

## **BOARD OF DIRECTORS**

### **TERMS OF REFERENCE**

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#### **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;
  - 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, takeover bid circulars, directors' circulars, prospectuses, annual information forms and other disclosure documents required to be approved by the directors of a corporation under securities laws, regulations or rules of any applicable stock exchange; or
  - h) the adoption, amendment or repeal of the By-laws.

## **B. Strategy and Plans**

The Board has the responsibility to:

- i) participate with Management in developing and adopting the Corporation's strategic planning process including:
  - a) providing input to Management on emerging trends and issues;
  - b) reviewing and approving, on an annual basis, Management's strategic plans (long term business plans), which will take into account, among other things, the opportunities, 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, diversity and inclusion and other sustainability matters;
- v) understand 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**

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