pro-rated to the end of the last full month worked preceding the date of termination and based on target performance. Payouts occur within 90 days of the date of termination.	Vesting of PSUs under the LTI plan's 2011, 2012 and 2013 grants are pro-rated to the end of the last full month worked preceding the date of termination and based on actual performance to the end of the quarter preceding the date of termination. Payouts occur within 90 days of the date of termination.	All PSUs are forfeited.	All unvested PSUs vest immediately and are paid out within 90 days of the date of termination.
Pension	Vested pension is paid as a commuted value or deferred benefit.	Vested pension is paid as a monthly benefit.	Vested pension is paid as a commuted value or deferred benefit.			

	Resignation	Retirement	Death	Termination without cause	Termination for cause	Double trigger change of control
Severance *(CEO)*	Not applicable.			Severance is provided representing a total of 24 months each of salary, STIP at target, and benefit costs, pension contributions and business allowance.	Not applicable.	Severance is provided representing a total of 24 months each of salary, STIP at target, and benefit costs, pension contributions and business allowance.
Severance *(All other named executives)*	Not applicable.			Severance is provided representing a total of 12 months plus 1/2 a month for each year of service with EPCOR, plus one month for each year with Capital Power to a maximum of 24 months each of salary, STIP at target, and annual benefits allowance and annual business allowance.	Not applicable.	Severance is provided representing a total of 12 months plus 1/2 month of each year of service with EPCOR, plus one month for each year with Capital Power to a maximum of 24 months each of salary, STIP at target, and annual benefits allowance and annual business allowance.

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