

Annual Information Form

Capital Power Corporation

For the year ended December 31, 2015

March 2, 2016

TABLE OF CONTENTS

PRESENTATION OF INFORMATION	1
FORWARD-LOOKING INFORMATION	1
DEFINITIONS OF CERTAIN TERMS	3
CORPORATE STRUCTURE	8
Capital Power Corporation	8
Capital Power L.P.	9
Inter-Corporate Relationships	9
GENERAL DEVELOPMENT OF THE BUSINESS	9
Overview	9
Company History	9
BUSINESS OF CAPITAL POWER	12
Overview	12
Generation Plant Summary	13
Revenue and Volume	15
Alberta Commercial Plants	15
Alberta Contracted Plants	19
Ontario and BC Contracted Plants	19
US Contracted Plants	21
Projects Under Construction or in Advanced Stages of Development	22
Power Purchase Arrangements	22
Portfolio Optimization	23
Competitive Environment	24
Environmental Regulation	24
Health, Safety and Environment and Social Policies	29
Personnel	32
REGULATORY OVERVIEW	33
Alberta	33
Ontario	35
BC	36
United States	36
North Carolina	37
New Mexico	37
RISK FACTORS	37
COMMON AND PREFERRED DIVIDENDS	38
Common Dividends	38
Preferred Dividends	39
Dividend Reinvestment Plan	41
CAPITAL STRUCTURE	42
Capital Power Corporation	42
Capital Power L.P.	46
Ratings	48
MARKET FOR SECURITIES	50
Trading Price and Volume	50
DIRECTORS AND OFFICERS	54
Board of Directors	54
Executive Officers	57
Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions	59
Conflicts of Interest	59
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	60
Milner Power Inc. (Milner) Loss Factor Complaint	60
Sundance PPA Industrial Product Price Index (IPPI) Dispute	60
TRANSFER AGENT AND REGISTRAR	60
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	61
MATERIAL CONTRACTS	61
INTERESTS OF EXPERTS	65

AUDIT COMMITTEE	65
Audit Committee Mandate	65
Composition of the Audit Committee	65
Policies and Procedures for the Engagement of Audit and Non-audit Services	67
Auditor's Fees	67
Other Committees	68
ADDITIONAL INFORMATION	69
APPENDIX A – AUDIT COMMITTEE – TERMS OF REFERENCE	A-1

Remainder of page intentionally left blank

PRESENTATION OF INFORMATION

Unless otherwise noted, the information contained in this Annual Information Form (AIF) is given at or for the period ended December 31, 2015. Amounts are expressed in Canadian dollars unless otherwise indicated. All financial information presented in millions of Canadian dollars is rounded to the nearest million unless otherwise stated. Financial information is presented in accordance with Canadian generally accepted accounting principles (GAAP).

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

This AIF provides material information about the business and operations of Capital Power Corporation.

The "Risks and Risk Management" section of the Company's Management's Discussion and Analysis (MD&A) dated February 18, 2016 for the year ended December 31, 2015 is incorporated herein by reference and can be found on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION

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

Forward-looking information in this AIF includes, among other things, information relating to: (i) expectations regarding the timing of, funding of, generation capacity of, costs for, technology selected for or commercial arrangements regarding existing, planned and potential development projects and acquisitions; (ii) expectations regarding revenues generated by existing facilities or facilities in development; (iii) expectations regarding future growth and emerging opportunities in Capital Power's target markets including the focus on certain technologies; (iv) expectations regarding availability of fuel supply; (v) expectations regarding the timing or outcome of applications for permits or licenses, or other regulatory proceedings; (vi) the expected impact of GHG Regulations including the Climate Leadership Plan announced by the Government of Alberta and other environmental regulations on Capital Power's power plants, including compliance costs and the useful lives of power plants; (vii) expectations regarding proposed new environmental regulations, including the timing of such regulations coming into force, and the impact of current and new environmental regulations on Capital Power's business, including, but not limited to, Capital Power's compliance costs; (viii) expectations regarding compensation to be received by Capital Power from the Government of Alberta in respect of the proposed early retirement of its coal facilities; (ix) expectations regarding the timing for Capital Power to receive the majority of benefits from certain projects subject to tax equity financing arrangements; (x) expectations regarding the timing of collective bargaining, or the timing, effect or implementation of collective agreements; (xi) expectations regarding proposed new power market or energy resource regulations, including the timing of such regulations coming into force, and the impact of current and new power market or energy resource regulations on Capital Power; (xii) the timing, imposition and impact of taxes on Capital Power; (xiii) expectations related to Capital Power's future cash requirements including interest and principal repayments, capital expenditures and dividends and distributions; (xiv) expectations governing the operation of the dividend reinvestment plan for holders of Common Shares; (xv) expectations for Capital Power's sources of funding, adequacy and availability of committed bank credit facilities and future borrowings; and (xvi) expectations regarding power requirements and demand in Capital Power's target markets.

These statements are based on certain assumptions and analyses made by the Company in light of its experience and perception of historical trends, current conditions and expected future developments, and other factors it believes are appropriate. The material factors and assumptions used to develop these forward-looking statements relate to: (i) electricity and other energy prices, (ii) performance, (iii) business

prospects and opportunities including expected growth and capital projects, (iv) status of and impact of policy, legislation and regulations, and (v) effective tax rates.

Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks and uncertainties which could cause actual results and experience to differ materially from the Company's expectations. Such material risks and uncertainties include: (i) power plant availability and performance including maintenance expenditures; (ii) changes in electricity prices in markets in which Capital Power operates; (iii) regulatory and political environments including changes to environmental, financial reporting and tax legislation; (iv) acquisitions and developments including timing and costs of regulatory approvals and construction; (v) ability to fund current and future capital and working capital needs; (vi) changes in energy commodity market prices and use of derivatives; (vii) changes in market prices and availability of fuel; and (viii) changes in general economic and competitive conditions. See "Risks and Risk Management" in the Company's MD&A dated February 18, 2016 for the year ended December 31, 2015.

Readers are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company does not undertake or accept any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which any such statement is based, except as required by law.

Remainder of page intentionally left blank

DEFINITIONS OF CERTAIN TERMS

Certain terms used in this AIF have the following meanings:

"**AESO**" means the Alberta Electric System Operator

"**AER**" means the Alberta Energy Regulator

"**Altius**" means Altius Minerals Corporation

"**ATCO**" means ATCO Power Canada Ltd.

"**AUC**" means the Alberta Utilities Commission

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

"**BC**" means the Province of British Columbia

"**BC Hydro**" means the British Columbia Hydro and Power Authority

"**BCUC**" means the British Columbia Utilities Commission

"**Beaufort Solar**" means the Beaufort Solar facility as further described in "Business of Capital Power – US Contracted Plants – Beaufort Solar"

"**Board**" means the board of directors of Capital Power Corporation

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

"**CCS**" means carbon capture and storage

"**Clover Bar**" means the Clover Bar Energy Centre as further described in "Business of Capital Power – Alberta Commercial Plants – Clover Bar Energy Centre"

"**CO₂**" means carbon dioxide

"**CO₂e**" means carbon dioxide equivalent

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

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

"**CPC**" or the "**Company**" means Capital Power Corporation

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

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

"**DBRS**" means DBRS Limited

"**Element Power**" means Element Power US, LLC

"**Enbridge**" means Enbridge Inc.

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

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

"**EPDC**" means EPCOR Power Development Corporation

"**ENMAX**" means ENMAX Corporation

"**EPEA**" means the *Environmental Protection and Enhancement Act* of the Province of Alberta

"**ERCB**" means the Energy Resources Conservation Board, an agency established by the Province of Alberta

"**EUA**" means the *Electricity Utilities Act* of the Province of Alberta

"**EUB**" means the Energy and Utilities Board of the Province of Alberta

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

"**FEED**" means front-end engineering and design

"**FERC**" means the Federal Energy Regulatory Commission of the United States of America

"**FIT**" means Feed-In-Tariff

"**FPA**" means the *Federal Power Act* of the United States of America

"**GE**" means General Electric Inc.

"**Genesee 1 & 2**" means, collectively, the Genesee 1 and Genesee 2 facilities as further described in "Business of Capital Power – Alberta Contracted Plants – Genesee 1 & 2"

"**Genesee 3**" means the Genesee 3 facility as further described in "Business of Capital Power – Alberta Commercial Plants – Genesee 3"

"**Genesee 4 & 5**" means the Genesee 4 and 5 facility under development as described in "Business of Capital Power – Projects Under Construction or in Advanced Stages of Development – Genesee 4 & 5"

"**GHG**" means greenhouse gases

"**GHG Regulations**" means the Reduction of Carbon Dioxide Emissions from Coal-Fired Generation of Electricity Regulations (SOR/ 2012-167) made pursuant to the *Canadian Environmental Protection Act*, 1999

"**GP Units**" means general partnership units in the capital of the Partnership

"**GWh**" means gigawatt hours

"**Halkirk**" means the Halkirk Wind facility as further described in "Business of Capital Power – Alberta Commercial Plants – Halkirk Wind"

"**IESO**" means Independent Electric System Operator

"**IPO**" means the July 2009 initial public offering by Capital Power Corporation of 21.75 million Common Shares at a price of \$23.00 per share, pursuant to an underwriting agreement with a group of underwriters, for proceeds, net of underwriter and issue costs, of approximately \$475 million

"**IPP**" means independent power producer

"**Island Generation**" means the Island Generation facility as further described in "Business of Capital Power – Ontario and BC Contracted Plants – Island Generation"

"**ISO**" means Independent System Operator

"**ISO-NE**" means the Independent System Operator for New England

"**Joffre**" means the Joffre Cogeneration facility as further described in "Business of Capital Power – Alberta Commercial Plants – Joffre"

"**K2**" means the K2 Wind facility as further described in "Business of Capital Power – Ontario and BC Contracted Plants – K2 Wind"

"**Kingsbridge 1**" means the Kingsbridge 1 Wind facility as further described in "Business of Capital Power – Ontario and BC Contracted Plants – Kingsbridge 1 Wind"

"**Keephills 3**" means the Keephills 3 facility as further described in "Business of Capital Power – Alberta Commercial Plants – Keephills 3"

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

"**Macho Springs**" means the Macho Springs Wind facility as further described in "Business of Capital Power – US Contracted Plants – Macho Springs"

"**MSA**" means the Market Surveillance Administrator for the Province of Alberta

"**MTN**" means medium term note

"**MW**" means megawatts

"**MWh**" means megawatt hour

"**NI 52-110**" means National Instrument 52-110 – *Audit Committees*

"**NO_x**" means oxides of nitrogen

"**NOVA**" means Nova Chemicals Corporation

"**OPA**" means Ontario Power Authority

"**Pattern**" means Pattern Canada Finance Company ULC

"**PDN**" means the Port Dover and Nanticoke Wind facility as further described in "Business of Capital Power – Ontario and BC Contracted Plants – Port Dover and Nanticoke Wind"

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

"Prairie Mines" means Prairie Mines and Royalty Ltd., a subsidiary of Westmoreland Coal Company

"Preferred Shares" means all of the Series 1 Shares, Series 3 Shares and Series 5 Shares that are issued and outstanding

"QF" means a qualifying facility and is a term used to describe a category of cogeneration or small power generating facility that meets certain ownership, operating, and efficiency criteria established by FERC pursuant to the *Public Utility Regulatory Policies Act of 1978* (see "Regulatory Overview - United States")

"Quality Wind" means the Quality Wind facility as further described in "Business of Capital Power – Ontario and BC Contracted Plants – Quality Wind"

"REA" means renewable energy approval obtained upon application from the Ministry of Environment of the Province of Ontario

"RECs" means renewable energy credits

"Reorganization" means the series of transactions concurrent with the completion of the IPO pursuant to which CPLP acquired substantially all of the power generation assets of EPCOR, which transactions consisted of:

- (i) the formation of CPLP by CPC, as the initial general partner with one GP Unit, and Capital Power LP Holdings Inc., a wholly-owned subsidiary of CPC, as the initial limited partner with one Common LP Unit;
- (ii) the sale by EPCOR of all of the outstanding common shares of EMCC Limited to CPC in exchange for a cash payment of approximately \$468 million out of the net proceeds of the IPO;
- (iii) the contribution by EMCC Limited of substantially all of its assets to CPLP in exchange for 21.75 million GP Units of CPLP, and the acquisition by EMCC Limited of CPC's GP Unit in CPLP, pursuant to which EMCC Limited (subsequently re-named Capital Power GP Holdings Inc.) became the sole general partner of CPLP; and
- (iv) the sale by EPDC of substantially all of its assets (consisting primarily of assets related to Genesee 1 & 2, the Genesee coal mine joint venture and certain interests in partnerships) to CPLP in return for 56.625 million Exchangeable LP Units of CPLP and approximately \$896 million in cash (financed by CPLP by way of a long-term debt obligation to EPCOR (see "Material Contracts - Back-to-Back Credit Agreement")) and the concurrent subscription by EPDC for 56.625 million Special Voting Shares for a nominal amount and acquisition of the Special Limited Voting Share (see "Material Contracts - Asset Transfer Agreement")

"Roxboro" means the Roxboro facility as further described in "Business of Capital Power – US Contracted Plants"

"Samsung" means SRE K2 LP Holdings LP

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

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

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

"Series 2 Shares" means the cumulative floating rate preference shares, series 2 authorized by Capital Power Corporation

"**Series 3 Shares**" means the cumulative rate reset preference shares, series 3 issued by Capital Power Corporation

"**Series 4 Shares**" means the cumulative floating rate preference shares, series 4 authorized by Capital Power Corporation

"**Series 5 Shares**" means the cumulative rate reset preference shares, series 5 issued by Capital Power Corporation

"**Series 6 Shares**" means the cumulative floating rate preference shares, series 6 authorized by Capital Power Corporation

"**SGER**" means the Specified Gas Emitters Regulation (Alberta Regulation 139/2007) made pursuant to the *Climate Change and Emissions Management Act* of the Province of Alberta

"**Shepard**" means the Shepard Energy Centre as further described in "Business of Capital Power – Alberta Commercial Plants – Shepard Energy Centre"

"**SO₂**" means sulphur dioxide

"**Southport**" means the Southport facility as further described in "Business of Capital Power – US Contracted Plants"

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

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

"**Sundance PPA**" means the PPA for Sundance under Section 45.95(1) of the *Electric Utilities Act* between TransAlta Utilities Corporation, as owner, and a subsidiary of the Company, as buyer, made in respect of Units 5 and 6 of the Sundance power plant owned by TransAlta, and as amended, restated or supplemented from time to time

"**TransAlta**" means TransAlta Corporation and, where the context requires, TransAlta Corporation and/ or its subsidiaries

"**US**", "**U.S.**" or "**United States**" means the United States of America

"**Westmoreland**" means Westmoreland Coal Company

Remainder of page intentionally left blank

CORPORATE STRUCTURE

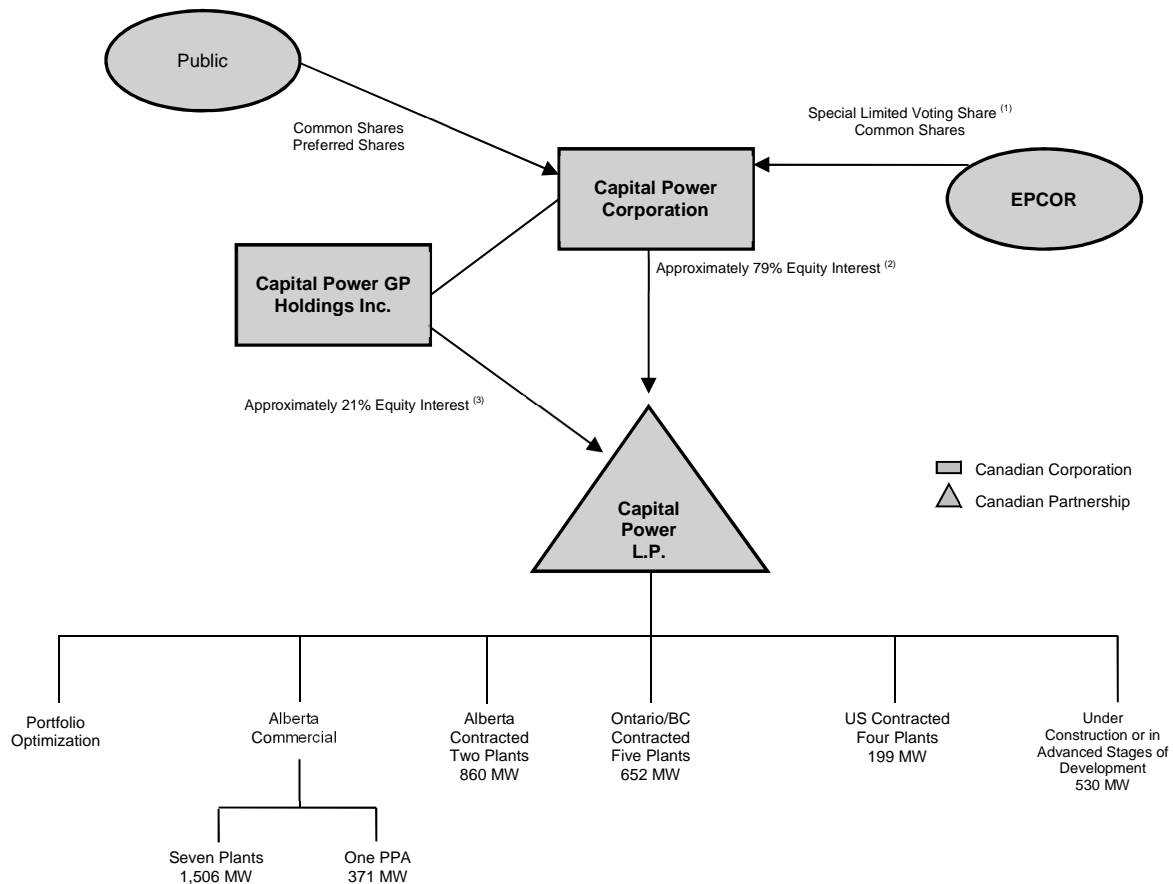
Capital Power Corporation

The Company was incorporated under the *Canada Business Corporations Act* on May 1, 2009. The Company's articles were amended on June 16, 2009, July 7, 2009, December 10, 2010, December 14, 2012 and March 11, 2013, to, among other things; create the classes of shares described in this AIF. See "Capital Structure".

The principal business office and registered office of the Company is located at Suite 1200, 10423 – 101 Street NW, Edmonton, Alberta, Canada, T5H 0E9.

For a description of the Company's inter-corporate relationships with its subsidiaries, see "Corporation Structure – Inter-Corporate Relationships".

The following chart generally illustrates Capital Power's business and the inter-corporate relationships of the Company with its shareholders and with CPLP, which directly and indirectly holds the Company's assets and investments in the electrical power generation business:



- (1) As at December 31, 2015, EPCOR held 9,391,000 Common Shares, the one Special Limited Voting Share of the Company and the one special limited voting share of CPLPGP. See "Capital Structure".
- (2) As at December 31, 2015, Capital Power LP Holdings Inc., a subsidiary of the Company incorporated pursuant to the *Canada Business Corporations Act*, held all of the Common LP Units.
- (3) As at December 31, 2015, CPLPGP directly held all of the GP Units.
- (4) See "Business of Capital Power – Generation Plant Summary" for details on the generating facilities making up each category.

Capital Power L.P.

CPLP is a limited partnership established under the laws of the Province of Ontario. The general partner of CPLP is CPLPGP which is wholly-owned by the Company (subject to the one special limited voting share of CPLPGP held by EPCOR) and is incorporated pursuant to the *Business Corporations Act* (Alberta). See "Capital Structure". Capital Power elects the board of directors of CPLPGP, the general partner of CPLP.

On April 2, 2015, EPCOR exchanged all of its Exchangeable LP Units in CPLP for Common Shares of the Company. As a result of the exchange, Capital Power indirectly holds all of the GP Units and all of the Common LP Units, representing 100% of the total outstanding partnership interests in CPLP. In December 2015 and January 2016, the Company took additional steps to reorganize and simplify CPLP's debt structure and reporting obligations. On February 2, 2016, CPLP ceased to be a reporting issuer in each of the provinces and territories in Canada. See "Capital Structure – Capital Power – Debt Issuance" and "– Capital Power L.P. – Debt Issuance".

Inter-Corporate Relationships

The following table provides the name and the jurisdiction of incorporation, continuance, formation or organization of the subsidiaries of the Company other than those subsidiaries that, as at December 31, 2015, had aggregate total assets or revenues that did not exceed 20% of Capital Power's consolidated assets or consolidated revenues. Unless otherwise noted, the Company directly or indirectly owns 100% of the voting securities of the subsidiaries listed below, or of the general partner corporations in respect of those subsidiaries that are limited partnerships.

Subsidiaries	Jurisdiction of Incorporation, Continuance, Formation or Organization
Capital Power L.P.	Ontario
CP Energy Marketing L.P.	Alberta
Capital Power (K3) Limited Partnership	Alberta
Capital Power (G3) Limited Partnership	Alberta
Capital Power (Alberta) Limited Partnership	Alberta
CPI USA North Carolina LLC	Delaware
Halkirk I Wind Project LP	Alberta

GENERAL DEVELOPMENT OF THE BUSINESS

Overview

Capital Power is a North American IPP headquartered in Edmonton, Alberta. Capital Power develops, acquires and optimizes power generation from a range of energy sources. Its asset portfolio includes ownership in a number of operating facilities in Canada and the United States, an Alberta PPA and projects in various stages of construction and development. The significant events and conditions that have influenced the general development of Capital Power's business over the past three years are summarized below. Certain of these events and conditions and operational information on Capital Power's plants are discussed in greater detail under the heading "Business of Capital Power".

Company History

2015

Beaufort Solar

On December 22, 2015, Beaufort, a 15 MW solar facility in North Carolina, began commercial operations. See "Business of Capital Power – US Contracted Plants – Beaufort Solar". The site for Beaufort was acquired by Capital Power as part of the acquisition of Element Power in 2014.

Changes to Alberta's Emissions Regulations and Review of Climate Change Policy

On June 25, 2015, the Government of Alberta announced that SGER would be amended to increase the required reduction in emissions intensity from 12% to 15% in 2016, and 20% in 2017, and to increase the cost of contributions to the Climate Change and Emissions Management Fund from \$15 per tonne of GHG to \$20 per tonne in 2016 and \$30 per tonne in 2017.

On November 22, 2015, the Government of Alberta announced its Climate Leadership Plan (the Climate Plan) and released the Climate Change Advisory Panel's Report (the Report) which outline various policy framework elements, including a proposed Carbon Competitiveness Regulation (CCR). See "Regulatory Overview – Alberta".

Capital Power expects that the increase in the Company's compliance costs under the CCR will be mitigated by higher wholesale power prices from owner's passing through the compliance costs and the use of its inventory of low-cost carbon offset credits. The projected incremental impact of the CCR between 2018 and 2020 is an average annual increase of approximately \$20 million in adjusted EBITDA. From 2021 to 2029, the projected annual impact to adjusted EBITDA is a decrease of approximately \$100 million due to the increased compliance costs of the CCR, due to depletion of the Company's carbon offset inventory and the expiry of the Genesee 1 & 2 PPA. Under the terms of the PPA, any carbon offset costs as a result of change in legislation (like the CCR) are and will be borne by the PPA holder, the Balancing Pool, until 2020. Thereafter, the full CCR cost for Genesee 1 & 2 will be borne by Capital Power. Although unrelated to the CCR, the decrease in adjusted EBITDA is expected to be more than offset by the sale of electricity from Genesee 1 & 2, into the Alberta wholesale market at prices which are expected to exceed the contracted price under the PPA. The contracted price under the PPA is projected to be approximately \$37/MWh in 2020. These projections do not take into account the compensation to be received from the Alberta government for the accelerated closure of Alberta's coal fired power plants and assume no actions by Capital Power to further reduce GHG emissions.

On November 23, 2015, Capital Power announced that it will work with the Government of Alberta's independent facilitator and AESO to help them successfully implement the Government of Alberta's policies for the electricity sector and Capital Power's investors. Capital Power also announced support for government policies that treat investors fairly and maintain an attractive climate for investment in new power generation.

The process for designing, consulting on, and implementing the regulations and legislation required to achieve the Climate Plan are yet to be announced. This includes the nature, amount and timing of any compensation to be received by Capital Power as a result of the 2030 coal retirement deadline, or the nature, form and amount of any incentives for new renewable power generation in Alberta. Capital Power continues to actively engage with the Government of Alberta regarding the implementation of the Climate Plan. See "Regulatory Overview – Alberta".

K2 Wind

On May 29, 2015, K2 Wind, a 270 MW wind facility in Ontario, began commercial operations. Capital Power has an interest in 90 MW through its 33.3% ownership of this facility, and Capital Power's share of final construction costs was \$297 million, including both long term non-recourse project debt and equity financed components. The facility is now supplying renewable energy to the province of Ontario under a 20-year PPA with Ontario IESO. See "Business of Capital Power – Ontario and BC Contracted Plants – K2 Wind".

Shepard Energy Centre

On March 11, 2015, Shepard, an 800 MW natural gas combined-cycle power plant located in Calgary, Alberta, began commercial operations. Capital Power owns 400 MW or 50% of the capacity of this facility, and Capital Power's share of final construction costs was approximately \$848 million which includes a performance bonus paid to the turbine manufacturer. Capital Power purchased a 50% interest

in Shepard from ENMAX, which was announced in 2013. See "Business of Capital Power – Alberta Commercial Plants – Shepard Energy Centre".

2014

Acquisition of Element Power

On December 19, 2014, Capital Power completed the acquisition of 100% of the membership interests of Element Power for cash consideration of \$21 million (US\$18 million). Element Power has outstanding non-recourse project financing debt of \$60 million (US\$52 million). The acquisition provides Capital Power with a portfolio of wind and solar energy development sites located in the United States. The development sites consist of 10 wind sites and four solar sites including the Beaufort solar site in North Carolina with a 15 MW solar contract with Duke Energy Progress, Inc. The acquisition also includes Macho Springs, a 50 MW wind facility located in New Mexico that has been operating since 2011 under a 20-year PPA with Tucson Electric Power. See "Business of Capital Power – US Contracted Plants – Macho Springs".

Genesee 4 & 5

On April 24, 2014, Capital Power and ENMAX executed a purchase and sale agreement in support of a joint arrangement agreement to jointly develop, construct, and operate Genesee 4 & 5. The joint arrangement agreement provides for, among other things, an agreement for ENMAX to purchase approximately 250 MW from Capital Power for eight years. The joint arrangement agreement closing occurred in July 2014. Genesee 4 & 5 was granted approval by the AUC in August 2014 and by the AER in December 2014 and therefore all major regulatory approvals required to proceed to the construction phase have been received. Capital Power will further clarify the planned construction and commercial operation date of the Genesee 4 & 5 project in 2016. This decision is contingent on clarification of fair compensation Capital Power will receive for the projected accelerated closure of coal-fired generating plants in Alberta, the implementation of the Climate Plan having no adverse impact on the Alberta electricity market design, and upon price signals from the energy only market. See "Business of Capital Power - Projects Under Construction or in Advanced Stages of Development – Genesee 4 & 5".

2013

Port Dover and Nanticoke Wind Project

On November 7, 2013, PDN, a 105 MW wind facility in Ontario, began commercial operations. Construction of PDN was completed on time and under its \$340 million budget, with final costs of approximately \$288 million. See "Business of Capital Power – Ontario and BC Contracted Plants – Port Dover and Nanticoke Wind". The facility is now supplying renewable energy to the province of Ontario under a 20-year contract with OPA.

Sale of North East U.S. Assets and Refocusing of Business

On November 19, 2013, Capital Power completed the sale of its subsidiaries that owned the Bridgeport, Tiverton and Rumford power generation facilities in the north east U.S. and certain emissions credits, to Emera Inc. for proceeds of \$576 million (US\$549 million) less transaction costs of \$8 million (US\$8 million).

Capital Power also wound-down its commodity and energy trading business outside Alberta, focusing its energy trading and portfolio management activities on Alberta.

BUSINESS OF CAPITAL POWER

Overview

Capital Power is one of Canada's largest IPPs (as measured by revenue, total assets and capacity). It develops, acquires, operates and optimizes power generation from a variety of energy sources. Capital Power owns more than 3,200 MW of power generation capacity, and owns an additional 371 MW of capacity through its interest in the Sundance PPA and currently has 530 MW of owned capacity under construction or in advanced stages of development in Alberta.

Capital Power owns approximately 2,366 MW of power generation capacity in Alberta, with ownership interests in nine facilities. As of December 31, 2015 Capital Power's power generation fleet had a capacity weighted average facility age of 12 years and is diversified across three provinces and two states in the US.

The majority of the power generated by Alberta power plants in which Capital Power owns an interest is sold on a merchant, or non-contracted, basis into energy markets as part of Capital Power's portfolio optimization activities. See "Business of Capital Power – Portfolio Optimization".

Capital Power sells some of the power generated by Alberta power plants in which Capital Power owns an interest and all of the power generated by power plants outside of Alberta in which Capital Power owns an interest, on a contracted basis to third-parties with whom Capital Power deals at arm's length. See "Business of Capital Power – Alberta Contracted Plants", "Business of Capital Power – Ontario and BC Contracted Plants", and "Business of Capital Power – US Contracted Plants".

As part of its growth strategy, Capital Power has focused its merchant power business on Alberta and continually seeks opportunities to acquire or develop contracted larger scale, natural gas-fired and renewable power generation facilities in Canada and the US.

Remainder of page intentionally left blank

Generation Plant Summary

The following table provides details of Capital Power's generation plants that are in service, under construction or in advanced stages of development:

Category	Plant Name and Location	Type of Generating Plant	Year Commissioned or Target Date	Plant Generation Capacity (MW)	Capital Power Interest (MW)
Alberta Commercial Plants	Keephills 3, Alberta	Supercritical Coal	2011	516	258
	Genesee 3, Alberta	Supercritical Coal	2005	516	258
	Joffre Cogeneration, Alberta	Gas-fired, combined cycle cogeneration	2000	480	192
	Clover Bar Energy Centre, Alberta	Natural gas-fired, simple cycle	Unit 1 - 2008 Unit 2 & 3 - 2009	43 200	43 200
	Clover Bar Landfill, Alberta	Land fill gas-fired	2005	5	5
	Halkirk Wind, Alberta	Wind turbine	2012	150	150
	Shepard, Alberta	Natural gas-fired, combined cycle	2015	800	400
	Total Alberta Commercial Plants⁽¹⁾				
Alberta Contracted Plants	Genesee 1 & 2, Alberta	Coal-fired steam turbine	Genesee 1 -1994 Genesee 2 -1989	430 430	430 430
	Total Alberta Contracted Plants⁽¹⁾				
Ontario and BC Contracted Plants	Kingsbridge 1 Wind, Ontario	Wind turbine	2001 & 2006	40	40
	Island Generation, BC	Natural gas-fired, combined cycle	2002	275	275
	Quality Wind, BC	Wind turbine	2012	142	142
	PDN, Ontario	Wind turbine	2013	105	105
	K2, Ontario	Wind turbine	2015	270	90
	Total Ontario and BC Contracted Plants⁽¹⁾				

Category	Plant Name and Location	Type of Generating Plant	Year Commissioned or Target Date	Plant Generation Capacity (MW)	Capital Power Interest (MW)
US Contracted Plants	Roxboro, North Carolina	Coal, tire-derived fuel and wood waste CHP ⁽²⁾ facility	1987	46 ⁽³⁾	46
	Southport, North Carolina	Coal, tire-derived fuel and wood waste CHP ⁽²⁾ facility	1987	88 ⁽³⁾	88
	Macho Springs, New Mexico	Wind turbine	2011	50	50
	Beaufort Solar, North Carolina	Solar	2015	15	15
	Total US Contracted Plants⁽¹⁾				
Plants Under Construction or in Advanced Stages of Development	Genesee 4 & 5 ⁽⁴⁾ , Alberta	Gas-fired, combined cycle	As early as 2020	1,060	530
	Total Under Construction or in Advanced Stages of Development				
Total Capital Power⁽⁵⁾					3,747

Notes:

- (1) Represents Capital Power's owned capacity as at the date of this AIF.
- (2) CHP means combined heat and power.
- (3) Generation capacity utilizing current blended fuel mixture (wood product, tire-derived product and coal) versus the nameplate capacity of 54 MW and 109 MW for Roxboro and Southport respectively.
- (4) Capital Power will further clarify the planned construction and commercial operation date of the Genesee 4 & 5 project in 2016. This decision is contingent on clarification of fair compensation Capital Power will receive for the projected accelerated closure of coal-fired generating plants in Alberta, the implementation of the Climate Plan having no adverse impact on the Alberta electricity market design, and upon price signals from the energy only market.
- (5) Represents Capital Power's owned capacity, capacity under construction or in advanced stages of development as at the date of this AIF.

Remainder of page intentionally left blank

Revenue and Volume

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

Revenues (unaudited \$ millions)		
Category	Twelve Months Ended December 31, 2015	Twelve Months Ended December 31, 2014
Alberta commercial plants and acquired Sundance PPA	782	612
Alberta contracted plants	275	266
Ontario and BC contracted plants	124	119
US contracted plants	114	83
Corporate	8	27
Sub Total	1303	1,107
Unrealized changes in fair value of commodity derivatives and emission credits	(52)	121
Total	1,251	1,228

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

Electricity Generation (GWh)		
Category	Twelve Months Ended December 31, 2015	Twelve Months Ended December 31, 2014
Alberta commercial plants (excluding acquired Sundance PPA)	6,108	4,516
Alberta contracted plants	6,508	6,235
Ontario and BC contracted plants	1,054	885
US contracted plants	897	740
Total (excluding acquired Sundance PPA)	14,567	12,376

Alberta Commercial Plants

As of the date of this AIF, the Alberta commercial plants consist of ownership interests in seven facilities representing approximately 1,506 MW of power generation capacity. The facilities generate electricity from coal, natural gas, wind and landfill gas. The output of the Alberta plants is managed on a portfolio basis by Capital Power's commodity portfolio management group. Output from these plants is sold into the deregulated Alberta power market.

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

Keephills 3

Keephills 3 is a 516 MW supercritical coal power plant located west of Edmonton, Alberta, which was commissioned in September, 2011. Development of Keephills 3 began in 2007. Keephills 3 is owned by Capital Power and TransAlta in a joint venture, and each has a 50% ownership interest. TransAlta operates Keephills 3 on behalf of the owners. Costs for Keephills 3, excluding mine capital, are equally shared by its owners. Keephills 3 uses supercritical technology to achieve greater fuel efficiency and lower CO₂, NO_x and SO₂ emissions per MW than conventional subcritical pulverized coal technologies.

In April 2012, Capital Power, TransAlta, Enbridge and the federal and provincial governments decided not to proceed with development of one of the world's largest CCS projects as part of Keephills 3. This decision was made following a FEED study, which showed that while the project was technically feasible, the economics did not support the decision to proceed at the time.

Commercial Arrangement: Merchant Facility

Capital Power's share of Keephills 3 generation is managed as part of Capital Power's Alberta electricity portfolio optimization activities.

Fuel Supply

Coal required for Keephills 3 is supplied by the adjacent Highvale coal mine, Canada's largest surface strip coal mine covering 12,600 hectares, owned by TransAlta and operated by SunHills Mining Limited Partnership, a TransAlta subsidiary. The Highvale coal mine supplies coal to the Keephills 3 joint venture, to TransAlta's other two units at the Keephills site and to TransAlta's Sundance units. It is estimated that the Highvale coal mine contains sufficient recoverable reserves to supply Keephills 3's anticipated requirements for the life of the facility. TransAlta, as operator and manager of Keephills 3, is obligated to manage the fuel supply and provide coal to Keephills 3 under a coal supply agreement similar to that which exists under the Genesee 3 joint venture. Under the Keephills 3 coal supply agreement, the joint venture pays for a pro-rata share of the Highvale mine costs and has also committed to fund specific operating and capital costs incremental to the coal requirements of Keephills 3.

Genesee 3

Genesee 3 is a 516 MW supercritical coal power plant located adjacent to Genesee 1 & 2 on the Genesee plant site near Warburg, Alberta, that was commissioned in 2005. Genesee 3 is owned by Capital Power and TransAlta in a joint venture, and each has a 50% ownership interest. Capital Power operates Genesee 3 on behalf of the owners. Genesee 3 uses supercritical technology to achieve greater fuel efficiency and lower CO₂, NO_x and SO₂ emissions per MW than conventional subcritical pulverized coal technologies. Genesee 3 became compliant with the Clean Air Strategic Alliance (CASA) SO₂ emission limits under its EPEA approval by December 31, 2015, and in accordance with the terms of the approval. The CASA-based limits reduced Genesee 3's SO₂ emissions from 0.76 tonnes per hour to 0.36 tonnes per hour. In order to meet the new limit, a dry sorbent injection (DSI) system was installed and put into service. The DSI system injects hydrated lime into the flue gas stream where it captures and removes SO₂. The DSI system has proved successful in reducing Genesee's emissions below the required level.

Commercial Arrangement: Merchant Facility

Capital Power's share of Genesee 3 generation is managed as part of Capital Power's Alberta electricity portfolio optimization activities.

Fuel Supply

Coal required for the Genesee power plants is supplied by the adjacent Genesee coal mine. The coal is provided to the Genesee power plants under long-term, cost of service supply agreements with the Genesee coal mine joint venture. The coal mine joint venture is a 50/50 joint venture between Capital Power and Prairie Mines, with Prairie Mines as the operator. Capital Power is a party to various agreements with Prairie Mines in relation to the operation of the Genesee coal mine (Genesee Coal Mine Agreements). In connection with the acquisition by Westmoreland of Prairie Mines and the acquisition by Altius of the royalty assets of Prairie Mines, the Genesee Coal Mine Agreements and certain related agreements were, amongst other things, amended to: (a) confirm the acquisitions by Westmoreland and Altius; (b) provide for certain amendments to the Genesee Coal Mine Agreements; and (c) provide for a payment to Capital Power of \$20 million upon completion of the acquisitions, which payment was received in the second quarter of 2014.

In 2011, Capital Power applied to the ERCB and AER to extend the mine permit and licence for the Genesee coal mine. The requested permit extension would add approximately 10,000 acres of surface land holdings to the Genesee coal mine. Capital Power received approval of the permit and licence extension areas for the Genesee coal mine from the AER in August of 2014. In July 2015, Capital Power received from the AER a renewed EPEA approval as well as amended *Water Act* approvals for the Genesee coal mine. Capital Power believes the recoverable coal reserves to which it holds the rights exceed the estimated requirements for the life of Genesee 1 & 2 and Genesee 3. The explored portions of the coal rights held by the Genesee coal mine joint venture are surface mineable, which reduces extraction costs. Environmental work to date at Genesee coal mine has returned about 944 hectares of previously mined area into productive farm land and wildlife habitat.

Joffre Cogeneration

Joffre is a 480 MW natural gas combined-cycle cogeneration power plant located at NOVA's petrochemical complex near Red Deer, Alberta, that began commercial operations in May 2001. Joffre is owned by Capital Power, ATCO and NOVA in a joint venture, with ownership interests of 40%, 40% and 20%, respectively.

The plant produces both steam and electricity for NOVA's host petrochemical complex. Approximately 80 to 120 MW of the net electricity output of the cogeneration plant is required on site by the host petrochemical complex with the balance being sold to the wholesale electricity market. However, given a planned expansion, Nova's demand is expected to increase by approximately 28MW commencing November 1, 2016, thereby increasing their total electricity requirement to 118MW to 148MW. ATCO operates the plant and dispatches the power that is surplus to the needs of the host petrochemical complex for sale to the Alberta Power Pool on behalf of the owners.

Commercial Arrangement: Energy Supply Agreement and Merchant Facility

An energy supply agreement dated June 30, 1999 among a subsidiary of Capital Power, ATCO and NOVA sets forth the terms regarding the sale of electricity, steam and feedwater to NOVA. NOVA makes cost-of-service payments comprised primarily of a natural gas fuel cost payment, an operating and maintenance payment, and a capital payment calculated on a return-on-rate basis. The uncommitted capacity of the plant is bid into the wholesale electricity market by the joint venture operator and Capital Power's share of output is incorporated into the Alberta electricity portfolio optimization activities. The agreement terminates upon decommissioning of the site by NOVA.

Fuel Supply

Capital Power procures and manages its 40% ownership share of the fuel for the facility.

Clover Bar Energy Centre

Clover Bar is a 243 MW natural gas power plant located in Edmonton, Alberta. Clover Bar is comprised of a GE LM 6000 natural gas fired turbine (with a generation capacity of approximately 43 MW), which began commercial operations in March 2008, and two GE LMS 100 natural gas fired turbines (with a combined generation capacity of approximately 200 MW), which began commercial operations in September and December 2009, respectively. The turbines are simple cycle units with quick-start capability to meet the need for peaking capacity in Alberta.

Commercial Arrangement: Merchant Facility

The units are dispatched to take advantage of price volatility in the Alberta electricity market and are incorporated into Capital Power's Alberta electricity portfolio optimization activities.

Fuel Supply

Natural gas for Clover Bar is purchased in the Alberta wholesale market to meet dispatch requirements. A natural gas transportation agreement with TransCanada Pipelines Limited provides transport service to the Clover Bar site and provides natural gas capacity surety so that the marketing of the generation remains flexible.

Halkirk Wind

Halkirk is a 150 MW wind facility located near Halkirk, Alberta, that began commercial operations on December 1, 2012. Halkirk is comprised of 83 Vestas V-90 turbines (each with a generation capacity of 1.8 MW).

Commercial Arrangement: Merchant Facility

The electricity generated by Halkirk is managed as part of Capital Power's Alberta electricity portfolio optimization activities. RECs produced by Halkirk are sold to Pacific Gas and Electric Company under the terms of a 20-year fixed price agreement.

Shepard Energy Centre

Shepard is an 800 MW natural gas combined-cycle power plant located in Calgary, Alberta, that began commercial operations on March 11, 2015. Shepard is owned by Capital Power and ENMAX in a joint venture, and each has a 50% interest. ENMAX operates the facility and Capital Power administers the dispatch of the electrical output. Shepard features combined-cycle technology that has two combustion turbines to generate electricity plus makes use of waste heat through a steam turbine for further electricity production. This configuration makes Shepard's gas-fuelled facility approximately 30% more efficient than conventional coal plants, all while reducing overall fuel costs. Additionally, it emits less than half the CO₂ emissions per MWh of a conventional coal plant, as well as fewer carbon monoxide, sulphur dioxide, and nitrogen dioxide gases.

Commercial Arrangement: Merchant Facility

Capital Power's share of Shepard generation is managed as part of Capital Power's Alberta electricity portfolio optimization activities. Capital Power and ENMAX have also entered into various commercial agreements including a 20-year tolling agreement. Under the terms of the tolling agreement, ENMAX will pay Capital Power a fixed capacity charge for 75% of Capital Power's owned capacity from 2015 to 2017, and 50% of Capital Power's owned capacity for the remaining term of the tolling agreement from 2018 to 2035. The tolling agreement has operating and maintenance cost flow-through provisions to ENMAX.

Capital Power also sold ENMAX an additional 100 MW of fixed price on peak Alberta power in 2015.

Fuel Supply

Natural gas for Shepard is purchased in the Alberta wholesale market to meet dispatch requirements. A natural gas transportation agreement with TransCanada Pipeline provides transport service to the Shepard site. Capital Power is required to procure natural gas for Capital Power's non-tolled capacity.

Additional Alberta Facilities

Capital Power has a 100% interest in Clover Bar Landfill Gas Plant, a 5 MW facility located in Edmonton, Alberta. This facility was commissioned in 2005 and extracts methane gas from an adjacent landfill for its fuel source. The facility is one of Capital Power's carbon offset projects. All output from the facility is purchased by the City of Edmonton.

Alberta Contracted Plants

Genesee 1 & 2

The Alberta contracted plants, consisting of Genesee 1 & 2, are coal-fired power plants with 860 MW of combined generation capacity located west of Edmonton near Warburg, Alberta. Both units are 100% owned and operated by Capital Power, and are located on land owned by Capital Power. Genesee 1 & 2 were commissioned in 1994 and 1989, respectively.

Commercial Arrangement: Power Purchase Arrangement

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

Fuel Supply

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

Ontario and BC Contracted Plants

The Ontario and BC contracted plants consist of generation facilities for which Capital Power sells all output of the facilities to provincial government entities, either OPA or BC Hydro, as applicable, pursuant to long-term contracts. The Ontario and BC contracted plants consist of ownership interests in five facilities representing approximately 652 MW of power generation capacity. The facilities generate electricity from natural gas and wind.

Kingsbridge 1 Wind

Kingsbridge 1 is a 40 MW wind facility located in the Township of Ashfield-Colborne-Wawanosh, Ontario. Kingsbridge 1 consists of one Vestas V-90 turbine (with a generation capacity of 1.8 MW) commissioned in 2013, 21 Vestas V-80 turbines (each with a generation capacity of 1.8 MW) commissioned in 2006 and one Vestas V-47 turbine (with a generation capacity of 0.7 MW) commissioned in 2001.

Kingsbridge 1 receives wind power production incentive payments of \$0.010 per kilowatt-hour up to a maximum of approximately \$1.1 million annually and an aggregate total of approximately \$10.8 million through to March 2016 under the Wind Power Production Incentive Program of the Government of Canada.

Commercial Arrangement: Energy Supply Contracts

Kingsbridge 1 operates under the terms of two energy supply contracts with the OPA. The energy supply contract for the turbine commissioned in 2001 is a standard offer agreement under the OPA's Renewable

Energy Standard Offer Program which terminates in March 2027. The energy supply contract for the remaining turbines terminates in March 2026.

Island Generation

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

Commercial Arrangement: Electricity Purchase Agreement

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

Quality Wind

Quality Wind is a 142 MW wind facility located near Tumbler Ridge, BC, that began commercial operations in November 2012. Quality Wind is comprised of 35 Vestas V-90 turbines (each with a generation capacity of 1.8 MW) and 44 Vestas V-100 turbines (each with a generation capacity of 1.8 MW).

Commercial Arrangement: Electricity Purchase Agreement

Quality Wind has a 25-year EPA with BC Hydro.

Port Dover and Nanticoke Wind

PDN is a 105 MW wind facility located in the counties of Norfolk and Haldimand, Ontario, that began commercial operations in November 2013. The facility is comprised of 58 Vestas V-90 turbines (each with a generation capacity of 1.8 MW).

Commercial Arrangement: Electricity Purchase Agreement

PDN has a 20-year PPA with the OPA.

K2 Wind

K2 is a 270 MW wind facility located near the Township of Ashfield-Colborne-Wawanosh, Ontario, adjacent to Kingsbridge 1, that began commercial operations on May 29, 2015. K2 is jointly owned through a limited partnership by Samsung, Pattern and Capital Power with ownership interests of one-third each. K2 Wind is comprised of 140 SWT-2.3 turbines (each with a maximum generation capacity of 2.3 MW).

On March 24, 2014, construction of K2 commenced following the successful completion of an \$850 million non-recourse financing in the form of a construction loan converted to long-term project debt once K2 commenced commercial operations. Capital Power's share of final construction costs was \$297 million, including both debt and equity financed components.

Commercial Arrangement: Electricity Purchase Agreement

K2 has a 20-year PPA with the Ontario IESO.

US Contracted Plants

Roxboro and Southport

Roxboro, a 46 MW biomass power plant located near Roxboro, North Carolina, and Southport, an 88 MW biomass power plant located near Southport, North Carolina, were both commissioned in 1987 and acquired by Capital Power in conjunction with the Capital Power Income L.P. divestiture in November 2011. Particulate emissions at these plants are controlled by the use of engineered fabric filters which keep particulates from the plant well under state and federal regulations.

Commercial Arrangement: Power Purchase Agreement

Both facilities provide all of their electrical output under PPAs that expire in 2021 to Carolina Power & Light Company doing business as Progress Energy Carolinas, Inc., a subsidiary of Duke Energy Corporation. Southport also sells steam to Archer Daniels Midland Company pursuant to a contract that expires in March 2021.

Commercial Arrangement: RECs

Both Southport and Roxboro have a 10-year fixed price electric REC agreement in place for tire-derived fuel and biomass with Duke Energy Progress. Southport also has 10-year fixed price thermal REC agreement in place with Duke Energy Corporation. Both agreements expire in March 2021.

Fuel Supply

Both plants' fuel requirements are satisfied with a mixture of wood residuals, tire-derived fuel and a small amount of coal. Coal is sourced with regional coal suppliers; tire-derived fuel and wood residuals are sourced from multiple local suppliers. Capital Power has executed a contract with Central Carolina Holdings LLC for 60% of the tire-derived fuel requirements of both plants. Wood residuals are procured at fixed prices indexed to the distance from the facility and subject to a fuel charge. Active negotiations are also underway to execute a long term contract for the delivery and supply of green wood.

Macho Springs

Macho Springs is a 50MW wind facility located in Luna County, New Mexico, that began commercial operations in November 2011 and was acquired by Capital Power in December 2014. The facility is comprised of 28 Vestas V-100 turbines (each with a generation capacity of 1.8 MW). The project has MetLife Capital, Limited Partnership as both a tax equity interest partner (TEI) and non-recourse term loan provider. The TEI receives the majority of the earnings, tax benefits and cash flows from Macho Springs until it has reached its target yield, after which time the project flips and Capital Power receives the majority of the earnings, tax benefits, and cash flows. The project is expected to flip in 2017.

Commercial Arrangement: Electricity Purchase Agreement

Macho Springs has a 20-year PPA with Tucson Electric Power.

Beaufort Solar

Beaufort Solar is a 15MW photovoltaic solar facility located in Chocowinity, Beaufort County, North Carolina, that began commercial operations on December 22, 2015. The project entered into a sale-leaseback transaction with Wells Fargo Bank, N.A. (Wells Fargo) in order to monetize the state and federal investment tax credits for which it is eligible. Under the transaction, Wells Fargo purchased the project's equipment, and leases it back to Beaufort Solar, LLC for ten years. At the conclusion of the lease, Capital Power has the option to re-purchase the project for fair market value.

Commercial Arrangement: Electricity Purchase Agreement

Beaufort Solar has a 15-year PPA with Duke Energy Progress, LLC

Projects Under Construction or in Advanced Stages of Development

As of the date of this AIF, the following projects are under construction or in advanced stages of development:

Genesee 4 & 5

In April 2014, Capital Power and ENMAX executed a purchase and sale agreement in support of a joint arrangement agreement to jointly develop, construct, and operate the Genesee 4 & 5 power project. The joint arrangement agreement provides for, among other things, an agreement for ENMAX to purchase approximately 250 MW from Capital Power for eight years. The joint arrangement agreement closed in July 2014.

The project was granted approval by the AUC in August 2014 and by AER in December 2014, and therefore all major regulatory approvals required to proceed to the construction phase have been received. Capital Power's Board of Directors has approved the project. In 2015, limited construction activities took place, but full notice to proceed was deferred. Capital Power will further clarify the planned construction and commercial operation date of the Genesee 4 & 5 project sometime in 2016. This decision is contingent on clarification of fair compensation Capital Power will receive for the projected accelerated closure of coal-fired generating plants in Alberta, the implementation of the Climate Plan having no adverse impact on the Alberta electricity market design, and upon price signals from the energy only market.

Capital Power and ENMAX have executed agreements with Mitsubishi Hitachi Power Systems for the supply and maintenance of natural gas turbines for the project. The facility will have a nominal generation capacity of 1,060 MW consisting of two 530 MW one-on-one, single shaft power islands, each incorporating a 501 J-class natural gas turbine, steam turbine, generator and heat recovery steam generator. Construction for the project will be done in two phases with each phase being approximately equal, and will help meet the anticipated increases in power requirements from growing demand and to replace generation from the retirement of coal-fired units in Alberta. Capital Power will lead the construction of the project and will be the operator of the facility. Genesee 4 & 5 will be built within the boundaries of the existing Genesee site, which is owned by Capital Power, and immediately adjacent to the Genesee 3 facility, which allows for usage of existing cooling pond and site infrastructure.

The capital cost for the project, excluding interest to fund construction and refundable transmission system contribution payments, is expected to be approximately \$1.4 billion. ENMAX will seek required approvals to continue its 50% interest prior to full notice to proceed.

Power Purchase Arrangements

Sundance PPA

The Sundance plant is located 70 km west of Edmonton, Alberta on the south shore of Wabamun Lake. As of December 31, 2015, Capital Power maintains rights to 371 MW of capacity through its approximately 52% ownership interest in the Sundance PPA, which entitles it to approximately 52% of the output from Units 5 and 6 of the Sundance power plant at a price reflecting the cost of fixed and variable expenses associated with operating the facilities plus a pre-determined return on invested capital.

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

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

The Sundance PPA expires December 31, 2020. Coal for each plant is obtained from the adjacent Highvale coal mine. Capital Power's share of the Sundance PPA is managed as part of Capital Power's Alberta electricity portfolio optimization activities.

Portfolio Optimization

Capital Power's commodity portfolio is comprised of exposures resulting from ownership of generation assets or financial interest in generation assets as well as transactions with other market participants. These exposures include electricity, natural gas and environmental commodities. All commodity risk management and optimization activities are centrally managed by Capital Power's Commodity Portfolio Management (CPM) group. Portfolio optimization includes activities undertaken to both manage Capital Power's exposure to commodity risk and enhance earnings. Overall commodity exposure within the portfolio is managed within limits established under Capital Power's risk management policies and procedures.

Capital Power manages output from its commercial plants, contracted plants with residual commodity exposure and acquired PPAs on a portfolio basis. Capital Power transacts physical and financial forward contracts that are generally non-unit specific, reducing exposure to plant specific operating characteristics. Capital Power also takes specific and limited positions in the natural gas and environmental commodities markets outside of Alberta to develop and maintain capability to support Capital Power's growth strategy and to a lesser extent generate profits.

The CPM team:

- manages price and volume risk in Capital Power's commodity portfolio;
- sets generation unit offer strategy for electricity and ancillary services;
- acquires and schedules delivery of natural gas supply used to generate electricity; and
- ensures compliance with existing and emerging market based environmental regulations by transacting in environmental commodities markets to proactively manage compliance risks and costs.

Capital Power controls its commodity management and optimization activities by measuring and reporting commodity portfolio risk and validating transactions. Capital Power uses mark-to-market valuation and Value-at-Risk (VaR) techniques to assess the risk of its commodity portfolio. The VaR methodology is a statistically-defined, probability-based approach that takes into consideration market volatilities and risk diversification by recognizing offsetting positions and correlations between exposures. This technique utilizes historical data and back testing to assess market risk arising from possible future changes in commodity prices. In addition, Capital Power subjects the portfolio to stress testing through the use of pre-defined scenarios in order to estimate maximum potential losses under abnormal market conditions.

Competitive Environment

Capital Power typically competes with other IPPs and hybrid utilities (utilities with a merchant division) in the energy and environmental commodities markets.

In addition to these competitor types, Capital Power competes for asset acquisitions with public and private investors and financial intermediaries, such as private equity investors, hedge funds and infrastructure funds.

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

In the deregulated wholesale market of Alberta, Capital Power competes with other power producers by leveraging its operational excellence, enabling it to offer energy into the market at a competitive price and with high availability. Between its merchant generation facilities and the generation it controls through power purchase arrangements and, joint venture agreements, Capital Power controls dispatchable merchant generation capacity in Alberta representing approximately 11% of the market.

In regulated and centrally-planned markets, such as Ontario, Capital Power competes for long-term PPAs to supply credit-worthy counterparties, typically the incumbent utility or a government agency by: (i) developing projects that meet counterparty requirements (for generation type, location and capacity); (ii) securing suitable sites; and (iii) focusing on being a low-cost developer and efficient operator. Capital Power also competes to acquire contracted assets or development projects. Capital Power expects to compete for contracted opportunities all across Canada and the US.

Environmental Regulation

Many of Capital Power's operations are subject to extensive federal, provincial, and state laws, regulations and guidelines relating to the generation of electricity, protection of the environment, and the health and safety of employees. In particular, these laws, regulations and guidelines apply to air emissions; water usage; wastewater discharges; wildlife and habitat protection; hazardous material handling, storage, treatment, and disposal of waste and other materials; and remediation of sites and land-use responsibility.

Capital Power's thermal assets are emitters of various air pollutants including CO₂, NO_x, SO₂, mercury, and particulate matter. Capital Power is required to comply with all licenses and permits and federal, provincial and state requirements, including programs to reduce or offset air emissions. Compliance with new regulatory requirements may require Capital Power to incur significant capital expenditures or additional operating expenses, or cause operations at certain facilities to end prior to the end of their useful economic lives and failure to comply with such regulations could result in fines, penalties or the curtailment of operations.

Capital Power complies with regulatory requirements while working to reduce its environmental impact. The following outlines current environmental regulations and corporate initiatives that have or may have a significant impact on Capital Power's operations.

Canadian Federal Government

Greenhouse Gas Regulation - Coal Generation

The GHG Regulations were published in the Canada Gazette, Part II on September 12, 2012. The GHG Regulations apply a performance standard of 454 kilograms of CO₂ emissions per gross output in MWh per year, which is intended to represent the intensity level of natural gas combined cycle technology. The performance standard applies to new coal-fired electricity generation units (defined as having a

commissioning date of July 1, 2015 or later) and to older units that have reached the end of their useful life which is defined as:

- the earlier of 50 years from the date a generating unit commenced commercial production of electricity or the end of 2019, for existing generating units commissioned before 1975;
- the earlier of 50 years from the date a generating unit commenced commercial production of electricity or the end of 2029, for existing generating units commissioned from 1975 to 1985; and
- 50 years for existing generating units commissioned after 1985.

The GHG Regulations include provisions whereby the end of life requirements can be avoided through a temporary exemption if, in the case of a new unit, it is designed to integrate CCS or, in the case of an existing unit, it can be retrofitted to integrate CCS. An application for such an exemption must include economic and technical feasibility studies and an implementation plan demonstrating that the unit will be in compliance with the GHG Regulations by January 1, 2025.

Greenhouse Gas Regulation – Natural Gas Generation

Environment Canada has initiated consultations to develop a framework to regulate GHG emissions from natural gas fired units. Capital Power is participating in Environment Canada's consultations with industry. Under discussion are alternative approaches for distinguishing between different types of natural gas fired units, along with issues relating to grandfathering of existing units and the application of the standards in industries that sell electricity to the grid but whose primary products are not electricity. Consultations are ongoing, and Environment Canada has not indicated when the framework will be published in the Canada Gazette, Part I.

Standards ultimately adopted through this initiative could potentially impact Clover Bar, Joffre, Shepard, Genesee 4 & 5, Island Generation and other future Capital Power natural gas-fired generation projects. Capital Power will continue to actively participate in the process to develop the standards.

Air Emission Regulations

The Government of Canada is considering regulations which may place stricter limits on NO_x and SO₂ emissions from fossil fuel-fired generating stations in Canada. Environment Canada, in conjunction with the provincial governments, industry and environmental non-governmental organizations (ENGOS), is working on the development of a regulatory framework under the Air Quality Management System, to minimize emissions and establish nationwide performance standards for coal-fired and natural gas-fired generation units. The working group for coal-fired generating units agreed to emission standards for new units and continues its discussion for existing coal units. Environment Canada has not indicated when the framework will be published in the Canada Gazette, Part I, or when the framework would be implemented. With respect to existing coal-fired units, the provincial governments, industry and ENGOS support adopting existing provincial programs to reduce emissions with a federal regulatory backstop over Environment Canada's proposed emission limits, which would require retrofitting of existing units. There is insufficient information to assess the financial implication to Capital Power's operations, although if additional regulation is passed, it is likely Capital Power will incur increased costs.

Alberta

Climate Change Strategy

On November 22, 2015, the Government of Alberta announced its Climate Plan, and released the report and recommendations of the Report. The Climate Plan includes a limited number of decisions, while the Report includes detailed recommendations which have not yet been accepted or rejected by the Government of Alberta. The measures announced in the Climate Plan that will directly impact the electricity sector in Alberta include:

- (i) **The retirement of all coal-fired power plants in Alberta by 2030.** The Government of Alberta announced that no pollution from coal-fired electricity generation would be permitted after 2030, and that coal-fired units would be phased out and replaced by renewable energy and natural gas-fired electricity, or by using technology to produce zero emissions.
- (ii) **The imposition of a carbon tax on electricity generation, calculated based on an emissions performance standard.** Beginning in 2018, power generation will be subject to an additional carbon tax of \$30 per tonne of CO₂ emissions, for those emissions that are greater than a performance standard. The Report recommended the performance standard initially be set at the level of emissions produced by Alberta's cleanest natural gas-fired power plant, and then made more stringent over time; however, these standards are subject to release of final regulations.
- (iii) **The development of renewable power generation through competitive processes.** Two-thirds of the retiring coal capacity is to be replaced by renewable energy, while one-third is expected to be replaced with natural gas-fired power sources. The Climate Plan will use competitive processes to offer incentives for renewable power sources. By 2030, the Government of Alberta expects up to 30% of electricity generated in Alberta to be generated by renewable power generation, such as wind or solar.
- (iv) **Continuation of Alberta's competitive electricity market, and fair treatment of affected companies.** The Climate Plan will be implemented with policies that fit with Alberta's electricity market. In addition, the coal phase out and renewables incentives will be implemented with regard to managing cost and reliability. The Government of Alberta also announced that it would ensure that workers, communities and affected companies are treated fairly, and that capital would not be unnecessarily stranded. An independent facilitator will be appointed to help the Government of Alberta develop and implement the Climate Plan with respect to the coal phase out and the fair treatment of affected stakeholders.

In addition to policies that directly impact the electricity sector, the Climate Plan includes (i) an economy-wide carbon tax beginning January 1, 2017, calculated using product-based emission performance standards, or at the distributor and importer stage for transportation and heating fuels, and (ii) a cap on oil sands emissions of 100 million tonnes of GHG emissions per year. The Climate Plan indicated the new carbon tax mechanism would replace the current SGER. See "Business of Capital Power – Environmental Regulation – Alberta – Greenhouse Gas Regulation".

The process for designing, consulting on, and implementing the regulations and legislation required to achieve the Climate Plan are yet to be announced. This includes the nature, amount and timing of any compensation to be received by Capital Power and other owners of Alberta coal-fired power and as a result of the 2030 coal retirement deadline, or the nature, form and amount of any incentives for new renewable power generation in Alberta. Capital Power continues to actively engage with the Government of Alberta regarding development of the Climate Plan.

Greenhouse Gas Regulation

SGER came into force on August 1, 2007. SGER is applicable to all facilities in Alberta that produce over 100,000 tonnes of GHG, measured as CO₂e, per year. The Government of Alberta recognizes three alternative mechanisms for compliance with this regulation:

- (i) reduce actual emission intensity below the applicable net emissions intensity limit permitted by SGER, or purchase or use emission performance credits awarded to owners of facilities who reduce emission intensity below the regulated requirement;
- (ii) payment into the Government of Alberta Climate Change Emission Management Fund (currently set at \$15 per tonne, and increasing to \$20 per tonne in 2016 and \$30 per tonne in 2017) for all emissions in excess of the emission intensity target; or
- (iii) purchase of GHG emissions offsets created from Alberta based projects.

SGER imposes a CO₂e intensity reduction of 12% from the average CO₂e emissions intensity based on the 2003 to 2005 period. On June 25, 2015, the Government of Alberta announced that the CO₂e intensity reduction requirement under SGER would increase from 12% to 15% in 2016, and increase again to 20% in 2017. The Government of Alberta also announced that payments into the Climate Change Emission Management Fund would increase to \$20 per tonne in 2016 and \$30 per tonne in 2017. The approximate cost of compliance with SGER for Genesee 1 & 2 is expected to be \$6.8 million for the 2015 reporting period. The majority of these costs are recoverable from the PPA buyer under the terms of the PPA. The cost of compliance is estimated to be approximately \$11 million for 2016 emissions and \$27 million per year thereafter to 2020, based on the 2014 final emissions intensity which will also be recoverable from the PPA buyer. The approximate cost of compliance with SGER for Clover Bar for the 2015 reporting period is expected to be approximately \$0.2 million.

Conversely as Capital Power is the PPA buyer for the Sundance PPA the compliance costs associated with SGER for these units are passed through to Capital Power in proportion to its ownership interest. The 2015 cost of compliance to Capital Power under the Sundance PPA is expected to be approximately \$4.5 million.

Genesee 3 was subject to GHG reduction targets under SGER starting in 2009 at 2% and increasing at a rate of 2% per year to a maximum of 12%. Under SGER, Genesee 3 is now subject to a CO₂e intensity reduction target of 12%. The cost of compliance with SGER for Genesee 3 is expected to be approximately \$3.5 million for the 2015 reporting period representing Capital Power's 50% interest.

The Keephills 3 plant is subject to SGER, and was subject to its first year of CO₂e intensity reduction at 2% below the baseline under SGER. The cost of compliance is expected to be approximately \$0.2 million in the 2015 reporting period, representing Capital Power's 50% interest.

Capital Power is also required to reduce its share of Genesee 3 and Keephills 3 GHG emissions by approximately 53% pursuant to Clause 10 of EUB Decision 2001-111 (Clause 10) which forms part of the original operating approvals for Genesee 3 and Keephills 3. This reduction obligation is in addition to SGER obligations. The combined compliance obligation for Genesee 3 and Keephills 3 under Clause 10 is expected to be approximately \$0.3 million for 2015.

Capital Power has been acquiring offsets for over a decade and has entered into more than 35 offset purchase agreements across North America. Capital Power invested approximately \$10 million in Alberta SGER offsets in 2015 (2014 - \$15 million). Compared to purchasing credits through the Climate Change and Emission Management Fund, Capital Power's offset investments and use of offsets to meet its retirement obligation under SGER resulted in a savings of approximately \$2.5 million in 2015.

Air Emission Regulations

Capital Power is participating with industry, provincial government and ENGO stakeholders in the five-year Clean Air Strategic Alliance Review of the Alberta Electricity Framework (Alberta Framework). The review is part of the Alberta Framework recommendations to assess new emission control technologies for new units, update emission limits for new generation units, determine if emission limits for new substances are needed, review implementation progress and determine if the Alberta Framework is achieving its emission management objectives. The current review is also examining the difference between the definition of "end of life" for coal units under the Alberta Framework and the GHG Regulations.

In June 2014, a non-consensus report was provided to the Clean Air Strategic Alliance Board of Directors, and forwarded to the Government of Alberta. In August 2014, the Government of Alberta advised it was undertaking an interdepartmental review of the non-consensus report, but affirmed that pending the outcome of that review; the existing framework remains in effect.

The Alberta Framework review, and the Government of Alberta's consideration of the non-consensus report, may impact the electricity market in Alberta if the outcome of either process changes any material aspect of the current Alberta Framework particularly those relating to anticipated retirement dates for

existing coal-fired units. Capital Power is actively participating in consultations on this issue, and continues to assess what changes, if any, may be forthcoming and what impact, if any, there may be for Capital Power.

BC

The *Greenhouse Gas Reduction Targets Act* and the *Greenhouse Gas Reduction (Cap and Trade) Act* were enacted in 2008 to provide the statutory basis for establishing a market-based framework to reduce GHG emissions in BC. The Emissions Trading Regulation, which is necessary to establish the trading regime of the legislation, has not been developed. If the emission trading regime is developed, it will likely replace the \$30/tonne carbon tax to which Island Generation is currently subject.

There is not currently sufficient information regarding the BC cap and trade program for Capital Power to determine the potential impact of such program on Island Generation, however, environmental costs are passed through to BC Hydro for the term of the tolling arrangement.

United States

Greenhouse Gas Regulation

The United States Environmental Protection Agency (USEPA) and the State of California have implemented mandatory GHG reporting requirements. The USEPA program applies to Capital Power's North Carolina facilities. Capital Power did not sell electricity into the California market in 2014 or 2015, but was required to complete the reporting and verification requirements for the 2014 calendar year in 2015. With the reporting and verification for the 2014 electricity sales now complete, Capital Power will not have future reporting requirements in California.

The USEPA regulates GHGs under the *Clean Air Act*, which requires best available control technology (BACT) for new large GHG sources and major modifications of existing sources. To date, most state permitting agencies have ruled that energy efficiency is BACT for GHG. However, the USEPA has required several applicants to do exhaustive reviews regarding the feasibility of CCS. If Capital Power performs a major modification at an existing facility located in the United States it is likely that a BACT review will be required for GHG. Capital Power would likely propose energy efficiency as BACT. Based on current evidence, it is likely that most permitting agencies will accept this as BACT; however, the USEPA and other interveners could request that other options be considered. This requirement may affect future modifications at US facilities and must be considered at the time projects are being evaluated.

On August 3, 2015, the USEPA released its new source performance standards (NSPS) for new electricity generating units, which sets a national limit on the amount of carbon pollution that a power plant can emit. Since it only applies to new, modified and reconstructed sources, this rule does not impact the existing Capital Power fleet.

Also on August 3, 2015, the USEPA released the final Clean Power Plan (CPP) to regulate CO₂ emissions from existing power plants. The rule amends and finalizes the proposal released on June 2, 2014. The final CPP sets state-specific targets based on 2012 emission baselines that states must meet by 2030, as well as interim emission goals beginning in 2022. The final rule establishes both state-specific, mass-based goals in addition to rate-based goals expressed in pounds of CO₂ per MWh. The goals are based on a multi-factor analysis that reflects a "system-wide" approach, including coal plant efficiency improvements, natural gas re-dispatch, and renewable energy development. States are required to submit State Implementation Plans (SIPs) by September 6, 2016 with the possibility of a two-year extension until 2018. States that refuse or fail to submit a SIP by 2016 or by the extended compliance deadline in 2018 will be subject to the Federal Implementation Plan (FIP).

Several parties have filed legal challenges to the CPP. On February 9, 2016, the U.S. Supreme Court issued a ruling to stay implementation of the CPP until the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) rules on the merits of the CPP. The D.C. Circuit will hear arguments in June 2016, with a decision expected in late 2016 or early 2017. States will not be required to submit a

compliance plan or take any action under the CPP until a decision is issued. There is also the potential that the D.C. Circuit ruling on the merits will be appealed to the U.S. Supreme Court.

The North Carolina facilities are not covered by the CPP as it only applies to any steam generating unit that is capable of combusting at least 250 million Btu per hour.

Regional Greenhouse Gas Initiative (RGGI)

In 2008, ten states (Connecticut, Delaware, Maine, Massachusetts, Maryland, New Hampshire, New Jersey, New York, Rhode Island, and Vermont) launched the Regional Greenhouse Gas Initiative (RGGI), the first market-based regulatory program to reduce GHG emissions in the United States. In 2011, the State of New Jersey withdrew from RGGI. The RGGI states have established a regional cap on CO₂ emissions from power plants and will require power plants to possess a tradable CO₂ allowance for each tonne of CO₂ they emit.

Capital Power will continue to trade RGGI allowances as an environmental commodity.

Cross State Air Pollution Regulations

On July 6, 2011, the USEPA finalized the Cross-State Air Pollution Rule (CSAPR) which was intended to replace the USEPA's 2005 Clean Air Interstate Rule (CAIR). CSAPR requires a reduction in the amount of NO_x and SO₂ emissions from electric generating units that are transported to down-wind states, starting January 1, 2012. On August 21, 2012, the D.C. Circuit issued a decision vacating CSAPR. In April 2014, the U.S. Supreme Court reversed the D.C. Circuit decision and reinstated CSAPR and remanded the regulation back to the USEPA for implementation. The program was implemented on January 1, 2015, with Phase 2 beginning in 2017.

Capital Power's North Carolina power plants must comply with CSAPR requirements and buy and retire NO_x and SO₂ credits. The estimated 2015 cost of such credits is less than \$0.2 million.

National Emission Standards for Hazardous Air Pollutants

On December 21, 2012 the USEPA finalized changes to the National Emission Standards for Hazardous Air Pollutants for new and existing sources for Major Source Industrial, Commercial, and Institutional Boilers and Process Heaters (Boilers MACT). USEPA also finalized revisions to the Non-Hazardous Secondary Material Rule to provide clarity on what types of secondary material are considered non-waste fuels and provide greater flexibility in rule implementation. This final rule classifies a number of secondary materials as categorical non-wastes when used as a fuel.

The proposed federal Boilers MACT rule will apply to the North Carolina facilities in the future, but since both facilities were issued state case-by-case MACT limits by North Carolina, they will likely not be required to comply with the federal Boilers MACT until May 2019.

Health, Safety and Environment and Social Policies

Health, Safety and Environment Policy

As an IPP, Capital Power's activities with respect to the construction, operation, and maintenance of power generation and related facilities can present significant risks to human health and safety, and to the environment, if not properly managed. The Board therefore passed a Health, Safety and Environment Policy (HSE Policy) for the purpose of creating, implementing, and maintaining a policy framework which enables minimization of occupational injury and illness and negative impacts to the environment, by ensuring:

- compliance with all applicable laws and regulatory requirements;

- proactive administration and management of health, safety and environment-related risks within Capital Power's operations, maintenance and construction activities;
- continuous review and improvement of the HSE Policy and the related policy framework;
- appropriate goals and monitoring of performance in respect of those goals;
- alignment of contractors with the HSE Policy; and
- promotion of a zero-injury culture, healthy lifestyles, and environmental responsibility to foster and support excellence in Capital Power's health, safety and environment (HSE) performance.

Every employee and contractor of Capital Power is responsible for Capital Power's HSE performance, and the health and safety of themselves and their fellow employees.

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

Capital Power has implemented a contractor pre-qualification standard which requires that contractors' HSE policies, procedures, controls and performance be evaluated in accordance with Capital Power's Contractor Safety Prequalification Standard. Contractors are graded on their HSE policies, procedures, controls and performance by an independent third party. Depending on the rating, a gap analysis and risk mitigation plan may be required for some contractors.

Board approved HSE performance indicators are established annually to promote Capital Power's HSE stewardship.

Health, Safety and Environment Initiatives

In order to manage HSE risks and promote a zero-injury and environmentally responsible culture, Capital Power engages in the following activities:

- Conducts regular HSE audits of its operations and construction activities, tracking items of non-compliance and reporting on progress to the HSE Committee of the Board.
- Requires, and encourages the reporting of hazards and near miss events. These events are tracked and analysed for trends, and preventative actions are taken as a result of those trends.
- Delivers ongoing HSE training to all employees of Capital Power. Training is required for all employees in field or operating positions and the completion of such training is tracked and monitored by Capital Power.
- Regularly reviews and circulates HSE regulatory updates to ensure awareness of upcoming regulatory changes.

Specific environmental initiatives include the following activities:

- Capital Power is a corporate sponsor of the University of Alberta's \$21 million Canadian Centre for Clean Coal, Carbon and Mineral Processing Technologies in the Faculty of Engineering, where the next generation of clean energy engineers are developing new technologies to process minerals, produce clean coal and reduce GHG emissions.
- Capital Power is an industry partner to the National Sciences and Engineering Research Council of Canada Industrial Research Chair in Strategic Construction Modelling and Delivery held by Dr.

Aminah Robinson Fayek, a Professor in the Department of Civil and Environmental Engineering at the University of Alberta. Dr. Robinson Fayek's research program combines fuzzy logic theory with other forms of uncertainty modelling, artificial intelligence, and simulation techniques to develop advanced decision support systems for construction management. Capital Power has been working with Dr. Robinson Fayek and her research team to develop the fuzzy contingency determination model and software tool which has been implemented within Capital Power's systems to advance our internal risk and opportunity assessment processes.

- Capital Power continues to participate in the Canadian Clean Power Coalition, an industry consortium that researches new technologies with the goal of developing and advancing commercially viable solutions that reduce emissions.
- Capital Power continues to serve on the Board of the West Central Airshed Society (WCAS). The WCAS monitors and promotes effective management of air quality within the airshed zone. The zone is approximately 46 thousand square kilometres and spans from the western boundary of the Edmonton city limits to the BC border.
- Capital Power co-chairs the Air Issues Steering Committee (AISC). The AISC is a committee of the Canadian Electricity Association (CEA) Generation Council (GC) and is comprised of GC company representatives. The committee serves to monitor, engage with, and respond to federal government initiatives and policies regarding climate change and air quality issues. The AISC worked closely with the Federal Government on the reduction of CO₂ emissions from coal-fired generation of electricity regulations, the Canadian Ambient Air Quality Standards, and the Base Level Industrial Emissions Requirements.
- Capital Power continues to engage in land reclamation activities in order to reclaim land no longer needed with respect to the mining operations of the Genesee coal mine, and, to date environmental work at Genesee coal mine has returned about 944 hectares (33% of the total surface area at the Genesee coal mine) of previously mined area into productive farm land and wildlife habitat.
- Capital Power's Halkirk and PDN wind facilities monitor bird and bat impacts through a bird and bat monitoring program. In attempts to proactively mitigate bird and bat impacts, Capital Power has implemented a number of operational enhancements such as; a bat mitigation system which feathers turbines during active bat periods, and has also looked into scheduling outages to coincide with the primary bat migration periods.
- A long-term biomonitoring program at the Genesee facilities is one of the largest programs of its kind in Canada. Since 2004, its air, water and wildlife studies have found no significant changes in natural water bodies or air ambient quality.
- The use of biomass and tire-derived fuel has increased over the past four years. Capital Power's Roxboro and Southport facilities optimized their fuel mix for increased consumption of biomass and tire-derived fuel and decreased their consumption of coal.

Specific health and safety initiatives include:

- Ten Life Safety Critical Rules were set and communicated to the organization in 2015. The Life Safety Critical Rules are intended to prevent actions which have the potential to result in a fatality or serious injury, and help Capital Power achieve its goal of zero injury.
- A Root Cause Analysis (RCA) Committee which serves to ensure incident investigations are completed in a timely manner, completed at a level appropriate for the incident, validate the RCA findings, and action plans, and share learnings across the organization.

- All of Capital Power's offices, operating facilities and construction sites have health and safety committees with management and workers as members.
- Construction and operations crews hold daily safety meetings to review hazards of their tasks and identify additional control measures which may be required.
- Capital Power regularly reviews and circulates industry safety information to personnel in the operations and construction groups to provide additional learning opportunities.
- HSE Improvement Plans were implemented at all facilities and for the Construction and Engineering Group.
- Implementation of a Contractor Pre-Qualification Standard and the corresponding use of ISNetworld as the measurement tool for contractor performance
- An executive inspection program whereby members of the executive team conduct site visits and inspections.

Personnel

As at December 31, 2015, the total number of persons employed by Capital Power is 698. As at December 31, 2015, approximately 596 full-time, part-time, temporary and casual employees work in Capital Power's Canadian operations and 102 work in Capital Power's US operations.

There are three Canadian labour unions, in four bargaining units, which together represent approximately 40% of Capital Power's Canadian labour force and approximately 34% of Capital Power's overall work force. The bargaining units are:

- the Civic Service Union (CSU) 52, which represents administrative, technical, professional and information technology employees located in the Edmonton corporate office and Genesee power plant;
- the International Brotherhood of Electrical Workers (IBEW) Local 1007, which represents electrical, instrument and mechanical tradesmen, coal plant operators, equipment and crane operators, utility workers, tool servicemen and related employees at the Genesee power plant;
- the UNIFOR Local 829, which represents power engineers at the Genesee power plant; and
- the UNIFOR Local 1123, which represents shift engineers, electrical and instrumentation technicians and mechanical maintenance technicians at Island Generation.

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

Bargaining Unit	Location	Effective Date	Expiry date
CSU 52	Edmonton, AB	November 17, 2015	December 23, 2018
IBEW Local 1007	Edmonton, AB	October 21, 2012	December 12, 2015
UNIFOR Local 829	Edmonton, AB	March 28, 2014	December 24, 2016
UNIFOR Local 1123	Campbell River, BC	May 1, 2015	April 30, 2021

Collective bargaining with IBEW Local 1007 is scheduled to occur by spring 2016. All existing terms, conditions and wage rates in the expired collective agreement will continue in force and effect until a new collective agreement is established.

REGULATORY OVERVIEW

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

Alberta

Since January 1, 1996, new generation capacity initiatives in Alberta have been undertaken by IPPs and are subject to market forces, rather than rate regulation. Regulated generating units, including those owned and operated by Capital Power, became subject to PPAs that were auctioned by the Government of Alberta to buyers in 2000. The Balancing Pool also assumed the responsibilities of "PPA Buyer" for those generating units that were subject to a PPA not acquired in the initial 2000 auction, including Genesee 1 & 2. Power from PPA generating units and merchant generation is cleared through a wholesale electricity market. Power is dispatched in accordance with an economic merit order administered by AESO, based on offers by generators to sell power. The MSA is an independent entity responsible for monitoring the behaviour of market participants, including AESO and the Balancing Pool, investigating behaviour that may not be consistent with the fair, efficient and openly competitive operation of the market and enforcing compliance with all applicable legislation, regulations, and AESO and AUC rules. The AUC oversees electricity industry matters including approvals for construction and operation of new power plant and transmission facilities, and regulated rates for transmission, distribution and sale of electricity as well as retail natural gas. The AUC is also responsible for approving AESO rules, for considering complaints and objections filed in respect of AESO rules, and for determining penalties and sanctions on any participant found to have contravened market rules.

The *Responsible Energy Development Act* created a single regulator, the AER, which became operational in June 2013. The AER is responsible for all oil, gas, oil sands and coal mining projects in the Province, combining certain responsibilities previously assigned to the ERCB and Alberta Environment. The AER oversees energy development projects from the application through the reclamation phases of project development. Capital Power's coal mining related activities are subject to oversight by the AER.

On November 22, 2015, the Government of Alberta announced its Climate Plan discussed above. See "Business of Capital Power – Environmental Regulation – Alberta – Climate Change Strategy" for details on the measures announced in the Climate Plan that will directly impact the electricity sector in Alberta.

Transmission Issues

Under amendments to the EUA introduced in 2009 as Bill 50, the Government of Alberta was empowered to designate certain transmission projects as critical infrastructure, and approve the need for such facilities. Bill 50 identified and described five projects deemed as critical transmission infrastructure (CTI) projects, including two North-South transmission reinforcement projects that would increase transmission capacity between the Edmonton and Calgary regions. These two projects are known as the West Alberta Transmission Line (WATL) and the East Alberta Transmission Line (EATL). The AUC remains responsible for reviewing and approving other aspects of critical transmission infrastructure projects.

Amendments to the EUA enacted in December 2012 repealed Bill 50, but grandfathered the existing CTI projects. The WATL and EATL lines were both commissioned in December 2015. The existing CTI projects will increase the capacity and reliability of the transmission system and address transmission congestion that could arise between the areas of Alberta where Capital Power's generating stations are located and the loads drawing on the system.

The Alberta Government has also implemented changes to enhance the scrutiny by the AUC of the costs associated with new power lines. Amendments to the Transmission Regulation, and a Transmission

Deficiency Regulation, which include provisions for approved cost estimate, a cost oversight management function and improved cost reporting, were approved in September 2014. Both the CTI projects referred to above and additional transmission work required to carry electricity within Alberta are costly. The increased scrutiny of these costs should ensure that the costs associated with transmission facilities are reasonable in the circumstances. If the costs are too high, some customers may choose to leave the system by producing their own electricity on-site.

MSA State of the Market Report

In December 2012, the MSA released a State of the Market report that assessed the state of competition and Alberta's wholesale electricity market and ancillary services markets. The key conclusions of the report were that the Alberta wholesale market is effectively competitive, that dynamic efficiency gains more than offset static efficiency losses, and that volatility in Alberta's wholesale market pricing is expected and necessary to provide an investment signal. The MSA also commented that there is no need for substantive changes to the policy framework or the MSA's enforcement framework. Capital Power was and remains supportive of the conclusions of the MSA State of the Market report in these respects.

As part of the December 2012 report, the MSA also advised it did not intend to produce another State of the Market report until 2015. However, given other initiatives and activities, the MSA did not undertake an update of the State of the Market report in 2015. It is not clear at this time when, or if, the MSA plans to undertake another State of the Market review.

Transmission Line Losses

In Alberta, the costs associated with transmission losses on the Alberta Interconnected Electric System are charged to generators in accordance with a methodology established by the AESO. The AESO's line loss methodology was implemented in January 2006 and updated in January 2008. Under the line loss methodology, the AESO calculates location-specific loss factors for generators or groups of generators that can be charges or credits, and that must fall within a range prescribed by the Transmission Regulation. All of Capital Power's generating facilities are assigned loss factors pursuant to the line loss methodology.

The AESO line loss methodology for the 2006-2008 period was challenged by a third-party and found not to comply with the requirements of the Transmission Regulation. In a decision issued in January 2015, the Commission ruled that the post-2008 line loss rule also did not comply, and also that it has the authority to order a remedy or relief to correct for the payment or receipt of line loss charges included in the AESO tariff from January 1, 2006 to the date a new rule goes into effect. A proceeding to determine what loss factor methodology to use for relevant periods was held in 2015. In November 2015, the AUC issued a decision that established principles and a general framework for a new loss factor methodology, and directed the AESO to consult with stakeholders regarding design and implementation of the new methodology. The AESO is expected to file the new methodology by the end of 2016.

Given ongoing uncertainty over the particulars of the new methodology that will ultimately be approved by the AUC, and the extent to which this methodology will be adopted for the purposes of determining potential retroactive adjustments, Capital Power's potential exposure to retroactive charges is unquantifiable at this time. Issues regarding potential retroactive adjustments will be considered as part of a proceeding for which the AUC has yet to establish a schedule. Capital Power will continue to pursue legal and regulatory measures to mitigate any potential exposure.

Transmission Constraint Management

As described above, in Alberta, power is dispatched in accordance with an economic merit order administered by the AESO, based upon offers by generators to sell power. Where real-time transmission constraints preclude the offer that would otherwise have been dispatched, the AESO applies its Transmission Constraints Management Rule (TCM Rule) to dispatch the next available offer that is unaffected by the constraint, which then sets the price.

In April 2015, the AUC approved a new TCM Rule that it had directed the AESO to develop to address concerns with the previous rule. The new TCM Rule took effect in November 2015. The new TCM Rule does not affect the manner in which the AESO dispatches generators, which is still based on economic merit order, though it does impact how pool prices are set during instances of congestion. Under the new TCM Rule, pool price is established as if the transmission system were unconstrained and any generator that is dispatched to resolve the constraint is paid an uplift equal to the difference between the pool price and their offer. The costs associated with any uplift payments are recovered from consumers via the AESO Tariff.

The new TCM Rule may have an impact on pool price dynamics, including price levels and volatility. However, the magnitude and duration of any impacts in these respects will depend on the location, frequency and duration of congestion events, which will vary. Capital Power updated its settlement and other internal processes and systems in advance of implementation of the new TCM, and will update its forecasting and portfolio management processes and approaches as appropriate to reflect new market dynamics that may arise under the new TCM Rule.

Ontario

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

Capital Power has ownership interests in three wind projects in Southern Ontario. Kingsbridge 1 was developed pursuant to Ontario's Renewable Energy Supply (RES) program, which allowed for long term power purchase agreements for wind facilities. PDN began commercial operations in November 2013 and K2 began commercial operations in May 2015. Both PDN and K2 were awarded PPAs pursuant to a FIT program. The FIT program, originating from the 2009 *Green Energy Act*, provides standard program rules, standard contracts and standard pricing for classes of renewable energy.

Given the speed of investment in wind projects under the FIT program, and the relative inflexibility of existing nuclear and hydro resources, the IESO has implemented rule changes through which wind resources would be dispatched down after a predetermined amount of flexible nuclear energy during periods of surplus baseload generation. The rule changes were approved by the IESO Board on November 29, 2012. The SE-91 rule for wind resources was implemented on October 1, 2013. As the revenue from both RES and FIT contracts with the OPA is paid for energy delivered, any dispatch down of wind resources due to surplus baseload generation events will have a negative impact on contracted revenue. Capital Power and other developers under both RES and FIT contracts were able to reach agreement with the OPA for non-material annual and contract caps for the amount of curtailment.

Ontario 2013 Long Term Energy Plan

In December 2013, the Ontario Government released its updated Long Term Energy Plan (the 2013 LTEP), entitled "Achieving Balance." The 2013 LTEP balances five principles established by the Ontario Government to guide future decisions: cost-effectiveness, reliability, clean energy, community engagement, and an emphasis on conservation and demand management before building new generation.

The 2013 LTEP expects that 20,000 MW of renewable energy will be online by 2025, representing nearly half of Ontario's installed capacity. In support of this objective, Ontario committed to phase in wind, solar and bioenergy over a longer time period, with 10,700 MW online by 2021, and will increase the province's hydroelectric portfolio to 9,300 MW by 2025. Ontario has undertaken various procurement processes to achieve the targets established under the 2013 LTEP. A Large Renewable Procurement II ("LRP II") process is expected to be initiated in 2016 that may present opportunities for Capital Power.

The Ontario Government is also expected to commence consultations in 2016 regarding a new Long Term Energy Plan ("LTEP"). Capital Power will participate in the LTEP consultations to assess potential opportunities for future development.

BC

BC's electricity is provided primarily by BC Hydro, a Crown corporation that is regulated by the BCUC. BC Hydro's transmission operations are also regulated by the BCUC. Electricity is traded with other markets through BC Hydro's trading arm and wholly owned subsidiary, Powerex Corporation.

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

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

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

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

As part of the natural gas and LNG strategies, and also in response to a recommendation of the BC Hydro Review Panel, the BC Government announced it would redefine BC's existing self-sufficiency policy. In November 2013, BC Hydro filed its latest IRP (2013 IRP), which was approved by the Government of BC. The 2013 IRP includes several recommendations relating to BC Hydro's potential future procurement or consideration of both renewable and natural gas-fired generation that may present opportunities for Capital Power.

In December 2014, the BC Government announced that it was proceeding with development of Site C, a 1,100 MW hydro-electric generating facility that would be constructed, owned and operated by BC Hydro. Capital costs of the project are estimated to be approximately \$8.8 billion; construction started in the summer 2015 and a commercial in-service is expected by 2024. The development of Site C may impact the timing and nature of future development opportunities in BC.

United States

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

US Energy Industry Regulatory Matters

FERC Jurisdiction

Unless otherwise exempt, any person that owns or operates facilities used for the wholesale sale or transmission of electric energy in interstate commerce is a public utility subject to FERC's jurisdiction. FERC has extensive ratemaking jurisdiction and other authority with respect to interstate wholesale sales and transmission of electric energy under the FPA and with respect to certain interstate sales,

transportation and storage of natural gas under the *US Natural Gas Act* of 1938 (NGA), as amended, and the *US Natural Gas Policy Act* of 1978 (NGPA), as amended. FERC also maintains certain reporting requirements for public utilities and regulates, among other things, the disposition and acquisition of certain assets and securities, the holding of certain interlocking directorate positions, and the issuance of securities by public utilities.

FERC mandates open access for transmission service in the US. A series of orders issued by FERC since 1996 have: i) unbundled utilities' transmission and generation services; ii) required those utilities to offer eligible entities open access to utility transmission facilities on a basis comparable to the utilities' own use of the facilities; and iii) set out standards for Regional Transmission Organizations (RTOs). RTOs are voluntary organizations operated by ISOs independent of market participants. RTOs perform planning, operations, and transmission services on a regional instead of utility specific basis. ISOs/RTOs serve two thirds of the wholesale power markets in the US. The six FERC-approved RTOs in the United States include: ISO-NE, New York ISO, PJM Interconnection, the Midwest ISO, the Southwest Power Pool and the California ISO. In addition, FERC approval is required for wholesale sales of power at market based or cost-based rates. This approval is granted if FERC finds that the seller and its affiliates lack market power in generation and transmission, that the seller and its affiliates cannot erect other barriers to market entry and the seller and its affiliates comply with certain affiliate restrictions. This authorization is subject to revocation by FERC if such companies fail to continue to satisfy FERC's current or future criteria for market based rate authority or to modification if FERC restricts the ability of wholesale sellers of power to make sales at market based rates. All of Capital Power's power marketer affiliates are currently authorized by FERC to make wholesale sales of power at market-based rates.

Independent System Operators

FERC has the authority to enforce the statutes it is responsible for implementing and the regulations it issues under those statutes. It is empowered to impose civil penalties of up to US \$1 million per day per violation for violations of the NGA, NGPA and Part II of the FPA, with the potential of criminal fines and imprisonment for violations. FERC is also responsible for certification of power plant facilities operating in the wholesale markets. The North American Electric Reliability Corporation (NERC) establishes and enforces reliability standards applicable to all owners, operators and users of the bulk power system. NERC standards are reviewed by FERC and thus are subject to FERC's enforcement authority.

North Carolina

Most of North Carolina is not part of an RTO or ISO. Thus, in most areas of the state, all transactions are bilateral and must be scheduled through the incumbent utility. Capital Power has three facilities in North Carolina, Southport, Roxboro and Beaufort Solar, which are in the non-RTO part of North Carolina. All three plants are QFs under the *Public Utilities Regulatory Policies Act* of 1978 that incentivizes energy efficiency through use of cogeneration and renewable energy.

New Mexico

Most of New Mexico is not part of an RTO or ISO. Thus, in most areas of the state, all transactions are bilateral and must be scheduled through the incumbent utility. Capital Power owns one facility in New Mexico, Macho Springs, which is a 50 MW wind-powered facility located in Luna County, New Mexico that is located in the El Paso Electric Company (EPE) balancing authority area; the non-RTO part of the state. Macho Springs is interconnected with transmission facilities owned by EPE, and all of the output is sold to Tucson Electric Power pursuant to a long-term power purchase agreement. Macho Springs is an exempt wholesale generator that is authorized to sell energy, capacity, and ancillary services at market-based rates.

RISK FACTORS

A discussion of the risk factors relating to Capital Power and its business and operations can be found in the section entitled "Risks and Risk Management" in the Company's MD&A for the year ended December 31, 2015 which section is incorporated herein by reference and is available on SEDAR.

COMMON AND PREFERRED DIVIDENDS

Common Dividends

On July 27, 2015, the Company announced a 7.4% dividend increase for its common shares effective for the third quarter 2015 dividend. The annualized dividend increases from \$1.36 to \$1.46 per common share. On July 25, 2014, the Company announced a 7.9% increase in the annualized dividend from \$1.26 to \$1.36 per common share effective for the third quarter 2014 dividend. The Board has authorized the declaration and payment of the current annual dividend of \$1.46 per Common Share, to be paid to holders of Common Shares on a quarterly basis. The payment of dividends is not guaranteed, however, and the amount and timing of any future dividends will be at the discretion of the Board after taking into account such factors as the Company's financial condition, results of operations, distributions from CPLP, current and anticipated cash needs, the requirements of any future financing agreements and other factors that the Board may deem relevant. On March 25, 2015, the Company announced the suspension of its dividend reinvestment plan (DRIP) effective for the second quarter 2015 dividend. The DRIP was launched in January 2012. See "Common and Preferred Dividends – Dividend Reinvestment Plan". The following dividends have been declared on the Common Shares for the three most recently completed financial years:

Dividends Declared	
Declaration Date	Dividend per Share
1 Mar 13	\$0.315
26 Apr 13	\$0.315
26 Jul 13	\$0.315
20 Nov 13	\$0.315
28 Feb 14	\$0.315
25 Apr 14	\$0.315
25 Jul 14	\$0.340
20 Nov 14	\$0.340
25 Feb 15	\$0.340
24 Apr 15	\$0.340
27 Jul 15	\$0.365
18 Nov 15	\$0.365

Remainder of page intentionally left blank

Preferred Dividends

From issuance, the Series 1 Shares paid fixed cumulative dividends of \$1.15 per share per annum, yielding 4.60% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the initial five-year period ending December 31, 2015.

On December 31, 2015, the annual fixed dividend rate on the Series 1 Shares was reset pursuant to their terms to 3.06% for the next five-year period ending December 31, 2020. The fixed cumulative dividends will be \$0.765 per share per annum during this five-year period.

The following dividends have been declared on the Series 1 Shares for the three most recent completed financial years:

Dividends Declared	
Declaration Date	Dividend per Share
1 Mar 13	\$0.2875
26 Apr 13	\$0.2875
26 Jul 13	\$0.2875
20 Nov 13	\$0.2875
28 Feb 14	\$0.2875
25 Apr 14	\$0.2875
25 Jul 14	\$0.2875
20 Nov 14	\$0.2875
25 Feb 15	\$0.2875
24 Apr 15	\$0.2875
27 Jul 15	\$0.2875
18 Nov 15	\$0.2875

The Series 3 Shares pay fixed cumulative dividends of \$1.15 per share per annum, yielding 4.60% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the initial five-year period ending December 31, 2018.

Remainder of page intentionally left blank

The following dividends have been declared on the Series 3 Shares since the date of issuance of such shares:

Dividends Declared	
Declaration Date	Dividend per Share
1 Mar 13	\$0.3151 ⁽¹⁾
26 Apr 13	\$0.2875
26 Jul 13	\$0.2875
20 Nov 13	\$0.2875
28 Feb 14	\$0.2875
25 Apr 14	\$0.2875
25 Jul 14	\$0.2875
20 Nov 14	\$0.2875
25 Feb 15	\$0.2875
24 Apr 15	\$0.2875
27 Jul 15	\$0.2875
18 Nov 15	\$0.2875

Note:

(1) Initial quarterly dividend represents the period from December 18, 2012 (the date of issuance of the Series 3 Shares) to March 31, 2013.

The Series 5 Shares pay fixed cumulative dividends of \$1.125 per share per annum, yielding 4.50% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the initial five-year period ending June 30, 2018.

Remainder of page intentionally left blank

The following dividends have been declared on the Series 5 Shares since the date of issuance of such shares:

Dividends Declared	
Declaration Date	Dividend per Share
26 Apr 13	\$0.3329 ⁽¹⁾
26 Jul 13	\$0.28125
20 Nov 13	\$0.28125
28 Feb 14	\$0.28125
25 Apr 14	\$0.28125
25 Jul 14	\$0.28125
20 Nov 14	\$0.28125
25 Feb 15	\$0.28125
24 Apr 15	\$0.28125
27 Jul 15	\$0.28125
18 Nov 15	\$0.28125

Note:

(1) Initial quarterly dividend represents the period from March 14, 2013 (the date of issuance of the Series 5 Shares) to June 30, 2013.

Dividend Reinvestment Plan

Effective January 1, 2012, the Company launched a DRIP. Eligible shareholders were able to elect to participate in the DRIP commencing with the Company's first quarter 2012 cash dividend on its Common Shares. The DRIP provides eligible shareholders with an alternative to receiving their quarterly cash dividends on Common Shares. Under the DRIP, eligible shareholders that so elect accumulate additional Common Shares by reinvesting their quarterly cash dividends on the applicable dividend payment date in new Common Shares issued from treasury. Participation in the DRIP is optional. Those shareholders who did not enrol, or have not enrolled, in the DRIP are still entitled to receive their quarterly cash dividends on their Common Shares.

On July 25, 2014, the Company announced a reduction in the discount percentage for its DRIP. Eligible common shareholders were allowed to purchase additional Common Shares at a 5% discount to the average market price by reinvesting their dividends. The discount rate was reduced to 3% effective with the third quarter 2014 dividend.

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

Since the Company's DRIP was introduced and as of December 31, 2015, 4,620,108 Common Shares have been issued pursuant to the DRIP at a weighted average price of \$22.57. To date, no pro-ration has occurred. The DRIP was suspended effective for the second quarter 2015 dividend.

CAPITAL STRUCTURE

Capital Power Corporation

The Company's authorized share capital consists of an unlimited number of Common Shares, an unlimited number of Preference Shares issuable in series, an unlimited number of Special Voting Shares and one Special Limited Voting Share. As of December 31, 2015, there were 97,379,843 Common Shares, 5 million Series 1 Shares, 6 million Series 3 Shares, 8 million Series 5 Shares, no Special Voting Shares and one Special Limited Voting Share outstanding.

Common Shares

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

The Special Voting Shares were issued in relation to the Exchangeable LP Units of CPLP. All of the Exchangeable LP Units have been exchanged for Common Shares, and in connection therewith the Special Voting Shares were redeemed. No Special Voting Shares are issued and outstanding. See "Capital Structure – Capital Power Corporation – Special Voting Shares".

Normal Course Issuer Bid

On March 25, 2015, the Company announced that the Toronto Stock Exchange had approved the Company's normal course issuer bid to purchase and cancel up to 5,000,000 of its outstanding Common Shares during the one-year period from April 7, 2015 to April 6, 2016.

On November 27, 2015, the Company announced that the Toronto Stock Exchange had approved an amendment to the Company's normal course issuer bid in order to permit the Company to purchase and cancel up to 8,369,838 of its outstanding Common Shares during the one-year period from April 7, 2015 to April 6, 2016. This was an increase of 3,369,838 common shares from the 5,000,000 common shares approved in March 2015.

Pursuant to the rules of the Toronto Stock Exchange, the maximum number of Common Shares that could be purchased during the same trading day on the Toronto Stock Exchange was 57,972 Common Shares (being 25% of the average daily trading volume of Common Shares for the six months preceding the date of the normal course issuer bid notice to the Toronto Stock Exchange, which was equal to 231,890 Common Shares), subject to certain exceptions for block repurchases.

Purchases were made on behalf of the Company by a registered broker through the facilities of the Toronto Stock Exchange at prevailing market prices pursuant to the rules of the Toronto Stock Exchange governing normal course issuer bids and/or through alternative Canadian trading platforms or otherwise as permitted by the Toronto Stock Exchange or an applicable securities regulatory authority.

As of December 31, 2015, the Company had purchased 5,880,736 Common Shares at a weighted average price of \$20.4430.

Preference Shares

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

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

On March 14, 2013, the Company issued 8,000,000 Series 5 Shares at a price of \$25.00 per Series 5 Share for aggregate gross proceeds of \$200 million.

The Series 5 Shares pay fixed cumulative dividends of \$1.125 per share per annum, yielding 4.50% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the initial five-year period ending June 30, 2018. The first quarterly dividend of \$0.3329 per share was paid on June 28, 2013. The dividend rate will reset on June 30, 2018 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.15%. The Series 5 Shares will be redeemable by the Company on June 30, 2018 and on June 30 every fifth year thereafter.

The holders of Series 5 Shares will have the right to convert their shares into Series 6 Shares, subject to certain conditions, on June 30, 2018 and on June 30 of every fifth year thereafter. The holders of Series 6 Shares will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board, at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate and 3.15%.

On December 18, 2012, the Company issued 6,000,000 Series 3 Shares at a price of \$25.00 per Series 3 Share for aggregate gross proceeds of \$150 million.

The Series 3 Shares pay fixed cumulative dividends of \$1.15 per share per annum, yielding 4.60% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the initial five-year period ending December 31, 2018. The first quarterly dividend of \$0.3151 per share was paid on March 28, 2013. The dividend rate will reset on December 31, 2018 and every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 3.23%. The Series 3 Shares will be redeemable by the Company on December 31, 2018 and on December 31 every fifth year thereafter.

The holders of Series 3 Shares will have the right to convert their shares into Series 4 Shares, subject to certain conditions, on December 31, 2018 and on December 31 of every fifth year thereafter. The holders of Series 4 Shares will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board, at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate and 3.23%.

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

From issuance, the Series 1 Shares paid fixed cumulative dividends of \$1.15 per share per annum, yielding 4.60% per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the initial five-year period ending December 31, 2015. On December 31, 2015, the annual fixed dividend rate for the Series 1 Shares reset pursuant to their terms to a rate of 3.06% for the five-year period ending December 31, 2020. Therefore, the Series 1 Shares will pay fixed cumulative dividends of \$0.765 per share per annum, payable on the last business day of March, June, September and December of each year, as and when declared by the Board, for the five-year period ending December 31, 2020. The dividend rate will reset every five years thereafter at a rate equal to the sum of the then five-year Government of Canada bond yield and 2.17%.

The holders of Series 1 Shares had the right to convert their shares into Series 2 Shares, subject to certain conditions, on December 31, 2015. Following the December 16, 2015 conversion deadline for the Series 1 Shares, the holders of Series 1 Shares were not entitled to convert their shares into Series 2 Shares because the number of Series 1 Shares tendered for conversion was less than the 1,000,000 Series 1 Shares prescribed by the Company's articles of incorporation (as amended). Therefore, the Series 1 Shares did not convert to Series 2 Shares, and 5,000,000 Series 1 Shares remain outstanding and there are no outstanding Series 2 Shares. The holders will have another opportunity, in five years' time, to convert their Series 1 Shares to Series 2 Shares and will be entitled to receive quarterly floating rate cumulative dividends, as and when declared by the Board, on the last business day of March, June, September and December at a rate equal to the sum of the then 90-day Government of Canada treasury bill rate and 2.17%.

Special Voting Shares

Special Voting Shares were issued in relation to the Exchangeable LP Units for the purpose of providing voting rights with respect to the Company to the holders of Exchangeable LP Units. All of the Exchangeable LP Units and all of the Special Voting Shares were owned by EPCOR. The Exchangeable LP Units were exchangeable on a one-on-one basis for Common Shares of the Company.

Effective as of April 2, 2015, EPCOR exchanged all of its remaining Exchangeable LP Units for Common Shares, and sold 9.45 million Common Shares in a secondary offering. In connection with the exchange by EPCOR of all of its remaining Exchangeable LP Units, the Company redeemed all of the outstanding Special Voting Shares in accordance with their terms at a price per share equal to \$0.000001. **Therefore, there are no Special Voting Shares issued and outstanding.**

Holders of Special Voting Shares had the right, voting separately as a class, to nominate and elect either four or two directors to the Board, provided that, in effect, the holders of Special Voting Shares beneficially owned not less than 20%, or less than 20% but not less than 10%, respectively, of the Common Shares of the Company, including those issuable on the exchange of the Exchangeable LP Units.

In the case of the election of directors where the holder beneficially owned less than 10% of the Common Shares of the Company and on all other matters, the holders of Special Voting Shares voted together with the holders of Common Shares as a single class, subject to a maximum voting entitlement in certain circumstances.

Special Limited Voting Share

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

The articles of the Company provide that any amendment to the articles of the Company to change the place in which the "Head Office" (as defined in the articles) is located to a place other than the City of Edmonton in the Province of Alberta or to change in any way the definition of "Head Office" and the

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

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

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

EPCOR is also the holder of one special limited voting share of CPLPGP. The rights, privileges, restrictions and conditions of the special limited voting share of CPLPGP are substantially similar to those of the Special Limited Voting Share of the Company *mutatis mutandis*.

Debt Issuance

Effective December 18, 2015, the Company and CPLP completed the amendment of the Trust Indenture dated April 14, 2010 between CPLP and Computershare Trust Company of Canada as supplemented and amended from time to time (the Trust Indenture) and the exchange of all issued and outstanding 5.276% senior unsecured MTNs of CPLP due November 16, 2020 and all issued and outstanding 4.85% senior unsecured MTNs of CPLP due February 21, 2019 (the CPLP MTNs) for an equal principal amount of newly issued MTNs of the Capital Power having financial and other terms that are the same as those attached to the CPLP MTNs and benefiting from a guarantee provided by CPLP (the Note Exchange Transaction). Upon the completion of the Note Exchange Transaction, CPLP was released and discharged from all obligations under or in respect of the Trust Indenture and the CPLP MTNs. See "Capital Structure – Capital Power L.P. – Debt Issuance".

The Trust Indenture does not limit the aggregate principal amount of MTNs that may be issued thereunder. Additional MTNs maturing at varying dates and bearing interest at different rates, in each case as determined by Capital Power, may be issued under the Trust Indenture. Under the Trust Indenture, Capital Power is restricted from incurring additional indebtedness, making distributions or redeeming or repurchasing partnership interests or subordinated debt unless it has a debt-to-capitalization ratio of not more than 75% at the time of (and after giving effect to) such actions.

On June 15, 2011, Capital Power U.S. Financing LP (US Financing LP), an indirect subsidiary of CPLP, closed a US\$295 million private placement of senior notes (Senior Notes). The Senior Notes consist of two notes with 10 and 15-year terms. The 10-year Senior Note has a principal amount of US\$230 million that matures in June 2021 with a coupon rate of 5.21%. The 15-year Senior Note has a US\$65 million principal amount and matures in June 2026 with a coupon rate of 5.61%. The Senior Notes prohibit CPLP from making distributions if an event of default has occurred and is continuing, or would reasonably be expected to result from the distribution. In December 2015, the Company and CPLP asked the holders of the Senior Notes to approve an amendment to the Note Purchase Agreement dated June 15, 2011 among US Financing LP, as issuer, CPLP, as parent guarantor, and each of the purchasers thereunder (the Note Purchase Agreement) pursuant to which the Company will provide an additional parental guarantee of the obligations of US Financing LP under the Senior Notes and Note Purchase Agreement, will be substituted as the obligor for financial and reporting covenants (including the covenant to maintain a credit rating) under the Note Purchase Agreement and will also be substituted and/or added as the obligor for certain other covenants under the Note Purchase Agreement. The amendment will not impact the existing parental guarantee provided by CPLP, which will remain in place. The second amending agreement to the Note Purchase Agreement was executed on January 28, 2016.

Capital Power L.P.

Credit Facilities

CPLP's credit facilities include an extendible syndicated facility of up to \$700 million, with an accordion feature to increase the facility size by up to \$300 million, an extendible revolving club credit facility of up to \$300 million (both of which currently have an expiration date of July 9, 2020), and revolving demand credit facilities totalling \$220 million (the Credit Facilities).

In addition, CPLP has long-term debt payable to EPCOR issued in connection with the Reorganization pursuant to the Back-to-Back Credit Agreement between CPLP and EPCOR dated July 9, 2009 (the EPCOR Facility). See "Material Contracts – Back-to-Back Credit Agreement".

The syndicated facility, the club credit facility, and the EPCOR Facility require CPLP to meet certain financial covenants, including maintaining a consolidated senior debt to consolidated capitalization ratio of not more than 0.65 to 1.0 as at the end of any fiscal quarter. In addition, in the event that CPLP is assigned a credit rating by S&P that is less than BBB- or by DBRS that is less than BBB (low) (in each case assigned with a stable outlook), then CPLP must also maintain a ratio of consolidated EBITDA (earnings before interest, income tax, depreciation and amortization) to consolidated interest expense (each as defined in each of the credit agreements) of not less than 2.5 to 1.0 as at the end of each fiscal quarter. The syndicated facility, the club credit facility and the EPCOR Facility also prohibit CPLP from making distributions if an event of default has occurred and is continuing, or would reasonably be expected to result from the distribution.

In connection with the Note Exchange Transaction, the Company and CPLP, through an amending agreement, sought to amend and restate some of the terms of the Credit Facilities to have the Company added as a parental guarantor of the obligations of CPLP (and other borrowers thereunder) and to provide, among other things, that the Company will be subject to certain financial and other covenants contained therein (including any covenants to maintain a credit rating). As a result, financial covenant calculations would be calculated based on the Company's consolidated financial results and financial reporting obligations would be satisfied by provision of the Company's financial reports (rather than CPLP financial reports). The fourth amending agreement for the syndicated facility and the sixth amending agreement for the club credit facility were executed on January 28, 2016.

In connection with the Note Exchange Transaction, the Company and CPLP sought to amend and restate the terms of the EPCOR Facility to have the Company added as a parental guarantor of the obligations of CPLP and to provide, among other things, that the Company will be subject to certain financial and other covenants contained therein. As a result, financial covenant calculations would be calculated based on the Company's consolidated financial results and financial reporting obligations would be satisfied by provision of the Company's financial reports (rather than CPLP financial reports). The Amended and Restated Back-To-Back Credit Agreement was executed on January 28, 2016 to give effect to these changes.

Debt Issuance

On December 15, 2015, in connection with the Note Exchange Transaction, CPLP, as borrower, and the Company, as lender, entered into two intercompany subordinated debt agreements (the Subordinated Debentures), one for each series of MTNs affected by the Note Exchange Transaction, providing for loans from the Company to CPLP on terms that substantially mirror the terms of the MTNs issued by the Company pursuant to the Note Exchange Transaction. The Subordinated Debentures will be subordinated to the claims of senior unsecured lenders.

On March 14, 2013, after the Company completed its issuance of Series 5 Shares, the Company loaned \$193.7 million to CPLP, pursuant to a subordinated debt agreement. Under the terms of the subordinated debt agreement, CPLP is permitted to defer payment of all or part of the interest owing to the Company for one or more periods of up to five consecutive years. In addition, CPLP shall not pay or declare distributions on any of its outstanding partnership units at any time when interest owing under the subordinated debt agreement is being deferred by it.

On December 18, 2012, after the Company completed its issuance of Series 3 Shares, the Company loaned \$145 million to CPLP, pursuant to a subordinated debt agreement. Under the terms of the subordinated debt agreement, CPLP is permitted to defer payment of all or part of the interest owing to the Company for one or more periods of up to five consecutive years. In addition, CPLP shall not pay or declare distributions on any of its outstanding partnership units at any time when interest owing under the subordinated debt agreement is being deferred by it.

On February 21, 2012, CPLP issued \$250 million principal amount of 4.85% senior unsecured MTN's due February 21, 2019 pursuant to the Trust Indenture dated April 14, 2010 between CPLP and Computershare Trust Company of Canada as supplemented by a third supplemental trust indenture dated February 21, 2012. Pursuant to the Note Exchange Transaction, on December 18, 2015, all of the 4.85% senior unsecured MTNs were exchanged and cancelled. CPLP was released from all its obligations under and in respect of the Trust Indenture and the CPLP MTNs. See "Capital Structure – Capital Power Corporation – Debt Issuance".

On June 15, 2011, Capital Power U.S. Financing LP, an indirect subsidiary of CPLP, closed a US\$295 million private placement of senior notes. In December 2015, in connection with the Note Exchange Transaction, the holders of the Senior Notes approved an amendment to the Note Purchase Agreement pursuant to which Capital Power provided an additional parental guarantee and was substituted and/or added as the obligor for financial, reporting and certain other covenants. See "Capital Structure – Capital Power Corporation – Debt Issuance".

On April 18, 2011, CPLP issued \$300 million principal amount of 4.60% senior unsecured MTNs due December 1, 2015 pursuant to the Trust Indenture as supplemented by a second supplemental trust indenture dated April 18, 2011. During late 2014 and early 2015, CPLP repurchased an aggregate of \$74.3 million principal amount of these MTNs in the market for cancellation. On December 1, 2015, the balance of the outstanding principal amount of 4.60% senior unsecured MTNs reached maturity and were repaid out of committed credit facilities.

On December 16, 2010, after the Company completed its issuance of Series 1 Shares, the Company loaned \$120.78 million to CPLP, pursuant to a subordinated debt agreement. Under the terms of the subordinated debt agreement, CPLP is permitted to defer payment of all or part of the interest owing to

the Company for one or more periods of up to five consecutive years. In addition, CPLP shall not pay or declare distributions on any of its outstanding partnership units at any time when interest owing under the subordinated debt agreement is being deferred by it.

On November 16, 2010, CPLP issued \$300 million principal amount 5.276% senior unsecured MTNs due November 16, 2020 pursuant to the Trust Indenture as supplemented by a first supplemental trust indenture dated November 16, 2010. Pursuant to the Note Exchange Transaction, on December 18, 2015, all of the 5.276% senior unsecured MTNs were exchanged and cancelled. CPLP was released from all its obligations under and in respect of the Trust Indenture and the CPLP MTNs. See "Capital Structure – Capital Power Corporation – Debt Issuance".

Ratings

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

Preferred Share Ratings

As of the date of this AIF, the Company has received a rating of Pfd-3 (low) with a stable trend for its preferred shares from DBRS and a rating of P-3 from S&P. Ratings are intended to provide investors with an independent measure of credit quality of an issue of securities.

The Company's preferred shares have been given a rating of P-3 by S&P. Such P-3 rating is the third highest of eight ratings used by S&P in its Canadian preferred share rating scale. According to S&P, a P-3 rating indicates that, although the obligation is less vulnerable to non-payment than other speculative issues, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation. S&P further subcategorizes each rating by the designation of "high" and "low" to indicate where an entity falls within the rating category.

The Company's preferred shares have been given a rating of Pfd-3 (low) with a stable trend by DBRS. The Pfd-3 (low) rating is the third highest of six rating categories used by DBRS for preferred shares. According to DBRS, preferred shares rated Pfd-3 (low) are of adequate credit quality. While protection of dividends and principal is still considered acceptable, the issuing entity is more susceptible to adverse changes in financial and economic conditions, and there may be other adverse conditions present which detract from debt protection. DBRS further subcategorizes each rating by the designation of "high" and "low" to indicate where an entity falls within the rating category. The absence of either a "high" or "low" designation indicates the rating is in the middle of the category. The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed. On March 10, 2016, DBRS announced that it had confirmed the Company's preferred share rating at Pfd-3 (low) with a stable trend.

The rating by each of DBRS and S&P is not a recommendation to buy, sell or hold any securities of the Company inasmuch as such rating does not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised upward or downward or withdrawn entirely by either DBRS or S&P in the future if, in the judgment of either or both, circumstances so warrant. The ratings by DBRS and S&P may not reflect the potential impact of all risks related to the value of any of the securities of the Company. In addition, real or anticipated changes in the ratings assigned to the Company and its preferred shares may affect the market price or value of the securities of the Company.

The Company made payments to each of DBRS and S&P in connection with obtaining the aforementioned ratings and over the past two years has made payments in respect of certain other services provided to the Company by each of DBRS and S&P.

Debt Ratings

In 2015, both the Company and CPLP received a BBB credit rating with a stable trend for its Senior Unsecured Debt from DBRS and a BBB- Corporate Credit rating with a stable outlook from S&P. Credit ratings are intended to provide investors with an independent measure of credit quality of an issue of securities.

Those long-term ratings assigned to the Company by both DBRS and S&P were confirmed on November 19, 2015 and applied to the Senior Unsecured Debt in connection with the Note Exchange Transaction. Upon the completion of the Note Exchange Transaction, CPLP was released and discharged from all obligations under or in respect of the Trust Indenture and the CPLP MTNs. With this transition of long-term credit ratings to only the Company the expectation is that the rating assigned to CPLP would be removed by the end of the first half of 2016. See "Capital Structure – Capital Power Corporation – Debt Issuance".

On March 10, 2016, DBRS announced it had changed the trend of all long-term debt ratings of the Company and CPLP to negative, from stable. The rating trend indicates the direction in which DBRS considers the rating is headed should present tendencies continue, or in some cases, unless challenges are addressed.

The BBB rating assigned to Capital Power's Senior Unsecured Debt by DBRS is the fourth highest rating of DBRS's ten rating categories, which range from a high of AAA to a low of D. With the exception of the AAA and D categories, DBRS uses "high" or "low" designations to indicate the relative standing of the securities being rated within a particular rating category, while the absence of either a high or low designation indicates the rating is in the middle of the category. According to the DBRS rating system, long-term debt rated BBB is of adequate credit quality. The capacity for the payment of financial obligations is considered acceptable, however, may be vulnerable to future events.

The BBB- Corporate Credit rating assigned by S&P is the fourth highest rating of S&P's ten rating categories, which range from a high of AAA to a low of D. With the exception of the AAA and D categories, S&P may modify a rating using a plus (+) or minus (-) sign to show relative standing within the major rating categories. An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future S&P credit action.

The credit rating by each of DBRS and S&P is not a recommendation to buy, sell or hold any securities of the Company inasmuch as such rating does not comment as to market price or suitability for a particular investor. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised upward or downward or withdrawn entirely by either DBRS or S&P in the future if, in the judgment of either or both, circumstances so warrant. The credit ratings by DBRS and S&P may not reflect the potential impact of all risks related to the value of any of the securities of the Company. In addition, real or anticipated changes in the credit ratings assigned to the Company and its indebtedness may affect the market price or value of the securities of the Company.

Capital Power has made payments to each of DBRS and S&P in connection with obtaining the aforementioned ratings and over the past two years has made payments in respect of certain other services provided to the Partnership by each of DBRS and S&P.

MARKET FOR SECURITIES

Trading Price and Volume

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

Toronto Stock Exchange 2015 CPX Trading Statistics

Month	Share Price			Volume Traded
	High	Low	Close	
January	\$27.12	\$24.92	\$25.29	5,069,208
February	\$26.46	\$23.77	\$25.09	5,947,929
March	\$25.21	\$23.80	\$24.51	7,779,016
April	\$25.14	\$24.01	\$24.85	5,754,737
May	\$25.58	\$23.40	\$24.05	8,592,211
June	\$24.09	\$21.53	\$21.54	6,779,061
July	\$22.42	\$20.32	\$21.89	5,663,815
August	\$21.93	\$18.61	\$20.46	6,413,596
September	\$20.38	\$18.28	\$18.88	7,307,833
October	\$20.21	\$18.52	\$18.79	6,381,557
November	\$19.33	\$16.08	\$16.85	6,005,523
December	\$18.31	\$15.40	\$17.77	8,142,442

Remainder of page intentionally left blank

The Company's Series 1 Shares began trading on the Toronto Stock Exchange on December 16, 2010 under the symbol of CPX.PR.A. The following table sets forth the reported high and low trading prices and volumes for the periods indicated:

Toronto Stock Exchange 2015 CPX.PR.A Trading Statistics

Month	Share Price			Volume Traded
	High	Low	Close	
January	\$18.18	\$15.00	\$15.00	87,436
February	\$15.72	\$15.00	\$15.51	194,760
March	\$16.95	\$15.05	\$15.55	83,702
April	\$15.55	\$13.60	\$15.05	135,161
May	\$16.19	\$14.50	\$15.50	92,654
June	\$15.55	\$13.36	\$13.50	87,366
July	\$13.66	\$11.90	\$12.56	144,705
August	\$12.71	\$10.42	\$11.18	113,914
September	\$12.20	\$10.11	\$10.25	106,010
October	\$11.35	\$10.27	\$11.02	154,917
November	\$12.46	\$10.00	\$10.23	185,835
December	\$10.67	\$8.92	\$10.51	236,163

Remainder of page intentionally left blank

The Company's Series 3 Shares began trading on the Toronto Stock Exchange on December 18, 2012 under the symbol of CPX.PR.C. The following table sets forth the reported high and low trading prices and volumes for the periods indicated:

Toronto Stock Exchange 2015 CPX.PR.C Trading Statistics

Month	Share Price			Volume Traded
	High	Low	Close	
January	\$23.95	\$21.80	\$21.80	90,670
February	\$22.84	\$21.10	\$22.00	101,889
March	\$23.00	\$20.01	\$20.01	109,024
April	\$21.30	\$17.72	\$20.85	198,393
May	\$22.33	\$20.25	\$20.90	98,512
June	\$20.90	\$18.52	\$19.15	116,282
July	\$20.30	\$16.86	\$18.26	102,679
August	\$19.48	\$16.10	\$17.29	80,811
September	\$18.32	\$15.42	\$15.50	99,028
October	\$16.26	\$14.50	\$15.80	155,652
November	\$17.66	\$14.00	\$14.20	266,793
December	\$14.90	\$12.55	\$14.88	309,747

Remainder of page intentionally left blank

The Company's Series 5 Shares began trading on the Toronto Stock Exchange on March 14, 2013 under the symbol of CPX.PR.E. The following table sets forth the reported high and low trading prices and volumes for the periods indicated:

Toronto Stock Exchange 2015 CPX.PR.E Trading Statistics

Month	Share Price			Volume Traded
	High	Low	Close	
January	\$22.61	\$20.85	\$20.96	171,845
February	\$22.10	\$20.00	\$21.66	186,243
March	\$22.20	\$19.50	\$19.58	164,071
April	\$20.80	\$17.73	\$20.27	198,431
May	\$21.99	\$19.61	\$20.50	133,128
June	\$20.58	\$17.43	\$18.12	167,432
July	\$18.58	\$15.73	\$17.65	154,050
August	\$18.20	\$15.30	\$16.70	266,363
September	\$17.50	\$14.25	\$14.70	117,275
October	\$15.50	\$13.78	\$15.50	270,148
November	\$17.00	\$13.67	\$13.95	340,150
December	\$14.60	\$12.25	\$14.58	413,464

Remainder of page intentionally left blank

DIRECTORS AND OFFICERS

Board of Directors

The name, place of residence, principal occupation, period of service as a member of the Board of Directors and membership in Board committees of each director of CPC are set forth in the following table as at December 31, 2015:

Name, Province / State and Country of Residence	Director Since	Office Held⁽¹⁾⁽²⁾ Committee Membership⁽³⁾	Principal Occupation During Past Five Years
Albrecht W.A. Bellstedt Canmore, Alberta, Canada Date of Birth: March 1949 <u>Shares held:</u> ⁽⁴⁾ Common Shares – 7,090 Series 1 Shares – 4,000	July 9, 2009	Director ⁽⁵⁾ Committees: Corporate Governance HSE	Professional Director from February 2007.
Doyle Beneby San Antonio, Texas, USA Date of Birth: October 1959 <u>Shares held:</u> ⁽⁴⁾ Nil	April 27, 2012	Director Committees: Audit HSE	Chief Executive Officer, New Generation Power International, from October 2015; prior thereto, Chief Executive Officer, CPS Energy from July, 2010.
Patrick Daniel Calgary, Alberta, Canada Date of Birth: August 1946 <u>Shares held:</u> ⁽⁴⁾ Common Shares – 4,500	February 17, 2015	Director Committees: ⁽⁶⁾ HSE	Retired from October 2012; prior thereto, President and Chief Executive Officer, Enbridge Inc., from January 2001.
Jill Gardiner Vancouver, BC, Canada Date of Birth: December 1958 <u>Shares held:</u> ⁽⁴⁾ Common Shares – 2,471	May 25, 2015	Director Committees: ⁽⁶⁾ Audit Corporate Governance	Professional Director from November 2010.

Name, Province / State and Country of Residence	Director Since	Office Held ⁽¹⁾⁽²⁾ Committee Membership ⁽³⁾	Principal Occupation During Past Five Years
<p>Kelly Huntington Indianapolis, Indiana, USA Date of Birth: September 1975 <u>Shares held:</u>⁽⁴⁾ Nil</p>	<p>June 3, 2015</p>	<p>Director Committees:⁽⁶⁾ Audit HSE</p>	<p>Senior Vice President of Enterprise Strategy, OneAmerica Financial Partners, Inc., from July 2015; prior thereto, President & Chief Executive Officer, Indianapolis Power & Light Company, from June 2013; prior thereto, Senior Vice President & Chief Financial Officer, Indianapolis Power & Light Company, from April 2011; prior thereto, Vice President, Financial Planning & Analysis, The AES Corporation, from September 2008.</p>
<p>Philip Lachambre Edmonton, Alberta, Canada Date of Birth: December 1951 <u>Shares held:</u>⁽⁴⁾ Common Shares – 15,720 Series 1 Shares – 800</p>	<p>July 9, 2009</p>	<p>Director Committees:⁽⁶⁾ Audit Corporate Governance</p>	<p>Corporate Director since July, 2007 and President of PCML Consulting Inc. from February 2007.</p>
<p>Donald Lowry Edmonton, Alberta, Canada Date of Birth: September 1951 <u>Shares held:</u>⁽⁴⁾ Common Shares – 8,000 Series 1 Shares – 9,000 Series 5 Shares – 2,000</p>	<p>July 9, 2009</p>	<p>Director and Chairman Committees:⁽⁷⁾ Corporate Governance Audit HSE</p>	<p>Retired from March 2013; prior thereto, President and Chief Executive Officer, EPCOR Utilities Inc. from January 1998.</p>
<p>Allister McPherson Edmonton, Alberta, Canada Date of Birth: September 1943 <u>Shares held:</u>⁽⁴⁾ Common Shares – 6,500</p>	<p>June 25, 2009</p>	<p>Director Committees: Audit</p>	<p>Retired from November 2005.</p>
<p>Margaret Mulligan Mississauga, Ontario, Canada Date of Birth: May 1958 <u>Shares held:</u>⁽⁴⁾ Common Shares – 12,179</p>	<p>April 27, 2012</p>	<p>Director Committees: Audit Corporate Governance</p>	<p>Professional Director from December 2010.</p>

Name, Province / State and Country of Residence	Director Since	Office Held⁽¹⁾⁽²⁾ Committee Membership⁽³⁾	Principal Occupation During Past Five Years
Brian Vaasjo Edmonton, Alberta, Canada Date of Birth: August 1955 <u>Shares held:</u> ⁽⁴⁾ Common Shares – 88,531	May 5, 2009	Director, President and Chief Executive Officer	President and Chief Executive Officer, Capital Power Corporation from July 2009.

Notes:

- (1) The Board does not have an executive committee.
- (2) Directors will hold office for a term expiring at the conclusion of the next annual meeting of shareholders of Capital Power or until their successors are elected or appointed and will be eligible for re-election.
- (3) Board Committees: (i) Audit Committee, (ii) Corporate Governance, Compensation and Nominating Committee (Corporate Governance); and (iii) Health, Safety and Environment Committee (HSE).
- (4) Represents, as of December 31, 2015, the number of Common Shares, Series 1 Shares, Series 3 Shares and Series 5 Shares, as applicable, beneficially owned, or controlled or directed, directly or indirectly, by such persons.
- (5) Effective April 24, 2015, the position of Chair of the non-EPCOR elect directors was eliminated as a consequence of EPCOR's secondary offering and conversion of all remaining Exchangeable LP Units on April 2, 2015.
- (6) On May 27 and June 3, 2015 respectively, Mmes. Gardiner and Huntington joined the Audit Committee, on May 27, 2015 Ms. Gardiner and Mr. Lachambre joined the Corporate Governance Committee, and on June 3 and May 27, 2015, respectively, Ms. Huntington and Mr. Daniel joined the HSE Committee. On May 27, 2015, Mr. Lachambre stepped down from the HSE Committee.
- (7) As Chair, Mr. Lowry attends committee meetings in an ex-officio, non-voting capacity.

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

Remainder of page intentionally left blank

Executive Officers

CPC's officers are appointed by, and serve at the discretion of the Board. The following table sets forth the names, place of residence, and position with Capital Power of each person who is an executive officer of Capital Power as at December 31, 2015.

Name, Province / State and Country of Residence	Officer Since	Office Held	Principal Occupation During the last 5 Years
<p>Brian Vaasjo Edmonton, Alberta, Canada Date of Birth: August 1955 <u>Shares held:</u>⁽¹⁾ Common Shares – 88,531</p>	<p>May 1, 2009</p>	<p>President and Chief Executive Officer, Director</p>	<p>President and Chief Executive Officer, Capital Power Corporation from July 2009.</p>
<p>Bryan DeNeve⁽²⁾ Edmonton, Alberta, Canada Date of Birth: July 1965 <u>Shares held:</u>⁽¹⁾ Common Shares – 21,292</p>	<p>January 4, 2011</p>	<p>Senior Vice President, Finance and Chief Financial Officer since May 1, 2015; prior thereto Senior Vice President, Corporate Development and Commercial Services, since November 2012; prior thereto Senior Vice President, Commercial Services from January 2011</p>	<p>Senior Vice President, Finance and Chief Financial Officer, Capital Power Corporation since May 1, 2015; prior thereto Senior Vice President, Corporate Development and Commercial Services, Capital Power Corporation, from November 2012; prior thereto, Senior Vice President, Commercial Services, Capital Power Corporation from January 2011; prior thereto, Vice President, Business Development, Capital Power Corporation from July, 2009.</p>
<p>Kathryn Chisholm, Q.C. Edmonton, Alberta, Canada Date of Birth: May 1963 <u>Shares held:</u>⁽¹⁾ Common Shares – 17,447</p>	<p>May 1, 2009</p>	<p>Senior Vice President, Legal and External Relations and Corporate Secretary, from November 2012; prior thereto Senior Vice President, General Counsel and Corporate Secretary from May 2009</p>	<p>Senior Vice President, Legal and External Relations, Capital Power Corporation from November 2012; prior thereto, Senior Vice President, General Counsel and Corporate Secretary, Capital Power Corporation from July 2009.</p>

Name, Province / State and Country of Residence	Officer Since	Office Held	Principal Occupation During the last 5 Years
<p>Mark Zimmerman⁽³⁾ Edmonton, Alberta, Canada Date of Birth: November 1964</p> <p><u>Shares held:</u>⁽¹⁾ Common Shares – 3,549</p>	<p>November 2, 2015</p>	<p>Senior Vice President, Corporate Development and Commercial Services</p>	<p>Senior Vice President, Corporate Development and Commercial Services, Capital Power Corporation, from November 2015; prior thereto, Vice President, Corporate Development & Strategy, TransCanada Pipelines Ltd., from August 1999.</p>
<p>Darcy John Trufyn Edmonton, Alberta, Canada Date of Birth: July 1955</p> <p><u>Shares held:</u>⁽¹⁾ Common Shares – 29,380</p>	<p>October 9, 2009</p>	<p>Senior Vice President, Operations, Engineering and Construction from November 2012; prior thereto Senior Vice President, Construction, Engineering and Project Management from October 2009</p>	<p>Senior Vice President, Operations, Engineering and Construction, Capital Power Corporation from November 2012; prior thereto, Senior Vice President, Construction, Engineering and Project Management, Capital Power Corporation from October 2009.</p>
<p>Jacquelyn Marie Pylypiuk⁽⁴⁾ St. Albert, Alberta, Canada Date of Birth: February 1969</p> <p><u>Shares held:</u>⁽¹⁾ Common Shares – 453</p>	<p>April 2015</p>	<p>Vice President, Human Resources</p>	<p>Vice President, Human Resources, Capital Power Corporation, from April 2015; prior thereto, Senior Manager, Talent Management, Capital Power Corporation, from March 2014; prior thereto, Senior Manager, Human Resources Business Partners, Capital Power Corporation, from September 2013; prior thereto, Senior Manager, Human Resources Business Partners (temporary), Capital Power Corporation, from April 2013; prior thereto, Senior Manager, Talent Acquisition & Engagement (temporary), Capital Power Corporation, from September 2012; prior thereto, Director, Human Resources, Auditor General of the Province of Alberta, from January 2011 to December 2011.</p>

Notes:

- (1) Represents as of December 31, 2015 the number of Common Shares, Series 1 Shares, Series 3 Shares and Series 5 Shares, as applicable, beneficially owned, or controlled or directed, directly or indirectly, by such persons.
- (2) Stuart Lee was Senior Vice President, Finance and Chief Financial Officer up until May 1, 2015, when Messrs. DeNeve and Lee switched executive roles with Mr. Lee filling Mr. DeNeve's previous position of Senior Vice President, Corporate Development and Commercial Services. Stuart Lee was Senior Vice President, Corporate Development and Commercial Services from May 1, 2015 until August 28, 2015 when Mr. Lee left Capital Power. Mr. DeNeve served as Senior Vice President, Corporate Development and Commercial Services from January 1, 2015 until April 30, 2015.
- (3) Ms. Pylypiuk is an "executive officer" for the purposes of NI 51-102, but has not been appointed an officer of the Company by the Board.

As at December 31, 2015, the directors of the Company who are not also executive officers of the Company, as a group, beneficially owned, or controlled or directed, directly or indirectly, 144,991 Common Shares (\$17.77 per share as at the close of trading on December 31, 2015 for a value of \$2,576,490.07), which is less than 1% of the issued and outstanding Common Shares, 13,800 Series 1 Shares (\$10.51 per share as at the close of trading on December 31, 2015 for a value of \$145,038), which is less than 1% of the issued and outstanding Series 1 Shares, and 2,000 Series 5 Shares (\$14.58 per share as at the close of trading on December 31, 2015 for a value of \$29,160), which is less than 1% of the issued and outstanding Series 5 Shares.

As at December 31, 2015, the directors and executive officers of the Company, as a group, beneficially owned, directly or indirectly, or exercised control or direction over 217,112 Common Shares (\$17.77 per share as at the close of trading on December 31, 2015 for a value of \$3,858,080.24), which is less than 1% of the issued and outstanding Common Shares of the Company, 13,800 Series 1 Shares (\$10.51 per share as at the close of trading on December 31, 2015 for a value of \$145,038), which is less than 1% of the issued and outstanding Series 1 Shares, and 2,000 Series 5 Shares (\$14.58 per share as at the close of trading on December 31, 2015 for a value of \$29,160), which is less than 1% of the issued and outstanding Series 5 Shares. The information as to the beneficial ownership of the Common Shares and Series 1 Shares, not being within the knowledge of the Company, has been confirmed by the directors and executive officers individually.

Corporate Cease Trade Orders, Bankruptcies, Penalties or Sanctions

As of December 31, 2015, except as noted below, and to the knowledge of the Company, no director, executive officer or controlling security holder of the Company is, or within the ten years prior to the date hereof, has been, a director or executive officer of any other issuer that, while that person was acting in that capacity:

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

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

Conflicts of Interest

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

Donald Lowry was, until his retirement on March 6, 2013, the President and Chief Executive Officer of EPCOR Utilities Inc. Allister McPherson is also a director of EPCOR Utilities Inc. Given EPCOR's and the Company's ongoing commercial relations, the possibility exists for conflicts of interest to arise between EPCOR and the Company.

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

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

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

Milner Power Inc. (Milner) Loss Factor Complaint

Capital Power is participating in a proceeding before the AUC to re-hear a complaint originally filed by Milner in 2005 against the AESO's loss factor calculation methodology (LFM). The AUC initially rejected the complaint in 2005, but Milner appealed the decision in 2006. The Court of Appeal issued a ruling in July 2010 directing the AUC to re-hear the complaint.

The LFM is used to calculate generator-specific loss factors and forms the basis for certain transmission charges paid by Alberta generators. Milner alleges that the existing LFM, developed by the AESO in consultation with stakeholders in 2005 and implemented January 1, 2006, does not comply with applicable regulations. Milner is advocating for the adoption, retroactively back to 2006 and on a go-forward basis, of an alternative LFM that would increase the loss charges to northern Alberta generating units (including Genesee, Sundance, Clover Bar and Keephills) and proportionately decrease the charges to southern generators (including Shepard).

The AESO has put forward a "straw dog" methodology, which Management believes is also unlikely to be adopted exactly as proposed. Management expects there to be both (i) substantial changes requested to the straw dog and (ii) additional alternative methodologies proposed by other participants in the proceeding. It also remains unknown at this stage whether retroactive adjustments, if ordered, would be required to be paid in lump sum or as a transmission rate rider over time, and what net impact the addition of Shepard to Capital Power's fleet will have on any future potential liability. Accordingly, Capital Power's potential exposure remains uncertain and is unquantifiable at this time.

Sundance PPA Industrial Product Price Index (IPPI) Dispute

In February 2014, TransAlta sent a letter informing Capital Power that Statistics Canada had revised its IPPI data series and published a new data series. TransAlta asserted that the changes by Statistics Canada were only modifications, and directly replaced the old data series with the new data series in settlement and capacity payment calculations. In other words, TransAlta did not link the old data series to the new data series. In October 2014 Capital Power responded to TransAlta's February 2014 letter setting out Capital Power's position is that Statistics Canada terminated the underlying data series for the IPPI indices and the new data series needed to be linked to the old indices to avoid retrospective adjustments as per section 4.2 of the Sundance PPA. The Sundance PPA prescribed dispute steps were followed but the parties were unable to settle the disagreement and arbitral proceedings were commenced. In early January of 2016, arbitration proceedings took place and final arguments will be made in March. A decision is expected to be delivered in the April to May timeframe.

TRANSFER AGENT AND REGISTRAR

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

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, executive officer or principal holder of securities or any associate or affiliate of the foregoing has, or has had, within the three most recently completed financial years, any material interest in any transaction, or in any proposed transactions that has materially affected or will materially affect the Company or been indebted to the Company, except for routine indebtedness, other than as set forth in the AIF. See "Material Contracts".

EPCOR holds 9,391,000 Common Shares, which it can vote for directors of the Company. EPCOR has advised the Company that it intends to eventually sell all or a substantial number of the Common Shares, subject to market conditions, its requirements for capital and other circumstances that may arise in the future.

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

MATERIAL CONTRACTS

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

- Amended and Restated Limited Partnership Agreement of CPLP among CPLPGP (general partner successor to CPC), 7181035 Canada Inc. and each person who is admitted to the partnership as a limited partner; dated May 29, 2009 as amended and restated as of July 9, 2009 (Limited Partnership Agreement)
- Master Separation Agreement between EPCOR and Capital Power dated June 25, 2009 (Master Separation Agreement)
- Share Transfer Agreement between Capital Power and EPCOR dated June 30, 2009 (Share Transfer Agreement)
- Asset Transfer Agreement between EPDC, CPLP and Capital Power dated June 30, 2009 (Asset Transfer Agreement)
- Registration Rights Agreement between EPCOR and Capital Power dated July 9, 2009 (Registration Rights Agreement)
- Social Objectives Agreement among EPCOR, 7166575 Canada Inc. and The City of Edmonton dated May 5, 2009, as amended on February 4, 2014 (Social Objectives Agreement)
- Back-to-Back Credit Agreement between CPLP and EPCOR dated July 9, 2009, as Amended and Restated on January 28, 2016 (Back-to-Back Credit Agreement)
- Shareholder Rights Plan Agreement between CPC and Computershare Trust Company of Canada dated November 20, 2012 (2012 Rights Plan Agreement)

The following section provides a summary of these agreements. Copies of the above material agreements may be viewed on SEDAR at www.sedar.com.

Limited Partnership Agreement

General Partner of CPLP

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

Partnership Units

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

The GP Units, Common LP Units and Exchangeable LP Units are entitled to participate in distributions of CPLP on an equal per-unit basis. Certain fundamental matters must be approved by special resolution of the holders of Common LP Units and Exchangeable LP Units, voting together as a class.

Distributions

It is anticipated that CPLP will make cash distributions, as determined by CPLPGP, to its partners on a quarterly basis, and in any event on or before the scheduled date for payment by the Company of dividends to holders of Common Shares. Distributions are not, however, guaranteed and will be at the discretion of CPLPGP. See "Common and Preferred Dividends – Common Dividends" in this AIF and "Risks and Risk Management – General economic conditions, business environment and other risks" in the Company's MD&A for the year ended December 31, 2015.

Limited Liability

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

Master Separation Agreement

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

- The ownership and transfer of assets, including the separation of the Company's assets and assumption of liabilities from EPCOR through transfer agreements that the Company and / or CPLP have entered into with EPCOR. The assets constituting the business of Capital Power were transferred to the Company and CPLP on an "as is", "where is" basis without any representations or warranties, express or implied, as to its condition, quality, merchantability or fitness and the Company and / or CPLP, as applicable, bear the economic and legal risks if any conveyance proves to be insufficient to vest good and marketable title in such transferee;

- Capital Power indemnifying EPCOR, each of EPCOR's controlled subsidiaries, and each of their respective directors, officers, employees, consultants, advisers and agents from all losses they may suffer relating to, arising out of, or in respect of certain circumstances or events, whether such losses arise or accrue prior to, on or following the closing of the Reorganization, including Capital Power's business or future business or any liabilities arising out of or related to such business or Capital Power's assets; and
- EPCOR indemnifying Capital Power, each of Capital Power's controlled subsidiaries, and each of their respective directors, officers, employees, consultants, advisers and agents from all losses they may suffer relating to, arising out of, or in respect of certain circumstances or events, whether such losses arise or accrue prior to, on or following the closing of the Reorganization, including EPCOR's business or future business or any liabilities arising out of or related to such business or EPCOR's assets (excluding any liability arising out of the business of Capital Power).

Share Transfer Agreement

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

Asset Transfer Agreement

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

The purchase price for the assets contributed to CPLP was approximately \$2,254 million, approximately \$468 million in cash, the issuance of 56.625 million Exchangeable LP Units, representing an approximate 72.2% equity interest in CPLP (together with the issuance by the Company of 56.625 million accompanying Special Voting Shares) and \$896 million by a loan from EPCOR under the Back-to-Back Credit Agreement described below.

Registration Rights Agreement

Pursuant to the Registration Rights Agreement, Capital Power is obliged to indemnify EPCOR for any misrepresentation in a prospectus under which EPCOR's Common Shares were sold (other than in respect of any information provided by EPCOR for inclusion in the prospectus). Otherwise, the Registration Rights Agreement terminated automatically, and without prejudice to any rights or obligations that arose or accrued prior to the time of termination, on April 2, 2015, when EPCOR exchanged all of the outstanding Exchangeable LP Units for Common Shares.

Social Objectives Agreement

Pursuant to the Social Objectives Agreement, the Company agreed to maintain its head office in the City of Edmonton in the Province of Alberta and to maintain at least 350 employees based in the City of Edmonton for a period of 25 years following completion of the IPO. In February 2014, the Social Objectives Agreement was amended by agreement among the Company, EPCOR, and the City of Edmonton to replace the requirement for the Company to maintain at least 350 employees in the City of Edmonton with a requirement for the Company to maintain two-thirds of its corporate shared service employees in the City of Edmonton. See "Capital Structure – Capital Power Corporation – Special Limited Voting Share".

Back-to-Back Credit Agreement

In connection with the Reorganization, CPLP issued \$896 million of long-term indebtedness to EPCOR pursuant to the Back-to-Back Credit Agreement. The indebtedness of CPLP to EPCOR mirrors existing indebtedness of EPCOR under debt issued by EPCOR to the public, which is to be repaid on the originally scheduled maturity dates of such mirrored debt ranging from 2010 to 2018, and bears interest at

rates corresponding to the interest rates of each component of the mirrored debt ranging from 5.80% to 9.00%. The indebtedness of CPLP to EPCOR also includes an amount sufficient to meet existing obligations of EPCOR related to indebtedness of the City of Edmonton assumed by EPCOR, which will be repaid in accordance with an amortization schedule.

As of October 10, 2013, EPCOR no longer owns, directly or indirectly, at least 20% of the outstanding partnership units in CPLP and therefore may by written notice require repayment of all or any portion of the outstanding principal amount under the credit agreement and accrued interest. If the principal amount required to be repaid is less than \$200 million, then such principal amount and accrued interest shall be payable 180 days after EPCOR gives notice requiring repayment, and, if the principal amount required to be paid is \$200 million or more, then such principal amount and accrued interest shall be payable 365 days after EPCOR gives notice requiring repayment. The long-term debt payable to EPCOR requires CPLP to meet certain financial covenants and contemplates certain events of default including the acquisition of more than 50% of the voting equity of CPLP or of CPLPGP.

On January 28, 2016 the Back-to-Back Credit Agreement was amended and restated to have the Company added as parental guarantor of the obligations of CPLP and to provide, among other things, that the Company will be subject to certain financial and other covenants contained therein. See "Capital Structure – Capital Power L.P. – Credit Facilities".

Shareholder Rights Plan Agreement

On November 20, 2012, the Board approved the adoption of a shareholder rights plan (2012 Rights Plan). The 2012 Rights Plan Agreement, dated November 20, 2012 between the Company and Computershare Trust Company of Canada, as rights agent, and the 2012 Rights Plan were confirmed and ratified by the Company's shareholders at its annual meeting of shareholders on April 26, 2013. On February 18, 2016, the Board resolved to continue the 2012 Rights Plan and to adopt an Amended and Restated Shareholder Rights Plan Agreement to be proposed to shareholders at the 2016 annual meeting of shareholders of Capital Power (Rights Plan). The terms of the Rights Plan are the same in all material respects as the 2012 Rights Plan, but for certain minor amendments described below.

The following are the proposed amendments to the 2012 Rights Plan contained within the Rights Plan, as amended and restated:

- The definition of "Expiration Time" in the Rights Plan, and the requirement for future shareholder approval to ratify the continued existence of the Rights Plan, were simplified to specify that requisite shareholder approval will be obtained to continue the rights plan at every third annual general meeting of shareholders or else the Rights Plan will terminate.
- The definition of "Permitted Lock-Up Agreement" was amended to include Convertible Securities (as such term is defined in the Rights Plan) as securities of Capital Power that may be the subject of a permitted lock-up agreement, in addition to the Voting Shares.
- The definition of "Permitted Bid" was amended to be the longer of 60 days or the minimum take-over bid deposit period prescribed by law. Under current securities regulations, this will not result in any change to the length of a permitted bid. Due to certain announced changes to securities law governing take-over bids, this language was added to contemplate changes to the law.
- Certain other amendments of a non-substantive, "housekeeping" nature were made to account for the fact that there are no longer any Exchangeable LP Units or Special Voting Shares outstanding. These changes provide greater clarity and consistency.

The Rights Plan authorizes the issuance of one right (Right) in respect of each Common Share (the Voting Shares). The Rights initially trade with and are represented by the certificates representing the Voting Shares, and until such time as the Rights separate from the Voting Shares and become exercisable, Rights certificates will not be distributed to shareholders.

Each Right is initially attached to and will trade with the Voting Shares in respect of which it was issued. The Rights will separate from the Voting Shares to which they are attached and become exercisable after the time (Separation Time) which (subject to the Board deferring the Separation Time) is the close of business ten trading days following the date of public announcement that a person has become an Acquiring Person (as defined below) or announces an intention to make a take-over bid that is not in compliance with the provisions of the Rights Plan.

Upon the occurrence of any transaction or event in which a person (an Acquiring Person), including associates and affiliates and others acting jointly or in concert, acquires (other than pursuant to a Permitted Bid (as defined in the Rights Plan) or another exemption available under the Rights Plan) Beneficial Ownership (as defined in the Rights Plan) of 20% or more of the outstanding Voting Shares of the Company (a Flip-in Event), any Rights held by an Acquiring Person will become void and the Rights held by all other holders of Rights will permit such holders to purchase Common Shares at a substantial discount to their then prevailing market price.

A bidder can make a take-over bid and acquire Common Shares of the Company without triggering a Flip-In Event under the Rights Plan if the take-over bid qualifies as a Permitted Bid. The Rights Plan also allows for a competing Permitted Bid (Competing Permitted Bid) to be made while a Permitted Bid is in existence, as long as the Competing Permitted Bid satisfies certain conditions.

With the consent by majority vote of Independent Shareholders (as defined in the Rights Plan) prior to the Separation Time, or the consent by majority vote of the independent holders of Rights after the Separation Time, the Board may redeem all of the outstanding Rights at a price of \$0.00001 per right. With the consent by majority vote of Independent Shareholders prior to the Separation Time, the Board may waive the application of the Rights Plan to a Flip-in Event that occurs other than by means of a takeover bid made by way of a takeover bid circular sent to all holders of Voting Shares. Without the approval of shareholders or holders of Rights, the Board may waive the application of the Rights Plan to a Flip-in Event that occurs by means of a takeover bid made by way of a takeover bid circular sent to all holders of Common Shares.

The foregoing description of the Rights Plan is qualified entirely by the full text of the Rights Plan, which is available on SEDAR (www.sedar.com). If the Rights Plan is approved by the shareholders at the 2016 annual meeting of shareholders of Capital Power, the Rights Plan will expire at the close of business on the date of our 2019 annual meeting of shareholders, unless otherwise extended by a further vote of shareholders.

INTERESTS OF EXPERTS

The Company's auditors are KPMG LLP, Chartered Accountants, 10125 – 102 Street, Edmonton, Alberta T5J 3V8. KPMG LLP has confirmed that they are independent with respect to the Company within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

AUDIT COMMITTEE

Audit Committee Mandate

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

Composition of the Audit Committee

As of December 31, 2015, the Audit Committee was composed of Philip Lachambre (Chair), Doyle Beneby, Jill Gardiner, Kelly Huntington, Allister McPherson and Margaret Mulligan. As Chair of the Board, Donald Lowry also attends Audit Committee meetings in an ex-officio, non-voting capacity. The Board has determined that all members of the Audit Committee are "independent" and "financially literate" as

such terms are defined under applicable Canadian securities law and mandated under the Board terms of reference. See "Directors and Officers".

The Board based the determination regarding financial literacy on the education and breadth and depth of experience of each Audit Committee member, as summarized in the following table:

AC Member	Relevant Education and Experience
Philip Lachambre	<ul style="list-style-type: none"> • formerly Executive Vice President and Chief Financial Officer of Syncrude Canada Ltd. • holds a Bachelor of Commerce degree from the University of Alberta, and is a graduate of the Executive Management Program of the University of Western Ontario • has previously served as the Chair of the Audit Committee of Flint Energy Services Ltd., PowerComm Inc. and GLM Industries LP
Doyle Beneby	<ul style="list-style-type: none"> • currently the Chief Executive Officer of New Generation Power International (an international independent renewable energy company) • formerly served as President and Chief Executive Officer of CPS Energy (the largest municipally-owned gas and electric utility company in the U.S.) from 2010 to 2015 • formerly served as Senior Vice President and then President of Exelon Corporation in 2009 and 2010 • has an MBA
Jill Gardiner	<ul style="list-style-type: none"> • chair of the board of directors of Turquoise Hill Resources Ltd. and a member (previously chair) of its Audit Committee, • previously a member (or chair) of the audit committees of Timber Investments Ltd., The Banff Centre and SAIT Polytechnic • previously spent over 20 years in the investment banking industry, most recently as Managing Director and Regional Head, British Columbia, for RBC Capital Markets • has previously held various positions in corporate finance, mergers and acquisitions, and debt capital markets • holds an MBA (with a major in finance and accounting) from Queen's University
Kelly Huntington	<ul style="list-style-type: none"> • currently Senior Vice President of Enterprise Strategy for OneAmerica Financial Partners, Inc., which includes responsibility for internal audit • formerly President & Chief Executive Officer, and Senior Vice President & Chief Financial Officer, for Indianapolis Power & Light Company (IPL) and a Board member • formerly Vice President, Financial Planning & Analysis for The AES Corporation, a Fortune 200 global power company • has previously held a variety of positions in investment banking, private equity, financial analysis, investor relations and risk management • holds an MBA from Northwestern University's Kellogg School of Management, and is a Chartered Financial Analyst
Allister McPherson	<ul style="list-style-type: none"> • former deputy provincial treasurer (Finance and Revenue) for the Province of Alberta • has served on the Audit Committee of EPCOR Utilities Inc. since 2008, as chair of The Churchill Corporation's Audit Committee from 2009 to 2014, and is currently an external member of the University of Alberta's Investment Committee

AC Member	Relevant Education and Experience
Margaret Mulligan	<ul style="list-style-type: none"> • currently Chair of the Audit Committee of The Ladies Professional Golf Association, and past Chair of the Audit Committees of MethylGene Inc. and Energent Incorporated • currently a director of Ontario Power Generation (OPG), and currently a member of the Audit Committees of OPG and Tuckamore Capital Management Inc. • formerly Executive Vice President and Chief Financial Officer of Valeant Pharmaceuticals International, Inc. (formerly Biovail Corporation) • formerly Executive Vice President, Chief Financial Officer and Treasurer of Linamar Corporation • is a Chartered Accountant and Fellow of the Institute of Chartered Accountants of Ontario (medalist, Uniform Final Evaluation, 1981) • holds a Bachelor of Mathematics degree

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

Under its Terms of Reference, before Capital Power engages the external auditor for additional audit or non-audit services, the Audit Committee must pre-approve that engagement. If, for reasons of timing, pre-approval is not possible and it is not possible to wait until the next scheduled Audit Committee meeting, the Chair of the Audit Committee has the delegated authority to pre-approve non-audit services as long as the individual engagement fees are projected to be less than \$100,000, subject to an annual maximum approval limit of \$250,000. Any pre-approval must be reported to the Audit Committee for ratification at its next meeting. The Chair of Audit Committee did not pre-approve any non-audit services in 2015.

Auditor's Fees

KPMG LLP has served as the Company's auditors since its incorporation. Fees accrued by KPMG LLP to the Company for the year ended December 31, 2015 in respect of the Company and the Company's subsidiaries were approximately \$1.2 million as detailed below.

	Twelve Months Ended December 31, 2015 (\$ Millions)	Twelve Months Ended December 31, 2014 (\$ Millions)
Audit Fees	1.1	1.0
Audit Related Fees	-	-
Tax fees	-	-
All Other fees	0.1	-
Total	1.2	1.0

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

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

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

All other fees – All other fees are fees for operational advisory and risk management services and non-securities legislative and regulatory compliance work.

Other Committees

Apart from the Audit Committee, the Board of Directors has established: (i) the Corporate Governance, Compensation and Nominating Committee to oversee matters relating to corporate governance, compensation and nomination; and (ii) the Health, Safety and Environment Committee to oversee matters relating to the impact of the Company's operations on the environment and on workplace health and safety. Mr. Lowry, the Chair of the Board, is a non-voting ex-officio member of all committees. The members of these committees as at December 31, 2015 were as follows:

Corporate Governance, Compensation and Nominating Committee⁽¹⁾

Mr. Albrecht Bellstedt, Chair
Ms. Jill Gardiner
Mr. Philip Lachambre
Ms. Margaret Mulligan
Mr. Don Lowry (ex-officio)

Health, Safety and Environment Committee⁽²⁾

Mr. Doyle Beneby, Chair
Mr. Albrecht Bellstedt
Mr. Patrick Daniel
Ms. Kelly Huntington
Mr. Don Lowry (ex-officio)

Notes:

(1) Ms. Jill Gardiner and Mr. Philip Lachambre were appointed to this committee on May 27, 2015.

(2) Mr. Patrick Daniel and Ms. Kelly Huntington were appointed to this committee on May 27 and June 3, 2015 respectively. Mr. Lachambre stepped down from this committee on May 27, 2015.

ADDITIONAL INFORMATION

Additional information relating to the Company may be found on SEDAR at www.sedar.com and on the Company's website at www.capitalpower.com.

Additional financial information is provided in the Company's annual audited consolidated financial statements and MD&A for the year ended December 31, 2015.

The "Risks and Risk Management" section of the Company's MD&A dated February 18, 2016 for the year ended December 31, 2015 is incorporated herein by reference and is available on SEDAR.

The Company's material change report dated November 29, 2012 is incorporated herein by reference and is available on SEDAR.

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

APPENDIX "A"

AUDIT COMMITTEE

TERMS OF REFERENCE

A. OVERVIEW AND PURPOSE

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

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

B. STRUCTURE AND MEMBERSHIP

1. The Committee will be composed of such number of directors as may be specified by the Board from time to time, which number will be not less than three.
2. At the first meeting of the Board following the Corporation's annual general meeting, Committee Members ("Committee Members") and the Committee Chair will be appointed by the Board on the recommendation of the Corporate Governance, Compensation and Nominating Committee (the "CGCN Committee").
3. All Committee Members will be independent and unrelated, as set forth in all applicable securities laws and regulations or the rules or guidelines of any stock exchange on which the securities of the Corporation are listed for trading (including, without limitation, National Instrument 52-110 Audit Committees or "NI 52-110", as implemented by the Canadian Securities Administrators and as amended or replaced from time to time), and have no relationship with the Corporation that may materially interfere with the ability of each Committee member to act with a view to the best interests of the Corporation.
4. All Committee Members will be financially literate (as such term is defined in NI 52 110). At least one member of the Committee will have a professional accounting designation or equivalent financial expertise as determined by the Board.

C. DUTIES AND RESPONSIBILITIES

The Committee will:

1. Review the Corporation's annual audited financial statements including the notes thereto, management's discussion and analysis, earnings press releases and annual information forms before such documents are submitted to the Board for approval, including any report or opinion to be rendered in connection therewith, and make recommendations as to their approval by the Board.
2. Review, and make recommendations for subsequent approval by the Board, the Corporation's quarterly financial statements including the notes thereto, management's discussion and analysis and earnings press releases of the Corporation.
3. Review with Management, the external auditors and, if necessary, internal and external legal counsel, any material litigation, claim, compliance issues, or regulatory or other contingency that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these will be, or have been, disclosed in the Corporation's financial statements.
4. Review on a quarterly basis with the CFO and General Counsel, and if necessary, external legal counsel, the status of all material litigation, claims, compliance issues, or regulatory or other contingencies faced by the Corporation.
5. Review, or establish procedures for the review of, all public disclosure documents containing audited, unaudited or forward-looking financial information before release by the Corporation, including any prospectus, management information circulars, offering memoranda, annual reports, management certifications, management's discussion and analysis, annual information forms and press releases.
6. As required, review Management's plans and strategies around investment practices, banking performance and treasury risk management.

7. Assess Management's procedures to ensure compliance by the Corporation with its loan and indenture covenants and restrictions, if any.
8. Monitor the appropriateness of the accounting policies and practices and financial reporting used by the Corporation, review any actual and prospective significant changes to such accounting policies and practices financial reporting to be adopted by the Corporation and review and assess any new or proposed developments in accounting and reporting standards that may affect or have an impact on the Corporation.
9. Review and recommend the nomination of the external auditors to the Board for appointment by the shareholders at the Corporation's annual general meeting. In connection therewith, the Committee will review the experience and qualifications of the external auditors' senior personnel who are providing audit services to the Corporation and the quality control procedures of the external auditors.
10. Review and discuss with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to determine the independence of the Corporation's external auditors, including, without limitation (i) requesting, receiving and reviewing, at least annually, a formal written report from the external auditors delineating all relationships that may reasonably bear on the independence of the external auditors with respect to the Corporation; and (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors. Following receipt and review of the external auditors' report and discussion with the external auditors, recommending that the Board, in response to the relationships or services disclosed in the report, take appropriate action to satisfy itself of the external auditors' independence.
11. Discussing with the Board whether, due to the passage of time or for other reasons, it would be appropriate to change the Corporation's external auditors or the audit engagement partner and, after consultation with appropriate Management, recommending either that the external auditors be changed or retained for each future fiscal year.
12. Review and recommend to the Board for approval the compensation paid to the external auditors on an annual basis.
13. Review and pre-approve all non-audit services performed by the external auditors in relation to the Corporation and its subsidiaries. If, due to timing issues, the pre-approval of non-audit services must be expedited and it is not practical to wait until the next scheduled Committee meeting, the Chair is delegated, on behalf of the Committee, to pre-approve the non-audit services when the individual engagement fees are projected to be less than \$100,000, subject to an annual maximum approval limit of \$250,000, and any such pre-approval will be reported to the Committee for ratification at its next meeting.
14. Oversee the work of the external auditor, including reviewing and approving the planning of the annual audit and reviewing the results thereof with the external auditors, including:
 - a) approving the auditors' engagement letters;
 - b) approving the scope of the audit, including materiality, audit reports required, area of audit risk, timetable and deadlines;
 - c) reviewing with the external auditors the quality, not just the acceptability, of the accounting principles applied in the Corporation's financial reporting and the

degree of aggressiveness or conservatism of the Corporation's accounting principles and underlying estimates;

- d) reviewing the post-audit management letter together with Management's responses;
- e) reviewing any other matters the external auditors bring to the attention of the Committee;
- f) resolving disagreements with Management regarding financial reporting;
- g) reviewing accruals, reserves and estimates which could have a significant effect on financial results;
- h) reviewing the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles ("GAAP"); and
- i) reviewing interim review engagement reports.

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

- 15. Review the rationale for any proposed change in auditors which is not initiated by the Committee or the Board.
- 16. Review reports from external auditors respecting their internal quality control procedures, peer reviews and investigations by governmental or professional authorities.
- 17. Obtain and review annually, prior to the completion of the external audit: (a) a report from the external auditors describing: (i) all critical accounting policies used by the Corporation in the preparation of its annual and interim financial statements; (ii) all alternative treatments of financial information within GAAP that have been discussed with Management; (iii) the ramifications of the use of such alternative treatments; and (iv) the treatment preferred by the external auditors; and (b) all other material written communications.
- 18. Obtain reasonable assurance from discussions with and/or reports from Management and reports from external and internal auditors that the Corporation's accounting systems are reliable and that the prescribed internal controls are operating effectively.
- 19. Assess whether Management has implemented policies ensuring that the Corporation's financial risks are identified and that controls are adequate, in place and functioning properly. In connection therewith, as part of the financial risk assessment, Management will prepare tax compliance and planning strategies annually for review by the Committee, including a review of any tax reserves.
- 20. Monitor compliance with the Corporation's Ethics Policy and ensure Management Compliance Certificates are received from Management quarterly.
- 21. Meet with the external auditors, at least annually and when requested by the external auditors, without Management representatives present.
- 22. Meet with the internal auditors, at least annually or as requested by the internal auditors, without Management representatives present.

23. Review and ensure that appropriate liaison and cooperation exists where necessary between the external auditors and the internal auditors, and provide a direct line of communication between the external and internal auditors, the Committee and the Board.
24. Review the responses of Management to information requests from government or regulatory authorities in respect of filing documents required under securities legislation, which may affect the financial reporting of the Corporation.
25. Review and approve the annual internal audit plan, including the mandate, staffing, scope and objectives of the internal audit department, and receive and review all financial internal audit reports issued in relation thereto.
26. Receive and review all follow-up action or status reports relating to the non-financial recommendations of the external auditor, and the internal auditor.
27. Obtain such information and explanations regarding the accounts of the Corporation as the Committee may consider necessary and appropriate to carry out its duties and responsibilities.
28. Annually review the performance, budget and independence of the internal audit function and direct the CFO to make any changes necessary.
29. Establish procedures for receiving, retaining and responding to complaints relating to accounting, internal accounting controls or auditing matters, on a basis that protects the confidentiality of the complainant.
30. Review and approve the hiring policies regarding employees and former employees of the present and former external auditors.
31. Periodically assess procedures for the review of disclosure of financial information, extracted or derived from the Corporation's financial statements.
32. Review and monitor quarterly results of financial and commodity exposure management activities, including foreign currency and interest rate risk strategies, counterparty credit exposure and the use of derivative instruments, and ensure that they are appropriately reflected in the Corporation's financial reporting.
33. Monitor and evaluate the Corporation's insurance programs.
34. Review with Management and the external auditor any off balance sheet arrangements and special purpose vehicle structures.
35. Review disclosure made to the Committee by the President and CEO, the CFO and the General Counsel of a violation of applicable securities laws, a breach of a fiduciary duty under applicable laws or a similar violation by the Corporation or by any officer, director, employee or agent of the Corporation, which has been reported to the Committee, and determine whether an investigation is necessary regarding any such violation and report to the Board.
36. Receive, review and consider the annual and interim certificates provided by the President and CEO and CFO of the Corporation pursuant to National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings, as implemented by the Canadian Securities Administrators and as amended or replaced from time to time, along with reports from the Corporation's Disclosure Committee regarding the design and effectiveness of the Corporation's disclosure controls and internal controls over financial reporting.

37. Conduct all other matters required by law or stock exchange rules to be dealt with by an audit committee.
38. Review annually these terms of reference and recommend any required material changes to the Corporate Governance, Compensation and Nominating Committee for further recommendation to the Board.
39. Conduct a regular, periodic self-assessment relating to Committee effectiveness and performance.
40. Report to the Board as required.

D. MEETINGS

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

Committee Members who would have been entitled to vote on the resolution at a meeting of the Committee. In the case of an equality of votes, the person acting as Chair of the Committee meeting will not be entitled to a second or casting vote.

10. A resolution in writing may be signed and executed in separate counterparts by Committee Members and the signing or execution of a counterpart will have the same effect as the signing or execution of the original. An executed copy of a resolution in writing or counterpart thereof transmitted by any means of recorded electronic transmission will be valid and sufficient.
11. Attendance at all or a portion of Committee meetings by staff, other directors, the auditors and others will be determined by the Committee.
12. The Corporate Secretary, or such other person as may be designated by the Committee, will keep minutes of the proceedings of all meetings of the Committee, which following Committee approval, will, subject to determination by the Committee otherwise, be available to any member of the Board. All minutes will be circulated to the Chair of the Board. With the exception of "in camera" items, minutes will be circulated to those receiving the agenda. Minutes will be retained by the Corporate Secretary.
13. The Committee may delegate its power and authority to individual Committee Members, where the Committee determines it is appropriate to do so in order for necessary decisions to be made between meetings of the Committee and where such delegation is permitted by law. Any such decisions will be reported to the Committee at its next meeting.