



**Notice of 2019 annual meeting of shareholders**

**April 26, 2019**

**Management proxy circular**

March 1, 2019



Established in July 2009, Capital Power Corporation is a growth-oriented North American independent power producer headquartered in Edmonton, Alberta. We develop, acquire, own and operate power generation facilities using a variety of energy sources and are a trusted resource for affordable, future-focused energy. We own approximately 5,100 megawatts of power generation capacity at 25 facilities and are pursuing contracted generation capacity throughout North America.

For eight consecutive years, Capital Power has earned placement on Corporate Knights' "Best 50 Corporate Citizens in Canada" listing (2011 – 2018).

Our shares are traded on the Toronto Stock Exchange under the symbol CPX.

Visit our website for more information ([www.capitalpower.com](http://www.capitalpower.com)).

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# Letter to shareholders

March 1, 2019

Dear shareholder,

The board and management of Capital Power Corporation invite you to attend our 2019 annual meeting of shareholders (meeting) at EPCOR Tower in Edmonton, Alberta at 1:00 p.m. (Mountain Daylight Time) on April 26, 2019.

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

You can attend the meeting and vote in person, or you can vote by proxy. Attending the meeting gives you an opportunity to meet the Chair of the board and the President & CEO, to hear first-hand about our performance and developments in 2018, and to ask questions.

If you can't attend the meeting in person, you can view a live audio webcast via our website ([www.capitalpower.com](http://www.capitalpower.com)). We'll also post a transcript and archive the webcast on our website after the meeting.

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

We look forward to seeing you at the meeting and please take this opportunity to vote.

Sincerely,



**Donald Lowry**  
Chair of the board



**Brian Vaasjo**  
President & CEO

# Notice of 2019 annual meeting of shareholders

You're invited to attend the 2019 annual meeting of shareholders of Capital Power Corporation:

**When:** Friday, April 26, 2019  
1:00 p.m. Mountain Daylight Time

**Where:** EPCOR Tower, 8th Floor  
10423 – 101st Street NW  
Edmonton, Alberta

We'll cover the following items of business:

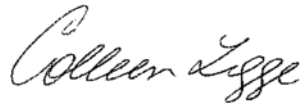
- receive our consolidated financial statements for the year ended December 31, 2018 and the auditors' report;
- elect directors;
- appoint the auditors with compensation to be fixed by the board on the recommendation of the audit committee;
- vote on our approach to executive compensation;
- vote to continue our shareholder rights plan; and
- transact any other business.

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

You're entitled to vote at the meeting if you owned common shares of Capital Power Corporation at the close of business on March 13, 2019. You can vote by proxy or vote in person at the meeting.

Please refer to the management proxy circular to learn more about the meeting. We encourage you to vote.

By order of the board,



Colleen Legge  
Corporate Secretary  
Capital Power Corporation  
Edmonton, Alberta

March 1, 2019

# Management proxy circular

This management proxy circular (circular) has been prepared to assist those shareholders who owned common shares of Capital Power at the close of business on March 13, 2019 (record date). As a shareholder of record, you're entitled to attend our 2019 annual meeting and vote your shares, in person or by proxy. You can still vote your shares if you can't attend the meeting. A live audio webcast of the meeting will be available on our website, and we'll post a transcript of the meeting and archive the webcast on our website after the meeting.

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

We plan to begin mailing the notice-and-access notice for the circular and other meeting materials to shareholders of record on or about March 20, 2019. Shareholders may access an electronic copy of the circular on our website on or about March 20, 2019.

Information in this circular is as of March 1, 2019, unless otherwise indicated.

All dollar amounts are in Canadian dollars unless otherwise indicated.

In this document:

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

Our principal and head office is in Edmonton, Alberta:

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

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

## HOW TO OBTAIN PAPER COPIES OF THE MEETING MATERIALS

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

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

Requests by registered or beneficial shareholders to receive a paper copy of the circular in advance of the deadline for completing and returning proxies or voting instruction forms and the meeting date of April 26, 2019 must be received by April 9, 2019.

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

# 1. About the shareholder meeting

## Voting

### WHO CAN VOTE

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

Our share capital	Authorized #	# Outstanding
Common shares	unlimited	101,883,645
Special limited voting share	1	1
Preferred shares	unlimited, issued in series	33,000,000

You can vote if you owned common shares of Capital Power as of the close of business on March 13, 2019. Each common share entitles the owner to one vote.

The voting process is different depending on whether you own your shares as a registered or non-registered (beneficial) shareholder (see below under How to vote).

### Special limited voting share

As of March 1, 2019, EPCOR owns the one special limited voting share outstanding. This share does not have voting rights in respect of this meeting.

### Preferred shares

Holders of preferred shares only have voting rights if:

- it is required by law;
- it is to satisfy conditions attached to the class of shares; or
- we have not paid dividends for eight quarters and the shareholder meeting occurs during the period when the dividends are in arrears.

You can find more information about the rights, privileges and restrictions of our different classes of shares in our 2018 Annual Information Form (AIF).

### HOW TO VOTE

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

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

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

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

### Transfer agent and registrar

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

### Registered shareholders

You are a registered shareholder if your shares are registered directly in your name with our registrar and transfer agent, Computershare.



Computershare has a list of all registered shareholders as of the record date. You can check the list at the meeting or at their office during regular business hours:

Computershare Trust Company of Canada  
530 8th Avenue SW, Suite 600  
Calgary, Alberta T2P 3S8

#### *Vote by proxy*

Online — go to [www.investorvote.com](http://www.investorvote.com) and follow the instructions on screen. You'll need your control number, which appears at the bottom of your proxy form.

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

By mail — Follow the instructions on the proxy form, complete it, then sign and date it, and mail it in the envelope provided to:  
Computershare Trust Company of Canada  
Attention: Proxy Department  
8<sup>th</sup> Floor, 100 University Avenue  
Toronto, Ontario M5J 2Y1

**Computershare must receive your completed proxy form by 1 p.m. Mountain Daylight Time (MDT) on April 24, 2019 for your vote to be counted.** If the meeting is adjourned, they must receive your completed proxy form at least 48 hours before the new meeting time. The Chair of the meeting can waive or extend the time limit for depositing proxies at his or her discretion without notice.

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

#### *Vote in person*

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

#### *If you change your mind*

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

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

Send your new completed proxy form to:  
Computershare Trust Company of Canada  
Attention: Proxy Department  
8<sup>th</sup> Floor, 100 University Avenue  
Toronto, Ontario M5J 2Y1

Computershare must receive your revocation by **1 p.m. MDT on April 25, 2019** to revoke your previous proxy form. If the meeting is adjourned, they must receive your revocation at least 24 hours before the new meeting time.

Alternatively, you (or your authorized representative) can write to our Corporate Secretary explaining that you want to revoke your previous proxy form:

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

Our Corporate Secretary must receive your letter by **4 p.m. MDT on April 25, 2019**. If the meeting is adjourned, she must receive it by **4 p.m. MDT** on the last business day before the new meeting time.

#### **Non-registered shareholders**

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

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

*Vote through your nominee*

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

*Vote in person*

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

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

*If you change your mind*

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

## Business of the meeting

### Receive the financial statements

Our consolidated financial statements for the year ended December 31, 2018 and the auditors' report will be tabled at the annual meeting and are included in our 2018 annual report. Copies will be available at the meeting and on our website ([www.capitalpower.com](http://www.capitalpower.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)), or you can request a copy from our Corporate Secretary, Capital Power Corporation, 12th Floor, 10423 - 101 Street, Edmonton, Alberta T5H 0E9.

### Elect directors

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

Directors will serve until the next annual meeting, or until their successors are elected or appointed. The director profiles starting on page 13 give you detailed information about their skills and experience, their 2018 attendance record (if applicable), share ownership and membership on other public company boards.

Nine nominated directors have been proposed by the Corporate Governance, Compensation and Nominating (CGC&N) Committee and approved by the board:

Donald Lowry	Robert Phillips
Doyle Benezby	Katharine Stevenson
Jill Gardiner	Keith Trent
Kelly Huntington	Brian Vaasjo
Jane Peverett	

### Appoint the auditors

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

KPMG has been our auditor since our initial public offering in 2009. The table below shows the fees billed by KPMG for the fiscal years ended December 31, 2018 and 2017.

(\$ millions)	2018	2017
<b>Audit fees</b>	\$1.1	\$1.4
Include audit and review of financial statements, services related to statutory and regulatory filings and providing comfort letters associated with securities documents		
<b>Audit-related fees</b>	-	-
Include assurance and related services that are not reported under audit fees		
<b>Tax fees</b>	-	-
Include reviewing tax returns, answering questions about tax audits, and tax planning		
<b>All other fees</b>	\$0.1	\$0.1
All other fees are fees for operational advisory and risk management services and non-securities legislative and regulatory compliance work		
<b>Total</b>	\$1.2	\$1.5

### Vote on our approach to executive compensation

You'll vote on our approach to executive compensation (see Executive compensation beginning on page 39).

The board recommends that you vote **for** approval of our approach to Executive compensation:

*RESOLVED, on an advisory basis and not to diminish the role and responsibilities of the board of directors, that the shareholders accept the approach to executive compensation disclosed in Capital Power's management proxy circular delivered before its 2019 annual meeting of shareholders.*

### About voting results

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

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

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

We held our first say-on-pay vote in 2012, and have subsequently held say-on-pay votes annually from 2013 to 2018. We received approval in the range of over 91% to over 99% from our shareholders in these years.

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

### **Vote to continue our shareholder rights plan**

You'll vote to continue our existing shareholder rights plan (rights plan).

The objective of a rights plan is to make sure, to the extent possible, shareholders are treated fairly if there is ever a bid to acquire more than 20% of our voting shares (takeover bid). Among other things, it gives the board time to assess any unsolicited bids and explore and develop alternatives to maximize shareholder value.

Our amended and restated shareholder rights plan was last reviewed and approved by shareholders on April 22, 2016. The continuance of the plan was approved by the board on February 15, 2019, but it must also be ratified by our shareholders. If our shareholders approve the plan, it will remain in effect until the end of our 2022 annual general meeting. If not, it will expire at the end of our 2019 meeting.

Management and the directors recommend that you vote **for** approval of the rights plan. The named proxyholders will vote for the following resolution unless you instruct otherwise.

*RESOLVED, as an ordinary resolution:*

- *That the shareholder rights plan of Capital Power Corporation ("Capital Power") as set out in Amended and Restated Shareholder Rights Plan Agreement made as April 22, 2016 between Capital Power and Computershare Trust Company of Canada, be approved; and*
- *Any director or officer of Capital Power is authorized to do all things and execute all documents to give effect to this resolution.*

You can read more about the plan under the heading About our shareholder rights plan, below. The following summary is qualified in its entirety by reference to the text of the rights plan agreement, which is shown in Appendix C.

The board reserves the right to change the terms of the plan or not proceed with it any time before our 2019 meeting if it is in the best interests of Capital Power and our shareholders.

### **About our shareholder rights plan**

#### *Why have a shareholder rights plan*

Our shareholder rights plan (rights plan) is intended to make sure shareholders are treated fairly if there is a takeover bid for control of Capital Power. Our rights plan addresses the three primary concerns shareholders have about takeover bids in Canada: time, pressure to tender and unequal treatment.

- *Time* — The rights plan's minimum expiry period is 105 days (which is the minimum expiry period prescribed by law) as part of the permitted bid definition. This gives shareholders time to evaluate an offer and gives the board time to explore other options.
- *Pressure to tender* — Shareholders may feel pressure to tender to a bid they feel is inadequate if they could be left with minority position shares that may be discounted or difficult to sell. This can be the case if a bidder simply wants to gain a controlling position (20% or more of the company's voting shares), not full ownership. The rights plan separates the shareholder's decision to tender shares from their decision about approving a takeover bid by requiring a bid to remain open for 10 business days after it's announced that more than 50% of the company's eligible shares have been deposited so that more shareholders can participate if they want.
- *Unequal treatment* — Shareholders may be treated unequally if a shareholder tries to gain control by buying shares above market value from a small group of holders under a private agreement that excludes the other shareholders, or by acquiring shares slowly through a stock exchange, without paying fair value to shareholders for a controlling interest. The rights plan ensures equal treatment for all shareholders by triggering the provisions of the plan anytime someone attempts to acquire more than 20% of our voting shares.

#### *Plan summary*

An acquiring person is anyone (including their associates, affiliates or others acting jointly or in concert) who acquires beneficial ownership of 20% or more of our outstanding voting shares.

*Flip in events* — A flip in event is any transaction or event where an acquiring person acquires beneficial ownership of 20% or more of our outstanding voting shares that is not a permitted bid under the plan.

*Permitted bids* — A bidder can make a take-over bid without triggering a flip in event under the rights plan if the take-over bid qualifies as a permitted bid. Generally speaking, to constitute a permitted bid, the bidder must begin the take-over bid by way of a circular addressed to all holders of our shares. In addition, the bid must remain open for at least 105 days and must provide that any tendered shares may be withdrawn until paid for. Once independent shareholders have deposited 50% of their shares under the take-over bid, a public announcement must be made and the bid must remain open for at least 10 business days following the announcement.

The rights plan allows a competing permitted bid to be made while a permitted bid is outstanding. It must meet all of the requirements of the permitted bid, except that it can expire on the same day as the permitted bid (as long as it has already been outstanding for at least 35 days, or such longer minimum period required under securities law).

*Rights* — One right will be issued and attached to each voting share outstanding at November 20, 2012, and will be issued for each new voting share issued after that date.

The rights initially trade with and are represented by certificates that represent the voting shares, including certificates issued before the rights plan came into effect. The rights will separate from the voting shares and become exercisable 10 trading days after the date of the public announcement that either 1) a flip-in event has occurred, or 2) a person intends to make a take-over bid that is not a permitted bid. Upon the occurrence of a flip-in event, any rights held by an acquiring person will become void when the rights separate, and rights held by all other holders will permit them to buy shares at a substantially discounted price. This will normally result in a great number of new shares being issued when the rights are exercised, thus making a take-over bid extremely expensive and less attractive.

*Redemption* — The board can redeem all of the outstanding rights for \$0.00001 per right before or after separation but it needs the consent of a majority of independent shareholders.

*Duties of the board* — The rights plan does not in any way lessen or affect the duty of the board to act honestly and in good faith, with a view to the best interests of Capital Power. If a take-over bid or similar offer is made, the board will continue to have the duty and power to take appropriate actions and make recommendations to shareholders.

*Shareholder approval* — If our shareholders don't ratify its continuation, the right plan and all outstanding rights will terminate and will be void and have no further force and effect. If they do ratify it, the rights plan will expire at the end of our 2022 annual meeting of shareholders.

The full text of our rights plan agreement is attached as Appendix C.

#### **Transact other business**

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

## About the nominated directors

Our articles state that the board must have between three and 12 directors. The board has nominated nine directors to be elected by holders of common shares.

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

The board has determined that eight of the nine nominated directors (approximately 89%) are independent as defined by Canadian securities laws, meaning they do not have a material relationship with Capital Power that might reasonably be expected to interfere with their ability to make an independent judgment. Brian Vaasjo is not independent because he is our President & CEO.

### OUR ADVANCE NOTICE BY-LAW

In 2013 we adopted an advance notice by-law, which was approved by shareholders at our 2013 annual meeting of shareholders.

The purpose of the by-law is to make sure all shareholders (including those participating by proxy) receive adequate notice and information about nominated directors, so that they can make informed voting decisions. It also helps ensure orderly and efficient shareholder meetings by providing a structured and transparent framework for nominating directors.

The by-law requires shareholders to give us advance notice about any directors they propose to nominate (including certain prescribed information about them) unless the nominations are made by:

- shareholder meeting requisition, or
- shareholder proposal under the *Canada Business Corporations Act* (in which case those rules govern).

Under the by-law, director nominees are not eligible to become elected directors of Capital Power unless they're nominated according to the provisions of the by-law.

Information about director nominees must include certain prescribed information. This information is similar to the information we are required to disclose about directors in our circular, such as information about their relevant education and experience, and whether or not they're independent. It's designed to make sure shareholders have enough information about each proposed nominee to make informed voting decisions.

For annual shareholder meetings, we must receive notice of director nominees at least 30 days (and not more than 65 days) before the meeting date. For special shareholder meetings (unless the special meeting is also an annual meeting), we must receive notice not later than 15 days after we file our notice of meeting and record date on SEDAR. If, however, we use notice-and-access to deliver our proxy materials, we must receive notice at least 40 days (and not more than 75 days) before the date of the annual or special meeting.

Our board plans to review the by-law from time to time and update it when needed to reflect changes in regulatory or securities law requirements or to meet industry standards. It can also waive any requirement of the by-law at any time, in its sole discretion.

A copy of our advance notice by-law is available on SEDAR ([www.sedar.com](http://www.sedar.com)).

### OUR POLICY ON DIRECTOR MAJORITY VOTING

The board adopted a majority voting policy for directors in 2010 contained within its corporate governance policy that requires:

- individual (not slate) voting for all directors, and
- each director to receive a majority of the votes cast for his or her election, otherwise he or she must offer to resign immediately.

If a nominated director does not receive a majority of votes, then the nominee shall be considered not to have received the support of the shareholders, even if elected as a matter of corporate law. In this case, the director is expected to tender his or her resignation with the board, which will be accepted as soon as possible and will take effect upon acceptance. The director lacking shareholder support would not participate in these discussions.

If the board decides not to accept such a resignation, the board would issue a news release explaining its decision within 90 days after the election results are certified.

This policy does not apply to contested director elections.

## DIRECTOR PROFILES

The following profiles include information about each nominated director, including their skills, background and experience and list other public company boards of which they're members. We've also included, where applicable, their attendance for our 2018 board meetings, committee meetings and director education events, last year's voting results and details about their share ownership.

Holdings of Capital Power common shares and deferred share units (DSUs) are as of March 1, 2019 and include reinvested dividends and dividend equivalents. The value of common shares and DSUs are based on the higher of \$30.03, the closing price of our common shares on the TSX on March 1, 2019, and their cost of acquisition. Non-employee directors are not entitled to receive options.

Brian Vaasjo does not receive director DSUs or other director compensation because he is compensated in his role as President & CEO (see Executive compensation beginning on page 39 for more information).

None of the nominated directors have any loans from Capital Power or any of our subsidiaries. All information is as at March 1, 2019 unless indicated otherwise.



### **Donald Lowry, ICD.D (67)** (Chair of the board)

Independent | Director since July 2009 | Edmonton, AB

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

Mr. Lowry graduated from the University of Manitoba with a Bachelor of Commerce degree (Honours), followed by a Master of Business Administration degree. He is a graduate of the Harvard Advanced Management Program and the Banff School of Management, and earned his ICD.D. designation in 2016.

Mr. Lowry is past chair of the Canadian Electricity Association, past non-executive chair of Canadian Oil Sands Limited, and serves as a director on several boards, including Stantec Inc., Melcor Real Estate Investment Trust (REIT) and Hydrogenics Corporation. Mr. Lowry previously served on the board of Canadian Water Network and has been chair of the Edmonton Triathlon since 2013, including for the 2014 ITU World Triathlon Grand Final Edmonton. He was recognized in 2010 as Alberta Venture's Business Person of the Year and in 2014 as the Alberta Chamber of Resources Person of the Year, 2013.

Mr. Lowry is a regular writer and publisher in industry leading journals and on-line media on the subject of board governance, leadership and strategy. In addition, Mr. Lowry is a frequent speaker and panelist at major industry conferences.

#### **Experience**

CEO/senior leadership, strategy and planning, governance/compliance, risk management and oversight, power/energy industry, operations/development/construction, health safety and environment, cyber/physical security, M&A, talent management/compensation, government/public affairs

#### **Geographic diversity**

Western Canada, Central/Eastern Canada

#### **Public board interlocks**

None

Board and committee membership	Meeting attendance
Board (chair)	9 of 9 (100%)
Audit Committee (ex-officio non-voting)	4 of 4 (100%)
CGC&N Committee (ex-officio non-voting)	3 of 3 (100%)
Health, Safety and Environment (HSE) Committee (ex-officio non-voting)	3 of 3 (100%)

#### **Securities and DSUs held**

Common shares	11,000	Total common shares and DSUs	48,257
DSUs	37,257	Total market value common shares and DSUs	\$1,449,169
Percentage of ownership requirement	146%	Meets ownership requirement	yes

#### **Voting results 2018**

Votes in favour	56,336,646 (94.33%)	Votes withheld	3,387,574 (5.67%)
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**Other public directorships:** Melcor REIT, Stantec Inc., Hydrogenics Corporation (3)

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

**Doyle Beneby (59)**

Independent | Director since April 27, 2012 | West Palm Beach, FL, USA

Doyle Beneby serves as Chief Executive Officer of Midland Cogeneration Venture since November 2018. Prior to that, he had been self-employed as a professional director since May 2016. He was formerly the CEO of New Generation Power International, an international independent renewable energy company, from October 2015 to May 2016. Prior to joining New Generation Power International, Doyle Beneby was the President and CEO of CPS Energy, the largest municipally-owned gas and electric utility in the US, a position he held since August 2010. Mr. Beneby has over 20 years' experience in various aspects of the electrical power industry.

**Experience**

CEO/senior leadership, strategy and planning, governance/compliance, risk management and oversight, power/energy industry, operations/development/construction, health safety and environment, cyber/physical security, M&A, talent management/compensation, government/public affairs

**Geographic diversity**

USA

**Public board interlocks**

None

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

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

Board and committee membership	Meeting attendance
Board	8 of 9 (89%)
Audit Committee	4 of 4 (100%)
HSE Committee (chair)	3 of 3 (100%)

**Securities and DSUs held**

Common shares	0	Total common shares and DSUs	33,692
DSUs	33,692	Total market value common shares and DSUs	\$1,011,767
Percentage of ownership requirement	141%	Meets ownership requirement	yes

**Voting results 2018**

Votes in favour	59,630,411 (99.84%)	Votes withheld	93,809 (0.16%)
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**Other public directorships:** Korn/Ferry International, Quanta Services (2)

**Jill Gardiner (60)**

Independent | Director since May 25, 2015 | Vancouver, BC

Jill Gardiner is a professional corporate director. Previously, she spent over 20 years in the investment banking industry, most recently as Managing Director and Regional Head, British Columbia, for RBC Capital Markets. In her various roles in corporate finance, mergers and acquisitions, and debt capital markets she provided strategic advice to, and helped raise capital for, numerous corporations with a focus on the power, pipeline, infrastructure, forest products and diversified industries. She served as Head of the Forest Products Group and Head of the Pipelines & Utilities Group. Ms. Gardiner was formerly Senior Project Manager at the Ontario Energy Board and a lecturer at the University of Victoria in corporate finance and human resource management.

Ms. Gardiner is currently a member of the boards of directors of Capstone Mining Corp. and is a Trustee for the non-profit ARC Foundation. She previously served as chair of the board of directors of Turquoise Hill Resources Ltd. and as a member of the boards of Timber Investments Ltd., SilverBirch Hotels & Resorts LP, Parkbridge Lifestyle Communities Inc. and a number of non-profit organizations, including the Banff Centre, the Vancouver Art Gallery and the Southern Alberta Institute of Technology.

Ms. Gardiner holds a Bachelor of Science and a Master of Business Administration, both from Queen's University.

Board and committee membership	Meeting attendance
Board	9 of 9 (100%)
Audit Committee	4 of 4 (100%)
CGC&N Committee (chair)	3 of 3 (100%)

**Securities and DSUs held**

Common shares	7,682	Total common shares and DSUs	22,508
DSUs	14,826	Total market value common shares and DSUs	\$675,907
Percentage of ownership requirement	121%	Meets ownership requirement	yes

**Voting results 2018**

Votes in favour	59,638,267 (99.86%)	Votes withheld	85,953 (0.14%)
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**Other public directorships:** Capstone Mining Corp. (1)





### Kelly Huntington (43)

Independent | Director since June 3, 2015 | Indianapolis, IN, USA

Kelly Huntington is Senior Vice President of Enterprise Strategy at OneAmerica Financial Partners, Inc., a position she has held since July 2015. She also serves as a member of the boards of directors for five related entities. Previously, she was President and CEO for Indianapolis Power & Light Company (IPL) from 2013 until July 2015, and was also a member of the board of IPL and IPALCO Enterprises Inc. Prior to that, she was Senior Vice President and CFO at IPL and held various leadership positions at The AES Corporation. She began her career in investment banking and private equity. Ms. Huntington currently serves as vice chair of Riley Children's Foundation, second vice chair of the Indianapolis Zoo, and as secretary and chief operating officer of The Economic Club of Indiana. Ms. Huntington was previously chair of the board of directors of Indianapolis Neighborhood Housing Partnership.

Ms. Huntington holds a Master of Business Administration from Northwestern University's Kellogg School of Management, a Bachelor of Science from the Massachusetts Institute of Technology, and is a Chartered Financial Analyst.

#### Experience

CEO/senior leadership, strategy and planning, governance/compliance, risk management and oversight, power/energy industry, operations/development/construction, health safety and environment, cyber/physical security, finance/accounting, capital markets, M&A, financial products/commodity trading, talent management/compensation, government/public affairs, regulatory/legal

#### Geographic diversity

USA

#### Public board interlocks

None

Board and committee membership	Meeting attendance
Board	9 of 9 (100%)
Audit Committee	4 of 4 (100%)
HSE Committee	3 of 3 (100%)

#### Securities and DSUs held

Common shares	0	Total common shares and DSUs	18,005
DSUs	18,005	Total market value common shares and DSUs	\$540,694
Percentage of ownership requirement	80%	Meets ownership requirement	in progress

#### Voting results 2018

Votes in favour	59,016,880 (98.89%)	Votes withheld	662,340 (1.11%)
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Other public directorships: None



### Katharine Stevenson, ICD.D (56)

Independent | Director since April 3, 2017 | Toronto, ON

Kate Stevenson has been a professional director since 2007, and has extensive experience as a senior financial executive in Canada and the US. From 1995 to 2007, she served as a senior financial executive with Nortel Networks, including Global Treasurer for part of that period. She was with J.P. Morgan and Company from 1984 to 1995, where she had progressively senior finance roles in corporate and investment banking. She presently serves on the boards of directors of Canadian Imperial Bank of Commerce (chair of its Corporate Governance Committee and member of its Management Resources & Compensation Committee), Open Text Corporation (member of its Audit Committee) and CAE Inc. (member and past chair of its Audit Committee and member of its Governance Committee).

Ms. Stevenson has also previously served on the boards of directors of Valeant Pharmaceuticals International, Inc. and OSI Pharmaceuticals Inc. In addition, she serves on the St. Michael's Hospital Foundation Board, is past vice chair of the board of governors of the University of Guelph and past chair of the board of The Bishop Strachan School.

Ms. Stevenson holds a Bachelor of Arts (magna cum laude) from Harvard University, and has earned her ICD.D. designation from the Institute of Corporate Directors.

#### Experience

CEO/senior leadership, strategy and planning, governance/compliance, risk management and oversight, finance/accounting, capital markets, M&A, financial products/commodity trading, talent management/compensation

#### Geographic diversity

Central/Eastern Canada

#### Public board interlocks

CIBC

Board and committee membership	Meeting attendance
Board	9 of 9 (100%)
Audit Committee	4 of 4 (100%)
CGC&N Committee	3 of 3 (100%)

#### Securities held

Common shares	4,000	Total common shares and DSUs	13,092
DSUs	9,092	Total market value common shares and DSUs	393,139
Percentage of ownership requirement	76%	Meets ownership requirement	in progress

#### Voting results 2018

Votes in favour	59,038,480 (98.85%)	Votes withheld	685,740 (1.15%)
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Other public directorships: CIBC, OpenText Corporation, CAE Inc. (3)

**Keith Trent (59)**

Independent | Director since April 3, 2017 | Charlotte, NC, USA

Keith Trent has been a professional director since 2015, and has 15 years' experience as an energy executive, general counsel and internal legal counsel. From 2005 to 2015, Mr. Trent held a variety of senior executive positions with Duke Energy Corporation (Duke), including as general counsel, with responsibility for long-term grid strategy, 4 regulated utilities, electric transmission, regulated fossil-fuel and hydro generation, health, safety and environment, fuel and system optimization, central engineering and services, and commercial businesses operating in domestic and international retail and wholesale competitive markets. From 2002 to 2005, Mr. Trent held a variety of positions with Duke with responsibility for corporate strategy, government relations, corporate communications, technology initiatives, legal, internal audit and compliance, and major litigation and government investigations (as Lead Litigator). Prior to 2002, Mr. Trent practiced law for 15 years.

Mr. Trent currently serves on the advisory board of Forsite Development Inc., and the boards of directors of Edison International, Inc., TRC Companies Inc. and AWP Inc. He has previously served on the board of trustees of The Keystone Energy Board, on the Accenture Global Energy Board, on the board of visitors of the Wake Forest University School of Business, and on the board of Electric Power Research Institute.

Mr. Trent holds a Juris Doctor degree, and a Bachelor of Science (Electrical Engineering).

**Experience**

CEO/senior leadership, strategy and planning, governance/compliance, risk management and oversight, power/energy industry, operations/development/construction, health safety and environment, cyber/physical security, M&A, financial products/commodity trading, talent management/compensation, government/public affairs, regulatory/legal

**Geographic diversity**

USA

**Public board interlocks**

None

Board and committee membership		Meeting attendance
Board		9 of 9 (100%)
CGC&N Committee		3 of 3 (100%)
HSE Committee		3 of 3 (100%)

**Securities and DSUs held**

Common shares	0	Total common shares and DSUs	10,017
DSUs	10,017	Total market value common shares and DSUs	\$300,797
Percentage of ownership requirement	44%	Meets ownership requirement	in progress

**Voting results 2017**

Votes in favour	59,610,192 (99.81%)	Votes withheld	114,028 (0.19%)
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**Other public directorships: Edison International, Inc. (1)**

Mr. Trent was named as a defendant in Crescent Resources Litigation Trust v Duke Energy Corporation, et al., Case No. A-12-CA-009-SS in the United States District Court for the Western District of Texas (filed September 3, 2010). This was a fraudulent conveyance action in which the plaintiff, Litigation Trust, also asserted claims for breach of fiduciary duty against various individuals, including Mr. Trent. The plaintiff alleged that Mr. Trent breached his fiduciary duty in allowing Crescent Resources to engage in a transaction that ultimately resulted in Crescent filing for bankruptcy three years later. The case was settled in November 2013, and a Stipulation of Dismissal with Prejudice was entered on January 7, 2014. There was no finding of any breach of any duty by Mr. Trent.

**Jane Peverett, ICD.D (67)**

Independent | Director appointed effective March 1, 2019 | West Vancouver, BC

Jane Peverett has been a professional director since 2009. Ms. Peverett was President and Chief Executive Officer of British Columbia Transmission Corporation from 2005 to 2009 and Chief Financial Officer from 2003 to 2005. From 1987 to 2003 she held senior finance, regulatory and executive roles at Westcoast Energy Inc., including President and CEO of Union Gas from 2001 to 2003 (leader the merger of Union into Duke Energy), CFO of Union Gas, and VP Finance of Westcoast Energy. She presently serves on the boards of directors of Canadian Imperial Bank of Commerce (chair of its audit committee and member of its corporate governance committee), CP Rail (chair of its audit committee and member of its finance committee) and NW Natural Gas (member of its organization and executive compensation committee and public affairs and environmental policy committee).

Ms. Peverett has also previously served on the boards of directors of AEGSIS Insurance Services, Postmedia, as past chair of the audit committee for Encana, as past chair of the governance and nominating committee for Hydro One Inc., and past chair of the board of BC Ferries Authority.

Ms. Peverett holds a Bachelor of Commerce degree from McMaster University, a Master of Business Administration from Queen's University, is a Certified Management Accountant, and a Fellow of the Society of Management Accountants.

**Experience**

CEO/senior leadership, strategy and planning, governance/compliance, risk management and oversight, power/energy industry, operations/development/construction, health, safety and environment, finance/accounting, capital markets, M&A, financial products/commodity trading, talent management/compensation, government/public affairs, regulatory/legal

**Geographic diversity**

Western Canada

**Public board interlocks**

CIBC

Board and committee membership		Meeting attendance
Board		N/A

**Securities, DSUs and options held**

Common shares	0	Total common shares and DSUs	0
DSUs	0	Total market value common shares and DSUs	\$0
Percentage of ownership requirement	0%	Meets ownership requirement	in progress

**Voting results 2017**

Votes in favour	N/A	Votes withheld	N/A
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**Other public directorships: CIBC, NW Natural Gas (2)**

Ms. Peverett was a director of Postmedia Networks Canada Corp. (Postmedia) between April 2013 and January 2016. On October 5, 2016, Postmedia completed a recapitalization transaction pursuant to a court approved plan of arrangement under the *Canada Business Corporations Act* under which, approximately US\$268.6 million of debt was exchanged for shares that represented approximately 98% of the outstanding shares at that time. Additionally, Postmedia repaid, extended and amended the terms of its outstanding debt obligations pursuant to the recapitalization transaction.



#### Experience

CEO/senior leadership, strategy and planning, governance/compliance, risk management and oversight, power/energy industry, health, safety and environment, capital markets, M&A, talent management/compensation, regulatory/legal

#### Geographic diversity

Western Canada

#### Public board interlocks

None

#### Robert L. Phillips, Q.C., F.ICD (68)

Independent | Director nominee | Anmore, BC

Robert Phillips is President and Chief Executive Officer of R. L. Phillips Investments Inc. and was previously President and CEO of British Columbia Railway Corporation from 2001-2004. Mr. Phillips practiced corporate law for 15 years and has served in senior executive positions with Husky Energy Inc., Dresco Energy Services Ltd., PTI Group, Inc. and MacMillan Bloedel Limited.

Mr. Phillips received degrees in Chemical Engineering and Law from the University of Alberta. He serves on the board of several Canadian and US corporations, including Canadian Western Bank (chair), West Fraser Timber Co. Ltd. (lead director), Canadian National Railway, and Maxar Technologies Inc. He previously served on the board of Capital Power Corporation (EPCOR nominee from 2009-2013), as well as EPCOR Utilities Inc., Axia NetMedia Corporation, Dresco Energy Services Ltd., National-Oilwell Inc., Precision Drilling Corporation and others.

Board and committee membership	Meeting attendance
Board	N/A

#### Securities and DSUs held

Common shares	1,000	Total common shares and DSUs	1,000
DSUs	0	Total market value common shares and DSUs	\$30,030
Percentage of ownership requirement	6%	Meets ownership requirement	in progress

#### Voting results 2018

Votes in favour	N/A	Votes withheld	N/A
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**Other public directorships:** Canadian Western Bank, West Fraser Timber Co. Ltd., Canadian National Railway, Maxar Technologies Inc. (4)



#### Experience

CEO/senior leadership, strategy and planning, governance/compliance, risk management and oversight, power/energy industry, operations/development/construction, cyber/physical security, finance/accounting, capital markets, M&A, financial products/commodity trading, government/public affairs, regulatory/legal

#### Geographic diversity

Western Canada

#### Public board interlocks

None

#### Brian Vaasjo (63)

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

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

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

Board and committee membership	Meeting attendance
Board	9 of 9 (100%)
Audit Committee	4 of 4 (100%)
CGC&N Committee	3 of 3 (100%)
HSE Committee	3 of 3 (100%)

#### Securities, DSUs and options held

Common shares	130,840	Total common shares and DSUs	130,840
DSUs	N/A	Total market value common shares and DSUs	\$3,929,125
Percentage of ownership requirement	138%	Meets ownership requirement	yes
(see page 44)		(see page 44)	

As of March 1, 2018, Brian Vaasjo holds 63,026 performance share units (PSUs) and 1,097,316 stock options. Share ownership for Mr. Vaasjo is based on the sum of the number of common shares held by him and his earned PSUs as of December 31, 2018 (see page 44).

#### Voting results 2017

Votes in favour	59,643,146 (99.86%)	Votes withheld	81,074 (0.14%)
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**Other public directorships:** None

Mr. Vaasjo attends Audit Committee, CGC&N Committee and HSE Committee meetings as a guest and in his capacity as President & CEO of Capital Power.

## MEETING ATTENDANCE AND COMMITTEE MEMBERSHIPS

We expect our directors to attend all board and relevant committee meetings. The CGC&N Committee reviews the attendance records to ensure each director has attended at least 80% of the meetings. If attendance falls below this level and there are no extenuating circumstances, the committee will discuss the situation and recommend to the board whether the board should seek the director's resignation.

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

	Committee meetings							
	Board meetings			Audit		CGC&N		HSE
Donald Lowry	(chair)	9 of 9	100%	4 of 4	100%	3 of 3	100%	3 of 3 100%
Albrecht Bellstedt		9 of 9	100%			3 of 3	100%	3 of 3 100%
Doyle Beneby		8 of 9	89%	4 of 4	100%			(chair) 3 of 3 100%
Jill Gardiner		9 of 9	100%	4 of 4	100%	(chair) 3 of 3	100%	
Kelly Huntington		9 of 9	100%	4 of 4	100%			3 of 3 100%
Philip Lachambre		9 of 9	100%	(chair) 4 of 4	100%	3 of 3	100%	
Katharine Stevenson		9 of 9	100%	4 of 4	100%	3 of 3	100%	
Keith Trent		9 of 9	100%			3 of 3	100%	3 of 3 100%
Brian Vaasjo		9 of 9	100%	4 of 4	100%	3 of 3	100%	3 of 3 100%

### Notes

- Mr. Vaasjo attends committee meetings as a guest and in his capacity as President & CEO of Capital Power.
- Messrs. Bellstedt and Lachambre are not standing for re-election in 2019.
- Ms. Peverett was appointed to the board effective March 1, 2019.

## DIRECTOR INTERLOCKS

Two of our director nominees serve together on other public company boards. Jane Peverett and Katharine Stevenson serve together on the board of directors of Canadian Imperial Bank of Commerce (CIBC) and are both on the corporate governance committee (which Ms. Stevenson chairs).

When recommending new directors, the board considers any potential director interlocks and must agree that any such interlock would not impair the exercise of independent judgment by the interlocked directors, failing which, an interlocked director would not be recommended and nominated for election.

## DIRECTOR EDUCATION

We endeavour to provide education and update contextual information as required to ensure that our directors have the most up-to-date knowledge to inform their decisions. Our directors receive materials before each board meeting that include background information about items to be considered at the meeting. We also encourage our directors to attend externally hosted education and Capital Power contributes to the cost. The table below lists the education we provided directly to our directors in 2018. You can find more information about education and ongoing development of directors on page 24.

Date	Event	Description	Attendees
February	Presentation on strategy	Presentation by Brian Vaasjo, President & CEO of Capital Power	Donald Lowry Albrecht Bellstedt Doyle Beneby Patrick Daniel Jill Gardiner Kelly Huntington Philip Lachambre Katharine Stevenson Keith Trent Brian Vaasjo
April	Financial Strategy Session	Presentations by members of Capital Power's Finance Team	Donald Lowry Albrecht Bellstedt Doyle Beneby Patrick Daniel Jill Gardiner Kelly Huntington Philip Lachambre Katharine Stevenson Keith Trent Brian Vaasjo
May	The Future of Power	Presentation by Brian Gutknecht, Strategic Marketing Leader, GE Power	Donald Lowry Albrecht Bellstedt Doyle Beneby Jill Gardiner Kelly Huntington Philip Lachambre Katharine Stevenson Brian Vaasjo
May	Plant tour	Tour of Decatur Energy Center	Donald Lowry Albrecht Bellstedt Doyle Beneby Jill Gardiner Kelly Huntington Philip Lachambre Katharine Stevenson Keith Trent Brian Vaasjo
July	CPC Women's Networking Event	Networking event aimed at building and deepening relationships among our women leaders. Hosted by Kate Chisholm and Jacquie Pylypiuk of Capital Power	Jill Gardiner Kelly Huntington Katharine Stevenson
July	Future of Genesee	Presentation by Sian Barraclough, VP Commercial & Energy Management of Capital Power	Donald Lowry Albrecht Bellstedt Doyle Beneby Jill Gardiner Kelly Huntington Philip Lachambre Katharine Stevenson Keith Trent Brian Vaasjo
October	Presentation on international trade and political outlook	Presentation by Prime Minister Stephen Harper	Donald Lowry Albrecht Bellstedt Jill Gardiner Kelly Huntington Philip Lachambre Katharine Stevenson Keith Trent Brian Vaasjo

### Note

- Patrick Daniel did not stand for re-election at the April 27, 2018 shareholders meeting.

In addition, the chairs of our board and CGC&N Committee have a license to access certain materials from Equilar, a provider of board intelligence solutions, for internal research purposes (such as benchmarking).

## 2. Governance

### Governance at Capital Power

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

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

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

We've adopted a comprehensive corporate governance policy which is available on our website ([www.capitalpower.com](http://www.capitalpower.com)).

Management also assessed our financial reporting procedures this year and concluded that we are in compliance as of December 31, 2018.

#### GOVERNANCE HIGHLIGHTS

- ✓ Voting is by individual director, we have a majority voting policy and we disclose the voting results on all items of business within five business days of a shareholder meeting
- ✓ We maintain separate chair and CEO positions so the board can function independently and monitor management's decisions and actions and effectively oversee our affairs
- ✓ The majority of our board nominees (eight out of nine) are independent
- ✓ The chair of the board is independent
- ✓ The board has developed clear position descriptions for the chair of the board, each committee and the CEO
- ✓ Our Audit Committee is 100% independent
- ✓ Our CGC&N Committee is 100% independent
- ✓ Directors must meet share ownership requirements within five years of joining the board or within five years of a material change to their compensation (three times their annual cash and equity retainer in Capital Power DSUs and/or common shares). Capital Power's senior executive officers must also meet share ownership requirements (see page 44 for more information on the share ownership requirements for executive officers)
- ✓ Our board has a formal, written mandate
- ✓ The board meets without management present (in-camera) at every meeting
- ✓ We expect 100% attendance of our directors. The CGC&N Committee reviews the attendance record to ensure directors have attended at least 80% of board meetings and their respective committee meetings
- ✓ The board has adopted a written code of business conduct and ethics, and monitors our compliance with it
- ✓ The board oversees management, strategic and corporate planning, risk management, succession planning, leadership development and sustainability
- ✓ We conduct an advisory vote on executive compensation, giving shareholders a say on pay
- ✓ We adopted an incentive claw-back policy and anti-hedging policy, further aligning the interests of executives and shareholders
- ✓ We have orientation and continuing education programs for our directors
- ✓ We maintain a skills matrix to assist in planning, developing and managing the skills and competencies of the board
- ✓ Our board evaluation process was refreshed in 2017 and 2018. It involves annual board and committee effectiveness surveys, annual director and chair self-assessments, annual one-on-one meetings between each director and chair of the board, and peer-to-peer assessments conducted every three years by an independent third party
- ✓ The board has adopted a board diversity policy, which has minimum requirements regarding the proportion of women candidates in director search shortlists and a 30% target for the proportion of women on our board
- ✓ The board has adopted a director tenure & succession policy which establishes term limits and board chair succession
- ✓ The board has adopted a shareholder engagement policy
- ✓ The chair of the board and the chair of CGC&N Committee conducted shareholder engagement events in early 2018
- ✓ The chair of the board and the chair of CGC&N Committee conducted meetings with proxy advisors in Q3 2018
- ✓ Amendments to our articles and by-laws, and approval of mergers, require a shareholder vote at levels required by law

## About the board

The board is responsible for our stewardship. It provides independent oversight of our business so we grow and sustain profits responsibly. The board is actively engaged, supervises our business and affairs, and is specifically responsible for:

- management, strategic and corporate planning oversight
- enterprise risk management
- CEO succession planning
- shareholder engagement

The board ensures that management's plans and activities are consistent with our values. Our company values are the values of our people. Together, we are focused on the future. Our vision is to be recognized as one of North America's most respected, reliable and competitive independent power producers and a trusted resource for affordable, future-focused energy.

### Independence

Eight out of nine director nominees (approximately 89%) are independent according to the standards of independence established under Section 1.2 of NI 58-101. Brian Vaasjo is not considered independent because he is Capital Power's President & CEO.

Nominated directors	Independent	Not independent
Donald Lowry (chair)	✓	
Doyle Beneby	✓	
Jill Gardiner	✓	
Kelly Huntington	✓	
Katharine Stevenson	✓	
Keith Trent	✓	
Jane Peverett	✓	
Robert Phillips	✓	
Brian Vaasjo		✓

An independent, non-executive director chairs our board. The board met 9 times in 2018. The directors met without management at all meetings. You'll find the board's terms of reference in Appendix A.

### *Separate chair and CEO positions*

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

The CGC&N Committee recommends, and the board nominates, director candidates based on the skills matrix, their character and leadership strengths and other key qualities like breadth of experience, insight and knowledge, financial and compensation literacy, and business judgment. The terms of reference for the chair of the board, each committee, individual directors and the President & CEO include detailed position descriptions and are available on our website ([www.capitalpower.com](http://www.capitalpower.com)).

### Ethics

Our ethics policy applies to all permanent and temporary employees and members of our board of directors. We expect all members of our team to conduct themselves in a manner that reflects our core values for our people: trustworthy, reliable and real. Everyone must read, understand and comply with the policy, and executives must certify their compliance with the policy quarterly. Our ethics policy is on our website ([www.capitalpower.com](http://www.capitalpower.com)), or you can ask our Corporate Secretary to send you a copy (see page 69).

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

### *Board*

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

### *Senior officers*

All senior officers must certify compliance with the policy quarterly and the President & CEO and Senior Vice-President & CFO certify our quarterly and annual financial statements and related management's discussion and analysis (MD&A), as well as our 2018 AIF, for filing with the Canadian Securities Administrators.

### *Reporting a concern*

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

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

### *Investigating ethical complaints*

We investigate complaints promptly and thoroughly.

A written report is completed for every investigation process, including its outcome, and is maintained on file.

### *Material interests*

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

### *Disclosure and insider trading policy*

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

Our disclosure committee consists of senior managers and reports to, and is subject to, the supervision and oversight of our President & CEO. Our disclosure committee is responsible for reviewing all proposed disclosure before it is released publicly. The disclosure committee also reports its work and findings to our board and Audit Committee, and must promptly inform our board and Audit Committee of any material disclosure issues or concerns regarding any of our disclosure controls that come to the disclosure committee's attention.

### *Ethics training*

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

## **ROLE AND RESPONSIBILITIES**

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

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

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

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

### **Management, strategic and corporate planning oversight**

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

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

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



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

First quarter	<p>Management begins the process for the following year by carrying out the following:</p> <ul style="list-style-type: none"> <li>• assessment of industry trends and the competitive environment</li> <li>• preparation of commodity and economic forecasts</li> <li>• review of how well it executed its strategy in the previous year</li> <li>• decisions as to whether or not the strategy must be modified</li> <li>• determination of what modifications to the strategy are necessary (if any)</li> <li>• adjustment of its plans and objectives to execute the strategy</li> <li>• preparation of a long-range financial forecast</li> </ul>
Second quarter	<p>Management uses the inputs to develop our strategy and corporate plan, which contains our objectives, activities, forecasts and a risk assessment, and submits the draft strategy and corporate plan to the board (generally in May). The board and management meet for a two-day, off-site planning session to discuss the strategic plan. Management highlights the risks and solicits feedback from the board and any proposed changes to the strategy and tactics.</p>
Third quarter	<p>Management reviews the feedback and makes changes to the strategy and corporate plan. It submits the revised strategy and corporate plan to the board for approval, generally at its July meeting.</p>
Fourth quarter	<p>In October, management updates its financial forecasts based on recent events, updated commodity forecasts and the current budget. Corporate performance measures are also established for the following year based on the approved budget. Management establishes the budget based on the approved strategy and plan, and submits it to the board for approval.</p>

The board discusses the impact of current events and developments on our strategic plan, and reviews our performance against our strategic plan, every quarter.

### **Enterprise risk management**

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

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

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

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

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

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

The vice president of risk management has day-to-day responsibility for the ERM framework, and reports to the Chief Legal & Sustainability Officer. The vice president presents a risk report to the board twice a year and updates as required.

### **Succession planning and leadership development**

We maintain and oversee succession and talent development plans for the CEO, executive team and other critical roles to ensure business continuity in cases of unexpected departures, to support our future growth and to retain our talent. The CGC&N Committee reviews the plans at least once a year and reports them to the board.

The committee also discusses our broader performance management and talent development programs to ensure that we are developing our non-executive management talent to support our ongoing business needs.

## **ORIENTATION AND ONGOING DEVELOPMENT**

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

The board has a director orientation and education policy that includes:

- guidelines for new directors
- types of education and orientation information for directors
- educational opportunities
- site visits
- conferences, symposiums and seminars

### **Orientation**

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

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

We may also provide additional information tailored to a new director's needs and interests, information on our current activities, and any other information that a new director requests. A new director, if his or her schedule permits, will also be given a tour of one or more of Capital Power's plants.

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

### **Ongoing development**

Management regularly provides articles, papers and in-house seminars on issues relevant to Capital Power, our business, and the regulatory environment. Directors are responsible for reviewing the materials, attending the seminars, and staying up to date on relevant issues through the media and other public information sources. In addition, we regularly invite third parties to present to the board on relevant industry, business or governance topics. See our summary of director education events during 2018 on page 19.

We also offer periodic site visits, including tours of facilities and plants we own that are illustrative of each of the various types of facilities and plants we own and operate. Directors are responsible for attending these whenever practicable.

In February 2017, we adopted the practice of regularly providing our directors with a list of relevant external seminars and industry conferences. Directors can attend conferences, industry symposia and other seminars and we will reimburse them 100% of the cost (including reasonable travel expenses), as long as the chair of the board or chair of the CGC&N Committee believes that the content is specific to the power industry and Capital Power would benefit from the director's attendance, and pre-approves it, and the director submits original receipts with the expense claim. We will reimburse them 50% of the cost (including reasonable travel expenses), as long as the chair of the board or chair of the CGC&N Committee believes that the content is of a general governance nature that would be relevant to Capital Power and to other boards on which the director sits, and pre-approves it, and the director submits original receipts with the expense claim.

You can learn more about our program in 2018 on page 19.

## RECRUITMENT, ASSESSMENT AND TENURE

### Skills matrix

The CGC&N Committee uses a skills matrix to identify and track the key skills and areas of strength that the board believes are important for overseeing our business, management and our future growth. The matrix is reviewed annually to ensure that it remains relevant and consistent with our go-forward strategy.

The table below shows the skills and strengths of the director nominees. You can learn more about each director's skills and experience in the director profiles beginning on page 13.

	D. Lowry	D. Boney	J. Gardiner	K. Huntington	K. Stevenson	K. Trent	J. Peverett	R. Phillips	B. Vaasjo
<b>Background/Experience</b>									
CEO/Senior Leadership <sup>(1)</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓
Strategy and Planning <sup>(2)</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓
Governance/Compliance <sup>(3)</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓
Risk Management and Oversight	✓	✓	✓	✓	✓	✓	✓	✓	✓
Power/Energy Industry <sup>(4)</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓
Operations/Development/Construction <sup>(5)</sup>	✓	✓		✓		✓	✓		✓
US operations	✓	✓		✓		✓			✓
Canadian operations	✓						✓		✓
Health, Safety and Environment <sup>(6)</sup>	✓	✓		✓		✓	✓	✓	
Cyber/Physical Security <sup>(7)</sup>	✓	✓		✓		✓			✓
Finance/Accounting <sup>(8)</sup>			✓	✓	✓		✓		✓
Capital Markets <sup>(9)</sup>			✓	✓	✓			✓	✓
M&A <sup>(10)</sup>	✓	✓	✓	✓	✓	✓	✓	✓	✓
Financial Products/Commodity Trading <sup>(11)</sup>				✓	✓	✓	✓		✓
Talent Management/Compensation <sup>(12)</sup>	✓	✓	✓	✓	✓	✓	✓	✓	
Government/Public Affairs <sup>(13)</sup>	✓	✓		✓		✓	✓		✓
Regulatory/Legal				✓		✓	✓	✓	✓
<b>Geographic Diversity</b>									
Western Canada	✓		✓				✓	✓	✓
Central/Eastern Canada	✓				✓				
USA		✓		✓		✓			

### Notes

- (1) *CEO/Senior Leadership* – experience as a CEO, senior executive or senior partner of a public company or other organization of similar complexity
- (2) *Strategy and Planning* – ability to think strategically, identify and critically assess strategic opportunities and threats including transformational or disruptive change, and provide guidance on effective strategies
- (3) *Governance/Compliance* – understanding of good corporate governance practices and policies usually gained through experience as a board member of a public company (including as board or committee chair)
- (4) *Power/Energy Industry* – experience as a director, senior executive, or advisor in the power or broader energy sector (including in Alberta's power markets)
- (5) *Operations/Development/Construction* – management or executive experience in power or utility operations, engineering, development or construction
- (6) *Health, Safety and Environment* – board or management experience in, or understanding of, the regulatory environment surrounding workplace health and safety, the environment, sustainability and social responsibility
- (7) *Cyber/Physical Security* – management or executive experience in securing corporate information systems and industrial controls, or physically securing and restricting access to offices and/or industrial plants
- (8) *Finance/Accounting* – experience as CFO or senior executive or partner in accounting, financial management or banking with understanding of financial accounting and reporting, corporate finance, financial internal controls and Canadian GAAP/IFRS
- (9) *Capital Markets* – experience as an investment banker or with transactions to raise capital (including public and private equity and debt offerings), and understanding of relationships between issuers, underwriters and market participants
- (10) *M&A* – experience in major transactions involving private and/or public companies, such as mergers, acquisitions, divestitures and takeover defence
- (11) *Financial Products/Commodity Trading* – experience as an executive, CFO, treasurer, or investment banker in managing or overseeing financial and/or commodity trading and derivatives products
- (12) *Talent Management/Compensation* – management, executive or board experience in designing or implementing market-based compensation plans, leadership development, talent management, succession planning, pensions, compensation decision-making (including risk-related aspects of compensation) and/or human resources principles and practices generally
- (13) *Government/Public Affairs* – board or management experience in, or understanding of, government and public affairs generally, including government relations in Canada or the US, in the context of the power industry or other highly-regulated industries

## **Board assessment**

The CGC&N Committee is responsible for board assessment, which involves assessing individual directors, committees, committee chairs, the board chair and overall board effectiveness. We amended our director evaluation process (evaluation process) in 2018. Pursuant to the evaluation process, our ongoing board and director assessments and evaluations involve:

- annual one-on-one meetings between the chair of the board and each director to identify focus areas for the board and committees to work on in terms of improving corporate governance, preserving share value and enhancing accountability, and these matters are discussed in camera at every meeting of the CGC&N Committee and/or the board
- annual director self-evaluations (to be conducted in conjunction with the annual one-on-one meetings held by the chair)
- triennial peer-to-peer evaluations for all directors, which must be conducted by an independent third party
- annual board and committee effectiveness surveys

Every year, the board and each committee do a self-evaluation (in accordance with their terms of reference), which involves in-camera discussions and one-on-one interviews with each committee chair by the chair of the CGC&N Committee. The chair of the board also discusses board and committee performance with members of senior management.

In the fourth quarter of 2018, the directors participated in board and committee evaluations, which were submitted anonymously and the aggregate compiled results were provided to the chairs of the board and the CGC&N Committee.

Finally, the chair of the board conducted one-on-one interviews with each director and members of senior management in early 2019. Although not anonymous, the one-on-one interviews between the chair and each director allowed the chair to have a frank discussion about key areas of interest, including director performance, continued tenure, and areas of focus and personal development for the coming year. The results of the annual self-evaluation, questionnaire and interviews were discussed by the CGC&N Committee and the board at their meetings in February 2019.

The board addresses all areas for improvement in board effectiveness that are identified through our assessment processes.

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

## **Director tenure and succession**

Our board has adopted a director tenure & succession policy (tenure policy) and a succession plan & committee rotation (succession plan). Our board has not adopted a retirement age policy because we believe that term limits are a better way to ensure continual board renewal.

Our tenure policy provides that:

- our primary tools for determining who to nominate to the board are our director skills matrix and our peer-to-peer director performance evaluations
- in order to remain on the board, a director must be re-elected by our shareholders and receive satisfactory performance reviews
- non-management directors elected or appointed to the board prior to 2016 will have a maximum tenure of 12 years
- non-management directors elected or appointed to the board during or after 2016 will have a maximum tenure of 10 years
- the board may extend the term of any director beyond the limits in the tenure policy if the board determines that Capital Power and the board would benefit from a director's service beyond the term limit (and any exercise of such discretion must be identified and disclosed to our shareholders in the circular in which such director is being nominated for election beyond his or her term limit)
- the CGC&N Committee reviews the anticipated retirement dates of our directors every year, and, in conjunction with this review, will consider the board's size and composition, succession planning needs associated with loss of skills and experience, the need for board continuity, and the need for new skills and experience on the board as our business and external conditions evolve
- in conjunction with the above:
  - the CGC&N Committee reviews and uses our director skills matrix to develop a list of potential candidates for nomination or appointment to the board in the future based on their skills and experience
  - the list of potential board directors is comprised of people the CGC&N Committee believes would: be appropriate to join the board when there is a vacancy; fill gaps in, or complement, the current skills matrix; and comply with our independence criteria for the board and its committees
  - the CGC&N Committee may also hire a search firm to identify potential candidates
- in the normal course, board chair succession will be dealt with through a formal process that will reflect relevant considerations at that point in time. The process may be managed by the CGC&N Committee or the board may form a special committee that would not include any directors that have an interest in being considered for the role of board chair
- in the event of an unplanned (emergency) succession requirement for the board chair, the chair of the CGC&N Committee shall be deemed acting chair until the next meeting of the board at which time the board shall ratify and confirm the chair of the CGC&N Committee as acting board chair until a replacement board chair is appointed via the formal process described above

- in the event of an unplanned (emergency) succession requirement for any committee chair, the board chair in consultation with the specific committee members will select a new chair

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

The succession plan is intended to address board succession planning in the context of directors chairing and/or serving on the board's standing committees, which do much of the detailed, substantive work of the board and which work generally requires specific subject-matter expertise. The qualifications of compensation committee members, in particular, have come under increased critical focus in recent years. Therefore, the succession plan provides that:

- the chairs of the board and the CGC&N Committee will establish and maintain a board succession plan
- the chair of the board establishes a development plan for each of our directors that feeds into the succession plan
- a subset of the skills matrix will be used for each standing committee of the board in order to aid succession planning and director development
- committee chairs and memberships will be rotated as appropriate to facilitate director development, board succession planning, institutional knowledge, continuity and renewal

### **Diversity**

Capital Power currently has four directors who are women and who represent over 44% of our director nominees, and two executive officers who are women and who represent one third of our executive officers.

The board has a board diversity policy with the goal of maintaining our competitive advantage by including and making good use of directors who are diverse in terms of their skills, regional and industry experience, background, gender and other qualities. Such differences among directors are to be considered in determining the board's optimum composition. All appointments to the board are made based on merit, in the context of the skills and experience the board as a whole requires to be effective.

Pursuant to the board diversity policy, the CGC&N Committee is required to:

- consider the benefits of all aspects of diversity (including, but not limited to, skills, regional and industry experience, background, and gender) when reviewing the composition of the board
- consider candidates for nomination to the board on merit against objective criteria with due regard for the benefits of diversity when identifying such candidates
- ensure that every search for new directors includes diverse candidates
- consider the balance of skills, experience, independence and knowledge of Capital Power on the board, and the diversity of the board, as part of the annual performance review of the board, its committees, and our individual directors

In early 2017, the board diversity policy was amended as follows:

- at least 50% of the slate of director candidates presented to the CGC&N Committee in every search for new directors must be women, and extra weight will be given to qualified female candidates in final nomination decisions
- a goal of 30% was established for the minimum representation of women on both our board and executive team
- the CGC&N Committee is required to consider annually the balance of skills, experience, independence and knowledge of Capital Power on the board, and the diversity of the board, as part of the performance review of the board, its committees, and our individual directors

The board diversity policy has been integrated with other board processes, including board assessment, and succession planning. The effectiveness of the board diversity policy will be measured based on our goal of women representing at least 30% of our directors, and the policy will be examined in rotation by our internal audit department as part of their rotating audit of all corporate policies approved by the board.

Capital Power has adopted a goal of having women represent at least 30% of the members of our executive team. With respect to recruiting executive officers in the future, Capital Power would develop a list of criteria in terms of the desired skills and experience to be sought in the recruitment process and will recruit those candidates who best fulfill the needs, giving extra weight to any women who meet the criteria.

## SHAREHOLDER ENGAGEMENT

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

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

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

We also receive feedback through:

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

In addition, the board has adopted a shareholder engagement policy (engagement policy). The engagement policy prescribes governance topics for discussion between the board and shareholders, information sought by the board from the shareholder for the purpose of arranging a meeting, guidelines regarding meeting attendance, and a means for shareholders to contact the board to request a meeting.

In January and February 2018, Donald Lowry, our chair, and Jill Gardiner, the chair of the CGC&N Committee, met with a number of Capital Power's largest institutional shareholders to hear their feedback regarding our governance and compensation practices. The intent is to continue to regularly meet with shareholders going forward.

Shareholders who are interested in directly engaging with the board regarding those topics specified in the engagement policy are encouraged to review the engagement policy, which can be found on our website ([www.capitalpower.com](http://www.capitalpower.com)), and to contact the board at:

Board Office  
Capital Power Corporation  
1200, 10423 – 101 Street NW  
Edmonton, AB T5H 0E9  
Email: [board@capitalpower.com](mailto:board@capitalpower.com)

## SHAREHOLDER PROPOSALS

If you want to send a shareholder proposal for inclusion in the circular and proxy form for our 2020 annual meeting of shareholders, we must receive it by December 2, 2019, as required under the *Canada Business Corporations Act*, the corporate statute that governs Capital Power. We expect our 2020 annual meeting of shareholders to be held on or about April 29, 2020. Please send your proposal to the Corporate Secretary, Capital Power Corporation, 12th Floor, 10423 – 101 Street, Edmonton, Alberta, Canada, T5H 0E9.

## Board committees

The board has three standing committees:

- Audit
- Corporate Governance, Compensation and Nominating (CGC&N)
- Health, Safety and Environment (HSE)

The board can also establish ad hoc committees whenever appropriate.

The CGC&N Committee reviews the composition of each committee at least once every calendar year. It looks at director independence, director qualifications and individual skills and experience when it constitutes each committee, ensuring that each one has the necessary expertise to provide effective oversight and carry out its responsibilities. Each committee has its own terms of reference, which it reviews and approves every year. These are posted on our website ([www.capitalpower.com](http://www.capitalpower.com)). You can find more information about each director in the director profiles beginning on page 13.

### AUDIT COMMITTEE

You can find information about this committee in our 2018 AIF and the terms of reference for the committee in Appendix A to our 2018 AIF which is posted on our website ([www.capitalpower.com](http://www.capitalpower.com)) and on SEDAR ([www.sedar.com](http://www.sedar.com)).

<b>Members</b>	Philip Lachambre (chair) Doyle Beneby, Jill Gardiner, Kelly Huntington, Katharine Stevenson Donald Lowry (ex-officio, non-voting member)
<b>Independent</b>	100%
<b>Qualifications</b>	<p>All members are financially literate as defined by Canadian securities laws and regulations:</p> <ul style="list-style-type: none"><li>• Philip Lachambre is a former CFO, has other senior executive experience and has served as the chair of the audit committee for three public issuers and a private company</li><li>• Doyle Beneby is a CEO, has other senior executive experience and also has an MBA</li><li>• Jill Gardiner has investment banking experience, is a member of another public company audit committee, has other previous audit committee experience (including as chair), has been a lecturer in corporate finance at the University of Victoria and has an MBA</li><li>• Kelly Huntington is a former CEO and CFO, has other senior executive, investment banking and financial experience, is a chartered financial analyst and has an MBA</li><li>• Katharine Stevenson has senior financial executive and investment banking experience, is a member of other public company audit committees, has previously chaired audit committees, and has the ICD.D designation</li></ul>
<b>Key responsibilities</b>	<p>The committee provides assistance to the board in fulfilling its oversight responsibility to shareholders of Capital Power, the investment community and others in relation to the integrity of Capital Power's financial statements, financial reporting processes, systems of internal accounting and financial controls, the risk identification assessment conducted by management and the programs established by management and the board in response to such assessment, the internal audit function and the external auditors' qualifications, independence, performance and reports to Capital Power. In addition, the committee monitors, evaluates, advises or makes recommendations on matters affecting the financial and operational control policies and practices relating to Capital Power, including the external, internal or special audits thereof. Finally, the committee monitors, evaluates, advises or makes recommendations, in accordance with these terms of reference and any other directions of the board, on matters related to liquidity, the raising of capital and capital allocation.</p> <p>The committee's terms of reference are available on our website (<a href="http://www.capitalpower.com">www.capitalpower.com</a>).</p>

**Key activities and priorities in 2018**

- reviewed our public disclosure documents for the year ended December 31, 2017 (annual report, audited financial statements, MD&A, AIF, quarterly financial statements and MD&A and press releases regarding our annual and quarterly financial results) and recommended them to the board for approval
- monitored the external auditors (approved the audit plan, scope, and engagement letter and recommended the budget), reviewed the interim and year-end audit reports, and recommended the external auditors to the board for recommendation to our shareholders
- conducted a comprehensive assessment of the external auditors
- monitored the internal auditors (approved the audit plan and reviewed the quarterly and annual audit status reports and quarterly commodity risk reports)
- monitored risk management and internal controls (reviewed interim and annual certification of filings under CSOX, procedures for accounting and auditing complaints, quarterly litigation and ethics reports, management compliance certificates, fraud risk assessment, tax compliance and exposures, corporate insurance program, significant accounting estimates, and reviewed GAAP and securities updates)
- monitored commodity portfolio management activities (reviewed quarterly commodity risk reports, and Alberta commercial portfolio variance reports), reviewed risk capital allocation across credit, commodity and operational risk, and approved commodity risk tolerance factors
- recommended a normal course issuer bid to the board, and monitored our strategy regarding share buy-backs pursuant to our normal course issuer bid
- reviewed and recommended our short form base shelf prospectus and prospectus supplement
- reviewed and recommended our public offering of medium term notes
- reviewed our East Windsor cash generating units for impairment
- reviewed our financial exposure management, including investment, banking and treasury risk, credit ratings, corporate liquidity, and interest rate and foreign exchange risks
- reviewed and recommended amendments to our financial exposure management policy
- reviewed and recommended amendments to our commodity risk management policy and commodity risk limits
- reviewed and recommended amendments to our credit policy and procedures, and received quarterly credit reports regarding major credit risk exposures and counter-parties
- reviewed and recommended amendments to our ethics policy and its investigation procedures
- reviewed our disclosure and insider trading policy
- reviewed the committee's terms of reference
- reviewed the committee's effectiveness
- recommended our common share dividend increase to the board for approval
- reviewed our IT security and industrial controls security
- reviewed tax equity investments in the US
- reviewed post-implementation reviews of acquisitions and major projects in accordance with the investment policy

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**Pre-approval policies and procedures**

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

In 2018, the chair of the Audit Committee pre-approved non-audit related services provided by the external auditors in the amount of \$30,000. The services pre-approved by the chair related to the benchmarking of Capital Power's diversity and inclusion practices. The committee chair's approval of those expenses was ratified by the Audit Committee.

The committee met four times in 2018, and met without management present at every meeting. The committee also met with the external auditor and with the internal auditor without management present at every meeting.



## CORPORATE GOVERNANCE, COMPENSATION AND NOMINATING (CGC&N) COMMITTEE

<b>Members</b>	Jill Gardiner (chair) Albrecht Bellstedt, Philip Lachambre, Kate Stevenson, Keith Trent Donald Lowry (ex-officio, non-voting member)
<b>Independent</b>	100%
<b>Qualifications</b>	<p>All members have expertise in governance and human resources management:</p> <ul style="list-style-type: none"> <li>Jill Gardiner has previous board chair experience, public and private company governance and compensation committee experience, has taught courses in human resource management at the University of Victoria, and has an MBA</li> <li>Albrecht Bellstedt serves on a number of corporate boards, was a lawyer, was a senior executive and general counsel for a major Canadian energy infrastructure company, and was legal advisor to various public company boards from 1974 to 2007</li> <li>Philip Lachambre is a former CFO, has senior executive experience with human resources and compensation matters, and has served on governance and human resources committees for a number of public and private companies</li> <li>Katharine Stevenson has public company board experience, including compensation and governance committee experience, is the current chair of a public company governance committee, and has an Institute of Corporate Directors (ICD) designation</li> <li>Keith Trent is a former lawyer and senior executive, serves on a number of public and private company boards, and has previous human resources committee experience with an independent, non-profit, public interest energy research organization</li> </ul>
<b>Key responsibilities</b>	<p>The purpose of the committee is to:</p> <ul style="list-style-type: none"> <li>review and recommend to the board the establishment and maintenance of appropriate structures, processes and policies required within Capital Power to address governance issues and maintain compliance with recognized corporate governance guidelines</li> <li>make recommendations regarding the board's effectiveness and to identify and recommend individuals to the board for nomination as board members and review matters related to director succession</li> <li>review and determine matters affecting personnel and compensation</li> <li>review and determine key compensation and human resources policies, so that such policies provide total compensation which is competitive in the market</li> <li>develop and execute on a CEO succession strategy; review the plan at least annually, and when required, lead the process to identify a candidate for appointment to the position of CEO</li> <li>review management's recommendations and policies regarding succession planning (including crisis management) for executives of Capital Power</li> <li>review workplace culture and diversity and inclusion within Capital Power</li> </ul> <p>The committee's terms of reference are available on our website (<a href="http://www.capitalpower.com">www.capitalpower.com</a>).</p>
<b>Key activities and priorities in 2018</b>	<p><i>Board composition, development and compensation</i></p> <ul style="list-style-type: none"> <li>reviewed and updated our director skills matrix and committee structure and membership</li> <li>reviewed the board Succession Plan, and reviewed CEO and executive succession planning</li> <li>recommended our director nominees to the board for our 2018 annual meeting of shareholders</li> <li>reviewed and recommended to the board the record and annual meeting dates for our 2019 annual meeting of shareholders</li> <li>undertook a search for new director candidates in response to retirements from the board</li> <li>reviewed and recommended changes to our director compensation</li> </ul> <p><i>Corporate governance</i></p> <ul style="list-style-type: none"> <li>reviewed and recommended for board approval our governance and compensation disclosure in the AIF for the year ended December 31, 2017 and the circular in connection with our 2018 annual meeting of shareholders (2018 circular)</li> <li>reviewed terms of reference of the board, all committees, the chair, individual directors and CEO and recommended changes where applicable</li> <li>refreshed our board evaluation process and assessed director, board and committee performance</li> <li>reviewed our corporate governance practices and our disclosure of those practices</li> <li>reviewed and recommended to the board amendments to our tenure policy in regards to chair succession</li> </ul>

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**Key activities and priorities in 2018, continued*****Compensation and benefits***

- reviewed and recommended for board approval the CEO's 2019 annual objectives
- reviewed and recommended for board approval the CEO's and executives' base salaries and short and long-term incentive awards, and reviewed and recommended for board approval stock option grants for non-executives
- reviewed our compensation policies and practices, including management's key messages for compensation disclosure and risk management
- reviewed and approved management's recommendations for collective bargaining mandates, base salary adjustments, short-term incentive plan awards (including merchant short-term incentive plan awards) and performance share unit and restricted share unit awards to non-executives, an adjusted performance measure for 2018 short-term incentive plan awards, and our 2019 performance measures for the short-term incentive plan
- reviewed our compensation principles, which we use to guide the development and execution of our compensation programs
- reviewed and recommended for board approval changes to the share ownership guidelines with respect to the CEO and other named executive officers
- reviewed certain adjustments relating to merchant value creation in the merchant short-term incentive plan
- approved changes to the executive compensation peer group effective for the 2019 compensation review
- reviewed the performance peer group for performance share units
- received an update on the workplace culture
- received an update on our diversity and inclusion initiatives
- received an update on gender pay equality
- reviewed the governance of our pension and other benefit plans and the executive compensation program

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**Independent compensation consultant**

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

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

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

Hugessen Consulting Inc. served as the committee's independent compensation consultant from 2010 to 2018. In July 2018 the committee issued a request for proposal and engaged Meridian Compensation Partners as the new independent consultant as of October 2018. See page 46 for details about their services and fees.

Willis Towers Watson is management's consultant and provides management with consulting advice and administrative support on compensation, pensions and benefit matters.

The committee met three times in 2018, and met without management present at every meeting. Committee members also participated in interviews related to director succession.

## HEALTH, SAFETY AND ENVIRONMENT (HSE) COMMITTEE

<b>Members</b>	Doyle Beneby (chair) Albrecht Bellstedt, Patrick Daniel, Kelly Huntington, Keith Trent Donald Lowry (ex-officio, non-voting member)
<b>Independent</b>	100%
<b>Qualifications</b>	<p>All members are knowledgeable about our HSE programs and policies. They are also skilled or experts in sustainable business practices, including HSE and social responsibility, and have other expertise relevant to the committee mandate.</p> <ul style="list-style-type: none"> <li>Doyle Beneby has extensive senior executive operational experience with a utility and several energy companies in the US</li> <li>Albrecht Bellstedt was a lawyer and has experience as a senior executive in the power and energy infrastructure business and serves on a number of other boards</li> <li>Patrick Daniel was CEO of a large, publicly traded energy infrastructure company, has a Master of Science degree, and is a member of the Association of Professional Engineers and Geoscientists of Alberta</li> <li>Kelly Huntington is a former CEO and CFO of a power company, and has other leadership experience in the power industry</li> <li>Keith Trent has extensive senior executive operational and HSE experience and extensive in-house legal experience with a major US energy company</li> </ul>
<b>Key responsibilities</b>	<p>The committee oversees matters relating to the impact of our operations on the environment and on the workplace health and safety of employees, including:</p> <ul style="list-style-type: none"> <li>reviewing our strategies, goals and policies for the three areas and revising them as appropriate</li> <li>conducting due diligence</li> <li>monitoring our performance in these areas</li> <li>reviewing and recommending operational short and long term key performance metrics</li> <li>providing insight and guidance to the board regarding extraordinary material operational events</li> </ul> <p>The committee's terms of reference are available on our website (<a href="http://www.capitalpower.com">www.capitalpower.com</a>).</p>
<b>Key activities and priorities in 2018</b>	<ul style="list-style-type: none"> <li>reviewed our overall performance in HSE, including our HSE policy, training, compliance and trends</li> <li>reviewed risk management and audit activities related to this area</li> <li>reviewed our annual disclosure on HSE, which was recommended to the board for approval</li> <li>monitored and reported to the board on current, pending or threatened material legal or regulatory actions by or against Capital Power</li> <li>monitored changes and proposed changes to environmental laws and regulations</li> <li>monitored our progress with implementing a world class safety program</li> <li>reviewed our 2017 corporate sustainability report, which complies with the guidelines set out by the Global Reporting Initiative (GRI), the international standard for sustainable development reporting. A copy is posted on our website (<a href="http://www.capitalpower.com">www.capitalpower.com</a>)</li> <li>reviewed our HSE objectives and performance indicators and other key performance metrics related to our short-term incentive plan, long-term business plan and operations, and recommended the same to the board and CGC&amp;N Committee, as applicable</li> <li>reviewed changes to Alberta's <i>Occupational Health and Safety Act</i> and <i>Workers' Compensation Act</i> in regards to operations at Capital Power</li> <li>reviewed managements amendments to Capital Power's Alcohol and Drug Standard Update</li> <li>reviewed the committee's terms of reference</li> <li>received updates regarding our plant operations</li> </ul>

The committee met three times in 2018, and met without management present at every meeting. Patrick Daniel did not stand for re-election at the April 27, 2018 shareholders meeting.

### 3. Compensation

## Director compensation

## Compensation discussion and analysis

### APPROACH TO COMPENSATION

Our director compensation is designed to attract and retain the most qualified people to serve on our board. It recognizes the size and complexity of Capital Power, director compensation paid by the comparator group of companies which is the same as is used to assess executive compensation, and the importance of share ownership to align the interests of directors and shareholders.

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

### Share ownership

The board believes in aligning the interests of directors and shareholders. The CGC&N Committee instituted share ownership guidelines in 2009, requiring directors to hold at least three times the total value of their annual cash and equity retainer in common shares and deferred share units (DSUs). The value of ownership is calculated at the higher of cost of acquisition or market price as of the date of the circular. Directors must meet the requirement within five years of the date they were appointed or elected to the board or within five years after a material change to their compensation.

As of March 1, 2019, three of the directors met the requirements (see page 38). Those directors who have yet to meet our share ownership requirement are still within the five year period as set out in the guidelines.

See the director profiles beginning on page 13 for the details of their individual holdings.

### DECISION-MAKING PROCESS

In 2018, the CGC&N Committee undertook a review of director compensation, including an assessment of our director and executive compensation peer group selection criteria as well as the alignment of the current peer group with the criteria. Director compensation is benchmarked against the same comparator group that is used for benchmarking executive compensation, which can be found on page 43.

### ELEMENTS OF COMPENSATION

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

The table below shows our director fee schedule for 2018.

Compensation element	Payee	Amount
Annual cash retainer <sup>(1)</sup>	Board chair	\$165,000/yr
	All other independent directors	\$80,000/yr
Equity retainer <sup>(2)</sup>	Board chair	\$165,000/yr
	All other independent directors	\$80,000/yr
Committee chair retainer	Audit	\$20,000/yr
	CGC&N	\$20,000/yr
	HSE	\$15,000/yr
Committee member retainer <sup>(3)</sup>	Audit	\$6,000/yr
	CGC&N	\$6,000/yr
	HSE	\$4,000/yr
Travel allowance <sup>(4)</sup>	Independent directors, as applicable	\$500 <sup>(5)</sup>

### Notes

- (1) If the number of board meetings exceeds 12 per year, the board reserves the right to consider adding meeting fees in the amount of \$1,500 per additional meeting (attendance fees).
- (2) All directors are subject to share ownership guidelines of 3x the total cash and equity retainer to be achieved by the end of 5 years after the date of their appointment or within 5 years of a material change to their compensation.
- (3) The board reserves the right to consider meeting fees for any ad hoc special committees established.
- (4) Directors are entitled to be reimbursed for all reasonable travel expenses directly and necessarily incurred in connection with service on Capital Power's board. When a director's travel serves multiple purposes (including non-Capital Power ones), Capital Power will contribute an amount that is no greater than that which would have been reasonably required to travel directly to and from the Capital Power business.
- (5) Should a director be required to travel from their place of residence the day before a board or committee meeting, or should a member have to travel back to their residence the day following a meeting, then a travel allowance fee is allocated.

- (6) US resident directors are paid the amounts listed above in US dollars (for example, US resident directors receive an annual retainer of US \$80,000 per year and an annual equity retainer of US \$80,000 per year). This change was made, effective January 2015, to provide consistent compensation to US resident directors in their home country currency, regardless of the Canadian and US dollar exchange rate.
- (7) Directors may elect to receive all or a portion of their annual retainer, committee chair retainer or committee retainer in DSUs, in accordance with our DSU plan.

**DSU plan**

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

DSUs vest immediately and cannot be redeemed until a director leaves the board. DSUs earn dividend equivalents as additional whole or partial notional units at the same rate as dividends paid on our common shares.

DSUs are redeemed for cash. The plan provides that cash payments for redeemed DSUs shall be calculated using the volume-weighted average closing price of our common shares on the TSX for the five trading days immediately before the date that is six months after a director leaves the board. We can amend the plan at any time as long as a change does not adversely affect the rights of directors to receive DSUs or any previously granted DSUs without their consent, unless the change is required by law.

In addition to the annual equity retainer, directors can elect to receive all or a portion of the annual cash retainer, committee chair retainer and/or (as of January 1, 2018) committee member retainer in DSUs. Retainers are paid quarterly.

## 2018 details

### DIRECTOR COMPENSATION TABLE

The table below shows the type of compensation directors earned in 2018.

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

Doyle Beneby, Kelly Huntington, and Keith Trent received their compensation in US dollars, however their amounts stated in the table below are in Canadian dollars.

Name	Fees earned (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total compensation (\$)
Albrecht Bellstedt	90,000	80,000	—	—	—	2,500	172,500
Doyle Beneby	131,888	104,466	—	—	—	2,601	238,955
Patrick Daniel	28,000	80,000	—	—	—	500	108,500
Jill Gardiner	106,000	80,000	—	—	—	2,500	188,500
Kelly Huntington	117,524	104,466	—	—	—	3,269	225,259
Philip Lachambre	106,000	80,000	—	—	—	500	186,500
Donald Lowry	165,000	165,000	—	—	—	500	330,500
Katharine Stevenson	92,000	80,000	—	—	—	500	174,500
Keith Trent	117,524	104,466	—	—	—	3,269	225,259

#### Notes

- Patrick Daniel did not stand for re-election at the April 27, 2018 shareholders meeting. His compensation was pro-rated to that date.
- Some directors received their compensation in US dollars. This change was made, effective January 2015, to provide consistent compensation to US resident directors in their home country currency, regardless of the Canadian and US dollar exchange rate:
  - Doyle Beneby earned fees totalling US \$101,000, share-based awards totalling US \$80,000, and other compensation totalling US \$2,000.
  - Kelly Huntington earned fees totalling US \$90,000, share-based awards totalling US \$80,000, and other compensation totalling US \$2,500.
  - Keith Trent earned fees totalling US \$90,000, share-based awards totalling US \$80,000, and other compensation totalling US \$2,500.

#### Fees earned

Represents the aggregate amount of directors' annual cash retainer, committee chair retainer and committee member retainers. Directors can elect to receive all or a portion of the annual cash retainer, committee chair retainer and committee member retainers in DSUs. See the table on the next page for a breakdown of the total fees earned.

#### Share-based awards

Represents the annual equity retainer paid in DSUs. Before November 17, 2016, the number of DSUs granted was determined by dividing the amount of the retainer paid in DSUs by the simple average closing price for our common shares on the TSX for each of the five trading days immediately preceding the grant date. On or after November 17, 2016, the number of DSUs granted will be determined by dividing the amount of the retainer paid in DSUs by the volume-weighted average closing price for our common shares on the TSX for each of the five trading days immediately preceding the grant date.

#### All other compensation

Represents the travel allowance and attendance fees, if applicable, paid to directors, which are only paid in cash.

## BREAKDOWN OF FEES EARNED

The table below shows the breakdown of fees earned by directors in 2018. Three directors served as committee chairs and received a retainer for that role:

- Jill Gardiner (CGC&N Committee)
- Philip Lachambre (Audit Committee)
- Doyle Beneby (HSE Committee)

Doyle Beneby, Kelly Huntington, and Keith Trent received their compensation in US dollars, but their amounts stated in the table below are in Canadian dollars.

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

Name	Total fees earned (\$)	Annual director retainer (\$)	Annual committee chair retainer (\$)	Committee member retainer (\$)	% of annual retainer earned paid in cash	% of annual retainer earned paid in DSUs
Albrecht Bellstedt	90,000	80,000	—	10,000	100%	0%
Doyle Beneby	131,888	104,466	19,587	7,835	100%	0%
Patrick Daniel	28,000	26,667	—	1,333	50%	50%
Jill Gardiner	106,000	80,000	20,000	6,000	75%	25%
Kelly Huntington	117,524	104,466	—	13,058	100%	0%
Philip Lachambre	106,000	80,000	20,000	6,000	100%	0%
Donald Lowry	165,000	165,000	—	—	100%	0%
Katharine Stevenson	92,000	80,000	—	12,000	0%	100%
Keith Trent	117,524	104,466	—	13,058	50%	50%

### Notes

- Committee member retainers: Audit \$6,000/yr; CGC&N \$6,000/yr; HSE \$4,000/yr.
- Compensation was pro-rated for some directors:
  - Patrick Daniel did not stand for re-election at the April 27, 2018 shareholders meeting. His compensation was pro-rated to that date.
- Some directors received their compensation in US dollars. This change was made, effective January 2015, to provide consistent compensation to US resident directors in their home country currency, regardless of the Canadian and US dollar exchange rate:
  - Doyle Beneby earned fees totalling US\$101,000, comprised of US\$80,000 (annual director retainer), US\$15,000 (annual committee chair retainer), US\$6,000 (audit committee member retainer).
  - Kelly Huntington earned fees totalling US\$90,000, comprised of US\$80,000 (annual director retainer), and US\$10,000 (audit and HSE committee member retainers).
  - Keith Trent earned fees totalling US\$90,000, comprised of US\$80,000 (annual director retainer), US\$10,000 (CGC&N and HSE committee member retainers).
- No attendance fees were paid in 2018.

## SHARE OWNERSHIP

The following table shows the common shares and DSUs each director nominee held as at March 1, 2019, and includes reinvested dividends. The value of common shares and DSUs reflects the higher of cost of acquisition or market price as of the date of the circular. Directors must meet the share ownership requirement within five years of being appointed or within five years after a material change to their compensation.

### Equity ownership of directors

As at March 1, 2019:

Name	Ownership requirement (\$)	Total common shares and DSUs (#)	Value (\$)	As a % of ownership requirement (%)	Meets ownership requirement	Deadline to meet ownership requirement
Doyle Beneby	720,018	33,692	1,011,767	141	yes	January 1, 2023
Jill Gardiner	558,000	22,508	675,907	121	yes	January 1, 2023
Kelly Huntington	676,260	18,005	540,694	80	in progress	January 1, 2023
Donald Lowry	990,000	48,257	1,449,169	146	yes	January 1, 2023
Jane Peverett	480,000	0	0	0	in progress	March 1, 2024
Robert Phillips	480,000	1,000	30,030	6	in progress	April 27, 2024
Katharine Stevenson	516,000	13,092	393,139	76	in progress	January 1, 2023
Keith Trent	676,260	10,017	300,797	44	in progress	January 1, 2023

### Notes

- As of the date of the circular, the closing price for our common shares on the TSX was \$30.03.
- All directors are subject to share ownership guidelines of 3x the total cash and equity retainer to be achieved by the end of 5 years after the date of their appointment or within 5 years of a material change to their compensation. Effective January 1, 2018, our director fee schedule was increased thereby resetting the deadline to meet the ownership requirement for directors at that time to January 1, 2023.
- Jane Peverett's appointment to the board was effective as of March 1, 2019.
- Robert Phillips is being nominated for election at the 2019 shareholders meeting and has not, as of the date of the circular, been appointed to the board.
- As of March 1, 2019, Brian Vaasjo held 130,840 common shares with a value of \$3,929,125.20 based on the TSX closing price for our common shares of \$30.03 on March 1, 2019. Mr. Vaasjo's share ownership requirement as CEO is calculated as of December 31, 2018 and can be found on page 44.
- Donald Lowry voluntarily resigned from the board on October 10, 2013 when EPCOR's ownership of common shares and exchangeable limited partnership units of Capital Power L.P. was reduced to less than 20% of our then outstanding common shares and common shares that could be issued in exchange for exchangeable limited partnership units. At that time, the board resolved to reappoint Donald Lowry to continue serving as a director and as chair of the board until he could be elected by the shareholders at our 2014 annual meeting of shareholders, and Mr. Lowry was so elected. Consequently, Mr. Lowry began receiving compensation as a director and our board chair from October 1, 2013.

### Share-based awards

The following table sets out information regarding DSUs outstanding as at December 31, 2018:

Share-based awards (DSUs)				
Name	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Number of shares or units of shares that have vested (#)	Market value or payout value of vested share-based awards not paid out or distributed (\$)
Albrecht Bellstedt	0	0	47,066	1,251,477
Donald Lowry	0	0	35,261	937,596
Doyle Beneby	0	0	32,250	857,524
Jill Gardiner	0	0	13,692	364,061
Kelly Huntington	0	0	16,826	447,394
Philip Lachambre	0	0	43,453	1,155,414
Katharine Stevenson	0	0	7,509	199,653
Keith Trent	0	0	8,230	218,832

### Notes

- Directors do not receive stock options.
- DSUs vest in full when credited to directors.
- Number of shares or units of shares that have vested includes reinvested dividends.
- Market value or payout value of vested share-based awards not paid out or distributed is based on \$26.59, the closing price of our common shares on the TSX on December 31, 2018.
- Jane Peverett and Robert Phillips did not serve as directors during 2018 and were not awarded any DSUs in 2018.



# Executive compensation

## Letter to shareholders

March 1, 2019

Dear Fellow Shareholders,

On behalf of the board, and the CGC&N Committee, I am pleased to share with you Capital Power's compensation discussion and analysis (CD&A). Your board and the CGC&N Committee continue to keep abreast of executive compensation trends and best practices to ensure our approach to executive compensation supports our strategy, aligns with the interests of our shareholders and provides a competitive compensation program that motivates and retains talent for long-term sustainability and growth. Through our comprehensive approach, we strive to deliver compensation plans that are clear, logical and understandable to our employees, shareholders and other stakeholders, and we are committed to providing clarity and transparency in alignment with our corporate vision and values. Attracting and retaining the right talent is key to energizing the Capital Power brand and in driving us forward. Our company values are the values of our people. Together, we are focused on the future.

Capital Power's strategic priority is to provide shareholders with a strong long-term total return by effectively managing our existing operations and growing our asset portfolio. This includes a balanced value proposition of managed risk through contracted cash flows and substantial upside to the Alberta market. Our market competitive compensation programs are aligned with these strategies with a strong pay-for-performance orientation that supports the attraction, retention and motivation of employees. An engaged and high performing workforce is critical for us to successfully execute our strategy and drive long-term shareholder value. Through our ongoing commitment to our people, we will maintain a safe, healthy and responsible corporate culture and workplace that enables employees to do their best work. We strive to be the employer of choice in the markets in which we compete for talent.

### **Committee oversight**

In 2018, the CGC&N Committee went to the market with a request-for-proposals for a consultant to act as the board's independent executive compensation advisor. Following a thorough and robust process, Meridian Compensation Partners was retained for this role effective October 1, 2018.

Over the past seven years, the board has held an annual 'say on pay' advisory vote to receive direct feedback from shareholders on Capital Power's executive compensation. We are pleased that shareholder support to date has been very strong with approval in the range of 91% to 99% in each of these years.

The Committee considers and monitors compensation risk in every compensation decision or recommendation to ensure that our programs continue to support the right level of risk-taking throughout the organization and remain aligned with our shareholders' interests. During 2018, we:

- reviewed our overall compensation philosophy and principles, with no changes being made;
- increased share ownership guidelines for the CEO and certain executives to better align our requirements with the market;
- assessed our executive compensation peer group selection criteria as well as the alignment of the current peer group with the criteria, and approved changes on a prospective basis effective for the 2019 compensation review;
- adopted changes approved in 2017 to the performance peer group selection criteria by adding a cap on size, to avoid including significantly larger organizations that could be considered less relevant as a benchmark, and made changes to our peer group companies. We also assessed the performance peer group selection criteria and reviewed the current peer group for continued alignment with the underlying selection criteria, with no changes being made on a prospective basis;
- completed our annual regular review of the market competitiveness of Capital Power's executive compensation to ensure prudent management and ongoing alignment with our compensation philosophy and business objectives, including positioning our compensation levels within a competitive range of median;
- reviewed the CEO, executive team and critical role succession and development plans in place to develop and retain key talent, and to build our bench strength at all levels of the organization; and
- continued to monitor Capital Power's diversity and inclusion efforts and the roadmap for developing our workforce over time.

As a Committee, we have the discretion to adjust incentive payouts to ensure that compensation outcomes align with performance and reflect the risks undertaken to achieve results. No adjustments were made for 2018 performance.

## 2018 performance (see page 55)

Capital Power delivered a total shareholder return (TSR) of 21% in 2018 and a 3-year total shareholder return (TSR) of 97% both of which are well above the 75th percentile of our performance peer group.

We measure performance through several financial and non-financial targets that align with Capital Power's long-term corporate strategy. Corporate measures used to assess performance for incentive purposes include funds from operations (FFO), health, safety and environment and an annual strategic objective. Each named executive officer has additional business objectives related to operational performance, asset optimization activities, disciplined growth targets and succession planning. Overall, the board assessed corporate performance as exceeding expectations:

- We generated \$472 million of FFO which was significantly above target.
- We achieved above target results for HSE performance.
- We significantly exceeded our committed capital growth target with the acquisition of Arlington Valley natural gas plant and the Cardinal Point wind project.

## 2018 compensation highlights

Based on our annual performance, as outlined above, awards were made under the 2018 STIP for the named executive officers. Overall, the total performance result for executives was above target, resulting in a payout factor of 151.3% of target for individuals at a "fully successful" level.

Over the three-year performance period from 2016 to 2018, we had relative total shareholder return (TSR) performance that significantly exceeded the 75th percentile of our performance peer group. This resulted in a final payout multiplier for our 2016 performance share units of 184% (of target) and a total payout of 347% of their original grant value.

Going forward, to ensure alignment of executive compensation with our executive compensation comparator group, adjustments to base salary and to LTIP target payouts are being put in place for 2019 for some of the executives, excluding the CEO.

## Looking ahead

The board is pleased that management continues to execute on our strategy to deliver long-term shareholder value as demonstrated by our solid TSR performance in 2018 and expected future growth in adjusted funds from operations and dividends. Capital Power's executive compensation programs are aligned with our business strategy and its associated risks while being able to attract, retain, motivate and reward all employees to deliver long term shareholder value.

This committee is experienced, knowledgeable and diligent, and we are working hard to do what is right for Capital Power and its shareholders to support future growth and to benefit all stakeholders.

You can contact the committee or the board through the Corporate Secretary, Capital Power Corporation, 12th floor, 10423 – 101 Street, Edmonton, Alberta T5H 0E9, or via e-mail at [board@capitalpower.com](mailto:board@capitalpower.com).

Sincerely,



Jill Gardiner

Chair, Corporate Governance, Compensation and Nominating (CGC&N) Committee




Albrecht Bellstedt



Philip Lachambre



Kate Stevenson



Keith Trent

## COMPENSATION PRACTICES

The following table summarizes our compensation governance practices which are reviewed regularly for continued alignment with market and best practices.

✓ What We Do	✗ What We Don't Do
<i>Compensation Design</i>	
<ul style="list-style-type: none"> <li>✓ Provide the majority of our compensation in variable pay which is fully at-risk and performance oriented</li> <li>✓ Link the majority of our variable pay to long-term performance</li> <li>✓ Align our compensation programs with our business strategy</li> <li>✓ Cap payouts from our incentive plans</li> <li>✓ Apply a minimum (or floor) of 15% of the grant price when granting stock options</li> <li>✓ Apply discretion to address extenuating circumstances</li> <li>✓ Claw-back awards from executives if we have to restate our financial and other results</li> <li>✓ Provide a defined contribution supplemental retirement plan to new executive hires</li> <li>✓ Have an anti-hedging policy that prohibits insiders from engaging in any transaction in which they could benefit, directly or indirectly, if the value of any of our securities falls.</li> </ul>	<ul style="list-style-type: none"> <li>✗ Re-price stock options or grant options at a discount</li> <li>✗ Guarantee a minimum payment in our incentive plans, including our performance share units</li> <li>✗ Encourage excessive risk-taking through our compensation plans</li> <li>✗ Benchmark compensation against unreasonable or aspirational peer companies</li> </ul>
<i>Compensation Governance</i>	
<ul style="list-style-type: none"> <li>✓ Have a qualified and independent committee that uses an independent advisor</li> <li>✓ Require executives to have a meaningful ownership stake in the company</li> <li>✓ Allow executives to defer annual incentive payments into deferred share units for long-term alignment</li> <li>✓ Have double trigger change-of-control provisions requiring both a change of control and termination of the executive for good reason</li> <li>✓ Consider our risk profile when assessing compensation designs and outcomes</li> <li>✓ Review our historical pay outcomes for our President &amp; CEO relative to our performance</li> <li>✓ Provide for an annual "say on pay" vote</li> </ul>	

## Compensation discussion and analysis

The CD&A discusses executive compensation for 2018 for our five most highly compensated executives (our named executives):

- Brian Vaasjo, President & CEO
- Brian DeNeve, Senior Vice President, Finance & CFO
- Mark Zimmerman, Senior Vice President, Corporate Development & Commercial Services
- Darcy Trufyn, Senior Vice President, Operations, Engineering & Construction
- B. Kathryn Chisholm, Q.C., Senior Vice President, Chief Legal and Sustainability Officer (formerly, Legal & External Relations)

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

### APPROACH TO COMPENSATION

#### Philosophy and objectives

Our executive compensation is designed to pay for performance. We use direct and indirect compensation to create a total compensation package that is competitive with our peers.

Our program aims to achieve three key objectives:

- link compensation with our business strategy and objectives
- align total compensation with the interests of shareholders
- attract and retain high performing employees

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

Compensation component			Key objectives	
			Attract and retain high performing talent	Link compensation to business strategy and objectives
Base salary		See pages 47, 55, 60 and 61	✓ Competitive base level of fixed compensation based on responsibilities, scope and market data	Align compensation with interests
			✓ Rewards experience, expertise, knowledge and scope of responsibilities	
Short term incentives	<i>Short term incentive bonus (STIP)</i>	See pages 47, 53, 55 and 61		✓ Based on achievement of annual performance targets that support overall strategic direction
				✓ Rewards achievement of annual corporate objectives and individual performance goals
Long term incentives	<i>Performance share units (PSUs)</i>	See pages 47, 49, 53, 57, 58, 61, 63 and 64		✓ Equity-based compensation for sustaining mid- to long-term performance aligning interests of executives and shareholders ✓ Used to retain executives longer ✓ Rewards achievement of mid- to long-term performance results and growth in share price
	<i>Stock options</i>	See pages 49, 57, 61, 63 and 64		
	<i>Restricted share units (RSUs)</i>	See pages 51, 58, 61, 63 and 64		
	<i>Stock appreciation rights (SARs)</i>	See page 49		

### Staying competitive through benchmarking

We benchmark our executive compensation against a comparator group of companies that we compete with for executive talent. To develop this group, we used a set of criteria which includes comparably-sized companies (as determined by financial criteria such as revenue, total enterprise value and market capitalization) from the following industries:

- utility and related companies from across Canada (15 of 24)
- publicly-traded energy services and exploration and production companies from Alberta (5 of 24)
- general industry companies with headquarters in Edmonton (4 of 24)

We review our comparator group against the criteria on an annual basis to ensure alignment. The list of peer companies is as follows:

Utilities in Canada	Energy Services & E&P Companies in Alberta	General Industry Companies in Edmonton
Algonquin Power & Utilities Corp.	ARC Resources Ltd.	ATB Financial Inc.
AltaGas Ltd.	Baytex Energy Corp.	AutoCanada Inc.
ATCO Ltd.	Enerplus Corporation	Canadian Western Bank
Boralex Inc.	Ensign Energy Services Inc.	Stantec Inc.
ENMAX Corp.	Precision Drilling Corporation	
EPCOR Utilities Inc.		
Gibson Energy Inc.		
Innergex Renewable Energy Inc.		
Inter Pipeline Fund		
Just Energy Group Inc.		
Keyera Corp.		
Northland Power Inc.		
Parkland Fuel Corporation		
Superior Plus Corp		
TransAlta Corporation		

The group of 24 companies is well balanced from various perspectives, including size, industry and region. The table below summarizes Capital Power's positioning against the peer group (all values are in millions of \$).

Market	(\$ millions)		
	Total revenue <sup>(1)</sup>	Total enterprise value <sup>(2)</sup>	Total assets <sup>(1)</sup>
25th percentile	\$1,053	\$3,256	\$3,194
50th percentile	\$2,148	\$4,631	\$5,491
75th percentile	\$3,335	\$11,089	\$10,334
<b>Capital Power Corporation</b>	<b>\$1,046</b>	<b>\$4,964</b>	<b>\$6,898</b>
	<b>25th percentile</b>	<b>53rd percentile</b>	<b>61st percentile</b>

#### Notes

(1) Total revenue and total assets as of December 31, 2017, except for ATB Financial and Just Energy Group Inc. which are as of March 31, 2018, and Canadian Western Bank which is as of October 31, 2018.

(2) Total enterprise value as of December 31, 2018.

The committee and external consultants review the comparator group every year to make sure the criteria and composition remain relevant. The executive compensation comparator group above was used by the committee to set compensation of the executives in 2018. There will be no changes to this group for 2019 purposes.

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

Each compensation element, and overall total direct compensation, is targeted at the median of the comparator group. The resulting total direct compensation (base salary and short and long-term incentives) will produce above median compensation in the event of superior corporate and individual performance. Conversely, in challenging performance years, resulting total direct compensation will be below median, reinforcing our strong alignment between pay and performance.

## Share ownership guidelines

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

An independent review of the share ownership guidelines for alignment with our executive compensation peer group and the overall Canadian market was undertaken in 2018. As a result of this review, as well as taking into consideration feedback we received from shareholders during our shareholder engagement in early 2018, the committee approved an increase to the share ownership guidelines for the CEO and all senior vice presidents with the exception of the Senior Vice President, Finance and CFO, who was already well aligned with the market and peer group.

Level of executive	Previous share ownership guideline	Current share ownership guideline
	As a multiple of base salary	As a multiple of base salary
President & CEO	3 x	5 x
Senior Vice President, Finance & CFO	2 x	2 x
All other senior vice presidents	1 x	2 x

The executives have 5 years from the date of approval (July 27, 2018) to comply with the new share ownership guidelines.

Share ownership for each executive is based on the sum of the number of common shares and executive deferred share units (DSUs) held, and the number of earned (but unvested) performance share units (PSUs). Only earned PSUs, the portion of the award with a completed performance tranche, are included in the calculations because executives can use the proceeds from their PSU award payout to buy common shares to meet their share ownership requirements. More detail on the vesting schedule for PSUs is provided in a section that follows, titled Elements of Compensation on page 47. **Option grants do not count towards an executive's minimum ownership requirement.**

The following table shows the common shares and PSUs each named executive held at December 31, 2018. The value of common shares reflects the higher of cost of acquisition or market price. Total earned PSUs include dividend equivalents and is based on \$26.59, the closing price of our common shares on the TSX on December 31, 2018. The estimated value of the earned PSUs represents the payout value described above on an after-tax basis (using a marginal tax rate of 48%).

Name	Total common shares (#)	Total earned PSUs (#)	Value (\$)	Total common shares and earned PSUs held as a percentage of ownership requirement	Meets ownership requirement	Deadline to meet the requirement
				(%)		
Brian Vaasjo	130,840	111,018	\$5,014,064	138%	yes	July 27, 2023
Bryan DeNeve	25,802	39,442	\$1,236,570	167%	yes	May 1, 2020
Darcy Trufyn	46,495	38,888	\$1,709,176	244%	yes	July 27, 2023
Mark Zimmerman	9,511	32,138	\$697,261	94%	in progress	July 27, 2023
Kathryn Chisholm	19,034	25,339	\$827,750	122%	yes	July 27, 2023

### Notes

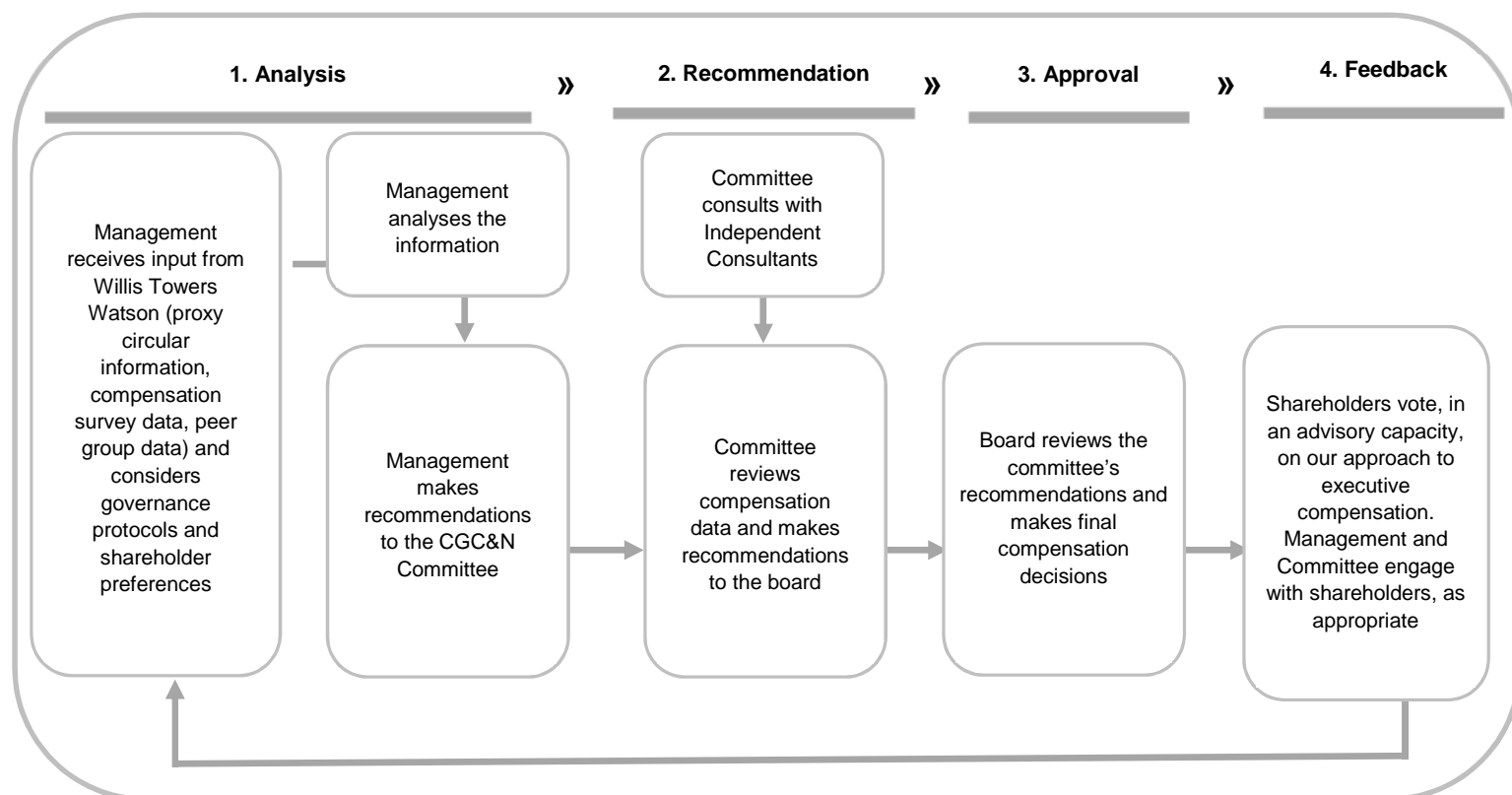
- Bryan DeNeve was appointed Senior Vice President, Finance & CFO on May 1, 2015, resetting his share ownership guideline to two (2) times his base salary with a new deadline of five (5) years from the date of appointment.

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

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

We have a DSU plan that allows executives to voluntarily defer all or a portion of their annual short-term incentive award into DSUs. The DSU plan helps to facilitate equity ownership by providing executives a way to acquire share units on a pre-tax basis. The voluntary DSU deferral program is capped at the level required by executives to comply with their guidelines. Similar to the DSUs for the directors, executives cannot access the value of their DSUs until they leave the company.

## DECISION-MAKING PROCESS



All executive compensation decisions are based on a formal process that involves human resources management, the committee and the board. Management's external consultant (Willis Towers Watson) and the committee's independent compensation consultant (Hugessen Consulting to September 2018, Meridian Compensation Partners thereafter) also provide input.

### Analysis

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

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

Management assesses the information and makes recommendations to the committee.

### Recommendation

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

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

### Independent advice

The committee has retained an independent consultant for executive compensation matters because it recognizes the importance of receiving third party advice from a subject matter expert that has no relationship with management. This helps ensure that the committee's decisions and recommendations are made in an objective and arms-length manner in addition to being appropriate for Capital Power and consistent with market practices.

The consultant provides independent advice on:

- CEO compensation
- peer groups for executive and director compensation, as well as performance assessment
- the performance framework
- considerations related to levels of compensation in the competitive market provided by management and its advisor
- other compensation and related governance matters included within the committee's mandate

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

In 2011, the board adopted a policy that sets out broad guidelines for the independent consultant relationship. The policy limits the consultant's exposure to management and requires the committee to pre-approve any work plan undertaken with management, among other things. The committee's consultant has never undertaken any work for management. Hugessen Consulting was the committee's consultant from 2010 until September 2018. The committee hired Meridian Compensation Partners in September 2018 as its new independent consultant. The table below shows the fees paid to the committees consultants for the last two years:

	<b>2018</b>	<b>2018</b>	<b>2017</b>
	Meridian Compensation Partners	Hugessen Consulting	Hugessen Consulting
Executive compensation fees	\$13,516.72	\$43,618.79	\$69,729.99
All other fees	\$0	\$0	\$0
<b>Total</b>	<b>\$13,516.72</b>	<b>\$43,618.79</b>	<b>\$69,729.99</b>

**Note**

- Hugessen Consulting provided consulting services to the committee from January to September 2018. Meridian Compensation Partners was retained from October 2018 onward.

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

**Approval**

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



## ELEMENTS OF COMPENSATION

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

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

### Compensation mix

Name	Base salary (%)	Short-term incentives (%)	Long-term incentives (%)	Total (%)
Brian Vaasjo	27.4	20.5	52.1	100
Bryan DeNeve	33.9	20.3	45.8	100
Darcy Trufyn	34.5	20.7	44.8	100
Kathryn Chisholm	40	24	36	100
Mark Zimmerman	37	22.2	40.8	100

The next table describes each element in more detail:

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

### Base salary

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

### Short-term incentive

The STIP is designed to provide a competitive annual bonus based on corporate and individual performance while reinforcing our focus on strong leadership. The plan focuses on the achievement of corporate results and incents participants to meet or exceed individual business-specific objectives.

Target awards are set for each position as a percentage of base salary and are targeted at the median of the comparator group for executive positions with similar responsibilities. The table below shows the target incentive for each named executive for 2018:

Name	As a % of base salary		
	Minimum (%)	Target (%)	Maximum (%)
Brian Vaasjo	0	75	150
Bryan DeNeve	0	60	120
Darcy Trufyn	0	60	120
Mark Zimmerman	0	60	120
Kathryn Chisholm	0	60	120

STIP awards are based on performance over the 2018 calendar year and are paid out in March 2019.

### Performance measures and weightings

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

Performance measure	Weighting													
<b>Corporate measures</b>														
Funds from operation (FFO)	50%	Corporate measures have a threshold, target and stretch value for each metric. There will be no payout for the corporate measures if performance is below threshold.												
Health, Safety and Environment (HSE) Index	10%	<table><tr><th>Performance</th><th>Payout (as a % of STIP target value)</th></tr><tr><td>Threshold (minimum)</td><td>50%</td></tr><tr><td>Target</td><td>100%</td></tr><tr><td>Stretch (maximum)</td><td>200%</td></tr></table>	Performance	Payout (as a % of STIP target value)	Threshold (minimum)	50%	Target	100%	Stretch (maximum)	200%				
		Performance	Payout (as a % of STIP target value)											
		Threshold (minimum)	50%											
		Target	100%											
Stretch (maximum)	200%													
Corporate Strategic Objective	10%													
<b>Individual measure</b>														
Business objectives	30%	The individual measure is assessed through the performance management process. Performance against business objectives is measured and rated against a five-point scale that determines the payout:												
		<table><tr><th>Rating</th><th>Payout (as a % of STIP target value)</th></tr><tr><td>Unacceptable</td><td>0%</td></tr><tr><td>Stronger performance required</td><td>50%</td></tr><tr><td>Fully successful</td><td>100%</td></tr><tr><td>Frequently exceeds expectations</td><td>150%</td></tr><tr><td>Outstanding</td><td>200%</td></tr></table>	Rating	Payout (as a % of STIP target value)	Unacceptable	0%	Stronger performance required	50%	Fully successful	100%	Frequently exceeds expectations	150%	Outstanding	200%
Rating	Payout (as a % of STIP target value)													
Unacceptable	0%													
Stronger performance required	50%													
Fully successful	100%													
Frequently exceeds expectations	150%													
Outstanding	200%													

The maximum payout is capped at 200% of target.

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

- Stretch results for corporate performance, and
- Outstanding performance against business objectives.

### Payout formula

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



The STIP includes a circuit breaker which is set at a level below the threshold value of FFO. If FFO is below the circuit breaker value, the STIP will not pay out, except for the compensation related to the HSE Index component of the incentive.

Notwithstanding this circuit breaker guideline, the committee may still use informed judgment and discretion when determining the level of incentives that may be paid for all components of the short-term incentive when the minimum circuit breaker level is not met, or as the committee deems appropriate in the circumstances.

Measurement of the HSE Index includes two threshold conditions which must be met in order for the metric to contribute to a payout of the STIP award. The threshold conditions, which apply to two of the lagging indicators (Total Recordable Injury Frequency (TRIF) and Environment Incidents), are:

- should there be a fatality or permanent disabling injury, then TRIF is said to have not met threshold performance and will not contribute towards the STIP award.
- should there be a major or critical environmental incident, then the Environment Incident measure will be deemed to have not met threshold performance and will not contribute towards the STIP award.

### Committee oversight and discretion

The committee has the discretion to adjust payout levels for the overall plan and for individuals to take into account any unusual factors or extenuating circumstances that are beyond the executive's control and result in an incentive award that inappropriately overpays or underpays, or creates an unintentional result. No adjustments were made for 2018 performance as the compensation outcomes were well aligned with performance.

## Long-term incentive (LTI)

We grant a LTI award to:

- align the interests of our executives and shareholders
- motivate executives to deliver strong mid- and long-term performance
- retain executives over the long term

The award typically consists of two components — performance share units (PSUs) and stock options. For the CEO, the award is based on 55% of the targeted value in PSUs and 45% in stock options. For the other named executives, the mix is 50% PSUs and 50% stock options.

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

Awards are granted annually, with the size of the grant based on the target award and grant level approved by the committee and the board.

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

The committee stress tests the LTI award using difference performance scenarios to test the expected values of the award and assess the competitiveness of total compensation relative to the compensation peer group.

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

### Board oversight and discretion

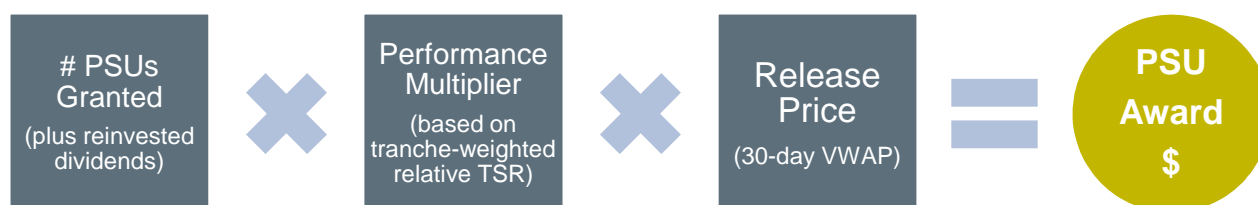
The board has the discretion to amend or discontinue the LTI plan at any time, subject to compliance with the requirements of the TSX.

## Performance share units (PSUs)

Form of award	Notional share-based awards
Who participates	Executives and senior management
Dividends	Dividend equivalents (at the same rate as dividends paid on our common shares)
Vesting	Cliff vest at the end of three years, on January 1 (dividend equivalents vest on same schedule and are based on same performance as the PSUs)
Payout	Cash
Assignment	Generally, cannot be transferred except for estate planning purposes. Outstanding PSUs are for the benefit of and are binding on the beneficiary
Termination	<i>Resignation/termination for cause</i> – all PSUs are forfeited <i>Termination without cause; retirement; disability</i> – vesting of PSUs is based on actual performance to the end of the quarter preceding the date of termination, and pro-rated to the last day worked. <i>Death</i> – vesting of PSUs is based on target performance and is pro-rated to the last day worked

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

### Payout formula



The actual payout or realized value of PSUs is based on our relative TSR ranking and our 30-day volume-weighted average share price (VWAP) at the end of the three-year performance period.

### Performance peer group

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

All companies in the performance peer group are publicly-traded Canadian companies classified as power producers or utilities with total enterprise values (TEV) greater than \$1 billion (TEV is capped at 10x our TEV, or approximately \$50 billion, to avoid including significantly larger organizations), with strong dividend yields and low volatility (as measured through a company's beta, namely the measure of volatility relative to the market as a whole).

Management regularly reviews the peer group to ensure that companies meet the established criteria. The following is a list of the companies used to measure our TSR performance for the 2016, 2017 and 2018 PSU grants:

	Grant Year		
	2016	2017	2018
Algonquin Power & Utilities Corp.	✓	✓	✓
AltaGas Ltd.	✓	✓	✓
Atlantic Power Corporation <sup>(1)</sup>	✓	✓	
Boralex Inc. <sup>(2)</sup>			✓
Brookfield Renewable Energy Partners L.P.	✓	✓	✓
Canadian Utilities Limited	✓	✓	✓
Capstone Infrastructure Corp. <sup>(3)</sup>	✓		
Emera Inc.	✓	✓	✓
Fortis Inc.	✓	✓	✓
Hydro One Ltd. <sup>(2)</sup>			✓
Innervex Renewable Energy Inc.	✓	✓	✓
Northland Power Inc.	✓	✓	✓
TransAlta Corporation	✓	✓	✓
TransCanada Corporation <sup>(1)</sup>	✓	✓	
Veresen Inc. <sup>(3)</sup>	✓	✓	

### Notes

- (1) The committee approved the removal of Atlantic Power Corporation and TransCanada Corporation effective as of the 2018 grant as these companies no longer satisfy the peer group criteria.
- (2) The committee approved the addition of Boralex Inc. and Hydro One Ltd. effective as of the 2018 grant.
- (3) The following two companies remain in the peer group but are excluded from measurement periods that begin after their acquisition dates: (i) Capstone Infrastructure Corporation was acquired by iCON Infrastructure on May 4, 2016; and (ii) Veresen Inc. was acquired by Pembina Pipelines on October 4, 2017.

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

Independent consultants and the committee review the peer group every year to identify the external benchmarks that represent the competitors for investor dollars and operating peers with comparable risks and opportunities. Many of the peers do not have the same commodity exposure as us, so we anticipate that performance relative to these companies will be impacted by our position within the commodity cycle. Given the limited number of direct performance peers, we believe that the current group best represents other Canadian companies with similar business and operational strategies.

### Payout multiplier

Relative TSR is measured over four tranches: an averaging period of three years, based on 60% annual performance (20% per year); and, 40% of three-year cumulative performance. Payouts are made at the end of the three-year performance period based on the weighted average of the payout multipliers over the four measurement periods and our share price at the end of the period.

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

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

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

## Stock options

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

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

LTI plan	
Form of award	The right to purchase our common shares at a price that is at least the fair market value on the grant date
Participants	Executives and senior management
Vesting	One-third each year beginning on the first anniversary of the grant date (unless stated otherwise when the options are granted)
Term	Expire after seven years (or less as stated when the options are granted) If the expiry date falls during a black-out period, the expiry date is extended to 10 days after the black-out period ends
Payout	Based on when the participant exercises the options The participant only realizes a value if the share price is higher than the exercise price when they exercise the options
Assignment	Generally, cannot be transferred, except for estate planning purposes. Any outstanding options are for the benefit of and are binding on the party holding exercise rights
Termination	<i>Resignation</i> – unvested options are forfeited and vested options expire up to 30 days after termination <i>Termination without cause</i> – all options expire up to 30 days after termination and continue to vest during that period <i>Retirement/disability/death</i> – all options expire up to 12 months after termination and continue to vest during that period <i>Termination for cause</i> – vested and unvested options are forfeited upon termination

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

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

### *Stock option valuation*

Stock options are valued using the estimated accounting grant date fair value (determined by using the binomial option pricing model) or 15% of the calibration price, whichever is greater. For the 2018 stock option grant, a value ratio of 15% was used.

### *Amending or terminating the plan*

We must receive shareholder approval to make any of the following changes:

- increase the maximum number of shares that can be granted under the plan
- reduce the exercise price below the market price of the shares on the grant date
- cancel and re-issue an award under different terms which has the effect of reducing the exercise price of the award
- increase the limits of the number of common shares that can be reserved for issue to insiders or to any participant
- reduce the exercise price of an outstanding award
- extend the term beyond seven years
- extend the term of any outstanding awards
- allow a participant to assign their options to someone not currently allowed under the plan
- change the definition of persons eligible to participate in the plan

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

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

*Share reserve*

The plan limits the number of common shares that may be reserved for issue:

- no more than 10% of the total common shares issued and outstanding to all insiders in any year
- no more than 5% of the total common shares issued and outstanding to any participant

The number of common shares reserved for issue for stock options awarded to insiders represents approximately 2.3% of the common shares outstanding (101,872,618 as at December 31, 2018).

A total of 9,194,506 common shares can be issued under the plan as at December 31, 2018.

For additional discussion of our equity compensation plan, please see page 64.

## ASSESSING PERFORMANCE

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

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

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

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

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

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

The LTI plan promotes a focus on increasing our share price in both absolute and relative terms. In absolute terms, share performance directly affects the value that executives can realize from their share unit and stock option holdings – stock options have no value except to the extent share price increases and the value of PSUs is based on the share price at the end of the 3-year performance period. In relative terms, higher or lower share performance relative to that of our performance peer group will result in higher or lower payouts from PSU holdings. This emphasis on longer-term performance, with the value directly tied to share price, is intended to align executive interests with those of our shareholders over a longer time horizon. Adhering to the business plans and accomplishing the key initiatives that support our corporate strategy can result in appreciation in our share price.

### Risk management

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

The committee looked at risk in the following key areas in 2018, and concluded that none of our current compensation practices are reasonably likely to have a material adverse effect on Capital Power. The table below describes the findings in more detail:

Operations risk	<ul style="list-style-type: none"><li>• We mitigate operations risk by using a combination of measures and weights to assess corporate performance under the short-term incentive plan.</li><li>• Funds from operations (FFO) is the primary measure under the annual incentive plan (50% weighting for executives in 2018).</li><li>• Performance is also assessed using plant specific measures, like successful maintenance outages or other activities that support plant availability.</li><li>• We make annual awards of long term incentives with overlapping vesting periods and have share ownership requirements, all of which ensure that executives remain exposed to the long term risks of their decision making.</li></ul>
Acquisition and development risk	<ul style="list-style-type: none"><li>• Business development activities may not affect the FFO in the years the activities are specifically undertaken, but it will affect FFO in each of the following years. FFO discourages the acquisition or development of plants that will not make a strong contribution to our results.</li></ul>

Acquisition and development risk, continued	<ul style="list-style-type: none"> <li>Annual performance measures for our business development employees relate to the quality of business acquisitions, as measured by accretion to our earnings per share attributable to each acquisition or development project.</li> </ul>
Derivatives and energy trading risk	<ul style="list-style-type: none"> <li>We manage our exposure to electricity, natural gas and foreign exchange spot prices and interest rates: <ul style="list-style-type: none"> <li>Members of our commodity portfolio management team (CPM) participate in a separate short-term incentive payment program (MSTIP) so we can attract and retain this specialized skill and ensure that compensation for traders is competitive with the commodity trading market. MSTIP awards are scaled on the basis of performance, ranging from zero to a multiple of a participant's base salary. They share a portion of value created by the team (defined as EBITDA in excess of budgeted targets measured against defined goalposts). CPM management conducts individual and team performance assessments and allocates an award in accordance with a formula based on each participant's target incentive percentage, the year-end EBITDA variance to budget, and individual performance ratings.</li> </ul> </li> <li>Risk taking is limited: <ul style="list-style-type: none"> <li>Value creation is capped, and the components used to determine the profit are reviewed by our finance and commodity risk management departments.</li> <li>The SVP, Corporate Development and Commercial Services and Vice President, CPM do not participate in MSTIP. They participate in the annual STIP (FFO is the primary measure for corporate performance) and the LTI plan, which has a longer-term focus.</li> <li>The commodity risk management group monitors risks associated with trading activity and reports directly to the Chief Legal &amp; Sustainability Officer, and they participate in STIP. Participants have individual performance measures related to measuring, monitoring and reporting on risks associated with commodity trading.</li> <li>Our internal auditors provide assurance of the MSTIP payout and audits the calculations to ensure compliance with the MSTIP administration guide, and reports the results thereof through our human resources department to the CGC&amp;N Committee.</li> </ul> </li> </ul>
Disclosure risk	<ul style="list-style-type: none"> <li>Each individual who contributes directly to our public disclosure has a personal performance measure to avoid any material restatement.</li> <li>Each member of the management team must certify quarterly that he or she has disclosed to their executive (for senior managers) or the board (for executives) every significant event or condition that could materially affect Capital Power or our results and updated them appropriately.</li> <li>Our incentive claw-back policy applies to everyone at Capital Power.</li> <li>The committee also considers risk when making any compensation recommendation to the board, and can use its discretion to adjust payout levels for the compensation plans and for individuals.</li> </ul>

To further mitigate compensation risk, the board adopted two key policies on compensation risk in 2011 on the committee's recommendation. These policies are contained in our corporate governance policy which can be found on our website ([www.capitalpower.com](http://www.capitalpower.com)).

#### *Anti-hedging policy*

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

#### *Incentive claw-back policy*

The incentive claw-back policy allows us to recoup incentive compensation awards.

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

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



## COMPENSATION DECISIONS FOR 2018

The board, on the committee's recommendation, approved the following decisions on executive compensation for performance in 2018.

### Base salary

Based on management's executive compensation review, base salaries for the following executives were increased in 2018:

- Senior Vice President, Finance & CFO (+5.7%)
- Senior Vice President, Operations, Engineering and Construction (+2.9%)
- Senior Vice President, Corporate Development and Commercial Services (+5.7%)
- Senior Vice President, Chief Legal and Sustainability Officer (+6.3%)

The President & CEO did not receive a base salary adjustment in 2018 as his base salary remained competitively positioned.

Base salaries for the following executives will be increased in 2019 based on the executive compensation review completed in December 2018:

- Senior Vice President, Finance & CFO (+2.7%)
- Senior Vice President, Operations, Engineering and Construction (+2.9%)
- Senior Vice President, Corporate Development and Commercial Services (+2.7%)
- Senior Vice President, Chief Legal and Sustainability Officer (+5.9%)

The President & CEO will not receive a base salary adjustment in 2019 as his base salary remains competitively positioned.

### 2018 STIP award

#### Corporate performance

Performance measure	Weighting	Target	Result	Performance assessment
<b>Financial</b>				
<b>Funds from operations (FFO)</b>	50%	\$434 million	\$472 million	188.38%
<ul style="list-style-type: none"> <li>• cash provided by operating activities (IFRS-defined term), less changes in operating working capital</li> </ul>				Significantly above target
<b>Corporate safety</b>				
<b>Health, Safety &amp; Environment (HSE) Index</b>	10%	1.00	1.05	133.30%
<ul style="list-style-type: none"> <li>• a measurement of safe, healthy and environmentally accountable work performance. Utilizes a weighted combination of five (5) leading indicators and two (2) lagging indicators</li> </ul>				Above target
<b>Corporate Strategic Objective</b>				
<b>Committed capital during the year</b>	10%	\$500 million	\$691 million	138.20%
<ul style="list-style-type: none"> <li>• a measurement of achievement as defined by the board</li> </ul>				Above target

Corporate Measures	Weighting		Results (as a % of target)		Corporate performance results
Funds from operations (FFO)	50%	x	188.38%	=	94.19%
HSE Index	10%	x	133.30%	=	13.33%
Corporate Strategic Objective	10%	x	138.20%	=	13.82%
				<b>Total</b>	<b>121.34%</b>

Individual Measures	Weighting		Results (as a % of target)		Individual performance results
Unacceptable			0%		0%
Stronger performance required			50%		15%
Fully successful	30%	x	100%	=	30%
Frequently exceeds expectations			150%		45%
Outstanding			200%		60%

## STIP Award Amounts

	Base salary (\$)		Target incentive		Corporate performance results + Individual performance results		2018 STIP award (\$)
Brian Vaasjo	725,000	x	75%	x	(121.34% + 45%)	=	904,474
Bryan DeNeve	370,000	x	60%	x	(121.34% + 30%)	=	335,975
Darcy Trufyn	350,000	x	60%	x	(121.34% + 45%)	=	349,314
Mark Zimmerman	370,000	x	60%	x	(121.34% + 60%)	=	402,575
Kathryn Chisholm	340,000	x	60%	x	(121.34% + 45%)	=	339,334

## Individual performance

Named executive	Business objectives rating	Comments
<b>Brian Vaasjo</b> President & CEO	Frequently Exceeds Expectations	Mr. Vaasjo achieved Frequently Exceeds Expectations on his 2018 Individual Measures. Measures relating to maintenance, capital expenditures, safety and environment were all exceeded. Operating performance and general and administrative costs met expectations, while measures relating to carbon emission reductions were exceeded. The acquisition and integration of the Arlington natural gas plant and the advancement of the Cardinal Point facility was excellent. Commodity portfolio management performance was outstanding and specific initiatives relating to enhanced communications with shareholders exceeded expectations.
<b>Bryan DeNeve</b> Senior Vice President, Finance & CFO	Fully Successful	Mr. DeNeve achieved Fully Successful on his 2018 Individual Measures. Measures associated with costs in his areas of responsibility, tax and timing of quarter end closings, all exceeded expectations. Financing activities, including tax equity partnerships and support of acquisitions and development met expectations.
<b>Darcy Trufyn</b> Senior Vice President, Operations, Engineering & Construction	Frequently Exceeds Expectations	Mr. Trufyn achieved Frequently Exceeds Expectations on his 2018 Individual Measures. Safety and environment results exceeded expectations, while cost performance was excellent and operating results met expectations. Construction of New Frontier was completed on time and under budget while the other two wind farms to be completed in 2019 and 2020 are advancing on time and on budget. Initiatives relating to reducing the carbon footprint and efficiency improvements, as well as future conversion optionality at Genesee, were excellent. His contributions to the competitiveness of acquisition and development initiatives were excellent.
<b>Mark Zimmerman</b> Senior Vice President, Corporate Development & Commercial Services	Outstanding	Mr. Zimmerman achieved Outstanding on his 2018 Individual Measures. The objective of increasing our contracted investments with the requisite commitments to move forward with the Cardinal Point wind development and the successful acquisition and integration of the Arlington natural gas plant exceeded expectations. Commercial contributions to Genesee initiatives, including arranging pipeline capacity, was also excellent. Commodity portfolio management performance in 2018 was outstanding.
<b>Kathryn Chisholm</b> Senior Vice President, Chief Legal & Sustainability Officer (formerly, Legal & External Relations)	Frequently Exceeds Expectations	Ms. Chisholm achieved Frequently Exceeds Expectations on her 2018 Individual Measures. Regulatory and government relations advocacy efforts and legal support exceeded expectations in 2018. Development and planning relating to the new role of Chief Sustainability Officer also exceeded expectations. Cost management results for her areas of responsibility also met expectations.

## Payment of 2016 PSU awards

PSU awards are at-risk compensation. The named executives achieved performance of 184% for the 2016 PSU awards when they vested on January 1, 2019. The table below is based on \$27.29, the 30-day volume-weighted average closing price of our common shares on the TSX immediately preceding the vesting date.

	<b>Accumulated PSUs</b> 2016 grant plus reinvested dividends (#)		<b>Payout multiplier</b> based on relative TSR (%)		<b>Payout</b> realized value (\$)
Brian Vaasjo	42,872.00	x	184	=	2,152,744
Bryan DeNeve	15,496.88	x	184	=	778,147
Kathryn Chisholm	10,018.67	x	184	=	503,064
Darcy Trufyn	15,375.52	x	184	=	772,034
Mark Zimmerman	1,826.48	x	184	=	634,056

## Notes

- The product of the Accumulated PSUs and Payout multiplier is rounded down to the nearest whole share unit. As per LTI plan rules, fractional share units are not released.

## Relative TSR

TSR measures the change in value of an investment over a period of time, representing the return that an investor receives from changes in share price and dividends paid. Relative TSR measures the performance of a company against its business competitors, and rewards industry out-performance.

We calculated TSR for the period ending December 31, 2018 for the 2016 PSU grant as follows:

- Starting and ending share price – share price is the simple average closing share price of the 30 trading days prior to the start and end of the measurement period, which reduces the possible impact of short-term share price fluctuations.
- Measurement period – there are four (4) measurement periods, aligning with each of the four (4) tranches in the PSU grant, as follows:

<b>Measurement Period</b>	<b>Starting</b>	<b>Ending</b>
Tranche 1	November 18, 2015 to December 31, 2015	November 17, 2016 to December 30, 2016
Tranche 2	November 17, 2016 to December 30, 2016	November 16, 2017 to December 29, 2017
Tranche 3	November 16, 2017 to December 29, 2017	November 16, 2018 to December 31, 2018
Final Tranche	November 18, 2015 to December 31, 2015	November 16, 2018 to December 31, 2018

- Reinvested dividends – dividends are reinvested on the dividend payment date.
- Performance peer group – the following 13 companies were used to measure our TSR performance for the 2016 PSU grant:

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

The following table details the results of Capital Power's relative TSR for the 2016 PSU award:

	<b>Tranche 1 (2016)</b>	<b>Tranche 2 (2017)</b>	<b>Tranche 3 (2018)</b>	<b>Tranche 4 (2016-2018)</b>
25th Percentile	13.7%	7.4%	-11.3%	15.8%
50th Percentile	29.5%	10.4%	-7.9%	35.6%
75th Percentile	41.1%	19.3%	-1.2%	43.3%
<b>Capital Power Corporation</b>	<b>45.1%</b>	<b>12.4%</b>	<b>20.9%</b>	<b>97.0%</b>
Payout Factors	200%	122%	200%	200%
<b>Weighted Average</b>	<b>40%</b> (200% x 20%)	<b>24%</b> (122% x 20%)	<b>40%</b> (200% x 20%)	<b>80%</b> (200% x 40%)
<b>Aggregate Weighted Average (Payout Factor)</b>	<b>184%</b> (40% + 24% + 40% + 80%)			

In the aggregate (weighted average basis), our TSR finished above the 50th percentile, resulting in a payout factor of 184%. See Performance share units on page 49.

## 2019 LTI award

The board approved a grant of PSUs and stock options, effective as of March 7, 2019, to the named executives and other eligible participants. Based on a review of the LTI targets against market competitive data for our peers, Management determined that the following named executive officers will receive an adjustment of their LTI targets in 2019:

- Senior Vice President, Operations, Engineering and Construction increases from 130% to 135%
- Senior Vice President, Corporate Development and Commercial Services increases from 110% to 135%
- Senior Vice President, Chief Legal and Sustainability Officer increases from 90% to 115%

PSUs will vest on January 1, 2022 and the realized value will depend on our relative TSR against the performance peer group and our volume-weighted average closing share price on the 30 trading days preceding the vesting date.

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

## Pay for performance analysis

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

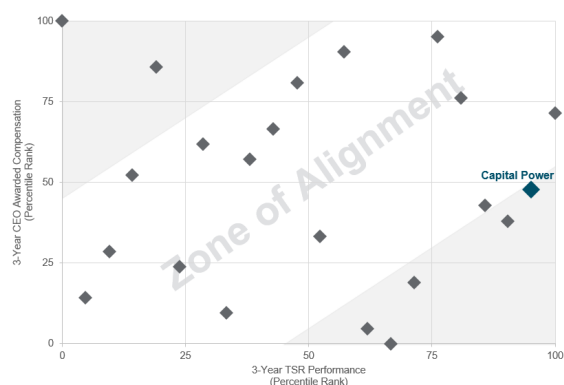
Compensation under our incentive programs is variable, or at-risk, to motivate executives to deliver strong corporate and individual performance. The equity-based components of our incentive programs provide alignment with our shareholders as executives realize higher value the stronger the performance of our share price over time.

The charts below give a pay for performance analysis for Brian Vaasjo, our President & CEO, over the period 2016 to 2018, based on two different views: pay opportunity and realizable pay.

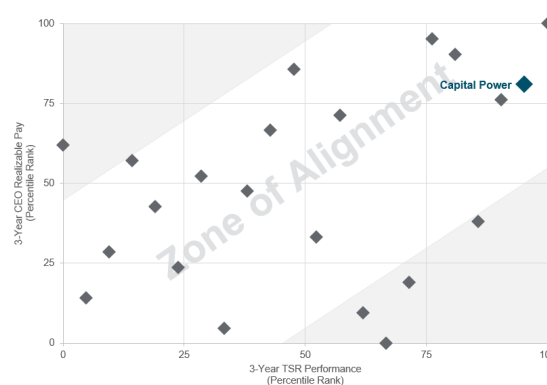
### Zone of alignment

	Pay opportunity	Realizable pay
<b>CEO pay definition</b>	Pay Opportunity is defined as the sum of annual base salary, actual bonus received and the estimated value of long term incentive on the date of grant.	Realizable pay is defined as the sum of annual base salary, actual bonus received and the in-the-money value of long term incentive grants.
<b>Company performance definition</b>	Total shareholder return (TSR), which is equal to the annualized rate of return of a stock to an investor, reflecting both capital gains and reinvested dividends	Same
<b>Outcome</b>	Mr. Vaasjo is positioned within the zone of alignment at the 48th percentile while Capital Power's TSR performance is at the 95th percentile.	Mr. Vaasjo is positioned within the zone of alignment at the 81st percentile while Capital Power's TSR performance is at the 95th percentile.

Pay opportunity



Realizable pay



### Look back analysis

The table below gives a compensation look back for Mr. Vaasjo since our inception compared to absolute shareholder value. It compares the grant date value of compensation awarded to Mr. Vaasjo for his performance as President & CEO against the actual value he has received from his compensation during his tenure.

On a weighted average basis over the cumulative period of 2011 to 2018, Mr. Vaasjo has realized 14% more than the expected value of the compensation that the committee awarded him (awarded compensation) while the shareholder's investment has increased by 55% demonstrating a positive relationship on behalf of the shareholder.

	Targeted compensation <sup>(1)</sup>	Awarded compensation <sup>(2)</sup>	Actual compensation value as of December 31, 2018 <sup>(3)</sup>	Value of \$100		
				Period	Mr. Vaasjo <sup>(4)</sup>	Shareholder <sup>(5)</sup>
2011	\$2,165,750	\$2,556,592	\$1,959,327	2011JAN01 to 2018DEC31	\$77	\$182
2012	\$2,283,750	\$2,148,072	\$2,248,221	2012JAN01 to 2018DEC31	\$105	\$163
2013	\$2,283,750	\$2,511,620	\$2,635,204	2013JAN01 to 2018DEC31	\$105	\$170
2014	\$2,589,370	\$2,643,606	\$2,468,217	2014JAN01 to 2018DEC31	\$93	\$172
2015	\$2,449,511	\$2,558,959	\$2,248,998	2015JAN01 to 2018DEC31	\$88	\$134
2016	\$2,480,957	\$2,654,631	\$5,699,039	2016JAN01 to 2018DEC31	\$215	\$184
2017	\$2,521,693	\$2,598,416	\$2,759,076	2017JAN01 to 2018DEC31	\$106	\$130
2018	\$2,676,254	\$3,036,978	\$3,479,011	2018JAN01 to 2018DEC31	\$115	\$116
<b>Weighted average<sup>(6)</sup></b>					<b>\$114</b>	<b>\$155</b>

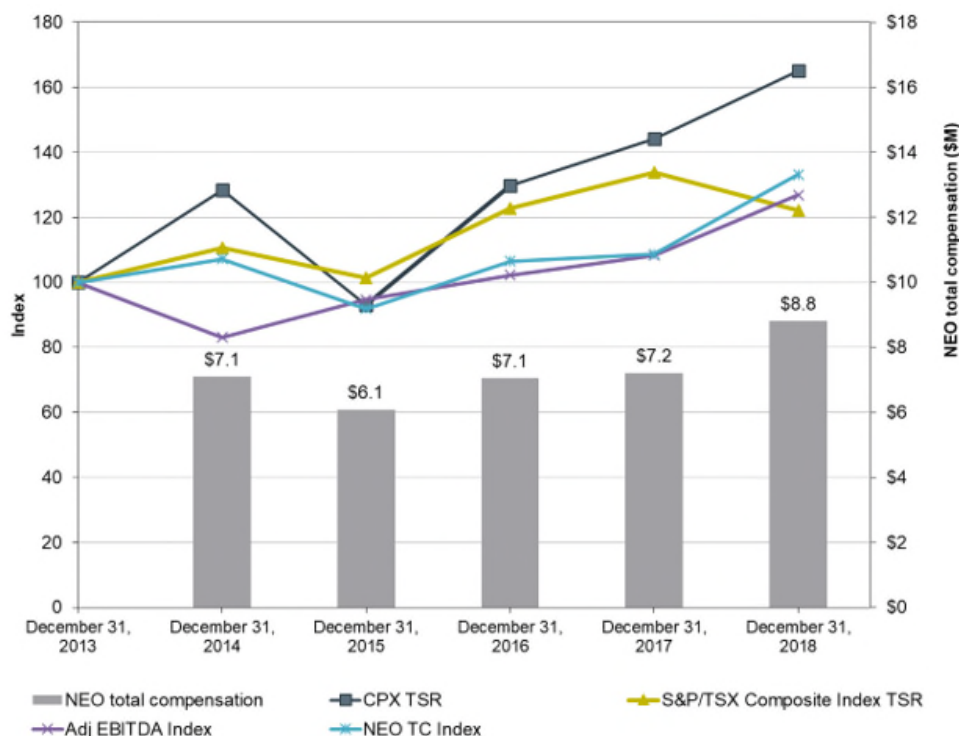
### Notes

- (1) Includes salary as noted in Mr. Vaasjo's employment agreement, target short-term incentive award and the expected value of the long-term incentive award as of the date of the grant.
- (2) Includes actual salary earned, actual short-term incentive award in respect of performance during the year, and the expected value of the long-term incentive award as of the date of the grant.
- (3) Includes actual salary earned, actual short-term incentive award in respect of performance during the year, the value of maturity of share units granted (or current value for units that are outstanding), the value of stock options exercised during the period, and the in-the-money value of stock options that remain outstanding. Share units and options are valued at the closing price of our common shares on the TSX on December 31, 2018 of \$26.59 per share.
- (4) Represents the actual value to Mr. Vaasjo for each \$100 awarded in total direct compensation during the fiscal year indicated.
- (5) Represents the cumulative value of a \$100 investment in common shares made on the first trading day of the period indicated, including reinvested dividends.
- (6) The weighted average for Mr. Vaasjo and the shareholder has been calculated using the "targeted compensation" as the common multiplier.

Overall, the pay for performance analyses above demonstrate that Capital Power has provided compensation to Mr. Vaasjo over his tenure that is aligned with absolute and relative company performance and the shareholder experience.

## SHARE PERFORMANCE

The following graph compares the annual change in the cumulative total shareholder return on our common shares to the cumulative total return on the S&P/TSX Composite Index and total compensation paid to our named executives. The calculation for the 5-year period assumes an investment of \$100 in our common shares (CPX) on December 31, 2013 and the reinvestment of dividends.



	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017	Dec 31, 2018
Capital Power (CPX)	\$100	\$128	\$93	\$130	\$144	\$165
S&P/TSX Composite Index	\$100	\$111	\$101	\$123	\$134	\$122

### Note

- As an additional comparison, we plot adjusted EBITDA to demonstrate the relationship between named executive officer compensation and the company's financial resources. Adjusted EBITDA is a Non-GAAP financial measure. See Non-GAAP Financial Measures in the Company's Management's Discussion and Analysis for the year ended December 31, 2018.

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

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

Executive compensation will be affected by our share performance over the long term because a significant portion is equity based, aligning the interests of executives and shareholders. While the grant date fair value of our stock option and share unit grants do not vary with corporate or share performance, award payouts are directly tied to our share performance.

- For stock options and PSUs, there is a direct correlation between our share price performance and the actual compensation realized by our executives.
- For PSUs, there is the additional factor of performance relative to that of our peer group which will result in higher or lower payments.

This relationship is illustrated in the look back analysis (see previous section) where the actual value earned through the various compensation elements shows an alignment with our shareholder returns.

## 2018 details

### SUMMARY COMPENSATION TABLE

The table below shows the compensation each named executive received for the fiscal years ended December 31, 2018, 2017, and 2016. Brian Vaasjo does not receive compensation as a director of Capital Power.

Name and principal position	Year	Salary (\$)	Option-based awards (\$)	Share-based awards (\$)	Non-Equity incentive plans (Annual) (\$)	Pension value (\$)	All other compensation (\$)	Total compensation (\$)
<b>Brian Vaasjo</b> President & CEO	2018	725,000	649,888	757,616	904,474	251,193	89,254	3,377,425
	2017	725,000	636,700	616,243	620,473	206,552	80,870	2,885,838
	2016	725,000	606,107	606,099	717,424	223,087	87,259	2,964,976
<b>Bryan DeNeve</b> Senior Vice President, Finance & CFO	2018	364,615	247,689	236,247	335,975	333,183	61,203	1,578,912
	2017	344,615	230,141	222,761	219,662	203,492	54,907	1,275,578
	2016	330,000	219,083	219,086	212,246	83,223	50,682	1,114,320
<b>Darcy Trufyn</b> Senior Vice President, Operations, Engineering & Construction	2018	347,308	231,700	221,006	349,314	14,978	74,296	1,238,602
	2017	340,000	228,334	221,006	213,386	14,826	51,487	1,069,039
	2016	340,000	217,362	217,370	218,678	14,701	70,966	1,079,077
<b>Mark Zimmerman</b> Senior Vice President, Corporate Development & Commercial Services	2018	364,615	201,819	192,508	402,575	13,250	70,421	1,245,188
	2017	344,615	187,523	181,495	258,162	13,115	107,713	1,092,623
	2016	330,000	178,513	178,516	212,246	13,005	63,523	975,303
<b>Kathryn Chisholm</b> Senior Vice President, Chief Legal & Sustainability Officer	2018	334,615	150,971	144,008	339,334	370,155	52,674	1,391,757
	2017	320,000	148,780	144,010	150,576	69,490	50,681	883,537
	2016	320,000	141,631	141,638	187,104	84,960	50,768	926,101

#### Note

- Share-based awards values represent accounting fair value of PSUs for all named executives.

#### Salary

Base salaries for the Senior Vice President, Finance & CFO, and the Senior Vice President, Corporate Development & Commercial Services were increased by 5.7% for 2018. The base salaries for the Senior Vice President, Operations, Engineering and Construction and the Senior Vice President, Chief Legal & Sustainability Officer (formerly, Legal & External Relations) increased by 2.9% and 6.3%, respectively, in 2018. The President & CEO did not receive a base salary adjustment in 2018 as his base salary was competitively positioned. These adjustments were based on management's executive compensation review. Base salaries for the following executives will be increased in 2019:

- Senior Vice President, Finance & CFO (+2.7%)
- Senior Vice President, Operations, Engineering and Construction (+2.9%)
- Senior Vice President, Corporate Development and Commercial Services (+2.7%)
- Senior Vice President, Chief Legal and Sustainability Officer (+5.9%)

The President & CEO will not receive a base salary adjustment in 2019 as his base salary remains competitively positioned.

#### Share-based awards

Amounts are the grant date fair value of the PSU awards consistent with the accounting valuation and in accordance with IFRS.

The table below shows the accounting fair value reported in our financial statements:

	2018 Accounting	2017 Accounting	2016 Accounting
Fair value	\$44.82	\$47.90	\$45.78

#### *Option-based awards*

Amounts are the grant date fair value of the option awards consistent with the accounting valuation and in accordance with IFRS. We adopted a minimum option valuation factor of 15% for 2016, 2017 and 2018. The actual fair values in 2016, 2017 and 2018 were less than the minimum; therefore, the minimum was adopted for all three grants.

	<b>2018</b>	<b>2017</b>	<b>2016</b>
	<b>Accounting</b>	<b>Accounting</b>	<b>Accounting</b>
Volatility	17.3%	17.9%	16.5%
Dividend yield	6.6%	5.92%	8.14%
Expected life	4.5 years	4.5 years	4.5 years
Risk-free rate	1.84%	1.12%	0.73%
Vesting discount	0%	0%	0%
Fair value	\$3.67	\$3.83	\$2.60

#### *Non-equity incentive plans*

##### *Annual*

- Amounts are the actual STIP awards earned for that year and paid in March of the following year.
- Bryan DeNeve elected to defer a portion of his 2016 STIP award into executive DSUs. The STIP award paid in cash to Mr. DeNeve was \$192,033, with the remainder granted as 784 executive DSUs on February 28, 2017, with an expected value of \$20,213.

##### *Long-term*

Capital Power does not have a long-term non-equity incentive plan.

##### *Pension value*

- 2018 pension value represents compensatory changes from January 1, 2018 to December 31, 2018. The 2018 pension value reflects changes in the obligation due to actual salary experience during 2018 and includes service cost based on a 3.0% increase in pensionable earnings for 2018 and thereafter.
- 2017 pension value represents compensatory changes from January 1, 2017 to December 31, 2017. The 2017 pension value reflects changes in the obligation due to actual salary experience during 2017 and includes service cost based on a 3% increase in pensionable earnings for 2017 and thereafter.
- 2016 pension value represents compensatory changes from January 1, 2016 to December 31, 2016. The 2016 pension value reflects changes in the obligation due to actual salary experience during 2016 and includes service cost based on a 2.00% increase in pensionable earnings for 2015 and a 3.50% per annum increase thereafter.

##### *All other compensation*

Relates to parking allowance (\$4,410 for all executives) and perquisites. The 2018 perquisite amounts include:

- an executive benefit allowance of \$14,000, an executive business allowance of \$25,000 and employer contributions to the savings plan of \$36,250 for Brian Vaasjo.
- an executive benefit allowance of \$14,000, an executive business allowance of \$15,000 and employer contributions to the savings plan of \$17,231 for Bryan DeNeve.
- an executive benefit allowance of \$14,000, an executive business allowance of \$15,000 and employer contributions to the savings plan of \$17,000 for Darcy Trufyn.
- an executive benefit allowance of \$14,000, an executive business allowance of \$15,000, a moving allowance of \$55,000 and employer contributions to the savings plan of \$17,231 for Mark Zimmerman.
- an executive benefit allowance of \$14,000, an executive business allowance of \$15,000 and employer contributions to the savings plan of \$16,000 for Kathryn Chisholm.



## INCENTIVE PLAN AWARDS

### Outstanding share based and option based awards

The table below shows each named executive's outstanding incentive plan awards as of December 31, 2018:

Option-based awards						Share-based awards		
Name	Grant date	Number of securities underlying unexercised options (#)	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options (\$)	Number of shares or units of shares that have not vested (#)	Market or payout value of share-based awards that have not vested (\$)	Market value or payout value of vested share-based awards not paid out or distributed (\$)
Brian Vaasjo	March 26/12	231,701	24.27	March 26/19	537,546			-
	March 14/13	182,607	21.76	March 14/20	881,992			-
	March 12/14	180,032	24.80	March 12/21	322,257			-
	March 04/15	158,195	24.88	March 04/22	270,513			-
	March 01/16	233,163	17.33	March 01/23	2,159,089	42,872	2,097,538	-
	March 09/17	166,262	25.53	March 09/24	176,238	28,375	485,893	-
	March 07/18	177,057	24.47	March 07/25	375,361	34,651	368,547	-
Bryan DeNeve	March 26/12	-	24.27	March 26/19	-			-
	March 14/13	32,743	21.76	March 14/20	158,149			-
	March 12/14	36,266	24.80	March 12/21	64,916			-
	March 04/15	46,592	24.88	March 04/22	79,672			-
	March 01/16	84,279	17.33	March 01/23	780,424	15,497	758,194	-
	February 28/17	n/a	n/a	n/a	-			23,720
	March 09/17	60,097	25.53	March 09/24	63,703	10,257	175,642	-
March 07/18	67,481	24.47	March 07/25	143,060	10,805	114,924	-	
Darcy Trufyn	March 26/12	450	24.27	March 26/19	1,044			-
	March 14/13	36,252	21.76	March 14/20	175,097			-
	March 12/14	37,394	24.80	March 12/21	66,935			-
	March 04/15	48,004	24.88	March 04/22	82,087			-
	March 01/16	83,617	17.33	March 01/23	774,293	15,376	752,257	-
	March 09/17	59,625	25.53	March 09/24	63,202	10,176	174,258	-
March 07/18	63,125	24.47	March 07/25	133,825	10,108	107,510	-	
Mark Zimmerman	March 01/16	68,672	17.33	March 01/23	635,903	12,627	617,794	-
	March 09/17	48,968	25.53	March 09/24	51,906	8,357	143,104	-
	March 07/18	54,984	24.47	March 07/25	116,566	8,805	93,647	-
Kathryn Chisholm	March 26/12	-	24.27	March 26/19	-			-
	March 14/13	17,834	21.76	March 14/20	86,138			-
	March 12/14	18,697	24.80	March 12/21	33,468			-
	March 04/15	36,966	24.88	March 04/22	63,212			-
	March 01/16	54,484	17.33	March 01/23	504,522	10,019	490,169	-
	March 09/17	38,851	25.53	March 09/24	41,182	6,631	113,548	-
	March 07/18	41,131	24.47	March 07/25	87,198	6,586	70,053	-

#### Notes

- Share-based awards number and market payout value includes PSUs for all named executives.
- Value of unexercised in-the-money options — the greater of zero dollars or the difference between the closing price of our common shares on the TSX as of December 31, 2018 of \$26.59 per share and the option exercise price, times the number of outstanding vested and unvested stock options.
- Number of shares or units of shares that have not vested — includes reinvested dividends.
- Market or payout value of share-based awards that have been earned but not vested — the closing price of our common shares on the TSX as of December 31, 2018 of \$26.59 per share multiplied by the number of earned PSUs. Earned PSUs reflect the current weighted average performance multiplier.
- Market value or payout value of vested share-based awards not paid out or distributed — On December 31, 2018 no PSUs had vested. The named executives realized 349% of the grant value of the 2016 PSU awards when they vested on January 1, 2019. See Compensation Decisions for 2018 – Payment of 2016 PSU Awards starting on page 57. The value denoted for Bryan DeNeve represents the closing price of our common shares on the TSX of \$26.59 as of December 31, 2018 multiplied by the number of DSUs he held as of December 31, 2018.

## Incentive plan awards – value vested or earned during the year

Name	Option-based awards – Value vested during the year (\$)	Share-based awards – Value vested during the year (\$)	Non-equity incentive plan compensation – Value earned during the year (\$)
Brian Vaasjo	524,617	600,287	904,474
Bryan DeNeve	189,628	176,806	335,975
Darcy Trufyn	188,138	182,156	349,314
Mark Zimmerman	154,512	n/a	402,575
Kathryn Chisholm	122,589	140,273	339,334

### Notes

- *Option-based awards* – Value vested during the year — the difference between the closing price of our common shares on the TSX on the respective vesting date and the option exercise price of the respective option grant, multiplied by the number of stock options that vested during the year.
- *Share-based awards* – Value vested during the year — values shown are 2015 PSU awards that vested on January 1, 2018 and were paid to the named executives on February 23, 2018.
- *Non-equity incentive plan compensation* – Value earned during the year — values shown are STIP awards. Capital Power does not have a long-term non-equity incentive plan.

## Stock options

The following table provides details of the option-based awards exercised by named executives during the year ended December 31, 2018:

Name	Grant date	Number exercised (#)	Exercise Price (\$)	Market Price (\$)	Value Realized (\$)
Bryan DeNeve	March 26, 2012	35,611	\$24.27	\$28.38	\$110,214
Darcy Trufyn	March 26, 2012	39,167	\$24.27	\$28.36	\$48,319
Kathryn Chisholm	March 26, 2012	21,886	\$24.27	\$27.90	\$59,724

## EQUITY COMPENSATION PLANS

We adopted our two equity compensation plans for executives and employees — the 2009 plan and the LTI plan — before our initial public offering in 2009 and did not need shareholder approval under the TSX requirements. The initial public offering prospectus disclosed the two equity compensation plans. The one and only options grant made under the 2009 plan expired on July 8, 2016, and the 2009 plan was terminated by the board on November 17, 2016.

At our 2017 annual meeting, shareholders approved an increase in the maximum number of shares reserved for issue under our stock option plan. The limit is 9,194,506 (increased from 7,094,506 in 2017), representing approximately 6.6% of the common shares outstanding as at December 31, 2017.

Of the total number of common shares that can be issued under the LTI plan, 719,050 options were issued under the LTI plan in 2018.

The table below gives details about the equity compensation plans as at December 31, 2018:

Plan category	Number of securities to be issued upon exercise of outstanding stock options (a)		Weighted average exercise price of outstanding stock options (b)	Number of securities remaining available for future issue (excluding securities reflected in column (a)) (c)		Total stock options outstanding and available for grant (a) + (c)	
	% of common shares outstanding	#		% of common shares outstanding	#	% of common shares outstanding	#
Equity compensation plans approved by security holders	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Equity compensation plans not approved by security holders	3.5%	3,577,660	\$22.93	2.5%	2,515,818	5.9%	6,093,478
Total	3.5%	3,577,660	\$22.93	2.5%	2,515,818	5.9%	6,093,478

### Note

- Stock options were granted for 2,183,100 common shares under the 2009 plan, and 8,671,481 common shares under the current LTI plan for a total of 10,854,581 options. Of the total granted under the two plans, stock options for 4,175,893 common shares have been cancelled or expired, and stock options for 3,101,027 common shares have been exercised.

The table below shows the stock option overhang, dilution and run rate. See Stock options on page 51 for details.

Rate	Description	2018	2017	2016
Overhang	<ul style="list-style-type: none"> <li>the total potential dilution from stock options</li> <li>the total number of stock options outstanding plus the number of shares available for future issue, divided by the number of common shares outstanding</li> </ul>	5.91%	6.62%	5.50%
Dilution	<ul style="list-style-type: none"> <li>the current dilution from stock options</li> <li>the total number of stock options outstanding divided by the number of common shares outstanding</li> </ul>	3.47%	3.95%	4.26%
Run rate	<ul style="list-style-type: none"> <li>shows the size of annual stock option grants and indicates how quickly the stock option reserve is being used</li> <li>the total number of stock options issued in a year, divided by the number of common shares outstanding</li> </ul>	0.70%	0.69%	1.01%

**Note**

- Overhang increased in 2017 due to the amendment of the LTI plan to increase the overall share reserve.

The Company regularly monitors dilution levels and, where warranted, will consider changes to the LTI plan award mix to manage the situation.

The table below is a summary of outstanding stock options granted by the board and run rate:

Year	Number of common shares to be issued for stock options previously granted	As a percentage of common shares outstanding at year-end (run rate)
2012	1,449,568	1.48%
2013 <sup>(1)</sup>	740,304	0.75%
2014	725,571	0.72%
2015	671,804	0.67%
2016	977,624	1.01%
2017	696,057	0.69%
2018	719,050	0.70%

**Note**

- (1) In November 2012, the committee approved a change to the mix of LTIs for the 2013 award at the management level to better manage dilution and reduced the targeted value in stock options to 25% (from 50%).

Copies of the plan documents are available on SEDAR ([www.sedar.com](http://www.sedar.com)). See also Stock options on page 51.

## RETIREMENT BENEFITS

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

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

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

### Defined benefit plan

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

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

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

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

In 2018, members were required to contribute 9.39% up to the YMPE plus 13.84% of pensionable earnings in excess of the YMPE, and employers contributed 10.39% up to the YMPE and 14.84% of pensionable earnings in excess of the YMPE.

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

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

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

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

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

Name (a)	Number of years of credited service (#) (b)	Annual benefits payable (\$)		Opening present value of defined benefit obligation (\$) (d)	2018 Compensatory changes (\$) (e)	2018 Non- compensatory changes (\$) (f)	Closing present value of defined benefit obligation (\$) (g)
		At year end (c1)	At age 65 (c2)				
Brian Vaasjo	20.5577	484,094	526,167	7,223,310	251,193	-225,767	7,226,887
Bryan DeNeve	16.2922	164,943	282,214	2,080,106	333,183	-149,765	2,241,675
Kathryn Chisholm	14.2615	133,070	220,709	1,594,383	370,155	-117,676	1,825,013

### Notes

(b) Number of years of credited service

- Brian Vaasjo — the amount reflects credited service under the LAPP and 19 years of credited service under the SRP.
- Bryan DeNeve — the amount reflects credited service under the LAPP and SRP.
- Kathryn Chisholm — the amount reflects credited service under the LAPP and 14.3142 years of credited service under the SRP.

*(c1 and c2) Annual benefits payable*

- (c1) At year end — Accrued Defined Benefit pension under the LAPP and SRP as at December 31, 2018 and payable at normal retirement age of 65 based on highest average earnings, average YMPE and pensionable service as at December 31, 2018. An unreduced pension is payable at the earliest of age 65 or 85 points.
- (c2) At age 65 — the amount payable on retirement at age 65, assumes continued service accrual to age 65 and that the highest average earnings and estimated CPP, at age 65, remain unchanged from December 31, 2018.

*(d) Opening present value of defined benefit obligation*

- The defined benefit obligation and service cost for the SRP were determined using the same methods and assumptions used to determine accounting information disclosed in Capital Power's financial statements. Accounting entries for the LAPP are recognized on a defined contribution basis; therefore, only company contributions to the LAPP are included in compensatory changes. As a result, columns (d), (e) and (f) do not sum up to column (g).

*(e) 2018 Compensatory changes*

- The defined benefit obligation and service cost for the SRP were determined using the same methods and assumptions used to determine accounting information disclosed in Capital Power's financial statements. Accounting entries for the LAPP are recognized on a defined contribution basis; therefore, only company contributions to the LAPP are included in compensatory changes. As a result, columns (d), (e) and (f) do not sum up to column (g).
- Includes \$21,849 in LAPP employer contributions for all named executives.

*(g) Closing present value of defined benefit obligation*

- The defined benefit obligation and service cost for the SRP were determined using the same methods and assumptions used to determine accounting information disclosed in Capital Power's financial statements. Accounting entries for the LAPP are recognized on a defined contribution basis; therefore, only company contributions to the LAPP are included in compensatory changes. As a result, columns (d), (e) and (f) do not sum up to column (g).

**Defined contribution plan**

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

Darcy Trufyn and Mark Zimmerman participate in this plan. The following table is a reconciliation of the accumulated value as at the end of the last two years. The compensatory change is the employer contribution we made on their behalf.

Name	Accumulated value at Dec 31, 2017 (\$)	2018 Compensatory changes (\$)	Accumulated value at Dec 31, 2018 (\$)
(a)	(b)	(c)	(d)
Darcy Trufyn	281,403	14,978	295,433
Mark Zimmerman	62,976	13,250	87,417

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

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

**Supplemental retirement plan**

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

Pensionable earnings include base salary and target bonus.

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

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

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

## OTHER BENEFITS

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

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

### Health and welfare benefits

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

### Executive benefit allowance

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

### Executive business allowance

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

### Financial planning allowance

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

### Savings plan

Our savings plan allows all Canadian-based, non-unionized employees to contribute up to 100% of their base salary towards a range of investment options, including our common shares. Participation is voluntary.

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

## TERMINATION AND CHANGE OF CONTROL

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

The table below shows the estimated incremental amounts that would be paid if the named executive had been terminated on December 31, 2018 because of a termination without cause or a double trigger change of control (which requires both a change of control and termination of the executive for good reason). No incremental amounts are triggered by the other termination scenarios.

Name	Length of service for calculating the severance payment	Estimated severance (\$)	Estimated value of vested stock options (\$)	For Termination without Cause		For Double Trigger Change of Control		
				Estimated value of vested Share Units (\$)	Total including Estimated Severance (\$)	Estimated value of vested stock options (\$)	Estimated value of vested Share Units (\$)	Total including Estimated Severance (\$)
Brian Vaasjo	36 months	3,975,224	903,563	3,413,754	8,292,540	1,212,549	4,809,005	9,996,778
Bryan DeNeve	24 months	1,280,892	329,062	1,233,259	2,843,213	445,669	1,688,840	3,415,402
Darcy Trufyn	20 months	1,044,594	323,774	1,191,396	2,559,763	434,058	1,626,017	3,104,668
Mark Zimmerman	14 months	786,550	268,125	985,546	2,040,221	363,138	1,356,726	2,506,414
Kathryn Chisholm	23 months	1,177,381	210,967	776,266	2,164,615	282,826	1,059,450	2,519,657

### Notes

#### Estimated value of vested stock options

The difference between \$26.59, the closing price of our common shares on the TSX on December 31, 2018, and the respective exercise price for each options grant, times the number of outstanding unvested stock options that would vest under the termination scenario.

#### Estimated value of PSUs

The estimated payout value of PSUs is based on the closing price of our common shares on the TSX on December 31, 2018 of \$26.59 per share multiplied by the current weighted average performance multiplier.

## 4. Other Information

Copies of the circular and our most recent AIF and annual report (which includes our management's discussion and analysis and consolidated financial statements for the year ended December 31, 2018) are available free of charge:

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

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

### **We want your feedback**

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

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

#### *Investor inquiries*

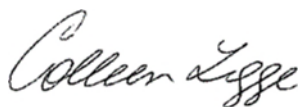
T. 780.392.5305  
1.866.896.4636 (toll-free)  
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E. [investor@capitalpower.com](mailto:investor@capitalpower.com)

#### *General inquiries*

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Edmonton, Alberta T5H 0E9  
T. 780.392.5100  
F. 780.392.5124  
W. [www.capitalpower.com](http://www.capitalpower.com)

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

By order of the board,



Colleen Legge  
Corporate Secretary  
Capital Power Corporation  
Edmonton, Alberta

March 1, 2019

## Appendix A

### Board of Directors – Terms of Reference

#### I. INTRODUCTION

- A. The Board of Directors (the “Board”) has the power to manage, or supervise the management of, the business and affairs of Capital Power Corporation (the “Corporation”) except as limited or restricted by the *Canada Business Corporations Act* (the “Act”) and the Corporation’s Articles and By-laws.
- B. The Corporation hereby adopts these terms of reference for the Board, which set out the specific responsibilities to be discharged by the Board. The purpose of these terms of reference is to assist the Board in annually assessing its performance.
- C. The President and Chief Executive Officer (the “CEO”) and Management formulate strategies and plans and present them to the Board for approval. The Board approves the goals of the business, the objectives and policies within which it is managed, and then assumes a stewardship role and evaluates Management performance. Reciprocally, the CEO keeps the Board fully informed of the Corporation’s progress towards the achievement of its goals and of all material deviations from the goals or objectives and policies established by the Board in a timely and candid manner.

#### II. BOARD COMPOSITION

- A. The Board will consist of a minimum of 3 and a maximum of 12 Directors.
- B. A majority of the members of the Board will be independent pursuant to National Policy 58-201 Corporate Governance Guidelines (as implemented by the Canadian Securities Administrators and as amended from time to time) (“NP 58-201”).
- C. The Board should consist of professional and competent members with an appropriate mix of skills and abilities to ensure that the Board carries out its duties and responsibilities in the most effective manner and that the Corporation meets its legal, financial and operational objectives.
- D. The Directors will be elected at the annual general meeting of the Corporation each year and will hold office until their successors are duly elected or appointed.

#### III. RESPONSIBILITIES

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

##### A. Managing the Affairs of the Board

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

- i) appointing Committees and/or advisory bodies, which at a minimum shall be comprised of an Audit Committee, a Corporate Governance, Compensation and Nominating Committee (the “CGCN Committee”) and a Health, Safety and Environmental Committee;
- ii) delegating responsibilities to, and seeking the advice of, the Committees and establishing and periodically reviewing/approving their respective terms of reference;
- iii) approving terms of reference for the Chair and Individual Directors;
- iv) implementing processes to evaluate the performance of the Board, the Committees and the Directors in fulfilling their respective responsibilities;
- v) on the recommendation of the CGCN Committee, implementing processes for new Director orientation and ongoing Director development;
- vi) appointing the Secretary;
- vii) on the recommendation of the CGCN Committee, implementing effective governance processes to fulfill its responsibility for oversight and control;
- viii) making recommendations to the shareholders in the following areas:



- a) on the recommendation of the CGCN Committee, director nominees, other than the nominees of EPCOR Utilities Inc.;
- b) on the recommendation of the Audit Committee, the appointment of the external auditors; and
- c) any special business items to be addressed by the shareholders that may be brought forward by the Board or the Corporation from time to time;
- ix) delineating the authority to be retained by the Board and that to be delegated to the Committees and the CEO;
- x) publishing a corporate governance statement annually, describing how each of the principles of good governance in NP 58-201 (or its successor) is put into practice;
- xi) at least annually, surveying the management, development, effectiveness and performance of the Board, including reviewing and considering any amendments to be made to these terms of reference; and
- xii) considering as a Board and not delegating to any Committee:
  - a) any submission to the shareholders of the Corporation of a question or matter requiring the approval of the shareholders;
  - b) the filling of a vacancy among the Directors or the Corporation's auditor or the appointment of additional Directors;
  - c) the issuance of securities, including shares of a series, except as authorized by the Board;
  - d) the declaration of dividends;
  - e) the purchase, redemption or any other form of acquisition of shares issued by the Corporation;
  - f) the payment of a commission to any person in consideration of the purchase or agreement to purchase shares of the Corporation from the Corporation or from any other person, or the procurement or agreement to procure purchasers for any shares of the Corporation;
  - g) approval of the annual audited financial statements, quarterly financial statements and quarterly reports, management proxy circulars, take-over bid circulars, directors' circulars, prospectuses, annual information forms and other disclosure documents required to be approved by the directors of a corporation under securities laws, regulations or rules of any applicable stock exchange; or
  - h) the adoption, amendment or repeal of the By-laws.

#### B. Strategy and Plans

The Board has the responsibility to:

- i) participate with Management in developing and adopting the Corporation's strategic planning process including:
  - a) providing input to Management on emerging trends and issues;
  - b) reviewing and approving, on an annual basis, Management's strategic plans (long term business plans), which will take into account, among other things, the opportunities, risks and sustainability of the business of the Corporation; and
  - c) reviewing and approving, on an annual basis, the Corporation's financial objectives, plans and actions, including significant capital allocations and expenditures;
- ii) approve annual capital and operating budgets which support the Corporation's ability to meet the objectives established in the strategic plan; and
- iii) monitor the Corporation's progress towards its goals, and to revise and alter its direction through Management in light of changing circumstances.

#### C. Management and Human Resources

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

- i) the appointment, termination and succession of the CEO;
- ii) approving CEO compensation;
- iii) approving terms of reference for the CEO;

- iv) monitoring CEO performance and reviewing CEO performance at least annually, against agreed upon written objectives;
- v) providing advice and counsel to the CEO in the execution of the CEO's duties;
- vi) approving compensation and benefits for directors;
- vii) approving decisions relating to senior Management, including the:
  - a) appointment and termination of executive officers; and
  - b) compensation and benefits for executive officers;
- viii) satisfying itself as to the integrity of the CEO and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the Corporation;
- ix) ensuring succession planning programs are in place, including programs to train, develop and monitor senior Management;
- x) approving certain matters relating to all employees, including:
  - a) the overarching compensation policy/program for employees;
  - b) new benefit programs or material changes to existing programs; and
  - c) material benefits granted to retiring employees outside of benefits received under approved pension and other benefit programs;
- xi) satisfying itself as to the oversight and governance of, and approving all material amendments to, the Corporation's pension plans;
- xii) ensuring there are adequate procedures for the Board to be apprised on a timely basis of concerns relating to unethical behavior, fraudulent activities or violation of the Corporation's policies.

#### D. Business and Risk Management

The Board has the responsibility to:

- i) with the assistance of the Audit Committee, monitor corporate financial performance against the operating and capital plans, including assessing operating results to evaluate whether the Corporation's business is being properly managed and meeting its objectives;
- ii) ensure Management identifies the principal risks of the Corporation's business and implements appropriate systems to manage these risks;
- iii) with the assistance of the Health Safety and Environment Committee, monitor and assess the effectiveness of the Corporation's employee health and safety and environmental stewardship;
- iv) receive, at least annually, reports from Management and, where applicable, from the Committees, on matters relating to, among others, ethical conduct, human rights, and related party transactions;
- v) understanding principal risks and determine whether the Corporation achieves a proper balance between risk and returns, and that Management ensures that systems are in place to address the risks identified; and
- vi) with the assistance of the Audit Committee, assess and monitor management control systems, including evaluating and assessing information provided by Management and others (e.g., internal and external auditors) about the effectiveness of management control systems.

#### E. Financial and Corporate Issues

The Board has the responsibility to:

- i) with the assistance of the Audit Committee, at least annually, provide oversight of a review to ensure the implementation and integrity of the Corporation's internal control and management information systems;
- ii) with the assistance of the Audit Committee, monitor operational and financial results;
- iii) on the recommendation of the Audit Committee, approve annual and quarterly financial statements, and approve the release thereof by Management;
- iv) declare dividends from time to time;
- v) approve debt financing, banking resolutions and significant changes in banking relationships;

- vi) review coverage, deductibles and key issues regarding corporate insurance policies;
- vii) approve commitments that may have a material impact on the Corporation; and
- viii) approve the commencement or settlement of litigation that may have a material impact on the Corporation.

#### F. Shareholder and Corporate Communications

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

- i) ensure the Corporation has in place effective communication processes with shareholders and major stakeholders;
- ii) with the assistance of the Audit Committee, ensure that the financial performance of the Corporation is adequately reported to the shareholders, other security holders and regulators on a timely and regular basis;
- iii) on the recommendation of the Audit Committee, ensure the financial results are reported fairly and in accordance with generally accepted accounting principles; and
- iv) ensure the timely reporting of any other developments that have a significant and material impact on the value of the Corporation.

#### G. Policies and Procedures

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

- i) with the assistance of the CGCN Committee (where applicable), approve and monitor compliance with all significant policies and procedures by which the Corporation is operated;
- ii) with the assistance of the CGCN Committee, direct Management to ensure the Corporation operates at all times within applicable laws and regulations and to the highest ethical and moral standards;
- iii) on recommendation from the relevant Committee, review and approve significant new corporate policies or material amendments to existing policies (including, for example, policies regarding business conduct, conflict of interest and the environment);
- iv) with the assistance of the CGCN Committee, develop and adopt corporate governance principles and guidelines for the Corporation and review such corporate governance guidelines annually; and
- v) with the assistance of the CGCN Committee, adopt and monitor a written code of business conduct and ethics applicable to all directors, officers and employees of the Corporation addressing:
  - a) conflicts of interest and the procedures to be established and monitored for identifying and dealing with conflicts of interest;
  - b) protection and proper use of corporate assets and opportunities;
  - c) confidentiality of corporate information;
  - d) fair dealing with the Corporation's security holders, customers, suppliers, competitors and employees;
  - e) compliance with applicable laws, rules and regulations; and
  - f) reporting of any illegal or unethical behaviour.

### IV. GENERAL LEGAL OBLIGATIONS OF THE BOARD OF DIRECTORS

- A. The Board is responsible for directing Management to ensure legal requirements have been met, and documents and records have been properly prepared, approved and maintained.
- B. The Act includes the following as legal requirements for Directors:
  - i) to act honestly and in good faith with a view to the best interests of the Corporation;
  - ii) to exercise the care, diligence and skill that reasonably prudent people would exercise in comparable situations; and
  - iii) to act in accordance with the obligations contained in the Act, and any other relevant legislation, regulations and policies, and the Corporation's Articles and By-laws.

### V. MEETINGS

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

## Appendix B

### Employment Contracts – Termination and Change of Control Benefits

The following table summarizes the treatment of the named executives' compensation and benefits if they are no longer employed by Capital Power. *Change of control* and *termination without cause/resignation* are based on adverse changes to the terms of employment.

	Resignation	Retirement/Disability	Death	Termination without cause	Termination for cause	Double trigger change of control
<b>Salary and benefits</b>	All salary and benefits programs end.					
<b>STIP</b>	Annual STIP payment is forfeited.	Annual STIP payment is paid at target on a pro rata basis.			Annual STIP payment is not paid.	Annual STIP payment is paid at target and included in severance
<b>Stock options</b>	All unvested options under the LTI plan are forfeited. Vested options granted under the LTI plan expire on the original expiry date or 30 days after termination of employment, whichever is earlier.	Unvested options under the LTI plan continue to vest and can be exercised for 12 months following termination of employment before they expire. Vested options expire on the original expiry date or 12 months after the date of termination, whichever is earlier.		Except as noted below for Brian Vaasjo and Bryan DeNeve, all unvested options under the LTI plan will vest and expire on the original expiry date or 30 days after termination of employment, whichever is earlier. For Brian Vaasjo and Bryan DeNeve, in respect of options granted under the LTI plan on or after January 1, 2015, all unvested options will continue to vest and can be exercised for 12 months following termination of employment before they expire.	All unvested and vested options under the LTI plan are forfeited.	All unvested options under the LTI plan will vest and expire on the original expiry date or 30 days after termination of employment, whichever is earlier.
<b>Share Units</b>	All PSUs are forfeited. DSUs are fully vested upon grant. Payout occurs within 90 days of the date of termination.	Vesting of PSUs is pro-rated to the date of termination and based on actual performance to the end of the quarter preceding the date of termination. Payouts occur within 90 days of the date of termination. DSUs are fully vested upon grant. Payout occurs within 90 days of the date of termination.	Vesting of PSUs is pro-rated to the date of termination and based on target performance. Payouts occur within 90 days of the date of termination. DSUs are fully vested upon grant. Payout occurs within 90 days of the date of termination.	Vesting of PSUs is pro-rated to the date of termination and based on actual performance to the end of the quarter preceding the date of termination. Payouts occur within 90 days of the date of termination. DSUs are fully vested upon grant. Payout occurs within 90 days of the date of termination.	All PSUs are forfeited. DSUs are fully vested upon grant. Payout occurs within 90 days of the date of termination.	All unvested PSUs vest immediately and pay out based on actual performance to the end of the quarter preceding the date of termination. Payouts occur within 90 days of the date of termination. DSUs are fully vested upon grant. Payout occurs within 90 days of the date of termination.

	Resignation	Retirement/Disability	Death	Termination without cause	Termination for cause	Double trigger change of control
<b>Pension LAPP/DB SRP</b>	Vested pension is paid as a commuted value or deferred benefit.	Vested pension is paid as a deferred or immediate benefit or commuted value.	Vested pension is paid as a commuted value or deferred (if less than 55) or immediate benefit (if 55 or older).		Vested pension is paid as a commuted value or a deferred (if less than 55) or immediate benefit (if 55 or older). Vested benefit under the SRP may be forfeited at Capital Power's sole discretion.	Vested pension is paid as a commuted value or a deferred (if less than 55) or immediate benefit (if 55 or older).
<b>DC RPP/SRP</b>	Vested DC account balance as lump sum or annuity. No additional SRP accrual contributions made in year of termination if termination date is prior to Dec 31.	Vested DC account balance as lump sum or annuity. Employer contribution for SRP benefits accrued.	Vested DC account balance as lump sum or annuity. Employer contribution for SRP benefits accrued.	Vested DC account balance as lump sum or annuity. Employer contribution for SRP benefits accrued.	Vested DC account balance as lump sum or annuity. Employer contribution for SRP accrued. Vested pension may be forfeited at Capital Power's sole discretion.	Vested DC account balance as lump sum or annuity. Employer contribution for SRP benefits accrued.
<b>Severance</b> <i>(Brian Vaasjo)</i>	Not applicable.			Severance is provided representing a minimum of 24 months plus one month for each year of service with Capital Power to a maximum of 36 months each of salary, STIP at target, annual company benefits, pension contributions, and annual business allowance.	Not applicable.	Severance is provided representing a total of 24 months each of salary, STIP at target, annual company benefits, pension contributions and annual business allowance. The severance notice period is capped at 36 months.
<b>Severance</b> <i>(Darcy Trufyn, Mark Zimmerman and Kathryn Chisholm)</i>	Not applicable.			Severance is provided representing a total of 12 months plus 1/2 a month for each year of service with EPCOR, plus one month for each year of service with Capital Power to a maximum of 24 months each of salary, STIP at target, annual company benefits, pension contributions, and annual business allowance.	Not applicable.	Severance is provided representing a total of 12 months plus 1/2 month of each year of service with EPCOR, plus one month for each year with Capital Power to a maximum of 24 months each of salary, STIP at target, annual company benefits, pension contributions, and annual business allowance.

	Resignation	Retirement/Disability	Death	Termination without cause	Termination for cause	Double trigger change of control
<b>Severance</b> <i>(Bryan DeNeve)</i>	Not applicable.			Severance is provided representing a total of 12 months plus 1 month for each year of service with EPCOR, plus one month for each year of service with Capital Power to a maximum of 24 months each of salary, STIP at target, annual company benefits, pension contributions, and annual business allowance.	Not applicable.	Severance is provided representing a total of 12 months plus 1 month of each year of service with EPCOR, plus one month for each year with Capital Power to a maximum of 24 months each of salary, STIP at target, annual company benefits, pension contributions, and annual business allowance.

## **Appendix C**

### Amended and Restated Shareholder Rights Plan Agreement



**AMENDED AND RESTATED  
SHAREHOLDER RIGHTS PLAN AGREEMENT**

Made as of April 22, 2016

between

**CAPITAL POWER CORPORATION**

and

**COMPUTERSHARE TRUST COMPANY OF CANADA**

as Rights Agent

(Amending and Restating the Shareholder Rights Plan  
Agreement dated November 20, 2012)

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## SHAREHOLDER RIGHTS PLAN

**THIS AGREEMENT** dated as of the 22nd day of April, 2016,

BETWEEN:

**CAPITAL POWER CORPORATION**, a corporation incorporated under the laws of Canada (hereinafter referred to as the "**Corporation**")

OF THE FIRST PART,

- and -

**COMPUTERSHARE TRUST COMPANY OF CANADA**, a trust company incorporated under the laws of Canada (hereinafter referred to as the "**Rights Agent**")

OF THE SECOND PART.

WHEREAS:

- A. on November 20, 2012, the Corporation implemented a shareholder rights plan (the "**Rights Plan**"), the terms and conditions of which are set out in the Shareholder Rights Plan Agreement dated November 20, 2012 (the "**2012 Rights Plan Agreement**") between the Corporation and Computershare Trust Company of Canada, as rights agent;
- B. in connection with the adoption of the Rights Plan, the 2012 Rights Plan Agreement provided for:
  - (i) the issuance, effective at the Record Time, of one right (a "**Right**") in respect of each Voting Share outstanding at the Record Time;
  - (ii) the issuance of one Right in respect of each Voting Share issued after the Record Time and prior to the earlier of the Separation Time and the Expiration Time; and
  - (iii) the issuance of Rights Certificates to holders of Rights pursuant to the terms and subject to the conditions set forth herein;
- C. the Board of Directors has determined that it is advisable for the Corporation to adopt and maintain a shareholder rights plan to ensure, to the extent possible, the fair treatment of all Shareholders in connection with any take-over bid for the securities of the Corporation and to provide the Board of Directors with sufficient time to evaluate unsolicited take-over bids and to explore and develop alternatives to maximize shareholder value;
- D. the 2012 Rights Plan Agreement provides that it will terminate following the termination of the annual meeting of Shareholders in the year 2016 provided that a Flip-in Event has not occurred prior to that time unless the continued existence of the 2012 Rights Plan Agreement is ratified at such annual meeting by resolution passed by a majority of votes cast by (i) the Shareholders, and (ii) if applicable, the Independent Shareholders who vote in respect thereof in which case the 2012 Rights Plan Agreement will continue until the termination of the annual meeting of Shareholders in the year 2019;
- E. at the annual meeting of Shareholders which was held on April 22, 2016, the Shareholders determined that it is advisable:
  - (i) for the Rights Plan to continue in effect following the termination of such meeting; and
  - (ii) to amend and restate the 2012 Rights Plan Agreement as herein provided;

- F. each Right entitles the holder thereof, after the Separation Time, to purchase securities of the Corporation pursuant to the terms and subject to the conditions set forth herein;
- G. the Corporation desires to continue the appointment of the Rights Agent to act on behalf of the Corporation and the holders of Rights, and the Rights Agent is willing to continue to so act, in connection with the issuance, transfer, exchange and replacement of Rights Certificates, the exercise of Rights and other matters referred to herein;
- H. the foregoing recitals are made as representations and statements of fact by the Corporation and not by the Rights Agent;
- I. all capitalized terms used in the foregoing recitals which are not otherwise defined shall have the meanings attributed thereto in this Agreement;

NOW THEREFORE in consideration of the premises and the respective agreements set forth herein, the parties hereby agree as follows:

## ARTICLE 1 CERTAIN DEFINITIONS

### 1.1 Certain Definitions

For purposes of this Agreement, the following terms have the meanings indicated:

- (a) **“Acquiring Person”** shall mean any Person who is the Beneficial Owner of 20% or more of the outstanding Voting Shares which, for purposes of this definition, shall include Common Shares issuable on exercise of Convertible Securities; provided, however, that the term “Acquiring Person” shall not include:
  - (i) the Corporation or any Subsidiary of the Corporation;
  - (ii) any Person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares as a result of any one or a combination of:
    - (A) an acquisition or redemption or conversion by the Corporation of Voting Shares which, by reducing the number of Voting Shares outstanding, increases the percentage of Voting Shares Beneficially Owned by such Person to 20% or more of the Voting Shares then outstanding (**“Share Acquisitions or Redemptions”**);
    - (B) Voting Share acquisitions made pursuant to a Permitted Bid or a Competing Permitted Bid (**“Permitted Bid Acquisitions”**);
    - (C) Voting Share acquisitions (1) in respect of which the Board of Directors has waived the application of Section 3.1 pursuant to Sections 5.1(b), (c) or (d), or (2) which were made on or prior to the Record Time, or (3) which were made pursuant to a distribution reinvestment plan of the Corporation, or (4) pursuant to the receipt and/or exercise of rights issued by the Corporation to all the holders of the Voting Shares to subscribe for or purchase Voting Shares or Convertible Securities, provided that such rights are acquired directly from the Corporation and not from any other Person and provided that such Person does not thereby acquire a greater percentage of Voting Shares or Convertible Securities than the Person’s percentage of Voting Shares Beneficially Owned immediately prior to the receipt and/or exercise of such rights, or (5) pursuant to a distribution by the Corporation of Voting Shares or Convertible Securities (and the conversion of such Convertible Securities) made pursuant to a prospectus or by way of private placement, provided that such Person does not thereby acquire a greater percentage of such Voting Shares or Convertible Securities than the Person’s percentage of Voting Shares Beneficially Owned immediately prior to such distribution, or (6) pursuant to a plan of arrangement, amalgamation or other

statutory procedure requiring the approval of Shareholders, or (7) pursuant to a distribution by the Corporation of Voting Shares or Convertible Securities upon the exercise by an individual employee of options granted under a share option plan of the Corporation or rights to purchase securities granted under a share purchase plan of the Corporation, provided that (i) all necessary stock exchange approvals for such share option plan or share purchase plan have been obtained and such share option plan or share purchase plan complies with the terms and conditions of such approvals, and (ii) such Person does not become the Beneficial Owner of more than 25% of the Voting Shares outstanding immediately prior to the distribution, and in making this determination the Voting Shares to be issued to such Person in the distribution shall be deemed to be held by such Person but shall not be included in the aggregate number of outstanding Voting Shares immediately prior to the distribution (“**Exempt Acquisitions**”);

- (D) the acquisition of Voting Shares upon the exercise of Convertible Securities received by such Person pursuant to a Permitted Bid Acquisition, an Exempt Acquisition or a Pro Rata Acquisition (as defined below) (“**Convertible Security Acquisitions**”); or
- (E) acquisitions as a result of a distribution of Voting Shares (other than a regular periodic cash distribution), a Voting Share split or other event pursuant to which such Person receives or acquires Voting Shares or Convertible Securities on the same pro rata basis as all other Shareholders, provided that such Person does not thereby acquire a greater percentage of such Voting Shares or Convertible Securities than the Person’s percentage of Voting Shares Beneficially Owned immediately prior to such acquisition (“**Pro Rata Acquisitions**”);

provided, however, that if such Person shall become the Beneficial Owner of 20% or more of the Voting Shares then outstanding by reason of any one or a combination of (i) Share Acquisitions or Redemptions, (ii) Permitted Bid Acquisitions, (iii) Exempt Acquisitions, (iv) Convertible Security Acquisitions, or (v) Pro Rata Acquisitions and, after such Voting Share Acquisitions or Redemptions or Permitted Bid Acquisitions or Exempt Acquisitions or Convertible Security Acquisitions or Pro Rata Acquisitions, such Person becomes the Beneficial Owner of more than an additional 1.00% of the number of Voting Shares outstanding other than pursuant to any one or combination of Share Acquisitions or Redemptions, Permitted Bid Acquisitions, Exempt Acquisitions or Convertible Security Acquisitions or Pro Rata Acquisitions, then as of the date of any such acquisition such Person shall become an “Acquiring Person”;

- (iii) a Person who is the Beneficial Owner of 20% or more of the outstanding Voting Shares at the Record Time provided, however, that this exception shall not be, and shall cease to be, applicable to such a Person in the event that such Person shall, after the Record Time (A) cease to Beneficially Own 20% or more of the outstanding Voting Shares, or (B) become the Beneficial Owner of more than an additional 1.00% of the number of Voting Shares outstanding as at the Record Time other than pursuant to Share Acquisitions or Redemptions, Permitted Bid Acquisitions, Exempt Acquisitions, Convertible Security Acquisitions or Pro Rata Acquisitions;
- (iv) for a period of 10 days after the Disqualification Date, any Person who becomes the Beneficial Owner of 20% or more of the outstanding Voting Shares as a result of such Person becoming disqualified from relying on clause 1.1(d)(B) solely because such Person makes or announces an intention to make a Take-over Bid, either alone or by acting jointly or in concert with any other Person. For the purposes of this definition, “**Disqualification Date**” means the first date of public announcement that any Person is making or intends to make a Take-over Bid; or
- (v) an underwriter or member of a banking or selling group acting in such capacity that becomes the Beneficial Owner of 20% or more of the Voting Shares in connection with a distribution of securities.

- (b) **"Affiliate"**, when used to indicate a relationship with a specified Person, shall mean a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such specified Person.
- (c) **"Associate"** of a specified individual shall mean any individual to whom such specified individual is married or with whom such specified individual is living in a conjugal relationship outside marriage, or any relative of such specified individual who has the same residence as such specified individual.
- (d) A Person shall be deemed the **"Beneficial Owner"**, and to have **"Beneficial Ownership"**, of, and to **"Beneficially Own"**:
  - (i) any securities which such Person or any of such Person's Affiliates or Associates owns at law or in equity and any related instalment receipts;
  - (ii) any securities which such Person or any of such Person's Affiliates or Associates has the right to acquire (A) upon the exercise of any Convertible Securities, or (B) pursuant to any agreement, arrangement or understanding, provided such right is exercisable within a period of 60 days, whether or not on condition or the happening of any contingency or the making of any payment (other than customary agreements with and between underwriters and banking group or selling group members with respect to a distribution of securities or pursuant to a pledge of securities); and
  - (iii) any securities which are Beneficially Owned within the meaning of clauses 1.1(d)(i) or (ii) above by any other Person with whom such Person is acting jointly or in concert;

provided, however, that a Person shall not be deemed the "Beneficial Owner", or to have "Beneficial Ownership", of, or to "Beneficially Own", any security:

- (A) where (1) the holder of such security has agreed to deposit or tender such security pursuant to a Permitted Lock-up Agreement to a Take-over Bid made by such Person or any of such Person's Affiliates or Associates or any other Person referred to in clause 1.1(d)(iii), or (2) such security has been deposited or tendered pursuant to a Take-over Bid made by such Person or any of such Person's Affiliates or Associates or any other Person referred to in clause 1.1(d)(iii) until the earliest time at which any such tendered security is accepted unconditionally for payment or exchange or is taken up and paid for; or
- (B) where such Person, any of such Person's Affiliates or Associates or any other Person referred to in clause 1.1(d)(iii), holds such security provided that (1) the ordinary business of such Person (the **"Investment Manager"**) includes the management of investment funds for others and such security is held by the Investment Manager in the ordinary course of such business in the performance of such Investment Manager's duties for the account of any other Person, including non-discretionary accounts held on behalf of a client by a broker or dealer registered under applicable laws, or (2) such Person (the **"Trust Company"**) is licensed to carry on the business of a trust company under applicable laws and, as such, acts as trustee or administrator or in a similar capacity in relation to the estates of deceased or incompetent Persons or in relation to other accounts and holds such security in the ordinary course of such duties for the estates of deceased or incompetent Persons or for such other accounts, or (3) such Person (the **"Plan Trustee"**) is the administrator or trustee of one or more pension funds or plans (each a **"Plan"**) registered under applicable laws and holds such security for the purposes of its activity as such, or (4) such Person is a Plan or is a Person established by statute (the **"Statutory Body"**) for purposes that include, and the ordinary business or activity of such Person includes the management of investment funds for employee benefit plans, pension plans, insurance plans (other than plans administered by insurance companies) or various public bodies, or (5) such Person is a Crown agent or agency; provided in any of the

above cases, that the Investment Manager, the Trust Company, the Plan Trustee, the Plan, the Statutory Body or the Crown agent or agency, as the case may be, is not then making a Take-over Bid or has not announced a current intention to make a Take-over Bid, other than an Offer to Acquire Voting Shares or other securities pursuant to a distribution by the Corporation, by means of a Permitted Bid or by means of ordinary market transactions (including pre-arranged trades entered into in the ordinary course of business of such Person) executed through the facilities of a stock exchange or organized over-the-counter market, alone or by acting jointly or in concert with any other Person; or

- (C) because such Person is a client of or has an account with the same Investment Manager as another Person on whose account the Investment Manager holds such security, or where such Person is a client of or has an account with the same Trust Company as another Person on whose account the Trust Company holds such security, or where such Person is a Plan and has a Plan Trustee who is also a Plan Trustee for another Plan on whose account the Plan Trustee holds such security; or
- (D) where such Person (i) is a client of an Investment Manager and such security is owned at law or in equity by the Investment Manager, or (ii) has an account with a Trust Company and such security is owned at law or in equity by the Trust Company, or (iii) is a Plan and such security is owned at law or in equity by the Plan Trustee; or
- (E) where such Person is the registered holder of securities as a result of carrying on the business of, or acting as a nominee of, a securities depository.

For purposes of this Agreement, the percentage of Voting Shares Beneficially Owned by any Person shall be and be deemed to be the product determined by the formula:

$$100 \times A/B$$

Where:

A = the number of votes for persons to be elected as directors of the Corporation attaching to the Voting Shares Beneficially Owned by such Person; and

B = the number of votes for persons to be elected as directors of the Corporation attaching to all outstanding Voting Shares.

For the purposes of the foregoing formula, where any Person is deemed to Beneficially Own unissued Voting Shares which may be acquired pursuant to Convertible Securities, such Voting Shares shall be deemed to be outstanding for the purpose of calculating the percentage of Voting Shares Beneficially Owned by such Person in both the numerator and the denominator, but no other unissued Voting Shares which may be acquired pursuant to any other outstanding Convertible Securities held by other Persons shall, for the purposes of that calculation, be deemed to be outstanding.

- (e) **"Board of Directors"** shall mean the board of directors of the Corporation.
- (f) **"Business Day"** shall mean any day other than a Saturday, Sunday or a day that is treated as a holiday at the Corporation's executive offices in Edmonton, Alberta.
- (g) **"CBCA"** shall mean the Canada Business Corporations Act, R.S.C. 1985, c. 44, as amended, and the regulations made thereunder, and any comparable or successor laws or regulations thereto.
- (h) **"Close of Business"** on any given date shall mean the time on such date (or, if such date is not a Business Day, the time on the next succeeding Business Day) at which the office of the transfer agent for



the Shares in Calgary, Alberta (or, after the Separation Time, the offices of the Rights Agent in Calgary, Alberta) becomes closed to the public.

- (i) **"Competing Permitted Bid"** shall mean a Take-over Bid that:
  - (i) is made after a Permitted Bid has been made and prior to the expiry of the Permitted Bid;
  - (ii) satisfies all components of the definition of a Permitted Bid other than the requirements set out in clause (ii) of that definition; and
  - (iii) contains, and the take-up and payment for securities tendered or deposited is subject to, an irrevocable and unqualified condition that no Shares will be taken up or paid for pursuant to the Take-over Bid prior to the Close of Business on the date that is no earlier than the later of (1) the 60th day after the date on which the earliest Permitted Bid which preceded the Competing Permitted Bid was made, and (2) 35 days (or such longer minimum period of days as may be provided as the minimum deposit period by applicable Canadian provincial securities law) after the date of the Take-over Bid constituting the Competing Permitted Bid.
- (j) **"Convertible Securities"** shall mean at any time:
  - (i) any right (contractual or otherwise and regardless of whether such right constitutes a security) to acquire Voting Shares; and
  - (ii) any securities issued by the Corporation from time to time (other than the Rights) carrying any exercise, conversion or exchange right;

which is then exercisable or exercisable within a period of 60 days from that time pursuant to which the holder thereof may acquire Voting Shares or other securities which are convertible into or exercisable or exchangeable for Voting Shares (in each case, whether such right is then exercisable or exercisable within a period of 60 days from that time and whether or not on condition or the happening of any contingency or the making of any payment).
- (k) **"Exercise Price"** shall mean, as of any date, the price at which a holder may purchase the securities issuable upon exercise of one whole Right and, until adjustment thereof in accordance with the terms hereof, the Exercise Price shall equal three times the Market Price.
- (l) **"Expiration Time"** shall mean the Termination Time.
- (m) A **"Flip-in Event"** shall mean a transaction occurring as a result of which any Person shall become an Acquiring Person provided, however, that a Flip-in Event shall be deemed to occur at the Close of Business on the tenth day (or such later day as the Board of Directors may determine) after the Share Acquisition Date.
- (n) **"Independent Shareholders"** shall mean Shareholders excluding (i) any Acquiring Person, or (ii) any Person that is making or has announced a current intention to make a Take-over Bid (including a Permitted Bid and a Competing Permitted Bid) other than a Person referred to in Section 1.1(d)(iii)(B), but excluding any such Person if the Take-over Bid so announced or made by such Person has been withdrawn, terminated or expired, or (iii) any Affiliate or Associate of such Acquiring Person or Persons referred to in clause (ii), or (iv) any Person acting jointly or in concert with such Acquiring Person or a Person referred to in clause (ii), or (v) a Person who is a trustee of any employee benefit plan, share purchase plan, deferred profit sharing plan or any similar plan or trust for the benefit of employees of the Corporation or a Subsidiary of the Corporation, unless the beneficiaries of the plan or trust direct the manner in which the Voting Shares are to be voted or direct whether the Voting Shares are to be tendered to a Take-over Bid.

- (o) **"Market Price"** per security of any securities on any date of determination shall mean the average of the daily Closing Prices Per Security of such securities (determined as described below) on each of the 20 consecutive Trading Days through and including the Trading Day immediately preceding such date; provided, however, that if an event of a type analogous to any of the events described in Section 2.3 hereof shall have caused the price used to determine the Closing Price Per Security on any Trading Day not to be fully comparable with the price used to determine the Closing Price Per Security on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day, each such price so used shall be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 hereof in order to make it fully comparable with the price per security used to determine the Closing Price Per Security on such date of determination or, if the date of determination is not a Trading Day, on the immediately preceding Trading Day. The "Closing Price Per Security" of any securities on any date shall be:
- (i) the closing board lot sale price or, if such price is not available, the average of the closing bid and asked prices, for such securities as reported by the principal Canadian stock exchange (as determined by the Board of Directors) on which such securities are listed or admitted to trading, or if for any reason neither such prices is available on such day or the securities are not listed or admitted to trading on a Canadian stock exchange, the closing board lot sale price or, if such price is not available, the average of the closing bid and asked prices, for such securities as reported by such other securities exchange on which such securities are listed or admitted for trading;
  - (ii) if, for any reason, none of such prices is available on such date or the securities are not listed or admitted to trading on a Canadian stock exchange or other securities exchange, the last sale price, or in case no sale takes place on such date, the average of the high bid and low asked prices for such securities in the over-the-counter market, as quoted by any reporting system then in use (as selected by the Board of Directors); or
  - (iii) if the securities are not listed or admitted to trading as contemplated in clause 1.1(p)(i) or (ii), the average of the closing bid and asked prices as furnished by a professional market maker making a market in the securities selected by the Board of Directors;

provided, however, that if on any such date the Closing Price Per Security cannot be determined in accordance with the foregoing, the Closing Price Per Security of such securities on such date shall mean the fair value per Share of such securities on such date as determined by a nationally recognized investment dealer or investment banker with respect to the fair value per security of such securities; provided further that if an event of a type analogous to any of the events described in Section 2.3 hereof has caused any price used to determine the Market Price on any Trading Day not to be fully comparable with the price as so determined on the Trading Day immediately preceding such date of determination, each price so used shall be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 hereof in order to make it fully comparable with the price on the Trading Day immediately preceding such date of determination.

- (p) **"Offer to Acquire"** shall include:
- (i) an offer to purchase, or a solicitation of an offer to sell, securities; and
  - (ii) an acceptance of an offer to sell securities, whether or not such offer to sell has been solicited;
- or any combination thereof, and the Person accepting an offer to sell shall be deemed to be making an offer to acquire to the Person that made the offer to sell.
- (q) **"Offeror's Securities"** shall mean Voting Shares Beneficially Owned on the date of an Offer to Acquire by any Person who is making a Take-over Bid and by such Person's Affiliates and Associates and by any Person acting jointly or in concert with such Person or such Person's Affiliates and Associates and "Offeror" means a Person who has announced (and has not withdrawn) an intention to make or who has

made (and has not withdrawn) a Take-over Bid other than a Person who has completed a Permitted Bid or a Competing Permitted Bid.

- (r) **"Permitted Bid"** shall mean a Take-over Bid made by a Person by means of a take-over bid circular and which also complies with the following additional provisions:
- (i) the Take-over Bid is made to all holders of Shares of the Corporation, other than the Offeror;
  - (ii) the Take-over Bid contains, and the take-up and payment for Shares tendered or deposited thereunder is subject to, an irrevocable and unqualified condition that no Shares shall be taken up or paid for pursuant to the Take-over Bid prior to the Close of Business on a date which is not earlier than 60 days following the date of the Take-over Bid or such longer minimum period of days as may be provided as the minimum deposit period by applicable Canadian provincial securities law;
  - (iii) the Take-over Bid contains an irrevocable and unqualified condition that, unless the Take-over Bid is withdrawn, Shares may be deposited pursuant to the Take-over Bid at any time prior to the Close of Business on the date of first take-up or payment for Shares and that all Shares deposited pursuant to the Take-over Bid may be withdrawn at any time prior to the Close of Business on such date;
  - (iv) the Take-over Bid contains an irrevocable and unqualified condition that more than 50% of the outstanding Shares held by Independent Shareholders, determined as at the date of first take-up or payment for Shares under the Take-over Bid, must be deposited to the Take-over Bid and not withdrawn at the Close of Business on the date of first take-up or payment for Shares; and
  - (v) the Take-over Bid contains an irrevocable and unqualified condition that in the event that more than 50% of the then outstanding Shares held by Independent Shareholders shall have been deposited to the Take-over Bid and not withdrawn as at the date of first take-up or payment for Shares under the Take-over Bid, the Offeror will make a public announcement of that fact and the Take-over Bid will remain open for deposits and tenders of Shares for not less than 10 Business Days from the date of such public announcement;

provided that if a Take-over Bid constitutes a Competing Permitted Bid, the term "Permitted Bid" shall also mean the Competing Permitted Bid.

- (s) **"Permitted Lock-up Agreement"** shall mean an agreement (the "Lock-up Agreement") between a Person, any of such Person's Affiliates or Associates or any other Person referred to in clause 1.1(d)(iii) and one or more Shareholders or holders of Convertible Securities (each such holder herein referred to as a "Locked-up Person") (the terms of which are publicly disclosed and a copy of which is made available to the public, including the Corporation, not later than the date the Lock-up Bid (as defined below) is publicly announced or, if the Lock-up Bid has been publicly announced prior to the date of the Lock-up Agreement, forthwith and in any event not later than the first Business Day immediately following the date of the Lock-up Agreement) pursuant to which each such Locked-up Person agrees to deposit or tender Shares to a Take-over Bid (the "Lock-up Bid") made or to be made by the Person, any of such Person's Affiliates or Associates or any other Person referred to in clause 1.1(d)(iii), provided that:
- (i) the Lock-up Agreement permits the Locked-up Person to withdraw its Shares and/or Convertible Securities from the Lock-up Agreement in order to deposit or tender the Shares and/or Convertible Securities to another Take-over Bid or to support another transaction prior to the Shares and/or Convertible Securities being taken up and paid for under the Lock-up Bid, so long as the other Take-over Bid or transaction:
    - (A) offers a price or value per Share or Convertible Security that exceeds the price or value per Share or Convertible Security offered under the Lock-up Bid; or

- (B) is for a number of Shares and/or Convertible Securities which is greater than the number of Shares and/or Convertible Securities, as applicable, that the Offeror has offered to purchase under the Lock-up Bid by such number as may have been agreed to in the Lock-up Agreement, provided that such agreed upon number is not greater than 7% of the number of Shares and/or Convertible Securities offered to be purchased under such Lock-up Bid at a price or value per Share or Convertible Security that is not less than the price or value per Share or Convertible Security, as applicable, offered under such Lock-up Bid; or
- (C) offers a price or value for each Share which is greater than the price or value for each Share offered under the Lock-up Bid by as much as or more than a specified amount provided that such specified amount is not greater than 7% of the price or value per Share offered under such Lock-up Bid; and,

for greater clarity, the Lock-up Agreement may (1) contain a right of first refusal, (2) require a period of delay to give the Person who made the Lock-up Bid an opportunity to match or better the consideration or value offered in the other Take-over Bid or transaction or to offer to purchase or otherwise acquire the same number of Shares and/or Convertible Securities subject to the other Take-over Bid or transaction, or (3) contain other similar limitations on a Locked-up Person's right to withdraw Shares and/or Convertible Securities from the Lock-up Agreement, so long as any such limitation does not preclude the exercise by the Locked-up Person of the right to withdraw Shares and/or Convertible Securities during the period of the other Take-over Bid or transaction; and

- (ii) no "break-up" fees, "top-up" fees, penalties, expenses or other amounts that exceed in the aggregate the greater of:
  - (A) the cash equivalent of 2.5% of the price or value of the consideration payable under the Lock-up Bid to the Locked-up Person; and
  - (B) 50% of the amount by which the price or value of the consideration payable under another Take-over Bid or transaction to a Locked-up Person exceeds the price or value of the consideration that such Locked-up Person would have received under the Lock-up Bid;

shall be payable by such Locked-up Person pursuant to the Lock-up Agreement in the event such Locked-up Person fails to deposit or tender Shares and/or Convertible Securities to the Lock-up Bid or withdraws Shares and/or Convertible Securities previously tendered thereto in order to deposit or tender such Shares and/or Convertible Securities to another Take-over Bid or support another transaction.

- (t) "**Person**" shall mean any individual, firm, partnership, association, trust, trustee, personal representative, body corporate, corporation, unincorporated organization, syndicate, government or governmental agency, or other entity.
- (u) "**Record Time**" shall mean 12:01 a.m. (Calgary time) on November 20, 2012.
- (v) "**Securities Act**" shall mean the *Securities Act*, R.S.A. 2000, c. S-4, as amended, and the rules and regulations thereunder, and any comparable or successor laws, rules or regulations thereto.
- (w) "**Separation Time**" shall mean, subject to Section 5.1(d), the Close of Business on the tenth Business Day after the earlier of:
  - (i) the Share Acquisition Date;

- (ii) the date of the commencement of, or first public announcement of the intent of any Person (other than the Corporation or any Subsidiary of the Corporation) to commence a Take-over Bid (other than a Take-over Bid which is a Permitted Bid or a Competing Permitted Bid or a Take-over Bid in respect of which the Board of Directors has waived the application of Section 3.1), provided that, if any Take-over Bid referred to in this clause (ii) expires, is cancelled, terminated or otherwise withdrawn prior to the Separation Time, such Take-over Bid shall be deemed, for purposes of this Section 1.1(w), never to have been made; and
  - (iii) the date upon which a Permitted Bid or Competing Permitted Bid ceases to be such;
- or such later date as may be determined by the Board of Directors acting in good faith.
- (x) **"Share Acquisition Date"** shall mean the first date of public announcement (which, for purposes of this definition, shall include, without limitation, a report filed pursuant to Section 182.1 of the Securities Act) by the Corporation or an Acquiring Person of facts indicating that a Person has become an Acquiring Person.
  - (y) **"Shareholders"** shall mean the holders of Voting Shares from time to time.
  - (z) **"Shares"** shall mean the common shares of the Corporation as constituted on the date hereof and any other shares of the Corporation into which such shares may be subdivided, consolidated, reclassified or changed.
  - (aa) **"Subsidiary"** of any specified Person shall mean any corporation or other entity controlled by such specified Person.
  - (bb) **"Take-over Bid"** shall mean an Offer to Acquire Voting Shares or Convertible Securities, where the Voting Shares subject to the Offer to Acquire, together with the Voting Shares into which the securities subject to the Offer to Acquire are convertible, and the Offeror's Securities, constitute in the aggregate 20% or more of the outstanding Voting Shares at the date of the Offer to Acquire.
  - (cc) **"Termination Time"** shall mean the time at which the right to exercise Rights shall terminate pursuant to Section 5.1 or 5.17 hereof.
  - (dd) **"Trading Day"**, when used with respect to any securities, shall mean a day on which the principal securities exchange on which such securities are listed or admitted to trading is open for the transaction of business or, if the securities are not listed or admitted to trading on any securities exchange, a Business Day.
  - (ee) **"Voting Shares"** shall mean the Shares and any other securities of the Corporation entitling the holder to vote generally in the election of directors.

## 1.2 Currency

All sums of money which are referred to in this Agreement are expressed in lawful money of Canada.

## 1.3 Acting Jointly or in Concert

For purposes of this Agreement, a Person is acting jointly or in concert with another Person if such Person has any agreement, arrangement or understanding (whether formal or informal and whether or not in writing) with such other Person to acquire or Offer to Acquire any Voting Shares (other than (i) customary agreements with and between underwriters and banking group or selling group members with respect to a distribution of securities, and (ii) pursuant to a pledge of securities in the ordinary course of business).

## 1.4 Control

A Person is “**controlled**” by another Person or two or more other Persons acting jointly or in concert if:

- (a) in the case of a body corporate, securities entitled to vote in the election of directors of such body corporate carrying more than 50% of the votes for the election of directors are held, directly or indirectly, by or for the benefit of the other Person or Persons acting jointly or in concert and the votes carried by such securities are entitled, if exercised, to elect a majority of the board of directors of such body corporate; or
- (b) in the case of a limited partnership the other Person, or one of the other Persons acting jointly or in concert, is a general partner of the limited partnership; or
- (c) in the case of a Person which is not a body corporate or a limited partnership, more than 50% of the voting or equity interests of such entity are held, directly or indirectly, by or for the benefit of the other Person or Persons acting jointly or in concert;

and “**controls**”, “**controlling**” and “**under common control with**” shall be interpreted accordingly.

## 1.5 Definition of Agreement

For purposes of this Agreement, “Agreement” means this Shareholder Rights Plan Agreement, as amended or supplemented from time to time. References in this Agreement to “hereto”, “hereof”, “herein”, “hereby” and “hereunder” and similar expressions mean and refer to this Agreement as a whole and not to any particular part of this Agreement.

## 1.6 Fiduciary Duties of the Directors

Nothing contained herein shall be construed to suggest or imply that the Board of Directors shall not be entitled to recommend that holders of the Voting Shares and/or Convertible Securities reject or accept any Take-over Bid or take any other action including the commencement, prosecution, defence or settlement of any litigation and the solicitation of additional or alternative Take-over Bids or other proposals to shareholders that the directors believe are necessary or appropriate in the exercise of their fiduciary duties.

# ARTICLE 2 THE RIGHTS

## 2.1 Issue of Rights; Legend on Share Certificates

- (a) One Right has been issued in respect of each Voting Share outstanding as at the Record Time and in respect of each Voting Share issued after the Record Time. One Right shall continue to be issued in respect of each Voting Share issued after the date of this Agreement and prior to the earlier of the Separation Time and the Expiration Time.
- (b) Certificates for Voting Shares issued after the Record Time but prior to the earlier of the Separation Time and the Expiration Time shall evidence one Right for each Voting Share represented thereby and, commencing as soon as reasonably practicable after the Record Time, shall have impressed on, printed on, written on or otherwise affixed to them the following legend:

Until the Separation Time (as defined in the Rights Agreement referred to below), this certificate also evidences and entitles the holder hereof to certain Rights as set forth in a Shareholder Rights Plan Agreement dated November 20, 2012, as such from time to time may be amended, restated, varied or replaced, (the “Rights Agreement”) between Capital Power Corporation and Computershare Trust Company of Canada, as Rights Agent, the terms of which are hereby incorporated herein by reference and a copy of which is on file at the executive office of Capital Power Corporation. In certain circumstances, as set forth in the Rights Agreement, such Rights may be amended or redeemed, may expire, may become void (if, in certain cases, they are “Beneficially Owned” by an “Acquiring Person”, as such terms are

defined in the Rights Agreement, or a transferee thereof) or may be evidenced by separate certificates and may no longer be evidenced by this certificate. Capital Power Corporation will mail or arrange for the mailing of a copy of the Rights Agreement to the holder of this certificate, without charge, as soon as practicable after the receipt of a written request therefor.

Certificates representing Voting Shares that are issued and outstanding at the Record Time shall evidence one Right for each Voting Share evidenced thereby notwithstanding the absence of the foregoing legend until the earlier of the Separation Time and the Expiration Time.

## 2.2 Initial Exercise Price; Exercise of Rights; Detachment of Rights

- (a) Subject to adjustment as herein set forth, each Right will entitle the holder thereof, after the Separation Time and prior to the Expiration Time, to purchase, for the Exercise Price as at the Business Day immediately preceding the day of exercise of the Right, one Share.

Notwithstanding any other provision of this Agreement, any Rights held by the Corporation or any of its Subsidiaries shall be void.

- (b) Until the Separation Time:
  - (i) no Right may be exercised; and
  - (ii) each Right will be evidenced by the certificate for the associated Voting Share registered in the name of the holder thereof (which certificate shall also be deemed to be a Rights Certificate) and will be transferable only together with, and will be transferred by a transfer of, such associated Voting Share.
- (c) After the Separation Time and prior to the Expiration Time, the Rights (i) may be exercised; and (ii) the registration and transfer of the Rights shall be independent of Voting Shares. Promptly following the Separation Time the Rights Agent will mail to each holder of record of Voting Shares as of the Separation Time and, in respect of each Convertible Security converted into Voting Shares after the Separation Time and prior to the Expiration Time, promptly after such conversion, the Corporation will prepare or cause to be prepared and the Rights Agent will mail to the holder so converting (other than in either case an Acquiring Person and any Transferee whose rights are or become void pursuant to Section 3.1(b) and, in respect of any Rights Beneficially Owned by such Acquiring Person or Transferee which are not held of record by such Acquiring Person or Transferee, the holder of record of such Rights (a “**Nominee**”)) at such holder’s address as shown by the records of the Corporation (the Corporation hereby agreeing to furnish copies of such records to the Rights Agent for this purpose), (x) a certificate (a “**Rights Certificate**”) in substantially the form of Exhibit A hereto with registration particulars appropriately completed, representing the number of Rights held by such holder at the Separation Time and having such marks of identification or designation and such legends, summaries or endorsements printed thereon as the Corporation may deem appropriate and as are not inconsistent with the provisions of this Agreement, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any stock exchange or quotation system on which the Rights may from time to time be listed or traded, or to conform to usage, and (y) a disclosure statement prepared by the Corporation describing the Rights; provided that a Nominee shall be sent the materials provided for in (x) and (y) above in respect of all Voting Shares or Convertible Securities held of record by it which are not Beneficially Owned by an Acquiring Person.
- (d) Rights may be exercised in whole or in part on any Business Day (or on any other day which, in the city at which an Election to Exercise (as hereinafter defined) is duly submitted to the Rights Agent in accordance with this Agreement, is not a Saturday, Sunday or a day that is treated as a holiday in such city) after the Separation Time and prior to the Expiration Time by submitting to the Rights Agent (at its office in Calgary, Alberta or at any other office of the Rights Agent in the cities designated from time to time for that purpose by the Corporation with the approval of the Rights Agent), the Rights Certificate evidencing such Rights together with an election to exercise such Rights (an “**Election to Exercise**”) substantially in the form attached to the Rights Certificate duly completed and executed by the holder or



his executors or administrators or other personal representatives or his or their legal attorney duly appointed by an instrument in writing in form and executed in a manner satisfactory to the Rights Agent, accompanied by payment by certified cheque, banker's draft or money order payable to the order of the Corporation, of a sum equal to the Exercise Price multiplied by the number of Rights being exercised and a sum sufficient to cover any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Shares in a name other than that of the holder of the Rights being exercised.

- (e) Upon receipt of a Rights Certificate, with an Election to Exercise accompanied by payment as set forth in Section 2.2(d) above, which does not indicate that the Rights represented thereby are null and void as provided by Section 3.1(b), the Rights Agent (unless otherwise instructed by the Corporation in the event that the Corporation is of the opinion that the Rights cannot be exercised in accordance with this Agreement) will thereupon promptly:
  - (i) requisition from the transfer agent of the Shares certificates for the number of Shares to be purchased (the Corporation hereby irrevocably authorizing its transfer agent to comply with all such requisitions);
  - (ii) when appropriate, requisition from the Corporation the amount of cash to be paid in lieu of issuing fractional Shares;
  - (iii) after receipt of the Share certificates, deliver the same to or to the order of the registered holder of such Rights Certificate, registered in such name or names as may be designated by such holder;
  - (iv) when appropriate, after receipt, deliver such cash to or to the order of the registered holder of the Rights Certificate; and
  - (v) tender to the Corporation all payments received on the exercise of the Rights.
- (f) In case the holder of any Rights shall exercise less than all the Rights evidenced by such holder's Rights Certificate, a new Rights Certificate evidencing the Rights remaining unexercised will be issued by the Rights Agent to such holder or to such holder's duly authorized assigns.
- (g) The Corporation covenants and agrees that it will:
  - (i) take all such action as may be necessary and within its power to ensure that all Shares delivered upon exercise of Rights shall, at the time of delivery of the certificates for such Shares (subject to payment of the Exercise Price), be duly and validly authorized, executed, issued and delivered as fully paid and non-assessable;
  - (ii) take all such action as may be necessary and within its power to comply with any applicable requirements of the CBCA, the Securities Act, the securities acts or comparable legislation of each of the other provinces of Canada and the rules and regulations thereunder and any other applicable law, rule or regulation, in connection with the issuance and delivery of the Rights Certificates and the issuance of any Shares upon exercise of Rights;
  - (iii) use reasonable efforts to cause all Shares issued upon exercise of Rights to be listed on the principal exchanges or traded in the over-the-counter markets on which the Shares were traded immediately prior to the Share Acquisition Date;
  - (iv) cause to be reserved and kept available out of its authorized and unissued Shares a number of Shares that, as provided in this Agreement, will from time to time be sufficient to permit the exercise in full of all outstanding Rights;



- (v) pay when due and payable any and all Canadian federal and provincial transfer taxes (for greater certainty not including any income taxes of the holder or exercising holder or any liability of the Corporation to withhold tax) and charges which may be payable in respect of the original issuance or delivery of the Rights Certificates or certificates for Shares, provided that the Corporation shall not be required to pay any transfer tax or charge which may be payable in respect of any transfer involved in the transfer or delivery of Rights Certificates or the issuance or delivery of certificates for Shares in a name other than that of the holder of the Rights being transferred or exercised; and
- (vi) after the Separation Time, except as permitted by Section 5.1, not take (or permit any Subsidiary to take) any action if at the time such action is taken it is reasonably foreseeable that such action will diminish substantially or otherwise eliminate the benefits intended to be afforded by the Rights.

## 2.3 Adjustments to Exercise Price; Number of Rights

The Exercise Price, the number and kind of securities subject to purchase upon exercise of each Right and the number of Rights outstanding are subject to adjustment from time to time as provided in this Section 2.3.

- (a) In the event the Corporation shall at any time after the Record Time and prior to the Expiration Time:
  - (i) declare or pay a distribution on the Shares payable in Shares (or other shares of the Corporation or securities exchangeable for or convertible into or giving a right to acquire Shares or other shares of the Corporation) other than pursuant to any optional program of the Corporation by which distributions may be applied to the purchase from the Corporation of additional Shares;
  - (ii) subdivide or change the then outstanding Shares into a greater number of Shares;
  - (iii) combine or change the then outstanding Shares into a smaller number of Shares; or
  - (iv) issue any Shares (or other shares of the Corporation or securities exchangeable for or convertible into or giving a right to acquire Shares or other shares of the Corporation) in respect of, in lieu of or in exchange for existing Shares in a reclassification, amalgamation, merger, statutory arrangement or consolidation;

the Exercise Price and the number of Rights outstanding, or, if the payment or effective date therefor shall occur after the Separation Time, the securities purchasable upon exercise of Rights shall be adjusted in the manner set forth below. If the Exercise Price and number of Rights outstanding are to be adjusted (x) the Exercise Price in effect after such adjustment shall be equal to the Exercise Price in effect immediately prior to such adjustment divided by the number of Shares (or other shares of the Corporation) (the "**Expansion Factor**") that a holder of one Share immediately prior to such distribution, subdivision, change, combination or issuance would hold thereafter as a result thereof and (y) each Right held prior to such adjustment shall become that number of Rights equal to the Expansion Factor, and the adjusted number of Rights will be deemed to be allocated among the Voting Shares with respect to which the original Rights were associated (if they remain outstanding) and the Voting Shares issued in respect of or in connection with such distribution, subdivision, change, combination or issuance (for certainty, including in respect of any concurrent distribution, subdivision, change, combination or issuance in respect of the Special Voting Shares), so that each such Voting Share (or other share of the Corporation) will have exactly one Right associated with it. If the securities purchasable upon exercise of Rights are to be adjusted, the securities purchasable upon exercise of each Right after such adjustment will be the number of securities that a holder of the securities purchasable upon exercise of one Right immediately prior to such distribution, subdivision, change, combination or issuance would hold thereafter as a result thereof. If after the Record Time and prior to the Expiration Time the Corporation shall issue any securities other than Shares in a transaction of a type described in Section 2.3(a)(i) or (iv), such securities shall be treated herein as nearly equivalent to Shares as may be practicable and appropriate under the circumstances and the Corporation and the Rights Agent agree to amend this Agreement in

order to effect, and will not consolidate with, amalgamate with or into or enter into a statutory arrangement with, any other Person unless such Person agrees to be bound by the terms of an amendment effecting, such treatment. If an event occurs which would require an adjustment under both this Section 2.3 and Section 3.1 hereof, the adjustment provided for in this Section 2.3 shall be in addition to, and shall be made prior to, any adjustment required pursuant to Section 3.1 hereof. Adjustments pursuant to this Section 2.3(a) shall be made successively whenever an event referred to in this Section 2.3(a) occurs.

In the event the Corporation shall at any time after the Record Time and prior to the Separation Time issue any Shares otherwise than in a transaction referred to in the preceding paragraph, each such Share so issued shall automatically have one new Right associated with it, which Right shall be evidenced by the certificate representing such Share.

- (b) In the event the Corporation shall at any time after the Record Time and prior to the Expiration Time fix a record date for the making of a distribution to all holders of Shares of rights or warrants entitling them (for a period expiring within 60 calendar days after such record date) to subscribe for or purchase Shares (or securities convertible into or exchangeable for or carrying a right to purchase or subscribe for Shares) at a price per Share (or, if a security convertible into or exchangeable for or carrying a right to purchase or subscribe for Shares, having a conversion, exchange or exercise price (including the price required to be paid to purchase such convertible or exchangeable security or right per Share)) less than the Market Price per Share on such record date, the Exercise Price shall be adjusted in the manner set forth below. The Exercise Price in effect after such record date shall equal the Exercise Price in effect immediately prior to such record date multiplied by a fraction, of which the numerator shall be the number of Shares outstanding on such record date plus the number of Shares which the aggregate offering price of the total number of Shares so to be offered (and/or the aggregate initial conversion, exchange or exercise price of the convertible or exchangeable securities or rights so to be offered to holders of Shares (including the price required to be paid to purchase such convertible or exchangeable securities or rights)) would purchase at such Market Price and of which the denominator shall be the number of Shares outstanding on such record date plus the number of additional Shares to be offered for subscription or purchase to holders of Shares (or into which the convertible or exchangeable securities or rights so to be offered are initially convertible, exchangeable or exercisable). In case such subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the Board of Directors whose determination shall be described in a statement filed with the Rights Agent and shall be binding on the Rights Agent and the holders of Rights. Such adjustment shall be made successively whenever such a record date is fixed. For purposes of this paragraph (b), the granting of the right to purchase Shares (whether from treasury Shares or otherwise) pursuant to any dividend, distribution or interest reinvestment plan and/or any share purchase plan providing for the reinvestment of dividends, distributions or interest payable on securities of the Corporation and/or the investment of periodic optional payments and/or employee benefit or similar plans (so long as such right to purchase is in no case evidenced by the delivery of rights or warrants) shall not be deemed to constitute an issue of rights or warrants by the Corporation; provided, however, that in the case of any dividend, distribution or interest reinvestment plan, the right to purchase Shares is at a price per Share of not less than 90% of the current market price per Share (determined as provided in such plans) of the Shares.
- (c) In the event the Corporation shall at any time after the Record Time and prior to the Expiration Time fix a record date for the making of a distribution to all holders of Shares of evidences of indebtedness or assets (other than a regular periodic cash distribution or a distribution paid in Shares) or rights or warrants (excluding those referred to in Section 2.3(b)), the Exercise Price shall be adjusted in the manner set forth below. The Exercise Price in effect after such record date shall equal the Exercise Price in effect immediately prior to such record date less the fair market value (as determined in good faith by the Board of Directors) of the portion of the assets, evidences of indebtedness, rights or warrants so to be distributed applicable to each of the securities purchasable upon exercise of one Right (such determination to be described in a statement filed with the Rights Agent and the holders of the Rights). Such adjustment shall be made successively whenever such a record date is fixed.
- (d) Each adjustment made pursuant to this Section 2.3 shall be made as of:

- (i) the payment or effective date for the applicable distribution, subdivision, change, combination or issuance, in the case of an adjustment made pursuant to paragraph (a) above; and
  - (ii) the record date for the applicable distribution, in the case of an adjustment made pursuant to paragraph (b) or (c) above subject to readjustment to reverse the same if such distribution shall not be made.
- (e) In the event the Corporation shall at any time after the Record Time and prior to the Expiration Time issue any securities of the Corporation (other than Shares), or rights or warrants to subscribe for or purchase any such securities of the Corporation, or securities convertible into or exchangeable for any such securities of the Corporation, in a transaction referred to in clause (a)(i) or (a)(iv) above, or if the Corporation shall take any other action (other than the issue of Shares) which might have a negative effect on the holders of Rights, if the Board of Directors acting in good faith determines that the adjustments contemplated by paragraphs (a), (b) and (c) above are not applicable or will not appropriately protect the interests of the holders of Rights, the Corporation may determine what other adjustments to the Exercise Price, number of Rights and/or securities purchasable upon exercise of Rights would be appropriate and, if the adjustments contemplated by paragraphs (a), (b) and (c) above are applicable, notwithstanding such paragraphs, the adjustments so determined by the Corporation rather than the adjustments contemplated by paragraphs (a), (b) and (c) above, shall be made. The Corporation and the Rights Agent shall amend this Agreement in accordance with Section 5.4(b) and (c), as the case may be, to provide for such adjustments.
- (f) Whenever an adjustment to the Exercise Price is made pursuant to this Section 2.3, the Corporation shall:
  - (i) promptly prepare a certificate setting forth such adjustment and a brief statement of the facts accounting for such adjustment;
  - (ii) promptly file with the Rights Agent and with each transfer agent for the Shares a copy of such certificate; and
  - (iii) cause notice of the particulars of such adjustment or change to be given to the holders of the Rights by way of press release or by such other means as the Corporation may determine.

Failure to file such certificate or to cause such notice to be given as aforesaid, or any defect therein, shall not affect the validity of such adjustment.
- (g) Irrespective of any adjustment or change in the securities purchasable upon exercise of the Rights, the Rights Certificates theretofore and thereafter issued may continue to express the securities so purchasable which were expressed in the initial Rights Certificates issued hereunder.
- (h) Notwithstanding anything herein to the contrary, no adjustment in the Exercise Price shall be required unless such adjustment would require an increase or decrease of at least one per cent in the Exercise Price; provided, however, that any adjustments which by reason of this Section 2.3(h) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under Section 2.3 shall be made to the nearest cent or to the nearest ten-thousandth of a Share. Notwithstanding the first sentence of this Section 2.3(h), any adjustment required by Section 2.3 shall be made no later than the earlier of:
  - (i) three years from the date of the transaction which gives rise to such adjustment; or
  - (ii) the Expiration Date.
- (i) Each Right originally issued by the Corporation subsequent to any adjustment made to the Exercise Price hereunder shall evidence the right to purchase, at the adjusted Exercise Price, the number of

Shares purchasable from time to time hereunder upon exercise of a Right immediately prior to such issue, all subject to further adjustment as provided herein.

- (j) In any case in which this Section 2.3 shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Corporation may elect to defer until the occurrence of such event the issuance to the holder of any Right exercised after such record date the number of Shares and other securities of the Corporation, if any, issuable upon such exercise over and above the number of Shares and other securities of the Corporation, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; provided, however, that the Corporation shall deliver to such holder an appropriate instrument evidencing such holder's right to receive such additional Shares (fractional or otherwise) or other securities upon the occurrence of the event requiring such adjustment.
- (k) Notwithstanding anything contained in this Section 2.3 to the contrary, the Corporation shall be entitled to make such reductions in the Exercise Price, in addition to those adjustments expressly required by this Section 2.3, as and to the extent that in their good faith judgment the Board of Directors determines to be advisable, in order that any:
  - (i) consolidation or subdivision of Shares;
  - (ii) issuance (wholly or in part for cash) of Shares or securities that by their terms are convertible into or exchangeable for Shares;
  - (iii) distributions; or
  - (iv) issuance of rights, options or warrants referred to in this Section 2.3,

hereafter made by the Corporation to holders of its Shares, shall not be taxable to such Shareholders or shall subject such Shareholders to a lesser amount of tax.

## **2.4 Date on Which Exercise is Effective**

Each Person in whose name any certificate for Shares or other securities, if applicable, is issued upon the exercise of Rights shall for all purposes be deemed to have become the holder of record of the Shares represented thereby on, and such certificate shall be dated, the date upon which the Rights Certificate evidencing such Rights was duly surrendered (together with a duly completed Election to Exercise) and payment of the Exercise Price for such Rights (and any applicable transfer taxes and other governmental charges payable by the exercising holder hereunder) was made; provided, however, that if the date of such surrender and payment is a date upon which the Share transfer books of the Corporation are closed, such Person shall be deemed to have become the record holder of such Shares on, and such certificate shall be dated, the next succeeding Business Day on which the Share transfer books of the Corporation are open.

## **2.5 Execution, Authentication, Delivery and Dating of Rights Certificates**

- (a) The Rights Certificates shall be executed on behalf of the Corporation by any two officers or directors of the Corporation. The signature of any of these officers or directors on the Rights Certificates may be manual or facsimile. Rights Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers or directors of the Corporation shall bind the Corporation, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the countersignature and delivery of such Rights Certificates. Promptly after the Corporation learns of the Separation Time, the Corporation will notify the Rights Agent of such Separation Time and will deliver Rights Certificates executed by the Corporation to the Rights Agent for countersignature, and the Rights Agent shall countersign (manually or by facsimile signature in a manner satisfactory to the Corporation) and mail such Rights Certificates to the holders of the Rights pursuant to Section 2.2(c) hereof. No Rights Certificate shall be valid for any purpose until countersigned by the Rights Agent as aforesaid.
- (b) Each Rights Certificate shall be dated the date of countersignature thereof.

## 2.6 Registration, Registration of Transfer and Exchange

- (a) The Corporation will cause to be kept a register (the “**Rights Register**”) in which, subject to such reasonable regulations as it may prescribe, the Corporation will provide for the registration and transfer of Rights. The Rights Agent is hereby appointed “Rights Registrar” for the purpose of maintaining the Rights Register for the Corporation and registering Rights and transfers of Rights as herein provided and the Rights Agent hereby accepts such appointment. In the event that the Rights Agent shall cease to be the Rights Registrar, the Rights Agent will have the right to examine the Rights Register at all reasonable times.
- (b) After the Separation Time and prior to the Expiration Time, upon surrender for registration of transfer or exchange of any Rights Certificate, and subject to the provisions of Section 2.6(d) below, the Corporation will execute, and the Rights Agent will countersign and deliver, in the name of the holder or the designated transferee or transferees, as required pursuant to the holder’s instructions, one or more new Rights Certificates evidencing the same aggregate number of Rights as did the Rights Certificates so surrendered.
- (c) All Rights issued upon any registration of transfer or exchange of Rights Certificates shall be the valid obligations of the Corporation, and such Rights shall be entitled to the same benefits under this Agreement as the Rights surrendered upon such registration of transfer or exchange.
- (d) Every Rights Certificate surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Corporation or the Rights Agent, as the case may be, duly executed by the holder thereof or such holder’s attorney duly authorized in writing. As a condition to the issuance of any new Rights Certificate under this Section 2.6, the Corporation may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Rights Agent) in connection therewith.

## 2.7 Mutilated, Destroyed, Lost and Stolen Rights Certificates

- (a) If any mutilated Rights Certificate is surrendered to the Rights Agent prior to the Expiration Time, the Corporation shall execute and the Rights Agent shall countersign and deliver in exchange therefor a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so surrendered.
- (b) If there shall be delivered to the Corporation and the Rights Agent prior to the Expiration Time (i) evidence to their satisfaction of the destruction, loss or theft of any Rights Certificate and (ii) such security or indemnity as may be required by them in their sole discretion to save each of them and any of their agents harmless, then, in the absence of notice to the Corporation or the Rights Agent that such Rights Certificate has been acquired by a bona fide purchaser, the Corporation shall execute and upon its request the Rights Agent shall countersign and deliver, in lieu of any such destroyed, lost or stolen Rights Certificate, a new Rights Certificate evidencing the same number of Rights as did the Rights Certificate so destroyed, lost or stolen.
- (c) As a condition to the issuance of any new Rights Certificate under this Section 2.7, the Corporation may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the reasonable fees and expenses of the Rights Agent) connected therewith.
- (d) Every new Rights Certificate issued pursuant to this Section 2.7 in lieu of any destroyed, lost or stolen Rights Certificate shall evidence an original additional contractual obligation of the Corporation, whether or not the destroyed, lost or stolen Rights Certificate shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Rights duly issued hereunder.

## **2.8 Persons Deemed Owners of Rights**

The Corporation, the Rights Agent and any agent of the Corporation or the Rights Agent may deem and treat the Person in whose name a Rights Certificate (or, prior to the Separation Time, the associated Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby for all purposes whatsoever. As used in this Agreement, unless the context otherwise requires, the term “holder” of any Rights shall mean the registered holder of such Rights (or, prior to the Separation Time, the associated Shares).

## **2.9 Delivery and Cancellation of Certificates**

All Rights Certificates surrendered upon exercise or for redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Rights Agent, be delivered to the Rights Agent and, in any case, shall be promptly cancelled by the Rights Agent. The Corporation may at any time deliver to the Rights Agent for cancellation any Rights Certificates previously countersigned and delivered hereunder which the Corporation may have acquired in any manner whatsoever, and all Rights Certificates so delivered shall be promptly cancelled by the Rights Agent. No Rights Certificate shall be countersigned in lieu of or in exchange for any Rights Certificates cancelled as provided in this Section 2.9, except as expressly permitted by this Agreement. The Rights Agent shall, subject to applicable law, destroy all cancelled Rights Certificates and deliver a certificate of destruction to the Corporation.

## **2.10 Agreement of Rights Holders**

Every holder of Rights by accepting the same consents and agrees with the Corporation and the Rights Agent and with every other holder of Rights that:

- (a) he will be bound by and subject to the provisions of this Agreement, as amended from time to time in accordance with the terms hereof, in respect of all Rights held;
- (b) prior to the Separation Time, each Right will be transferable only together with, and will be transferred by a transfer of, the associated Voting Share;
- (c) after the Separation Time, the Rights Certificates will be transferable only on the Rights Register as provided herein;
- (d) prior to due presentment of a Rights Certificate (or, prior to the Separation Time, the associated Share certificate) for registration of transfer, the Corporation, the Rights Agent and any agent of the Corporation or the Rights Agent may deem and treat the Person in whose name the Rights Certificate (or, prior to the Separation Time, the associated Share certificate) is registered as the absolute owner thereof and of the Rights evidenced thereby (notwithstanding any notations of ownership or writing on such Rights Certificate or the associated share certificate made by anyone other than the Corporation or the Rights Agent) for all purposes whatsoever, and neither the Corporation nor the Rights Agent shall be affected by any notice to the contrary;
- (e) such holder of Rights has waived his right to receive any fractional Rights or any fractional Shares or other securities upon exercise of a Right (except as provided herein);
- (f) subject to the provisions of Section 5.4, without the approval of any holder of Rights and upon the sole authority of the Board of Directors acting in good faith this Agreement may be supplemented or amended from time to time to cure any ambiguity or to correct or supplement any provision contained herein which may be inconsistent with the intent of this Agreement or is otherwise defective; and
- (g) notwithstanding anything in this Agreement to the contrary, neither the Corporation nor the Rights Agent shall have any liability to any holder of a Right or any other Person as a result of its inability to perform any of its obligations under this Agreement by reason of any preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental, regulatory or administrative agency or commission, or any statute, rule, regulation or executive order promulgated or



enacted by any governmental authority, prohibiting or otherwise restraining performance of such obligation.

### ARTICLE 3 ADJUSTMENTS TO THE RIGHTS IN THE EVENT OF CERTAIN TRANSACTIONS

#### 3.1 Flip-in Event

- (a) Subject to Sections 3.1(b), 5.1(b), 5.1(c) and 5.1(d) hereof, in the event that prior to the Expiration Time a Flip-in Event shall occur, the Corporation shall take such action as shall be necessary to ensure and provide, within 10 Business Days thereafter or such longer period as may be required to satisfy the requirements of the Securities Act and the applicable securities acts or comparable legislation of each of the provinces of Canada so that, except as provided below, each Right shall thereafter constitute the right to purchase from the Corporation, upon exercise thereof in accordance with the terms hereof, that number of Shares having an aggregate Market Price on the date of consummation or occurrence of such Flip-in Event equal to twice the Exercise Price for an amount in cash equal to the Exercise Price (such right to be appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 in the event that after such date of consummation or occurrence an event of a type analogous to any of the events described in Section 2.3 shall have occurred with respect to such Shares).
- (b) Notwithstanding the foregoing or any other provisions of this Agreement, upon the occurrence of any Flip-in Event, any Rights that are or were Beneficially Owned on or after the earlier of the Separation Time or the Share Acquisition Date by:
  - (i) an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person); or
  - (ii) a transferee, direct or indirect (a “**Transferee**”), from an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person) where such Transferee becomes a transferee concurrently with or subsequent to the Acquiring Person becoming such, whether or not for consideration, that the Board of Directors acting in good faith has determined is part of a plan, arrangement or scheme of an Acquiring Person (or any Affiliate or Associate of an Acquiring Person or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person) that has the purpose or effect of avoiding clause (i) of this Section 3.1(b),

shall become void without any further action and any holder of such Rights (including Transferees) shall thereafter have no right to exercise such Rights under any provision of this Agreement and shall not have any other rights whatsoever in respect of such Rights, whether under any provision of this Agreement or otherwise.

- (c) Any Rights Certificate that represents Rights Beneficially Owned by a Person described in either clauses (i) or (ii) of Section 3.1(b) or transferred to any nominee of any such Person, and any Rights Certificate issued upon transfer, exchange, replacement or adjustment of any other Rights Certificate referred to in this sentence, shall contain the following legend:

The Rights represented by this Rights Certificate were Beneficially Owned by a Person who was an Acquiring Person or who was an Affiliate or an Associate of an Acquiring Person (as such terms are defined in the Rights Agreement) or a Person who was acting jointly or in concert with any of them. This Rights Certificate and the Rights represented hereby are void or shall become void in the circumstances specified in Section 3.1(b) of the Rights Agreement

provided, however, that the Rights Agent shall not be under any responsibility to ascertain the existence of facts that would require the imposition of such legend but shall be required to impose such legend only

if instructed to do so by the Corporation or if a holder fails to certify upon transfer or exchange in the space provided on the Rights Certificate that such holder is not an Acquiring Person or an Affiliate or Associate thereof or any Person acting jointly or in concert with an Acquiring Person or any Affiliate or Associate of an Acquiring Person.

- (d) From and after the Separation Time, the Corporation shall do all such acts and things as shall be necessary and within its power to ensure compliance with the provisions of this Section 3.1, including without limitation, all such acts and things as may be required to satisfy the requirements of the CBCA, the Securities Act and the securities laws or comparable legislation of each of the provinces of Canada in respect of the issue of Shares upon the exercise of Rights in accordance with this Agreement.

#### **ARTICLE 4 THE RIGHTS AGENT**

##### **4.1 General**

- (a) The Corporation hereby appoints the Rights Agent to act as agent for the Corporation and the holders of Rights in accordance with the terms and conditions hereof, and the Rights Agent hereby accepts such appointment. The Corporation may from time to time appoint such co-rights agents ("**Co-Rights Agents**") as it may deem necessary or desirable, subject to the approval of the Rights Agent. In the event the Corporation appoints one or more Co-Rights Agents, the respective duties of the Rights Agent and Co-Rights Agents shall be as the Corporation may determine with the approval of the Rights Agent and the Co-Rights Agent. The Corporation agrees to pay to the Rights Agent reasonable compensation for all services rendered by it hereunder and, from time to time, on demand of the Rights Agent, its reasonable expenses and counsel fees and other disbursements incurred in the execution and administration of this Agreement and the exercise and performance of its duties hereunder (including the reasonable fees and other disbursements of any expert retained by the Rights Agent with the approval of the Corporation, such approval not to be unreasonably withheld). The Corporation also agrees to indemnify the Rights Agent for, and to hold it harmless against, any loss, liability, or expense, incurred without negligence, bad faith or wilful misconduct on the part of the Rights Agent, for anything done, suffered or omitted by the Rights Agent in connection with the acceptance, execution and administration of this Agreement and the exercise and performance of its duties hereunder, including legal costs and expenses of defending against any claim or liability, which right to indemnification will survive the termination of this Agreement and the resignation or removal of the Rights Agent.
- (b) The Rights Agent shall be protected and shall incur no liability for or in respect of any action taken, suffered or omitted by it in connection with its administration of this Agreement in reliance upon any certificate for Voting Shares, Rights Certificate, certificate for other securities of the Corporation, instrument of assignment or transfer, power of attorney, endorsement, affidavit, letter, notice, direction, consent, certificate, opinion, statement, or other paper or document believed by it to be genuine and to be signed, executed and, where necessary, verified or acknowledged, by the proper Person or Persons.
- (c) The Corporation shall inform the Rights Agent in a reasonably timely manner of events which may materially affect the administration of this Agreement by the Rights Agent.

##### **4.2 Merger, Amalgamation or Consolidation or Change of Name of Rights Agent**

- (a) Any corporation into which the Rights Agent or any successor Rights Agent may be merged or amalgamated or with which it may be consolidated, or any corporation resulting from any merger, amalgamation, statutory arrangement or consolidation to which the Rights Agent or any successor Rights Agent is a party, or any corporation succeeding to the unitholder or stockholder services business of the Rights Agent or any successor Rights Agent, will be the successor to the Rights Agent under this Agreement without the execution or filing of any paper or any further act on the part of any of the parties hereto, provided that such corporation would be eligible for appointment as a successor Rights Agent under the provisions of Section 4.4 hereof. In case, at the time such successor Rights Agent succeeds to the agency created by this Agreement, any of the Rights Certificates have been countersigned but not delivered, any such successor Rights Agent may adopt the countersignature of the predecessor Rights



Agent and deliver such Rights Certificates so countersigned; and in case at that time any of the Rights Certificates have not been countersigned, any successor Rights Agent may countersign such Rights Certificates either in the name of the predecessor Rights Agent or in the name of the successor Rights Agent; and in all such cases such Rights Certificates will have the full force provided in the Rights Certificates and in this Agreement.

- (b) In case at any time the name of the Rights Agent is changed and at such time any of the Rights Certificates shall have been countersigned but not delivered, the Rights Agent may adopt the countersignature under its prior name and deliver Rights Certificates so countersigned; and in case at that time any of the Rights Certificates shall not have been countersigned, the Rights Agent may countersign such Rights Certificates either in its prior name or in its changed name; and in all such cases such Rights Certificates shall have the full force provided in the Rights Certificates and in this Agreement.

#### **4.3 Duties of Rights Agent**

The Rights Agent undertakes the duties and obligations imposed by this Agreement upon the following terms and conditions, by all of which the Corporation and the holders of certificates for Voting Shares and Convertible Securities and the holders of Rights Certificates, by their acceptance thereof, shall be bound:

- (a) The Rights Agent may retain and consult with legal counsel (who may be legal counsel for the Corporation) and the opinion of such counsel will be full and complete authorization and protection to the Rights Agent as to any action taken or omitted by it in good faith and in accordance with such opinion; the Rights Agent may also, with the approval of the Corporation (such approval not to be unreasonably withheld) and at the expense of the Corporation, consult with such other experts as the Rights Agent shall consider necessary or appropriate to properly carry out the duties and obligations imposed under this Agreement and the Rights Agent shall be entitled to act and rely in good faith on the advice of any such expert.
- (b) Whenever in the performance of its duties under this Agreement the Rights Agent deems it necessary or desirable that any fact or matter be proved or established by the Corporation prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by persons believed by the Rights Agent to be any two officers or directors of the Corporation and delivered to the Rights Agent; and such certificate will be full authorization to the Rights Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.
- (c) The Rights Agent will be liable hereunder only for its own negligence, bad faith or wilful misconduct.
- (d) The Rights Agent will not be liable for or by reason of any of the statements of fact or recitals contained in this Agreement or in the certificates for Voting Shares or the Rights Certificates (except its countersignature thereof) or be required to verify the same, but all such statements and recitals are and will be deemed to have been made by the Corporation only.
- (e) The Rights Agent will not be under any responsibility in respect of the validity of this Agreement or the execution and delivery hereof (except the due authorization, execution and delivery hereof by the Rights Agent) or in respect of the validity or execution of any Share certificate or Rights Certificate (except its countersignature thereof); nor will it be responsible for any breach by the Corporation of any covenant or condition contained in this Agreement or in any Rights Certificate; nor will it be responsible for any change in the exercisability of the Rights (including the Rights becoming void pursuant to Section 3.1(b) hereof) or any adjustment required under the provisions of Section 2.3 hereof or responsible for the manner, method or amount of any such adjustment or the ascertaining of the existence of facts that would require any such adjustment (except with respect to the exercise of Rights after receipt of the certificate contemplated by Section 2.3 describing any such adjustment); nor will it by any act hereunder be deemed to make any representation or warranty as to the authorization of any Shares to be issued pursuant to this Agreement or any Rights or as to whether any Shares will, when issued, be duly and validly authorized, executed, issued and delivered and fully paid and non-assessable.

- (f) The Corporation agrees that it will perform, execute, acknowledge and deliver or cause to be performed, executed, acknowledged and delivered all such further and other acts, instruments and assurances as may reasonably be required by the Rights Agent for the carrying out or performing by the Rights Agent of the provisions of this Agreement.
- (g) The Rights Agent is hereby authorized and directed to accept instructions with respect to the performance of its duties hereunder from any persons believed by the Rights Agent to be any two officers or directors of the Corporation, and to apply to such persons for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered by it in good faith in reliance upon instructions of any such persons; it is understood that instructions to the Rights Agent shall, except where circumstances make it impracticable or the Rights Agent otherwise agrees, be given in writing and, where not in writing, such instructions shall be confirmed in writing as soon as reasonably possible after the giving of such instructions.
- (h) The Rights Agent and any unitholder or stockholder, director, officer or employee of the Rights Agent may buy, sell or deal in Voting Shares, Rights or other securities of the Corporation or become pecuniarily interested in any transaction in which the Corporation may be interested, or contract with or lend money to the Corporation or otherwise act as fully and freely as though it were not Rights Agent under this Agreement. Nothing herein shall preclude the Rights Agent from acting in any other capacity for the Corporation or for any other legal entity.
- (i) The Rights Agent may execute and exercise any of the rights or powers hereby vested in it or perform any duty hereunder either itself or by or through its attorneys or agents, and the Rights Agent will not be answerable or accountable for any act, omission, default, neglect or misconduct of any such attorneys or agents or for any loss to the Corporation resulting from any such act, omission, default, neglect or misconduct, provided reasonable care was exercised in the selection and continued employment thereof.

#### **4.4 Change of Rights Agent**

The Rights Agent may resign and be discharged from its duties under this Agreement upon 30 days notice (or such lesser notice as is acceptable to the Corporation) in writing mailed to the Corporation, and to each transfer agent of Shares by registered or certified mail, and to the holders of the Rights in accordance with Section 5.8. The Corporation may remove the Rights Agent upon 30 days' notice in writing given to the Rights Agent and to each transfer agent of the Shares (by personal delivery, or registered or certified mail). If the Rights Agent should resign or be removed or otherwise become incapable of acting, the Corporation will appoint a successor to the Rights Agent. If the Corporation fails to make such appointment within a period of 30 days after such removal or after it has been notified in writing of such resignation or incapacity by the resigning or incapacitated Rights Agent, then the resigning Rights Agent (at the Corporation's expense) or any holder of any Rights (which holder of Rights shall also submit his Rights Certificate for inspection by the Corporation) may apply to any court of competent jurisdiction for the appointment of a new Rights Agent. Any successor Rights Agent, whether appointed by the Corporation or by such a court, shall be a corporation incorporated under the laws of Canada or a province thereof authorized to carry on the business of a trust company in the Province of Alberta. After appointment, the successor Rights Agent will be vested with the same powers, rights, duties and responsibilities as if it had been originally named as Rights Agent without further act or deed; but the predecessor Rights Agent shall deliver and transfer to the successor Rights Agent any property at the time held by it hereunder, and execute and deliver any further assurance, conveyance, act or deed necessary for the purpose. Not later than the effective date of any such appointment, the Corporation will file notice thereof in writing with the predecessor Rights Agent and each transfer agent of the Shares, and mail a notice thereof in writing to the holders of the Rights. Failure to give any notice provided for in this Section 4.4, however, or any defect therein, shall not affect the legality or validity of the resignation or removal of the Rights Agent or the appointment of the successor Rights Agent, as the case may be.

#### **4.5 Privacy Provision**

The parties acknowledge that federal and/or provincial legislation that addresses the protection of individuals' personal information (collectively, "**Privacy Laws**") applies to obligations and activities under this Agreement. Despite any other provision of this Agreement, neither party will take or direct any action that would contravene, or cause the other to contravene, applicable Privacy Laws. The Corporation will, prior to transferring or causing to be transferred personal information to the Rights Agent, obtain and retain required consents of the relevant individuals to the collection, use and

disclosure of their personal information, or will have determined that such consents either have previously been given upon which the parties can rely or are not required under the Privacy Laws. The Rights Agent will use commercially reasonable efforts to ensure that its services hereunder comply with Privacy Laws.

#### **4.6 Compliance with Money Laundering Legislation**

The Rights Agent shall retain the right not to act and shall not be liable for refusing to act if, due to a lack of information or for any other reason whatsoever, the Rights Agent reasonably determines that such an act might cause it to be in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline. Further, should the Rights Agent reasonably determine at any time that its acting under this Agreement has resulted in it being in non-compliance with any applicable anti-money laundering or anti-terrorist legislation, regulation or guideline, then it shall have the right, notwithstanding Section 4.4, to resign on 10 days' written notice to the Corporation, provided: (i) that the Rights Agent's written notice shall describe the circumstances of such non-compliance; and (ii) that if such circumstances are rectified to the Rights Agent's satisfaction within such 10-day period, then such resignation shall not be effective.

#### **4.7 Administration of Agreement**

The Corporation shall inform the Rights Agent in a reasonably timely manner of events which may materially affect the administration of this Agreement by the Rights Agent and, at any time upon request, shall provide to the Rights Agent an incumbency certificate certifying the then current officers of the Corporation; provided that failure to inform the Rights Agent of any such events, or any defect therein shall not affect the validity of any action taken hereunder in relation to such events.

### **ARTICLE 5 MISCELLANEOUS**

#### **5.1 Redemption and Termination**

- (a) The Board of Directors may, with the prior consent of Shareholders or of the holders of Rights given in accordance with Section 5.1(f) or (g), as the case may be, and in each case prior to the occurrence of a Flip-in Event as to which the application of Section 3.1 has not been waived pursuant to the provisions of this Section 5.1, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of \$0.00001 per Right appropriately adjusted in a manner analogous to the applicable adjustment provided for in Section 2.3 in the event that an event of the type analogous to any of the events described in Section 2.3 shall have occurred (such redemption price being herein referred to as the **"Redemption Price"**).
- (b) The Board of Directors may, with the prior consent of the Shareholders given in accordance with Section 5.1(f), determine, at any time prior to the occurrence of a Flip-in Event as to which the application of Section 3.1 has not been waived pursuant to this Section 5.1, if such Flip-in Event would occur by reason of an acquisition of Voting Shares otherwise than pursuant to a Take-over Bid made by means of a take-over bid circular sent to all holders of Shares and otherwise than in the circumstances set forth in Section 5.1(d), to waive the application of Section 3.1 to such Flip-in Event. In the event that the Board of Directors proposes such a waiver, the Board of Directors shall extend the Separation Time to a date subsequent to and not more than ten Business Days following the meeting of Shareholders called to approve such waiver.
- (c) The Board of Directors may, at its option, prior to the occurrence of a Flip-in Event as to which the application of Section 3.1 has not been waived under this clause, determine, upon prior written notice to the Rights Agent, to waive the application of Section 3.1 to that Flip-in Event provided that the Flip-in Event would occur by reason of a Take-over Bid made by means of a take-over bid circular to all holders of Shares: further provided that if the Board of Directors waives the application of Section 3.1 to such a Flip-in Event, the Board of Directors shall be deemed to have waived the application of Section 3.1 to any other Flip-in Event occurring by reason of any Take-over Bid made by means of a take-over bid circular to all holders of Shares which is made prior to the expiry of any Take-over Bid in respect of which a waiver is, or is deemed to have been, granted under this Section 5.1(c).

- (d) The Board of Directors may, in respect of any Flip-in Event, waive the application of Section 3.1 to that Flip-in Event, provided that both of the following conditions are satisfied:
  - (i) the Board of Directors has determined that the Acquiring Person became an Acquiring Person by inadvertence and without any intent or knowledge that it would become an Acquiring Person; and
  - (ii) such Acquiring Person has reduced its Beneficial Ownership of Voting Shares such that at the time of waiver pursuant to this Section 5.1(d) it is no longer an Acquiring Person and has provided the Board of Directors with satisfactory evidence thereof;

and in the event of any such waiver, for the purposes of this Agreement, such Flip-in Event shall be deemed not to have occurred and the Separation Time shall be deemed not to have occurred as a result of such Person having inadvertently become an Acquiring Person.

- (e) The Board of Directors shall, without further formality, be deemed to have elected to redeem the Rights at the Redemption Price on the date that a Person who has made a Permitted Bid or a Take-over Bid in respect of which the Board of Directors has waived, or is deemed to have waived, pursuant to Section 5.1(c), the application of Section 3.1, takes up and pays for the Voting Shares pursuant to the terms and conditions of the Permitted Bid or Take-over Bid, as the case may be.
- (f) If a redemption of Rights pursuant to Section 5.1(a) or a waiver of a Flip-in Event pursuant to Section 5.1(b) is proposed at any time prior to the Separation Time, such redemption or waiver shall be submitted for approval to the Shareholders. Such approval shall be deemed to have been given if the redemption or waiver is approved by the affirmative vote of a majority of the votes cast by Independent Shareholders represented in person or by proxy at a meeting of such holders duly held in accordance with applicable laws and the Corporation's constating documents.
- (g) If a redemption of Rights pursuant to Section 5.1(a) is proposed at any time after the Separation Time, such redemption shall be submitted for approval to the holders of Rights. Such approval shall be deemed to have been given if the redemption is approved by holders of Rights by a majority of the votes cast by the holders of Rights represented in person or by proxy at and entitled to vote at a meeting of such holders. For the purposes hereof, each outstanding Right (other than Rights which are Beneficially Owned by any Person referred to in clauses (i) to (v) inclusive of the definition of Independent Shareholders) shall be entitled to one vote, and the procedures for the calling, holding and conduct of the meeting shall be those, as nearly as may be, which are provided in applicable laws and the Corporation's constating documents with respect to meetings of Shareholders.
- (h) Where a Take-over Bid that is not a Permitted Bid is withdrawn or otherwise terminated after the Separation Time has occurred and prior to the occurrence of a Flip-in Event, the Board of Directors may elect to redeem all the outstanding Rights at the Redemption Price and reissue Rights under this Agreement to holders of record of Voting Shares immediately following such time of redemption. Notwithstanding such redemption, all of the provisions of this Agreement shall continue to apply as if the Separation Time had not occurred and it shall be deemed not to have occurred and Rights shall remain attached to the outstanding Voting Shares, subject to and in accordance with the provisions of this Agreement.
- (i) If the Board of Directors elects or is deemed to have elected to redeem the Rights, and, in circumstances where Section 5.1(a) is applicable, such redemption is approved by the Shareholders or the holders of Rights in accordance with Section 5.1(f) or (g), as the case may be, the right to exercise the Rights will thereupon, without further action and without notice, terminate and the only right thereafter of the holders of Rights will be to receive the Redemption Price.
- (j) Within 10 Business Days after the Board of Directors electing or having been deemed to have elected to redeem the Rights or, if Section 5.1(a) is applicable within 10 Business Days after the Shareholders or the holders of Rights have approved a redemption of Rights in accordance with Section 5.1(f) or (g), as the case may be, the Corporation shall give notice of redemption to the holders of the then outstanding

Rights by mailing such notice to each such holder at its last address as it appears upon the register of the Rights Agent or, prior to the Separation Time, on the register of the Transfer Agent or the Corporation, as applicable, for the Voting Shares. Any notice which is mailed in the manner herein provided will be deemed given, whether or not the holder receives the notice. Each such notice of redemption will state the method by which the payment of the Redemption Price will be made. The Corporation may not redeem, acquire or purchase for value any Rights at any time in any manner other than that specifically set forth in this Section 5.1 or in connection with the purchase of Voting Shares prior to the Separation Time.

- (k) The Corporation shall give prompt notice to the Rights Agent of any waiver of the application of Section 3.1 made by the Board of Directors under this Section 5.1.

## **5.2 Expiration**

No Person shall have any rights pursuant to this Agreement or in respect of any Right after the Expiration Time, except the Rights Agent as specified in Section 4.1(a) of this Agreement.

## **5.3 Issuance of New Rights Certificates**

Notwithstanding any of the provisions of this Agreement or of the Rights to the contrary, the Corporation may, at its option, issue new Rights Certificates evidencing Rights in such form as may be approved by the Board of Directors to reflect any adjustment or change in the number of or kind or class of Shares purchasable upon exercise of Rights made in accordance with the provisions of this Agreement.

## **5.4 Supplements and Amendments**

- (a) The Corporation may make amendments to this Agreement without the approval of any holders of Rights or Voting Shares to correct any clerical or typographical error. The Corporation may make amendments to this Agreement without the approval of any holders of Rights or Voting Shares, but subject to confirmation at the next meeting of Shareholders: (i) which are required to maintain the validity of this Agreement as a result of any change in any applicable legislation, rules or regulations thereunder, or (ii) to take into account the issuance by the Corporation of classes or series of shares other than the Shares. Notwithstanding anything in this Section 5.4 to the contrary, no such supplement or amendment shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent to such supplement or amendment.
- (b) Subject to Section 5.4(a), the Corporation may, with the prior consent of the Shareholders obtained as set forth below, at any time prior to the Separation Time, supplement, amend, vary, rescind or delete any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally) provided that no such amendment, variation or deletion shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent thereto. Such consent shall be deemed to have been given if the action requiring such approval is authorized by the affirmative vote of a majority of the votes cast by: (i) Shareholders; and (ii) Independent Shareholders present or represented at and entitled to be voted at a meeting of the Shareholders duly called and held in compliance with applicable laws and the Corporation's constating documents.
- (c) Subject to Section 5.4(a), the Corporation may, with the prior consent of the holders of Rights, at any time on or after the Separation Time, supplement, amend, vary, rescind or delete any of the provisions of this Agreement and the Rights (whether or not such action would materially adversely affect the interests of the holders of Rights generally), provided that no such amendment, variation or deletion shall be made to the provisions of Article 4 except with the written concurrence of the Rights Agent thereto. Such consent shall be deemed to have been given if such amendment, variation or deletion is authorized by the affirmative votes of the holders of Rights present or represented at and entitled to be voted at a meeting of the holders and representing 50% plus one of the votes cast in respect thereof.

- (d) Any approval of the holders of Rights shall be deemed to have been given if the action requiring such approval is authorized by the affirmative votes of the holders of Rights present or represented at and entitled to be voted at a meeting of the holders of Rights and representing a majority of the votes cast in respect thereof. For the purposes hereof, each outstanding Right (other than Rights which are void pursuant to the provisions hereof) shall be entitled to one vote, and the procedures for the calling, holding and conduct of the meeting shall be those, as nearly as may be, which are provided in applicable laws and the Corporation's constating documents with respect to meetings of Shareholders.
- (e) Any amendments made by the Corporation to this Agreement pursuant to Section 5.4(a) which are required to maintain the validity of this Agreement as a result of any change in any applicable legislation, rules or regulations thereunder, or to take into account the issuance by the Corporation of classes or series of shares other than the Shares shall:
  - (i) if made before the Separation Time, be submitted to the Shareholders at the next meeting of Shareholders and the Shareholders may, by the majority referred to in Section 5.4(b), confirm or reject such amendment;
  - (ii) if made after the Separation Time, be submitted to the holders of Rights at a meeting to be called for on a date not later than immediately following the next meeting of Shareholders and the holders of Rights may, by resolution passed by the majority referred to in Subsection 5.4(b), confirm or reject such amendment.

Any such amendment shall be effective from the date of the resolution of the Board of Directors adopting such amendment, until it is confirmed or rejected or until it ceases to be effective (as described in the next sentence) and, where such amendment is confirmed, it continues in effect in the form so confirmed. If such amendment is rejected by the Shareholders or the holders of Rights or is not submitted to the Shareholders or holders of Rights as required, then such amendment shall cease to be effective from and after the termination of the meeting at which it was rejected or to which it should have been but was not submitted or from and after the date of the meeting of holders of Rights that should have been but was not held, and no subsequent resolution of the Board of Directors to amend this Agreement to substantially the same effect shall be effective until confirmed by the Shareholders or holders of Rights as the case may be.

## **5.5 Fractional Rights and Fractional Shares**

- (a) The Corporation shall not be required to issue fractions of Rights or to distribute Rights Certificates which evidence fractional Rights. After the Separation Time there shall be paid to the registered holders of the Rights Certificates (provided the Rights represented by such Rights Certificates are not void pursuant to the provisions of Section 3.1(b)) with regard to which fractional Rights would otherwise be issuable, an amount in cash (rounded to the nearest cent) equal to the same fraction of the Market Price of a whole Right in lieu of such fractional Rights as of the date such fractional Rights would otherwise be issuable.
- (b) The Corporation shall not be required to issue fractional Shares upon exercise of the Rights or to distribute certificates which evidence fractional Shares. In lieu of issuing fractional Shares, the Corporation shall pay to the registered holder of Rights Certificates at the time such Rights are exercised as herein provided, an amount in cash (rounded to the nearest cent) equal to the same fraction of the Market Price of one Share at the date of such exercise.

## **5.6 Rights of Action**

Subject to the terms of this Agreement, rights of action in respect of this Agreement, other than rights of action vested solely in the Rights Agent, are vested in the respective holders of the Rights; and any holder of any Rights, without the consent of the Rights Agent or of the holder of any other Rights, may, on such holder's own behalf and for such holder's own benefit and the benefit of other holders of Rights, enforce, and may institute and maintain any suit, action or proceeding against the Corporation to enforce, or otherwise act in respect of, such holder's right to exercise such holder's Rights, or Rights to which he is entitled, in the manner provided in this Agreement and in such holder's Rights Certificate. Without limiting the foregoing or any remedies available to the holders of Rights it is specifically acknowledged that the holders of Rights would



not have an adequate remedy at law for any breach of this Agreement and will be entitled to specific performance of the obligations under, and injunctive relief against actual or threatened violations of, the obligations of any Person subject to this Agreement.

## **5.7 Holder of Rights Not Deemed a Holder of Shares**

No holder, as such, of any Rights shall be entitled to vote, receive distributions or be deemed for any purpose the holder of Shares or any other securities which may at any time be issuable on the exercise of Rights, nor shall anything contained herein or in any Rights Certificate be construed to confer upon the holder of any Rights, as such, any of the rights of a holder of Shares or any right to vote in respect of recommending persons to be elected as directors of the Corporation or upon any matter submitted to Shareholders at any meeting thereof, or to give or withhold consent to any action by the Corporation, or to receive notice of meetings or other actions affecting Shareholders (except as provided in Section 5.8 hereof), or to receive distributions or subscription rights or otherwise, until such Rights, or Rights to which such holder is entitled, shall have been exercised in accordance with the provisions hereof.

## **5.8 Notices**

- (a) Notices or demands to be given or made in connection with this Agreement by the Rights Agent or by the holder of any Rights to or on the Corporation shall be sufficiently given or made if delivered or sent by mail, postage prepaid or by fax or other form of recorded electronic communication (with, in the case of fax or other form of recorded electronic communication, an original copy of the notice or demand sent by first class mail, postage prepaid, to the Corporation following the giving of the notice or demand by fax or other form of recorded electronic communication), addressed (until another address is filed in writing with the Rights Agent) as follows:

Capital Power Corporation  
1200 – 10423 101 St. N.W.  
Edmonton, Alberta T5H 0E9

Attention: Senior Vice President, Legal and External Relations  
Fax: (780) 392-5200

- (b) Notices or demands to be given or made in connection with this Agreement by the Corporation or by the holder of any Rights to or on the Rights Agent shall be sufficiently given or made if delivered or sent by mail, postage prepaid, or by fax or other form of recorded electronic communication (with, in the case of fax or other form of recorded electronic communication, an original copy of the notice or demand sent by first class mail, postage prepaid, to the Rights Agent following the giving of the notice or demand by fax or other form of recorded electronic communication), addressed (until another address is filed in writing with the Corporation) as follows:

Computershare Trust Company of Canada  
Suite 600, Watermark Tower  
530 - 8th Avenue S.W.  
Calgary, Alberta T2P 3S8

Attention: Stock Transfer Services  
Fax: (403) 267-6529

- (c) Notices or demands to be given or made in connection with this Agreement by the Corporation or the Rights Agent to or on the holder of any Rights shall be sufficiently given or made if delivered or sent by first class mail, postage prepaid, addressed to such holder at the address of such holder as it appears upon the register of the Rights Agent or, prior to the Separation Time, on the register of the Corporation for the Voting Shares.

- (d) Any notice given or made in accordance with this Section 5.8 shall be deemed to have been given and to have been received on the day of delivery, if so delivered, on the third Business Day (excluding each day during which there exists any general interruption of postal service due to strike, lockout or other cause)

following the mailing thereof, if so mailed, and on the day of faxing or sending by other means of recorded electronic communication (provided such faxing or sending is during the normal business hours of the addressee on a Business Day and if not, on the first Business Day thereafter). Each of the Corporation and the Rights Agent may from time to time change its address for notice by notice to the other given in the manner aforesaid.

- (e) If mail service is or is threatened to be interrupted at a time when the Corporation or the Rights Agent wishes to give a notice or demand hereunder to or on the holders of the Rights, the Corporation or the Rights Agent may, notwithstanding the foregoing provisions of this Section 5.8, give such notice by means of publication once in each of two successive weeks in the business section of the National Post or the national edition of the Globe and Mail or in such other publication or publications as may be designated by the Corporation and notice so published shall be deemed to have been given on the date on which the first publication of such notice in any such publication has taken place.

#### **5.9 Costs of Enforcement**

The Corporation agrees that if the Corporation fails to fulfil any of its obligations pursuant to this Agreement, then the Corporation will reimburse the holder of any Rights for the costs and expenses (including legal fees) incurred by such holder in actions to enforce his rights pursuant to any Rights or this Agreement.

#### **5.10 Successors**

All the covenants and provisions of this Agreement by or for the benefit of the Corporation or the Rights Agent shall bind and enure to the benefit of their respective successors and assigns hereunder.

#### **5.11 Benefits of this Agreement**

Nothing in this Agreement shall be construed to give to any Person other than the Corporation the Rights Agent and the holders of the Rights any legal or equitable right, remedy or claim under this Agreement and this Agreement shall be for the sole and exclusive benefit of the Corporation, the Rights Agent and the holders of the Rights.

#### **5.12 Descriptive Headings**

Descriptive headings appear herein for convenience only and shall not control or affect the meaning or construction of any of the provisions hereof.

#### **5.13 Governing Law**

This Agreement and each Right issued hereunder shall be deemed to be a contract made under the laws of the Province of Alberta and for all purposes shall be governed by and construed in accordance with the laws of such Province applicable to contracts to be made and performed entirely within such Province.

#### **5.14 Language**

Les parties aux présentes ont exigé que la présente convention ainsi que tous les documents et avis qui s'y rattachent et/ou qui en découleront soient rédigés en langue anglaise. The parties hereto have required that this Agreement and all documents and notices related thereto and/or resulting therefrom be drawn up in the English language.

#### **5.15 Counterparts**

This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original, and all such counterparts shall together constitute but one and the same instrument.



## **5.16 Severability**

If any term or provision hereof or the application thereof to any circumstance is, in any jurisdiction and to any extent, invalid or unenforceable, such term or provision shall be ineffective as to such jurisdiction to the extent of such invalidity or unenforceability without invalidating or rendering unenforceable the remaining terms and provisions hereof or the application of such term or provision to circumstances other than those as to which it is held invalid or unenforceable.

## **5.17 Reconfirmation**

At or prior to the third annual meeting of Shareholders after the date hereof and thereafter at or prior to every third annual meeting of Shareholders, provided that a Flip-in Event has not occurred prior to any such time (other than a Flip-in-Event which has been waived by the Board of Directors in accordance with the terms of this Agreement), the Board of Directors shall submit a resolution ratifying the continued existence of this Agreement until the termination of the next such third annual meeting of Shareholders to the Shareholders for their consideration and, if thought advisable, approval. Unless a majority of the votes cast by: (1) the Shareholders; and (ii) the Independent Shareholders who vote in respect of such resolution at any such meeting are voted in favour of the continued existence of this Agreement until the termination of the next such third annual meeting of Shareholders of the Corporation, this Agreement and all outstanding Rights shall terminate and be of no further force and effect as at and after the termination of such annual meeting.

## **5.18 Regulatory Approvals**

Any obligation of the Corporation or action or event contemplated by this Agreement shall be subject to the receipt of any requisite approval or consent from any governmental or regulatory authority having jurisdiction in respect of such matter including, without limiting the generality of the foregoing, any necessary approvals of the Toronto Stock Exchange or any other applicable stock exchange or market. Without limiting the generality of the foregoing, any issuance or delivery of debt or equity securities (other than non-convertible debt securities) of the Corporation upon the exercise of Rights and any amendment or supplement to this Agreement shall be subject to the prior consent of the Toronto Stock Exchange or any other stock exchange on which the Shares may then be listed. For greater certainty, unless advised in writing by the Corporation to the contrary, the Rights Agent shall be entitled to assume that all such required approvals and consents have been obtained.

## **5.19 Declaration as to Non-Canadian Holders**

If in the opinion of the Board of Directors (who may rely upon the advice of counsel) any action or event contemplated by this Agreement would require compliance by the Corporation with the securities laws or comparable legislation of a jurisdiction outside Canada, the Board of Directors acting in good faith shall take such actions as it may deem appropriate to ensure such compliance. In no event shall the Corporation or the Rights Agent be required to issue or deliver Rights or securities issuable on exercise of Rights to persons who are citizens, residents or nationals of any jurisdiction other than Canada or the United States, in which such issue or delivery would be unlawful without registration of the relevant Persons or securities for such purposes.

## **5.20 Determinations and Actions by the Board of Directors**

All actions and determinations (including all omissions with respect to the foregoing) which are done or made by the Board of Directors, in good faith pursuant to or in connection with the administration of this Agreement, shall not subject any member of the Board of Directors to any liability whatsoever to the holders of the Rights.

## **5.21 Notice of Proposed Actions**

In case the Corporation shall propose after the Separation Time and prior to the Expiration Time:

- (a) to effect or permit (in cases where the Corporation's permission is required) any Flip-in Event; or
- (b) to effect the liquidation, dissolution or winding up of the Corporation or the sale of all or substantially all of the Corporation's assets,

then, in each such case, the Corporation shall give to each holder of a Right, in accordance with Section 5.8 hereof, a notice of such proposed action, which shall specify the date on which such Flip-in Event, liquidation, dissolution, or winding up is to take place, and such notice shall be so given at least 10 Business Days prior to the date of taking of such proposed action by the Corporation.

#### **5.22 Time of the Essence**

Time shall be of the essence in this Agreement.

#### **5.23 Amendment and Restatement**

The 2012 Rights Plan Agreement is effective and in full force and effect in accordance with its terms from and after November 20, 2012 and is hereby amended and restated as set forth herein and is, as so amended and restated, ratified and confirmed by each of the parties hereto.

#### **5.24 Coming into Effect**

This Agreement replaces and supersedes the 2012 Rights Plan Agreement and is effective and in full force and effect in accordance with its terms from and after the date hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

**CAPITAL POWER CORPORATION**

Per: *"Bryan DeNeve"*  
Name: Bryan De Neve  
Title: Senior Vice President, Finance & Chief Financial Officer

Per: *"Kathryn Chisholm"*  
Name: Kathryn Chisholm  
Title: Senior Vice President, Legal & External Relations

**COMPUTERSHARE TRUST COMPANY OF CANADA**

Per: *"Kyle Gould"*  
Name: Kyle Gould  
Title: Relationship Manager

Per: *"Phillip Munday"*  
Name: Phillip Munday  
Title: Manager, Client Services

## EXHIBIT A

### FORM OF RIGHTS CERTIFICATE

Certificate No. \_\_\_\_\_ Rights \_\_\_\_\_

THE RIGHTS ARE SUBJECT TO REDEMPTION, AT THE OPTION OF THE CORPORATION, ON THE TERMS SET FORTH IN THE RIGHTS AGREEMENT. IN CERTAIN CIRCUMSTANCES (SPECIFIED IN SECTION 3.1(b) OF THE RIGHTS AGREEMENT), RIGHTS BENEFICIALLY OWNED BY AN ACQUIRING PERSON OR TRANSFEREES OF AN ACQUIRING PERSON OR ITS AFFILIATES OR ASSOCIATES (AS SUCH TERMS ARE DEFINED IN THE RIGHTS AGREEMENT) OR ANY PERSON ACTING JOINTLY OR IN CONCERT WITH ANY OF THEM, MAY BECOME VOID.

#### Rights Certificate

This certifies that \_\_\_\_\_, or registered assigns, is the registered holder of the number of Rights set forth above, each of which entitles the registered holder thereof, subject to the terms, provisions and conditions of the Amended and Restated Shareholder Rights Plan Agreement dated April 22, 2016, as such may, from time to time, be amended, restated, varied or replaced (the "**Rights Agreement**") between Capital Power Corporation (the "**Corporation**"), a corporation incorporated under the laws of Canada, and Computershare Trust Company of Canada, a trust company incorporated under the laws of Canada, as rights agent (the "**Rights Agent**", which term shall include any successor Rights Agent under the Rights Agreement), to purchase from the Corporation at any time after the Separation Time (as such term is defined in the Rights Agreement) and prior to the Termination Time (as such term is defined in the Rights Agreement), one fully paid share of the Corporation ("**Shares**") at the Exercise Price referred to below, upon presentation and surrender of this Rights Certificate together with the Form of Election to Exercise duly executed and submitted to the Rights Agent at its principal office in Calgary, Alberta or in such other cities as may be designated by the Corporation from time to time. The Exercise Price shall be three times the Market Price (as such term is defined in the Rights Agreement) per Right and shall be subject to adjustment in certain events as provided in the Rights Agreement.

In certain circumstances described in the Rights Agreement, the number of Shares which each Right entitles the registered holder thereof to purchase shall be adjusted as provided in the Rights Agreement.

This Rights Certificate is subject to all of the terms, provisions and conditions of the Rights Agreement which terms, provisions and conditions are hereby incorporated herein by reference and made a part hereof and to which Rights Agreement reference is hereby made for a full description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Rights Agent, the Corporation and the holders of the Rights Certificates. Copies of the Rights Agreement are on file at the executive office of the Corporation and are available upon written request.

This Rights Certificate, with or without other Rights Certificates, upon surrender at any of the offices of the Rights Agent designated for such purpose, may be exchanged for another Rights Certificate or Rights Certificates of like tenor and date evidencing an aggregate number of Rights equal to the aggregate number of Rights evidenced by the Rights Certificate or Rights Certificates surrendered. If this Rights Certificate shall be exercised in part, the registered holder shall be entitled to receive, upon surrender hereof, another Rights Certificate or Rights Certificates for the number of whole Rights not exercised.

Subject to the provisions of the Rights Agreement, the Rights evidenced by this Certificate may be redeemed by the Corporation at a redemption price of \$0.00001 per Right, subject to adjustment in certain events, under certain circumstances at its option.

No fractional Shares will be issued upon the exercise of any Rights evidenced hereby, but in lieu thereof a cash payment will be made, as provided in the Rights Agreement.

No holder of this Rights Certificate, as such, shall be entitled to vote or receive distributions or be deemed for any purpose the holder of Shares or of any other securities which may at any time be issuable upon the exercise hereof, nor shall anything contained in the Rights Agreement or herein be construed to confer upon the holder hereof, as such, any of the rights of a holder of Shares or to give or withhold consent to any action of the Corporation, or to receive notice of meetings or other actions affecting Shareholders (except as provided in the Rights Agreement), or to receive distributions or

subscription rights, or otherwise, until the Rights evidenced by this Rights Certificate shall have been exercised as provided in the Rights Agreement.

This Rights Certificate shall not be valid or obligatory for any purpose until it shall have been countersigned by the Rights Agent.

WITNESS the facsimile signature of the proper officers of the Corporation.

Date: \_\_\_\_\_

**CAPITAL POWER CORPORATION**

By:  
Authorized Officer

By:  
Authorized Officer

Countersigned:

**COMPUTERSHARE TRUST COMPANY OF CANADA**

By:  
Authorized Officer

## FORM OF ASSIGNMENT

(To be executed by the registered holder if such holder desires to transfer the Rights represented by this Rights Certificate.)

FOR VALUE RECEIVED \_\_\_\_\_ hereby sells, assigns and transfers to

(Please print name and address of transferee) the Rights represented by this Rights Certificate, together with all right, title and interest therein, and hereby irrevocably constitutes and appoints \_\_\_\_\_ as attorney, to transfer the within Rights on the books of the Corporation, with full power of substitution.

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
Signature

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.)

Signature must be guaranteed by a Canadian chartered bank, a Canadian trust company, a member of a recognized stock exchange or a member of the Securities Transfer Association Medallion (STAMP) Program.

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(To be completed if true)

The undersigned hereby represents, for the benefit of all holders of Rights and Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or by any Person acting jointly or in concert with any of the foregoing (all capitalized terms are used as defined in the Rights Agreement).

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_

## NOTICE

In the event the certification set forth above in the Form of Election to Exercise is not completed upon exercise of the Right(s) evidenced hereby or in the event that the certification set forth above in the Form of Assignment is not completed upon the assignment of the Right(s) evidenced hereby, the Corporation will deem the Beneficial Owner of the Right(s) evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) and, in the case of an assignment, will affix a legend to that effect on any Rights Certificates issued in exchange for this Rights Certificate.

(To be attached to each Rights Certificate)

FORM OF ELECTION TO EXERCISE

TO: CAPITAL POWER CORPORATION

The undersigned hereby irrevocably elects to exercise \_\_\_\_\_ whole Rights represented by the attached Rights Certificate to purchase the Shares (or other securities or property) issuable upon the exercise of such Rights and requests that certificates for such Shares (or other securities or title to such property) be issued in the name of:

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Street)

\_\_\_\_\_  
(City and State or Province)

\_\_\_\_\_  
(Country, Postal Code or Zip Code)

\_\_\_\_\_  
SOCIAL INSURANCE, SOCIAL SECURITY OR OTHER TAXPAYER  
IDENTIFICATION NUMBER

If such number of Rights shall not be all the Rights evidenced by this Rights Certificate, a new Rights Certificate for the balance of such Rights shall be registered in the name of and delivered to:

\_\_\_\_\_  
(Name)

\_\_\_\_\_  
(Street)

\_\_\_\_\_  
(City and State or Province)

\_\_\_\_\_  
(Country, Postal Code or Zip Code)

\_\_\_\_\_  
SOCIAL INSURANCE, SOCIAL SECURITY OR OTHER TAXPAYER  
IDENTIFICATION NUMBER

Dated: \_\_\_\_\_

Signature Guaranteed:

\_\_\_\_\_  
Signature

(Signature must correspond to name as written upon the face of this Rights Certificate in every particular, without alteration or enlargement or any change whatsoever.)

Signature must be guaranteed by a Canadian chartered bank, a Canadian trust company, a member of a recognized stock exchange or a member of the Securities Transfer Association Medallion (STAMP) Program.

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(To be completed if true)

The undersigned hereby represents, for the benefit of all holders of Rights and Shares, that the Rights evidenced by this Rights Certificate are not, and, to the knowledge of the undersigned, have never been, Beneficially Owned by an Acquiring Person or an Affiliate or Associate thereof or by any Person acting jointly or in concert with any of the foregoing (all capitalized terms are used as defined in the Rights Agreement).

Dated: \_\_\_\_\_

Signature: \_\_\_\_\_



## NOTICE

In the event the certification set forth above in the Form of Election to Exercise is not completed upon exercise of the Right(s) evidenced hereby or in the event that the certification set forth above in the Form of Assignment is not completed upon the assignment of the Right(s) evidenced hereby, the Corporation will deem the Beneficial Owner of the Right(s) evidenced by this Rights Certificate to be an Acquiring Person or an Affiliate or Associate thereof (as defined in the Rights Agreement) and, in the case of an assignment, will affix a legend to that effect on any Rights Certificates issued in exchange for this Rights Certificate.

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Capital Power Corporation  
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