Notice of 2018 annual meeting of shareholders

April 27, 2018

Management proxy circular

March 1, 2018

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. We own approximately 4,500 megawatts of power generation capacity at 24 facilities and are pursuing contracted generation capacity throughout North America.

Our shares are traded on the Toronto Stock Exchange under the symbol CPX. For seven consecutive years, Capital Power has earned placement on Corporate Knights' "Best 50 Corporate Citizens in Canada" listing (2011 – 2017).

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

What’s inside

Letter to shareholders

March 1, 2018

Dear shareholder,

The board and management of Capital Power Corporation invite you to attend our 2018 annual meeting of shareholders (meeting) at 1:00 p.m. (Mountain Daylight Time) on April 27, 2018 at EPCOR Tower in Edmonton, Alberta.

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

You can attend the meeting and vote in person, or you can vote by proxy. Attending the meeting gives you an opportunity to meet the Chair of the board, the President & CEO and the Chief Legal Officer, to hear first-hand about our performance and developments in 2017 and to ask any questions.

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

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

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

Sincerely,

Donald Lowry
Chair of the board

Brian Vaasjo
President and Chief Executive Officer

Notice of 2018 annual meeting of shareholders

You’re invited to attend the 2018 annual meeting of shareholders of Capital Power Corporation:

When: Friday, April 27, 2018
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, 2017 and the auditors′ report;
- elect directors;
- appoint the auditors with compensation to be fixed by the board on the recommendation of the audit committee;
- vote on our approach to executive compensation;
- transact any other business.

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

You’re entitled to vote at the meeting if you owned common shares of Capital Power Corporation at the close of business on March 14, 2018. You can vote by proxy or vote in person at the meeting.

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

By order of the board,

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

March 1, 2018

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 14, 2018 (record date). As a shareholder of record, you're entitled to attend our 2018 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.

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

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 21, 2018. Shareholders may access an electronic copy of the circular on our website on or about March 21, 2018.

Information in this circular is as of March 1, 2018, unless otherwise indicated.

All dollar amounts are in Canadian dollars unless otherwise indicated.

Our principal and head office is in Edmonton, Alberta:

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

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

HOW TO OBTAIN PAPER COPIES OF THE MEETING MATERIALS

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

Requests by registered 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.

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 27, 2018 must be received by April 10, 2018.

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	104,174,775
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 14, 2018. 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, 2018, 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 2017 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're a registered shareholder if your shares are registered directly in your name with our registrar and transfer agent, Computershare.

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

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

Vote by proxy

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

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

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

Computershare must receive your completed proxy form by 1 p.m. Mountain Daylight Time (MDT) on April 25, 2018 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
135 West Beaver Creek, PO Box 300
Richmond Hill, Ontario L4B 4R5

Computershare must receive your revocation by **1 p.m. MDT** on **April 26, 2018** 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 26, 2018.** 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, 2017 and the auditors' report will be tabled at the annual meeting and are included in our 2017 annual report. Copies will be available at the meeting and on our website (www.capitalpower.com) and on SEDAR (www.sedar.com), or you can request a copy from our Corporate Secretary, Capital Power Corporation, 12th Floor, 10423 - 101 Street, Edmonton, Alberta T5H 0E9.

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

Directors will serve until the next annual meeting, or until their successors are elected or appointed. The director profiles starting on page 12 give you detailed information about their skills and experience, their 2017 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
Albrecht Bellstedt
Doyle Beneby
Jill Gardiner
Kelly Huntington
Philip Lachambre
Katharine Stevenson
Keith Trent
Brian Vaasjo

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, 2017 and 2016.

($ millions)	2017	2016
Audit fees Include audit and review of financial statements, services related to statutory and regulatory filings and providing comfort letters associated with securities documents	$1.4	$1.0
Audit-related fees Include assurance and related services that are not reported under audit fees	-	-
Tax fees Include reviewing tax returns, answering questions about tax audits, and tax planning	-	-
All other fees All other fees are fees for operational advisory and risk management services and non-securities legislative and regulatory compliance work	$0.1	$0.1
Total	$1.5	$1.1

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 2018 annual meeting of shareholders.

About voting results

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

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

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

We held our first say-on-pay vote in 2012, and have subsequently held say-on-pay votes annually from 2013 to 2017. We received approval in the range of over 96% 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.

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 8 of the 9 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 and 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).

OUR POLICY ON MAJORITY VOTING

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

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

If a nominated director does not receive a majority of votes, then the nominee shall be considered not to have received the support of the shareholders, even if elected as a matter of corporate law. Such a director is expected to submit his or her resignation to the board, which resignation shall take effect upon acceptance by the board. The board will accept such resignation as soon as possible, and consistent with an orderly transition. It is expected that any such resignation will be accepted by the board within 90 days. 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 2017 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, 2018 and include reinvested dividends and dividend equivalents. The value of common shares and DSUs are based on the higher of $24.08, the closing price of our common shares on the TSX on March 1, 2018, 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 and Chief Executive Officer (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, 2018 unless indicated otherwise.

Experience
Public board, deal/M&A/IPO/hostile defence, government/ public affairs, health, safety and environment, operations/engineering/ maintenance/construction, human resources/compensation, Alberta power markets, risk management, cyber/physical security, strategic planning/ leading growth, board/ committee chair

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

Government relations
Alberta, Canada (federal)

Seniority
Private CEO, senior functional

Geographic diversity
Edmonton, Calgary

Public board interlocks
None

Donald Lowry, ICD.D (66) (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.

Board and committee membership	Meeting attendance
Board (Chair)	11 of 11 (100%)
Audit Committee (ex-officio non-voting)	4 of 4 (100%)
CGC&N Committee (ex-officio non-voting)	5 of 5 (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	40,035
DSUs	29,035	Total market value common shares and DSUs	$714,746
Percentage of Ownership Requirement	99%	Meets ownership requirement	in progress
Voting results 2017			
Votes in favour	58,149,678 (95.04%)	Votes withheld	3,032,024 (4.96%)

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

Albrecht Bellstedt (68)

Independent | Director since July 2009 | Canmore, AB

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

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

Experience
Public board, deal/M&A/IPO/hostile defence, human resources/compensation, regulatory/legal, Alberta power markets, risk management, board/committee chair

Industry
Power, oil & gas infrastructure

Background
Lawyer

Seniority
Senior functional, partner

Geographic diversity
Calgary

Public board interlocks
None

Board and committee membership	Meeting attendance
Board	11 of 11 (100%)
CGC&N Committee	5 of 5 (100%)
HSE Committee	3 of 3 (100%)

Securities and DSUs held			
Common shares	7,099	Total common shares and DSUs	49,729
DSUs	42,630	Total market value common shares and DSUs	$1,212,503
Percentage of Ownership Requirement	253%	Meets ownership requirement	yes

Voting results 2017			
Votes in favour	60,460,883 (98.82%)	Votes withheld	720,819 (1.18%)

Other public directorships: Canadian Western Bank, Stuart Olson Inc. (Chair) (2)

Mr. Bellstedt was no longer a director of Sun Times Media Group, Inc. (formerly Hollinger International Inc.) as of June 2008. Sun Times Media Group, Inc. went into Chapter 11 bankruptcy protection under the U.S. Bankruptcy Code in 2009.

Doyle Beneby (58)

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

Doyle Beneby has 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 U.S., a position he held since August 2010. Mr. Beneby has over 20 years' experience in various aspects of the electrical power industry.

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

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

Experience
Public board, deal/M&A/IPO/hostile defence, government/public affairs, health, safety and environment, human resources/compensation, operations/engineering/maintenance/construction, risk management, cyber/physical security, board/committee chair

Industry
Power, other resources/industries

Background
Engineer

Seniority
Public CEO, private CEO

Geographic diversity
USA

Public board interlocks
None

Board and committee membership	Meeting attendance
Board	11 of 11 (100%)
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	27,854
DSUs	27,854	Total market value common shares and DSUs	$681,062
Percentage of Ownership Requirement	110%	Meets ownership requirement	yes

Voting results 2017			
Votes in favour	60,939,266 (99.60%)	Votes withheld	242,258 (0.40%)

Other public directorships: Korn/Ferry International, Quanta Services (2)

Jill Gardiner (59)

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 is currently a member of the boards of directors of Capstone Mining Corp. and Parkbridge Lifestyle Communities Inc. 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 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.

Experience
Public board, deal/M&A/IPO/hostile defence, human resources/compensation, Alberta power markets, risk management, strategic planning/leading growth, board/ committee chair

Industry
Power, other resources/industries

Background
Financial expert, investment banker

Seniority
Senior functional

Geographic diversity
British Columbia

Public board interlocks
None

Board and committee membership	Meeting attendance
Board	11 of 11 (100%)
Audit Committee	4 of 4 (100%)
CGC&N Committee (chair)	5 of 5 (100%)

Securities and DSUs held			
Common shares	7,216	Total common shares and DSUs	17,318
DSUs	10,102	Total market value common shares and DSUs	$422,978
Percentage of Ownership Requirement	88%	Meets ownership requirement	in progress

Voting results 2017			
Votes in favour	60,470,714 (98.84%)	Votes withheld	710,988 (1.16%)

Other public directorships: Capstone Mining Corp. (1)

Kelly Huntington (42)

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, and as treasurer of the Indianapolis Zoo. 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
Deal/M&A/IPO/hostile defence, government/public affairs, health, safety and environment, human resources/compensation, pensions, operations/engineering/ maintenance/construction, regulatory/legal, financial/commodity trading, risk management, cyber/physical security, strategic planning/leading growth, CSR/sustainability

Industry
Power, other resources/industries

Background
CFO/financial expert, investment banker

Government relations
USA

Seniority
Private CEO, senior functional

Geographic diversity
USA

Public board interlocks
None

Board and committee membership	Meeting attendance
Board	11 of 11 (100%)
Audit Committee	4 of 4 (100%)
HSE Committee	2 of 3 (66.7%)

Securities and DSUs held			
Common shares	0	Total common shares and DSUs	13,159
DSUs	13,159	Total market value common shares and DSUs	$321,124
Percentage of Ownership Requirement	52%	Meets ownership requirement	in progress

Voting results 2017			
Votes in favour	60,435,610 (98.78%)	Votes withheld	746,092 (1.22%)

Other public directorships: None

Experience
Public board, deal/M&A/IPO/hostile defence, government/public affairs, health, safety and environment, human resources/compensation, pensions, Alberta power markets, operations/engineering/maintenance /construction, regulatory/legal, risk management, cyber/physical security, strategic planning/leading growth, board/committee chair

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

Government relations
Alberta, Canada (federal)

Background
CFO/financial expert, procurement/contracts

Seniority
Senior functional

Geographic diversity
Edmonton

Public board interlocks
None

Philip Lachambre (66)

Independent | Director since July 2009 | Edmonton, AB

Philip Lachambre is currently President of PCML Consulting Inc., a position he has held since February 2007 and has been a professional director since July, 2007. Mr. Lachambre held many positions in the oil and gas, mining and construction sectors during his 43-year career, 31 years of which were at Syncrude Canada Inc. where he was Executive Vice President and CFO from 1997 until his retirement in 2007. He was also a director of Flint Energy Services Ltd. until 2012. Mr. Lachambre has had many areas of responsibility across numerous departments including corporate strategy, controllers, treasury, legal, government and regulatory affairs, EH&S, business development, stakeholder relations, human resources, procurement and contracts, information technology and aboriginal affairs.

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

Board and committee membership	Meeting attendance
Board	11 of 11 (100%)
Audit Committee (chair)	4 of 4 (100%)
CGC&N Committee	5 of 5 (100%)

Securities and DSUs held			
Common shares	15,720	Total common shares and DSUs	54,908
DSUs	39,188	Total market value common shares and DSUs	$1,336, 494
Percentage of Ownership Requirement	278%	Meets ownership requirement	yes

Voting results 2017			
Votes in favour	60,481,351 (98.86%)	Votes withheld	700,351 (1.14%)

Other public directorships: None

Experience
Public board, deal/M&A/IPO/hostile defence, pensions, financial/commodity trading, risk management, board/committee chair

Industry
Other resources/industries

Background
Financial expert, investment banker

Seniority
Senior functional

Geographic diversity
Ontario

Public board interlocks
None

Katharine Stevenson, ICD.D (55)

Independent | Director appointed effective 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 U.S. 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.

Board and committee membership	Meeting attendance
Board	7 of 8 (87.5%)
Audit Committee	2 of 2 (100%)
CGC&N Committee	2 of 2 (100%)

Securities held			
Common shares	4,000	Total common shares and DSUs	6,402
DSUs	2,402	Total market value common shares and DSUs	0
Percentage of Ownership Requirement	33%	Meets ownership requirement	in progress

Voting results 2017			
Votes in favour	60,606,672 (99.06%)	Votes withheld	575,030 (0.94%)

Other public directorships: CIBC, OpenText Corporation, CAE Inc. (3)

Only 8 of the 11 board meetings occurred after the date of Ms. Stevenson's appointment to the board on April 3, 2017, and only 2 of the 4 Audit Committee and 2 of the 5 CGC&N Committee meetings occurred after Ms. Stevenson's appointment to those committees on April 28, 2017.

Experience
Public board, deal/M&A/IPO/hostile defence, government/public affairs, health, safety and environment, human resources/compensation, operations/engineering/maintenance /construction, regulatory/legal, financial/commodity trading, risk management, cyber/physical security, strategic planning/leading growth, board/committee chair

Industry
Power, oil and gas infrastructure

Background
Engineer, lawyer

Government relations
USA

Seniority
Senior functional

Geographic diversity
USA

Public board interlocks
None

Keith Trent (58)

Independent | Director appointed effective April 3, 2017 | Charlotte, NC, USA

Keith 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 boards of directors of Forsite Development 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).

Board and committee membership	Meeting attendance
Board	6 of 8 (75%)
CGC&N Committee	2 of 2 (100%)
HSE Committee	2 of 2 (100%)

Securities and DSUs held			
Common shares	0	Total common shares and DSUs	2,548
DSUs	2,548	Total market value common shares and DSUs	0
Percentage of Ownership Requirement	10%	Meets ownership requirement	in progress

Voting results 2017			
Votes in favour	60,938,733 (99.60%)	Votes withheld	242,969 (0.40%)

Other public directorships: TRC Companies, Inc. (1)

Only 8 of the 11 board meetings occurred after the date of Mr. Trent's appointment to the board on April 3, 2017, and only 2 of the 3 HSE Committee and 2 of the 5 CGC&N Committee meetings occurred after Mr. Trent's appointment to those committees on April 28, 2017.

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

Industry
Power, oil & gas infrastructure

Background
CFO/financial expert, accountant

Government relations
Alberta, Canada (federal)

Seniority
Public CEO, senior functional

Geographic diversity
Edmonton

Public board interlocks
None

Brian Vaasjo (62)

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

Brian Vaasjo has been the President and CEO of Capital Power since July, 2009. Prior thereto, he was Executive Vice President of EPCOR, and was President of EPCOR's Energy Division. At EPCOR, he was responsible for regional power generation, 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	11 of 11 (100%)
Audit Committee	4 of 4 (100%)
CGC&N Committee	5 of 5 (100%)
HSE Committee	3 of 3 (100%)

Securities, DSUs and options held			
Common shares	107,547	Total common shares and DSUs	107,547
DSUs	N/A	Total market value common shares and DSUs	$2,589,732
Percentage of Ownership Requirement (see page 44)	135%	Meets ownership requirement (see page 44)	yes

As of March 1, 2018, Brian Vaasjo holds 66,742 performance share units (PSUs) and 1,358,551 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, 2017 (see page 44).

Voting results 2017			
Votes in favour	60,955,893 (99.63%)	Votes withheld	225,809 (0.37%)

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 and 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) 11 of 11	100%	4 of 4	100%	5 of 5	100%	3 of 3	100%
Albrecht Bellstedt	11 of 11	100%			5 of 5	100%	3 of 3	100%
Doyle Beneby	11 of 11	100%	4 of 4	100%			(chair) 3 of 3	100%
Jill Gardiner	11 of 11	100%	4 of 4	100%	(chair) 5 of 5	100%		
Kelly Huntington	11 of 11	100%	4 of 4	100%			2 of 3	66.7%
Philip Lachambre	11 of 11	100%	(chair) 4 of 4	100%	5 of 5	100%		
Katharine Stevenson	7 of 8	87.5%	2 of 2	100%	2 of 2	100%		
Keith Trent	6 of 8	75%			2 of 2	100%	2 of 2	100%
Brian Vaasjo	11 of 11	100%	4 of 4	100%	5 of 5	100%	3 of 3	100%

Notes

- Only 8 of the 11 board meetings occurred after the date of Ms. Stevenson's appointment to the board on April 3, 2017, and only 2 of the 4 Audit Committee and 2 of the 5 CGC&N Committee meetings occurred after Ms. Stevenson's appointment to those committees on April 28, 2017. Ms. Stevenson's absence was due to a scheduling conflict of which the board was aware prior to her appointment.
- Only 8 of the 11 board meetings occurred after the date of Mr. Trent's appointment to the board on April 3, 2017, and only 2 of the 3 HSE Committee and 2 of the 5 CGC&N Committee meetings occurred after Mr. Trent's appointment to those committees on April 28, 2017.Mr. Trent's absences were due to scheduling conflicts of which the board was aware prior to his appointment.
- Mr. Vaasjo attends committee meetings as a guest and in his capacity as President and CEO of Capital Power.
- Patrick Daniel, who is not standing for election in 2018, attended 10 of 11 (90.9%) board and 3 of 3 (100%) HSE Committee meetings.

DIRECTOR INTERLOCKS

None of our director nominees serve together on other public company boards.

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. Directors receive materials before each board meeting that include background information about items to be considered at the meeting. Directors are also encouraged to attend externally hosted education and Capital Power contributes to the cost. The table below lists the education we provided directly to our directors in 2017. You can find more information about education and ongoing development of directors on page 23.

Date	Event	Description	Attendees	
April	Presentation on environmental trends	Presentation by Ed Whittingham, Executive Director, Pembina Institute	Donald Lowry Albrecht Bellstedt Doyle Beneby Patrick Daniel Jill Gardiner	Kelly Huntington Philip Lachambre Katharine Stevenson Keith Trent Brian Vaasjo
April	Plant tour (new director orientation)	Tour of Genesee	Kate Stevenson Keith Trent	Brian Vaasjo
May	Energy Infrastructure	Presentation by Robert Kwan, CFA (Analyst), and Tim Tong, Senior Associate, RBC Dominion Securities Inc.	Donald Lowry Albrecht Bellstedt Doyle Beneby Patrick Daniel Jill Gardiner	Kelly Huntington Philip Lachambre Katharine Stevenson Brian Vaasjo
May	M&A Considerations Discussion	Presentation by Aaron Engen of BMO Capital Markets	Donald Lowry Albrecht Bellstedt Doyle Beneby Patrick Daniel Jill Gardiner	Kelly Huntington Philip Lachambre Katharine Stevenson Brian Vaasjo
May	Plant tour	Tour of Port Dover Nanticoke	Donald Lowry Albrecht Bellstedt Jill Gardiner	Kelly Huntington Philip Lachambre Brian Vaasjo
May	Plant tour	Tour of York Energy	Donald Lowry Albrecht Bellstedt Doyle Beneby Jill Gardiner	Kelly Huntington Philip Lachambre Brian Vaasjo
July	New Director Orientation	A day with management and orientation session to help new directors develop a basic understanding of Capital Power and our business	Kate Stevenson	Keith Trent
October	Future of Genesee	Presentation by Sian Barraclough, VP Commercial & Energy Management and Sean Furey, VP Solid Fuels, Capital Power	Donald Lowry Albrecht Bellstedt Doyle Beneby Patrick Daniel Jill Gardiner	Kelly Huntington Philip Lachambre Keith Trent Brian Vaasjo
November	US Sub Regional Strategy	Presentation by James Renouf, Director, Corporate Strategy & Environment Portfolio and Laurence Smith, Specialist, Energy, Marketing & Development, Capital Power	Donald Lowry Albrecht Bellstedt Doyle Beneby Patrick Daniel Jill Gardiner	Philip Lachambre Katharine Stevenson Keith Trent Brian Vaasjo

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 also adopted a comprehensive Corporate Governance Policy which is available on our website (www.capitalpower.com). Management also assessed our financial reporting procedures this year and concluded that we are in compliance as of December 31, 2017.

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 (8 out of 9) 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 (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 43 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 strategic planning, risk management, succession planning and leadership development
✓	We conduct an advisory vote on executive compensation, giving shareholders a say on pay
✓	We adopted an incentive claw-back policy and anti-hedging policy, further aligning the interests of executives and shareholders
✓	We have orientation and continuing education programs for our directors
✓	We maintain a skills matrix to assist in planning, developing and managing the skills and competencies of the board
✓	Board and committee assessments are conducted every year. From 2016 and onwards, board evaluation involves annual one-on-one meetings between each director and Chair of the board, biennial self-assessments, 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 an aspirational target for the proportion of women on our board
✓	The board has adopted a Director Tenure & Succession Policy which establishes term limits
✓	The board has adopted a Board Shareholder Engagement Policy
✓	The Chair of the board and the Chair of CGC&N Committee conducted shareholder engagement events in early 2018

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

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

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 and CEO.

Nominated directors	Independent	Not independent
Donald Lowry (chair)	✓	
Albrecht Bellstedt	✓	
Doyle Beneby	✓	
Jill Gardiner	✓	
Kelly Huntington	✓	
Philip Lachambre	✓	
Katharine Stevenson	✓	
Keith Trent	✓	
Brian Vaasjo		✓

An independent, non-executive director chairs our board. The board met 11 times in 2017. 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 and CEO include detailed position descriptions and are available on our website (www.capitalpower.com).

Ethics
Our ethics policy applies to all permanent and temporary employees and members of our board of directors. Everyone must read, understand and comply with the policy, and executives must certify their compliance with the policy quarterly. Our ethics policy is on our website (www.capitalpower.com), or you can ask our Corporate Secretary to send you a copy (see page 68).

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 2017 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). 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 and 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 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

Oversight and strategic planning

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

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

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

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

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

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

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

Succession planning and leadership development

We maintain succession and talent development plans for the CEO and senior management 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 oversees our performance management and talent development programs to ensure that we are developing our management talent to support our business needs.

ORIENTATION AND ONGOING DEVELOPMENT

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

The board 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 2017 on page 18.

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 2017 on page 18.

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 table below simplifies the skills matrix for disclosure purposes, and 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 12.

	Total	D. Lowry	A. Bellstedt	D. Beneby	J. Gardiner	K. Huntington	P. Lachambre	K. Stevenson	K. Trent	B. Vaasjo
Experience										
Governance[1]	**9**	✓	✓	✓	✓	✓	✓	✓	✓	✓
Senior Leadership[2]	**9**	✓	✓	✓	✓	✓	✓	✓	✓	✓
Risk Management	**9**	✓	✓	✓	✓	✓	✓	✓	✓	✓
Strategic Planning/Leading Growth	**5**	✓			✓	✓	✓		✓	
Power Industry[3]	**8**	✓	✓	✓	✓	✓	✓		✓	✓
Operations/Development/Construction[4]	**5**	✓		✓		✓	✓		✓	
Health, Safety and Environment[5]	**5**	✓		✓		✓	✓		✓	
Finance/Accounting[6]	**5**				✓	✓	✓	✓		✓
Capital Markets[7]	**4**		✓		✓	✓		✓		
Trading[8]	**3**					✓		✓	✓	
M&A[9]	**9**	✓	✓	✓	✓	✓	✓	✓	✓	✓
Human Resources/Compensation[10]	**8**	✓	✓	✓	✓	✓	✓	✓	✓	
Government/Public Affairs[11]	**6**	✓		✓		✓	✓		✓	✓
Regulatory/Legal	**5**		✓			✓	✓		✓	✓
Information/Physical Security[12]	**6**	✓		✓		✓	✓		✓	✓
Geographic Diversity										
Alberta	**4**	✓	✓				✓			✓
British Columbia	**1**				✓					
Ontario	**1**							✓		
USA	**3**			✓		✓			✓	
Term Limit										
2021	**3**	✓	✓				✓			
2024	**1**			✓						
2027	**4**				✓	✓		✓	✓	

Notes

(1) *Governance* – experience in good corporate governance practices and policies usually gained through experience as a board member of a public company (including as board or committee chair)

(2) *Senior Leadership* – experience as a CEO, senior executive or senior partner of a public company or other organization of similar complexity

(3) *Power Industry* – experience as a director or senior executive of a power or utilities company (including in Alberta's power markets)

(4) *Operations/Development/Construction* – management or executive experience in power or utility operations, engineering, development or construction

(5) *Health, Safety and Environment* – board or management experience in, or understanding of, the regulatory environment surrounding workplace health and safety, the environment and social responsibility for the power industry

(6) *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

(7) *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

(8) *Trading* – experience as an executive, CFO, treasurer, or investment banker in managing or overseeing financial and/or commodity derivatives

(9) *M&A* – experience in major transactions involving private and/or public companies, such as mergers, acquisitions, divestitures and hostile takeover defence

(10) *Human Resources/Compensation* – management or executive 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

(11) *Government/Public Affairs* – board or management experience in, or understanding of, government and public affairs generally, including government relations in Canada or the U.S., in the context of the power industry or other highly-regulated industries

(12) *Information/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

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 2017and 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 (such meetings serve to identify focus areas for the board 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),
- 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, and
- 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 involve 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 2017, the directors completed a self-evaluation and a peer-to-peer review process with the assistance of Watson Inc. to be used for board development and succession planning purposes. The director self-evaluations and results of the peer-to-peer review process were discussed with the Chairs of the board and the CGC&N Committee. In addition, each director participated in board and committee evaluations, which were submitted anonymously, compiled, 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 with members of senior management in early 2018. 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 2018.

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).

Director tenure and succession
Our board has adopted a Director Tenure & Succession Policy (Tenure Policy) and a Succession Plan & Committee Rotation (Succession Plan).

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 change.
- In conjunction with the above, the CGC&N Committee reviews our director skills matrix and uses the skills matrix to develop a list of potential candidates for nomination or appointment to the board in the future based on their skills and experience (this evergreen 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, and who would fill gaps in or complement the current skills matrix, and comply with our independence criteria for the board and its committees). The CGC&N Committee may also hire a search firm to identify potential candidates.

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 CGC&N Committee will establish a development plan for each of our directors that feeds into the succession plan.
- A 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 three directors who are women and who represent one third 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 and balanced appropriately. 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 Board 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 practices.

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), and to contact the board at:

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

SHAREHOLDER PROPOSALS

If you want to send a shareholder proposal for inclusion in the circular and proxy form for our 2019 annual meeting of shareholders, we must receive it by December 1, 2018, as required under the *Canada Business Corporations Act*, the corporate statute that governs Capital Power. We expect our 2019 annual meeting of shareholders to be held on or about April 26, 2019. 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). You can find more information about each director in the director profiles beginning on page12.

AUDIT COMMITTEE

You can find information about this committee in our 2017 AIF and the terms of reference for the committee in Appendix A to our 2017 AIF which is posted on our website (www.capitalpower.com) and on SEDAR (www.sedar.com).

Members	Philip Lachambre (chair) Doyle Beneby, Jill Gardiner, Kelly Huntington, Katharine Stevenson Donald Lowry (ex-officio, non-voting member)
Independent	100%
Qualifications	All members are financially literate as defined by Canadian securities laws and regulations: • 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 • Doyle Beneby is a former CEO, has other senior executive experience and also has an MBA • Jill Gardiner has investment banking experience, is a member of another public company audit committee, has other previous audit committee experience (including as chair), and has an MBA • 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 • 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
Key responsibilities	The committee provides assistance to the board in fulfilling its oversight responsibility to shareholders of Capital Power, the investment community and others in relation to the integrity of Capital Power's financial statements, financial reporting processes, systems of internal accounting and financial controls, the risk identification assessment conducted by management and the programs established by management and the board in response to such assessment, the internal audit function and the external auditors' qualifications, independence, performance and reports to Capital Power. In addition, the committee monitors, evaluates, advises or makes recommendations on matters affecting the financial and operational control policies and practices relating to Capital Power, including the external, internal or special audits thereof. 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 the raising of capital and capital allocation. The committee's terms of reference are available on our website (www.capitalpower.com).
Key activities and priorities in 2017	• reviewed our public disclosure documents for the year ended December 31, 2016 (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 an annual 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

Key activities and priorities in 2017, continued	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 • reviewed and recommended our public offering of cumulative minimum rate reset preference shares, series 9 • reviewed and recommended our public offering of medium term notes • reviewed and recommended the extension and amendment of our club and syndicated credit facilities • reviewed our Alberta, Southport, Roxboro, East Windsor and Decatur 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 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 and recommended amendments to our Disclosure & Insider Trading Policy • reviewed and recommended changes to 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 U.S. • reviewed our use of derivatives, hedge accounting and the proxy revenue swap structure for Bloom • reviewed post-implementation reviews of acquisitions and major projects in accordance with the Investment Policy

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 2017, the Chair of the Audit Committee pre-approved non-audit related services provided by the external auditors in the amount of $65,000. The services pre-approved by the Chair related to the conversion to International Financial Reporting Standards (IFRS) from US GAAP for the acquisition of the East Windsor, Savona and 150 Mile House facilities, and a 50% interest in the York facility ($35,000), and a detailed examination of our current information technology general controls ($30,000). The committee chair's approval of those expenses was ratified by the Audit Committee. The Audit Committee also pre-approved the engagement of the external auditor for network penetration testing ($90,000).

The committee met four times in 2017, 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

Members	Jill Gardiner (chair) Albrecht Bellstedt, Philip Lachambre, Kate Stevenson, Keith Trent Donald Lowry (ex-officio, non-voting member)
Independent	100%
Qualifications	All members have expertise in governance and human resources management: • 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 • 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 • 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 • Katharine Stevenson has public company board experience, including compensation and governance committee experience, is current chair of a public company governance committee, and has an Institute of Corporate Directors (ICD) designation • 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
Key responsibilities	The purpose of the committee is to: • review and recommend to the board the establishment and maintenance of appropriate structures, processes and policies required within Capital Power to address governance issues and maintain compliance with recognized corporate governance guidelines • make recommendations regarding the board's effectiveness and to identify and recommend individuals to the board for nomination as board members • review and determine matters affecting personnel and compensation and key compensation and human resources policies for Capital Power, so that such policies provide total compensation which is competitive in the market • review matters related to director succession • 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 • review management's recommendations and policies regarding succession planning for executives of Capital Power The committee's terms of reference are available on our website (www.capitalpower.com).
Key activities and priorities in 2017	*Board composition, development and compensation* • reviewed and updated our director skills matrix and committee structure and membership • reviewed and recommended to the board our Succession Plan, and reviewed CEO and executive succession planning • recommended our director nominees to the board for our 2017 annual meeting of shareholders • reviewed and recommended to the board the record and annual meeting dates for our 2018 annual meeting of shareholders • undertook a search for new director candidates in response to retirements from the board *Corporate governance* • reviewed and recommended for board approval our governance and compensation disclosure in the AIF for the year ended December 31, 2016, the circular in connection with our 2017 annual meeting of shareholders (2017 circular), and the overall 2017 circular • reviewed our compensation policies and practices, including management's key messages for compensation disclosure and risk management • reviewed terms of reference of the board, all committees, the Chair, individual directors and CEO and recommended changes where applicable • assessed director, board and committee performance including through a third party peer-to-peer director assessment • reviewed and recommended to the board amendments to our Board Diversity Policy • reviewed our corporate governance practices and our disclosure of those practices

Key activities and priorities in 2017, continued	*Compensation and benefits* • reviewed and recommended for board approval an additional 2017 CEO annual objective and the CEO's 2018 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 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, and our 2018 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 certain adjustments relating to merchant value creation in the merchant short-term incentive plan • approved changes to our performance peer group for performance share units, and reviewed the compensation peer group for executive compensation • reviewed and recommended amendments to our Omnibus Long Term Incentive Plan that were approved at our 2017 annual meeting of shareholders • received an update on our diversity and inclusion initiatives • reviewed the governance of our pension and other benefit plans and the executive compensation program • approved the key performance metrics used in our short-term incentive plan

Independent compensation consultant

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

The committee 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. has served as the committee's independent compensation consultant since 2010. See page 45 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 five times in 2017, and met without management present at every regularly scheduled meeting (3 out of 5 times).

HEALTH, SAFETY AND ENVIRONMENT (HSE) COMMITTEE

Members	Doyle Beneby (chair) Albrecht Bellstedt, Patrick Daniel, Kelly Huntington, Keith Trent Donald Lowry (ex-officio, non-voting member)
Independent	100%
Qualifications	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. • Doyle Beneby has extensive senior executive operational experience with a utility and several energy companies in the US • 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 • 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 • Kelly Huntington is a former CEO and CFO of a power company, and has other leadership experience in the power industry • Keith Trent has extensive senior executive operational and HSE experience and extensive in-house legal experience with a major US energy company
Key responsibilities	The committee oversees matters relating to the impact of our operations on the environment and on the workplace health and safety of employees, including: • reviewing our strategies, goals and policies for the three areas and revising them as appropriate • conducting due diligence • monitoring our performance in these areas • reviewing and recommending operational short and long term key performance metrics • providing insight and guidance to the board regarding extraordinary material operational events The committee's terms of reference are available on our website (www.capitalpower.com)
Key activities and priorities in 2017	• reviewed our overall performance in HSE, including our HSE Policy, training, compliance and trends • reviewed risk management and audit activities related to this area • reviewed our annual disclosure on HSE, which was recommended to the board for approval • monitored and reported to the board on current, pending or threatened material legal or regulatory actions by or against Capital Power • monitored changes and proposed changes to environmental laws and regulations • monitored our progress with implementing a world class safety program • reviewed our 2016 corporate responsibility report, which complies with the guidelines set out by the Global Reporting Initiative (GRI), the international standard for sustainable development reporting. A copy is posted on our website (www.capitalpower.com) • 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&N Committee, as applicable • reviewed and recommended changes to the committee's terms of reference • received updates regarding our plant operations

The committee met three times in 2017, and met without management present at every meeting.

3. Compensation

Director compensation

Compensation discussion and analysis

APPROACH TO COMPENSATION

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

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

Share ownership
The board believes in aligning the interests of directors and shareholders, and 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), which is calculated at the higher of cost of acquisition or market price as of the date of the circular. They must meet the requirement within five years of the date they were appointed or elected to the board.

As of March 1, 2018, three of the nominated 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 page12 for the details of their individual holdings.

DECISION-MAKING PROCESS

We set the director fee schedule in 2009 as part of the plans for our initial public offering. Minor changes were made to the director fee schedule for the Chair effective in April 2014 and for US resident directors effective January 2015. See the notes below our 2017 director fee schedule on page 34.

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

The director compensation comparator group was changed to be the same as the comparator group used for benchmarking executive compensation, which is reproduced below.

In 2017, the CGC&N Committee undertook a review of director compensation, including an assessment of our director compensation peer group selection criteria as well as the alignment of the current peer group with the criteria. The director compensation peer group is consistent with the executive compensation comparator group, although going forward Veresen will not be included, due to the fact that it was acquired by Pembina Pipelines in 2017. The criteria are comparably-sized companies (e.g., with revenues from $250 million to $5 billion, or approximately 0.25x to 4.0x our revenue) from the following industries:

- utility and related companies from across Canada (17 of 27)
- publicly-traded energy services and exploration and production companies from Alberta (6 of 27)
- general industry companies with headquarters in Edmonton (4 of 27)

The director compensation comparator group includes:

Utilities in Canada	Energy Services & E&P Companies in Alberta	General Industry Companies in Edmonton
Algonquin Power & Utilities Corp.	Baytex Energy Corp.	ATB Financial Inc.
AltaGas Ltd.	Bonavista Energy Corporation	AutoCanada Inc.
ATCO Ltd.	Enerplus Corporation	Canadian Western Bank
Emera Incorporated	Ensign Energy Services Inc.	Stantec Inc.
ENMAX Corp.	Pengrowth Energy Corporation	
EPCOR Utilities Inc.	Precision Drilling Corporation	
Gibson Energy Inc.		
Innergex Renewable Energy Inc.		
Inter Pipeline Fund		
Just Energy Group Inc.		
Keyera Corp.		

Utilities in Canada	Energy Services & E&P Companies in Alberta	General Industry Companies in Edmonton
Northland Power Inc.		
Parkland Fuel Corporation		
Pembina Pipeline Corporation		
Superior Plus Corp		
TransAlta Corporation		
Veresen Inc.[(1)]		

Notes

(1) Veresen Inc. (Veresen) was acquired by Pembina Pipelines on October 4, 2017, Veresen was included in the peer group that was used to benchmark executive compensation levels in 2017 and 2018 and has been removed for compensation decisions going forward.

ELEMENTS OF COMPENSATION

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

The table below shows our director fee schedule for 2017.

Component	Amount
Chair retainer	
Annual chair retainer	$150,000/year
Annual chair equity retainer (paid in DSUs)	$135,000/year
Director retainer	
Annual retainer	$35,000/year
Annual equity retainer (paid in DSUs)	$80,000/year
Committee retainer	
Audit Committee chair annual retainer	$16,000/year
CGC&N Committee chair annual retainer	$16,000/year
Annual retainers for other committee chairs	$10,000/year
Attendance fees (in person or via teleconference)	
Board meetings	$1,500/meeting
Committee meetings	$1,500/meeting
Travel fees	
Travel allowance	$500/round trip

Notes

Attendance fees

- The Chair of the board does not receive attendance fees for participating in committee meetings, effective as of April 2014.

Travel fees

- Directors are entitled to be reimbursed for all reasonable travel expenses directly and necessarily incurred in connection with service on the 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. 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 shall be allocated.

US resident directors

- US resident directors are paid the amounts listed above in US dollars (for example, US resident directors receive an annual retainer of US $35,000 per year and an annual equity retainer of US $80,000 per year). This change was made, effective January 2015, to reflect the disadvantage experienced by US resident directors on account of the weaker Canadian dollar.

2018 changes

- Effective January 1, 2018, our director fee schedule has been amended to:
  - (i) increase: (A) the annual chair retainer from $150,000/year to $165,000/year, (B) the annual chair equity retainer from $135,000/year to $165,000/year, (C) the annual independent director retainer from $35,000/year to $80,000/year, (D) the Audit Committee and CGC&N Committee annual chair retainers from $16,000/year to $20,000/year, (E) the annual retainers for other committee chairs from $10,000/year to $15,000/year;
  - (ii) create committee retainers for the regular committee members in the amount of $6,000/year for members of each of the Audit and CGC&N Committees and $4,000/year for members of the HSE Committee; and
  - (iii) eliminate attendance fees for board meetings, except in cases where the number of meetings exceeds 12 per year, in which case the board reserves the right to consider paying meeting fees in the amount of $1,500 per additional meeting.

  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
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 retainer in DSUs.

Retainers are paid quarterly. DSUs are credited to directors as notional units which have the same downside risk and upside opportunity as common shares but do not have a dilutive effect. We calculate the number of DSUs to be granted by dividing the amount of the retainer by the 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.

2017 details

DIRECTOR COMPENSATION TABLE

The table below shows the type of compensation directors earned in 2017.

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

Doyle Beneby, Kelly Huntington, and Keith Trent received their compensation in US dollars, but 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	63,500	80,000	–	–	–	2,500	146,000
Doyle Beneby	93,764	104,008	–	–	–	3,907	201,679
Patrick Daniel	54,500	80,000	–	–	–	1,500	136,000
Jill Gardiner	81,000	80,000	–	–	–	3,000	164,000
Kelly Huntington	78,831	104,008	–	–	–	2,595	185,434
Philip Lachambre	81,000	80,000	–	–	–	1,000	162,000
Donald Lowry	166,500	135,000	–	–	–	500	302,000
Katharine Stevenson	42,750	60,000	–	–	–	1,500	104,250
Keith Trent	53,050	77,248	–	–	–	1,931	132,229

Notes

Compensation was pro-rated for some directors:

- Katharine Stevenson and Keith Trent were appointed to the board effective April 3, 2017 and their compensation was pro-rated from that date.

Some directors received their compensation in US dollars. This change was made, effective January 2015, to reflect the disadvantage experienced by US resident directors on account of the weaker Canadian dollar:

- Doyle Beneby earned fees totalling US $72,000, share-based awards totalling US $80,000, and other compensation totalling US $3,000.
- Kelly Huntington earned fees totalling US $60,500, share-based awards totalling US $80,000, and other compensation totalling US $2,000.
- Keith Trent earned fees totalling US $41,250, share-based awards totalling US $60,000, and other compensation totalling US $1,500.

Fees earned

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 paid to directors.

BREAKDOWN OF FEES EARNED

The table below shows the breakdown of fees earned by directors in 2017. 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 and/or committee chair retainer in DSUs. Attendance fees are only paid in cash.

Name	Total fees earned ($)	Annual director retainer ($)	Annual committee chair retainer ($)	% of annual retainer earned paid in cash	% of annual retainer earned paid in DSUs	Attendance fee ($)	
						Board meetings	Committee meetings
Albrecht Bellstedt	63,500	35,000	-	100%	0%	16,500	12,000
Doyle Beneby	93,764	45,504	13,001	100%	0%	21,648	13,611
Patrick Daniel	54,500	35,000	–	50%	50%	15,000	4,500
Jill Gardiner	81,000	35,000	16,000	100%	0%	16,500	13,500
Kelly Huntington	78,831	45,504	–	100%	0%	21,648	11,679
Philip Lachambre	81,000	35,000	16,000	100%	0%	16,500	13,500
Donald Lowry	166,500	150,000	–	100%	0%	16,500	–
Katharine Stevenson	42,750	26,250	–	0%	100%	10,500	6,000
Keith Trent	53,050	33,796	–	50%	50%	11,647	7,607

Notes

- The Chair of the board does not receive attendance fees for participating in committee meetings, effective as of April 2014.
- Compensation was pro-rated for some directors:
  - Katharine Stevenson and Keith Trent were appointed to the board effective April 3, 2017 and their compensation was pro-rated from that date.).
- Some directors received their compensation in US dollars. This change was made, effective January 2015, to reflect the disadvantage experienced by US resident directors on account of the weaker Canadian dollar:
  - Doyle Beneby earned fees totalling US$72,000, comprised of US$35,000 (annual director retainer), US$10,000 (annual committee chair retainer), US$16,500 (board meeting attendance), and US$10,500 (committee meeting attendance).
  - Kelly Huntington earned fees totalling US$60,500, comprised of US$35,000 (annual director retainer), US$16,500 (board meeting attendance), and US$9,000 (committee meeting attendance).
  - Keith Trent earned fees totalling US$41,250, comprised of US$26,250 (annual director retainer), US$9,000 (board meeting attendance), and US$6,000 (committee meeting attendance).

SHARE OWNERSHIP

The following table shows the common shares and DSUs each director nominee held as at March 1, 2018, 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.

Equity ownership of directors

As at March 1, 2018:

Name	Total common shares and DSUs (#)	Value ($)	As a % of ownership requirement (%)	Meets ownership requirement	Deadline to meet ownership requirement
Albrecht Bellstedt	49,729	1,212,503	253	yes	July 9, 2014
Doyle Beneby	27,854	681,062	110	yes	April 27, 2017
Jill Gardiner	17,318	422,978	88	in progress	May 25, 2020
Kelly Huntington	13,159	321,124	52	in progress	June 3, 2020
Philip Lachambre	54,908	1,336,494	278	yes	July 9, 2014
Donald Lowry	40,035	983,072	99	in progress	October 1, 2018
Katharine Stevenson	6,402	158,067	33	in progress	April 3, 2022
Keith Trent	2,548	61,795	10	in progress	April 3, 2022

Notes

- As of the date of the circular, the closing price for our common shares on the TSX was $24.08.
- Ms. Stevenson's and Mr. Trent's appointments as directors effective as of April 3, 2017.
- As of March 1, 2018, Brian Vaasjo held 107,547 common shares with a value of $2,589,731.76 based on the TSX closing price for our common shares of $24.08 on March 1, 2018. Mr. Vaasjo's share ownership requirement as CEO is calculated as of December 31, 2017 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, 2017:

	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	41,097	1,006,457
Don Lowry	0	0	27,161	665,185
Doyle Beneby	0	0	26,357	645,478
Jill Gardiner	0	0	9,110	223,096
Kelly Huntington	0	0	11,906	291,587
Philip Lachambre	0	0	37,712	923,566
Katharine Stevenson	0	0	1,177	28,821
Keith Trent	0	0	1,245	30,495

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 $24.49, the closing price of our common shares on the TSX on December 29, 2017.

Executive compensation

Letter to shareholders

March 1, 2018

Dear Fellow Shareholders,

On behalf of the board, and the CGC&N Committee I am pleased to introduce the Compensation Discussion and Analysis (CD&A). The board is keenly aware of our responsibility 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. We are also aware that our compensation decisions must be logical and understandable to our employees, shareholders and other stakeholders, and are committed to providing clarity and transparency through a comprehensive CD&A.

Capital Power's strategic priority is to provide shareholders with a strong total return over the long-term based on 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 we compete for talent.

Committee oversight

In 2017, as part of our board succession planning, Capital Power welcomed two new members to the CGC&N Committee, Katharine Stevenson and Keith Trent. The CGC&N Committee also reaffirmed Hugessen's role as the board's independent executive compensation advisor.

Over the past six years, the board has held an annual 'say on pay' advisory vote to receive direct feedback from shareholders on executive compensation. We are pleased with the level of shareholder support to date – approval in the range of 96% to 99% in each of these years.

The Committee continued to monitor developments and best practices in executive compensation and to review our plans for alignment with our strategies and shareholder expectations. As part of our process, we consider 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. During 2017, we:

- reviewed our compensation philosophy and principles, with no changes being made;
- adopted changes approved in 2016 to the executive compensation peer group. We assessed our executive compensation peer group selection criteria as well as the alignment of the current peer group with the criteria and no changes were made on a prospective basis;
- assessed the performance peer group selection criteria and reviewed the group for continued alignment with the underlying selection criteria. We approved modifications, on a go-forward basis, to the selection criteria to include a cap on size, to avoid including significantly larger organizations who could be considered less relevant as a benchmark. We also approved changes to our performance peer group for the current year and on a prospective basis;
- completed our regular review of the market competitiveness of Capital Power's executive compensation to ensure ongoing alignment with our compensation philosophy and business objectives. We continue to prudently manage executive compensation with our compensation levels positioned within a competitive range of median;
- reviewed the LTI Plan share reserve structure and approved the change to a "stock option only pool" structure and an increase in the share reserve for options, which our shareholders approved at our 2017 annual meeting of shareholders;
- 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
- reviewed Capital Power's diversity and inclusion efforts and the roadmap for developing our workforce over time.

As a Committee, we have the discretion to take into account any extenuating circumstances that are beyond the executive's control, that result in an incentive award that inappropriately overpays or underpays, or creates an unintended result. While the Committee exercised its discretion to adjust Short Term Incentive Program (STIP) payments for annual performance for each of 2015 and 2016, no adjustments were made for 2017 performance as the compensation outcomes were well aligned with performance.

2017 performance (see page 54)

Capital Power delivered a total shareholder return (TSR) of 12% in 2017 which is slightly above the 50th percentile of our performance peer group. When combined with 2015 and 2016, Capital Power's 3-year total shareholder return (TSR) was 12% which is between the 25th and 50th 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) and health, safety and environment. 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 $373 million of FFO which was 3% below target.
- We achieved above target results for HSE performance.
- We added nearly 1,300 megawatts of new generation to our fleet that significantly increases our contracted cash flow and provides geographic diversification.

2017 compensation highlights

Based on our annual performance, as outlined above, awards were made under the 2017 STIP for the named executive officers. Overall, the total performance result for executives was slightly below target, resulting in a payout factor of 94.1% of target for individuals at a "fully successful" level.

Over the three-year performance period from 2015 to 2017, we had relative total shareholder return (TSR) performance that was slightly above the 25th percentile of our performance peer group. This resulted in a final payout multiplier for our 2015 performance share units of 85% (of target) and a total payout of 96% of their original grant value. We had a fair amount of variability in TSR over the period with a sharp decrease in 2015 (below the 25th percentile of our peers), a significant increase in 2016 (above the 75th percentile of our peers) and a further increase in 2017 (above the 50th percentile of our peers) which is aligned with the payouts under the plan.

Going forward to ensure alignment of executive compensation with our executive compensation comparator group, adjustments to base salary and to STIP target payouts are being put in place for 2018 for all executives except for the CEO, whose only change is an increase to his LTI target.

Looking ahead

The board is pleased that management continues to execute on our strategy to deliver long-term shareholder value as demonstrated by our TSR 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 committed, 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. We look forward to engaging in more dialogue with shareholders over the coming year.

You can contact the committee or the board through the Corporate Secretary, Capital Power Corporation,12th floor, 10423 – 101 Street, Edmonton, Alberta T5H 0E9, or via e-mail at 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
Compensation Design • Provide the majority of our compensation in variable pay which is fully at-risk and performance oriented • Link the majority of our variable pay to long-term performance • Align our compensation programs with our business strategy • Cap payouts from our incentive plans • Apply a minimum (or floor) of 15% of the grant price when granting stock options • Apply discretion to address extenuating circumstances • Claw-back awards from executives if we have to restate our financial and other results • Provide a defined contribution supplemental retirement plan to new executive hires • 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. *Compensation Governance* • Have a qualified and independent committee that uses an independent advisor • Require executives to have a meaningful ownership stake in the company • Allow executives to defer annual incentive payments into deferred share units for long-term alignment • Double trigger change-of-control provisions requiring both a change of control and termination of the executive for good reason • Consider our risk profile when assessing compensation designs and outcomes • Review our historical pay outcomes for our President & CEO relative to our performance • Provide for an annual "say on pay" vote	• Re-price stock options or grant options at a discount • Guarantee a minimum payment in our incentive plans, including our performance share units • Allow executives to hedge positions against their incentive awards and/or ownership • Encourage excessive risk-taking through our compensation plans • Benchmark compensation against unreasonable peer companies

Compensation discussion and analysis

The CD&A discusses executive compensation for 2017 for our five most highly compensated executives (our named executives):

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

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

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

Benchmarking

We benchmark our executive compensation against a comparator group of companies that we compete with for executive talent. To develop this group, we used a set of criteria which includes comparably-sized companies (e.g., with revenues generally from $250 million to $5 billion, or approximately 0.25x to 4.0x our revenue) from the following industries:

- utility and related companies from across Canada (17 of 27)
- publicly-traded energy services and exploration and production companies from Alberta (6 of 27)
- general industry companies with headquarters in Edmonton (4 of 27)

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.	Baytex Energy Corp.	ATB Financial Inc.
AltaGas Ltd.	Bonavista Energy Corporation	AutoCanada Inc.
ATCO Ltd.	Enerplus Corporation	Canadian Western Bank
Emera Incorporated	Ensign Energy Services Inc.	Stantec Inc.
ENMAX Corp.	Pengrowth Energy Corporation	
EPCOR Utilities Inc.	Precision Drilling Corporation	
Gibson Energy Inc.		
Innergex Renewable Energy Inc.		
Inter Pipeline Fund		
Just Energy Group Inc.		
Keyera Corp.		
Northland Power Inc.		
Parkland Fuel Corporation		
Pembina Pipeline Corporation		
Superior Plus Corp		
TransAlta Corporation		
Veresen Inc. (1)		

Note

(1) Veresen Inc. (Veresen) was acquired by Pembina Pipelines on October 4, 2017. Veresen was included in the peer group that was used to benchmark executive compensation levels in 2017 and 2018 and has been removed for compensation decisions going forward.

The group of 27 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 $).

	($ millions)		
Market	**Total revenue [1]**	**Total enterprise value [2]**	**Total assets[1]**
25th Percentile	$685	$2,384	$3,214
50th Percentile	$1,932	$4,759	$4,594
75th Percentile	$3,098	$11,403	$10,201
Capital Power Corporation	**$1,214**	**$4,810**	**$6,062**
	43p	**51p**	**60p**

Notes

(1) Total revenue and total assets as of December 31, 2016, except for ATB Financial and Just Energy Group Inc. which are as of March 31, 2017, and Canadian Western Bank which is as of October 31, 2017.

(2) Total enterprise value as of December 31, 2017. Veresen Inc. has been excluded from the summary statistics due to the acquisition by Pembina Pipelines that closed on October 4, 2017.

The committee and external consultants review the comparator group every year to make sure the composition is relevant. The executive compensation comparator group above was used by the committee to set compensation of the executives in 2017.

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.

Share ownership guidelines

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

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

The share ownership guidelines were reviewed and approved by the committee in 2014.

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 46.

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, 2017. 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 $24.49, the closing price of our common shares on the TSX on December 29, 2017. 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	96,638	57,146	$2,928,831	135%	yes	July 1, 2014
Bryan DeNeve	23,797	18,997	$833,893	119%	yes	May 1, 2020
Darcy Trufyn	43,388	19,127	$1,319,082	388%	yes	October 13, 2014
Mark Zimmerman	7,248	9,528	$299,898	86%	in progress	November 2, 2020
Kathryn Chisholm	15,438	13,354	$527,216	165%	yes	July 1, 2014

Notes

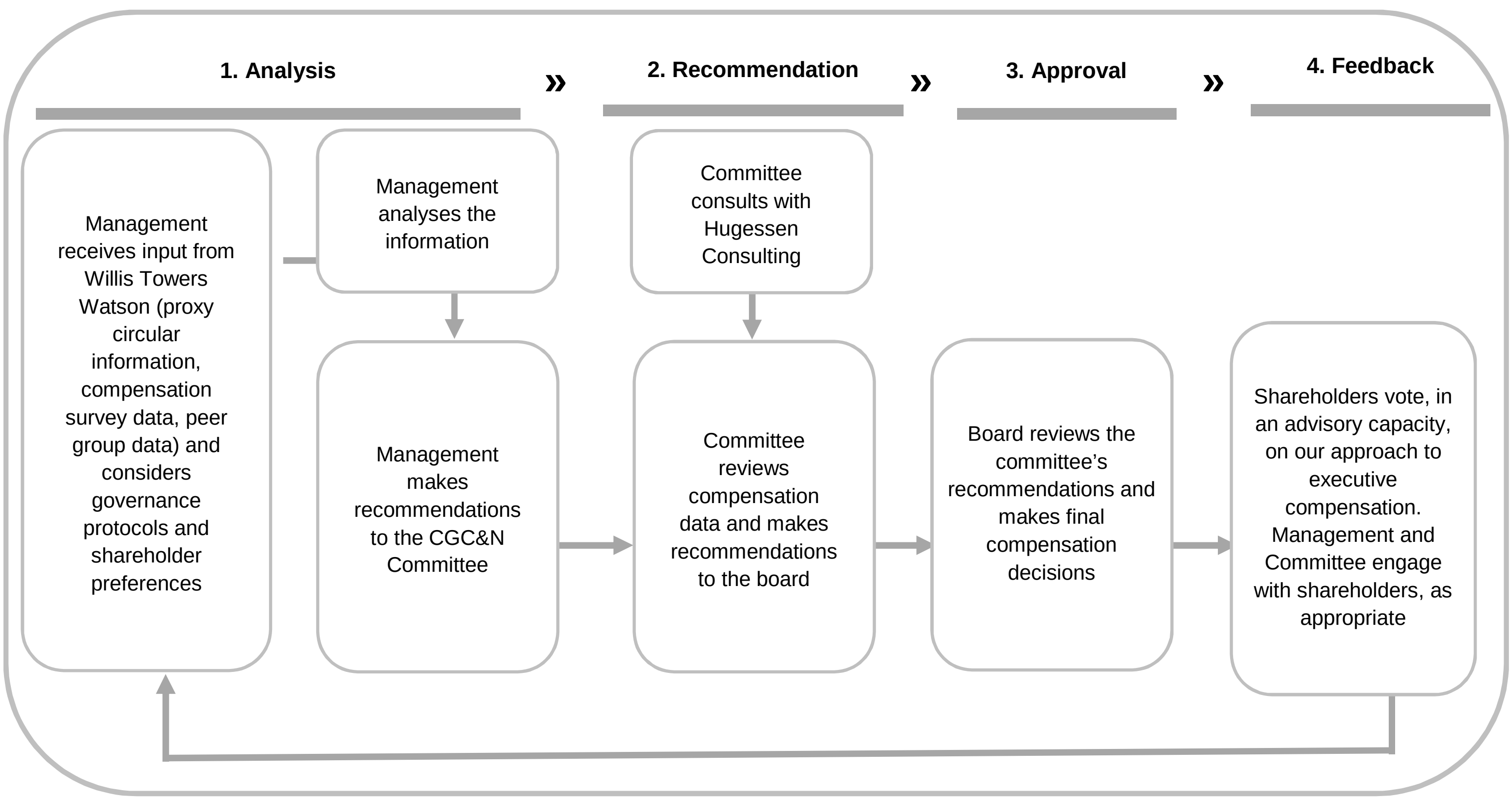
- Bryan DeNeve was appointed Senior Vice President, Finance and CFO on May 1, 2015, resetting his share ownership guideline to two (2) times his base salary with a new deadline of five (5) years from the date of appointment.
- Mark Zimmerman commenced employment with Capital Power on November 2, 2015 in the position of Senior Vice President, Corporate Development and Commercial Services, and has been subject to share ownership guidelines since his date of hire.

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

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

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 share 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) 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 has been the committee's consultant since 2010. The table below shows the fees paid to them for the last two years.

	2017	**2016**
Executive compensation fees	$69,729.99	$18,719.55
All other fees	$0	$0
Total	**$69,729.99**	**$18,719.55**

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 incentive (%)	Long-term incentives (%)	Total (%)
Brian Vaasjo	29	21.7	49.3	100
Bryan DeNeve	34.5	19	46.5	100
Darcy Trufyn	35	19.5	45.5	100
Kathryn Chisholm	41.7	20.8	37.5	100
Mark Zimmerman	37.7	20.8	41.5	100

The next table describes each element in more detail:

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

Base salary

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

Short-term incentive

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

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 2017.

			As a % of base salary
Name	Minimum (%)	Target (%)	Maximum (%)
Brian Vaasjo	0	75	150
Bryan DeNeve	0	55	110
Darcy Trufyn	0	55	110
Mark Zimmerman	0	55	110
Kathryn Chisholm	0	50	100

STIP awards are based on performance over the 2017 calendar year and are paid out in March 2018.

Performance measures and weightings

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

Performance measure	Weighting	
Corporate measures		Corporate measures have a threshold, target and stretch value for each metric. There will be no payout for the corporate measures if performance is below threshold.
Funds from operation (FFO)	50%	
Health, Safety and Environment (HSE) Index	10%	
Individual measure		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:
Business objectives	40%	

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

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

Note

- Brian Vaasjo's individual objectives for 2017 were the same as our corporate objectives, with a 30% weighting, and an additional objective, with a 10% weighting, to reflect strategic progress.

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. Results against each of the two performance measures are added together to determine the final STIP award:

FFO weighting & result x target award + **HSE Index** weighting & result x target award + **Individual Business Objectives** weighting & result x target award = **Final STIP Award $**

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

- Base salary – $350,000
- Target incentive – 55%

Performance assumptions

- Funds from operation (FFO) result – Midpoint between Threshold and Target
- HSE Index result – Stretch
- Business objectives result – Fully Successful

FFO Resulting Payout = $72,188 + **HSE Index** Resulting Payout = $38,500 + **Individual Business Objectives** Resulting Payout = $77,000 = **Final STIP Award $187,688**

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 to be met in order for the metric to contribute to a payout of the STI 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. While the committee exercised its discretion with respect to the 2015 and 2016 awards, no adjustments were made for 2017 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), stand-alone stock appreciation rights (SARs) and tandem SARs to the named executives under the LTI plan, but have not done so to date.

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

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

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

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

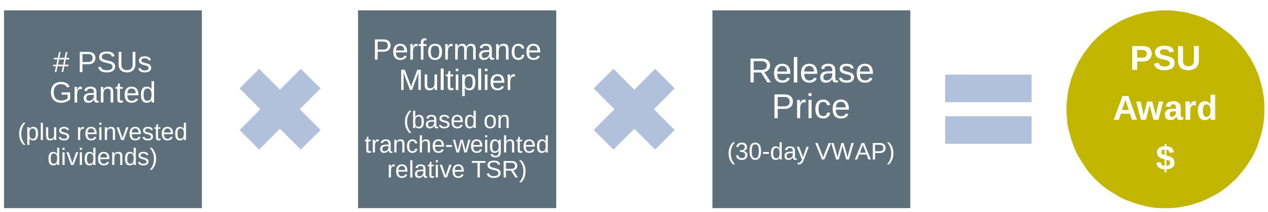
Board oversight and discretion
The board has the discretion to amend or discontinue the LTI plan at any time, subject to compliance with the requirements of the TSX.

Performance share units (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
Payout	Cash (or, prior to February 17, 2017, shares issued from treasury at the board's discretion).
Assignment	Generally, cannot be transferred unless it is to the participant's spouse (as beneficiary), or a personal holding corporation or family trust that the participant controls for the benefit of his or her children or grandchildren (if they are minors) after the participant dies. Outstanding PSUs are for the benefit of and are binding on the beneficiary.
Termination	*Resignation/termination* for cause – all PSUs are forfeited *Termination without cause* – vesting of PSUs is based on actual performance to the end of the quarter preceding the date of termination, and pro-rated to the last day worked. *Retirement/Disability* – 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. *Death* – vesting of PSUs is based on target performance and is pro-rated to the last day worked

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

Payout formula



The actual payout or realized value of PSUs is based on our relative TSR ranking and our 30-day volume-weighted average share price at the end of the three-year performance period. Only cash-settled PSUs have been issued to date, and after February 18, 2017 only cash-settled PSUs will be issuable under the LTI plan.

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, with strong dividend yields and low volatility (as measured through a company's beta, namely the measure of volatility relative to the market as a whole).

The following is a list of the companies used to measure our TSR performance for the 2015, 2016 and 2017 PSU grants:

Algonquin Power & Utilities Corp.	Fortis Inc.
AltaGas Ltd.	Innergex Renewable Energy Inc.
Atlantic Power Corporation(1)	Northland Power Inc.
Brookfield Renewable Energy Partners L.P.	TransAlta Corporation
Canadian Utilities Limited	TransCanada Corporation(1)
Emera Incorporated	Veresen Inc.(2)

Notes

(1) Management regularly reviews the peer group to ensure that companies meet the established criteria. In November 2017, the board approved management's recommendation to remove two companies from the peer group and replace them. Atlantic Power Corporation and TransCanada Corporation were monitored over an extended period and it was determined that the criteria for inclusion in the peer group was no longer satisfied. These two companies have been removed and replaced with Boralex Inc. and Hydro One Limited, beginning with the 2018 grant.

(2) Veresen was acquired by Pembina Pipelines on October 4, 2017. Veresen remains in the peer group but will be excluded from new measurement periods that begin after the acquisition date.

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

Independent consultants and the committee review the peer group every year to 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.

We've made eight grants of stock options under our LTI plan.

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, unless it is to the participant's spouse (as beneficiary), a personal holding corporation or family trust that the participant controls for the benefit of his or her children or grandchildren (if they are minors) after the participant dies or a participant's ex-spouse by way of legally binding separation agreement and notarized letter of direction. Any outstanding options are for the benefit of and are binding on the party holding exercise rights
Termination	*Resignation* – unvested options are forfeited and vested options expire up to 30 days after termination *Termination without cause* – all options expire up to 30 days after termination and continue to vest during that period *Retirement/disability/death* – all options expire up to 12 months after termination and continue to vest during that period *Termination for cause* – 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 2017 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 (104,314,093 as at December 31, 2017).

A total of 9,194,506 common shares can be issued under the plan as at December 31, 2017.

For additional discussion of our equity compensation plan, please see page 63.

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

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

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

Risk management

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

The committee looked at risk in the following key areas in 2017, and concluded that none of our current compensation practices are reasonably likely to have a material adverse effect on Capital Power. The table below describes the findings in more detail:

Operations risk	• We mitigate operations risk by using a combination of measures and weights to assess corporate performance under the short-term incentive plan. • Funds from operations (FFO) is the primary measure under the annual incentive plan (50% weighting for executives in 2017). • Performance is also assessed using plant specific measures, like successful maintenance outages or other activities that support plant availability.
Acquisition and development risk	• Business development activities may not affect the FFO in the years the activities are specifically undertaken, but it will affect FFO in each of the following years. FFO discourages the acquisition or development of plants that will not make a strong contribution to our results. • Annual performance measures for our business development employees relate to the quality of business acquisitions, as measured by accretion to our earnings per share attributable to each acquisition or development project.
Derivatives and energy trading risk	• We manage our exposure to electricity, natural gas and foreign exchange spot prices and interest rates: • 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

Derivatives and energy trading risk, continued	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. • Risk taking is limited: • Value creation is capped, and the components used to determine the profit are reviewed by our finance and commodity risk management departments. • 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. • The commodity risk management group monitors risks associated with trading activity and reports directly to the CFO, and participates in the STIP. Participants have individual performance measures related to measuring, monitoring and reporting on risks associated with commodity trading. • 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&N Committee.
Disclosure risk	• Each individual who contributes directly to our public disclosure has a personal performance measure to avoid any material restatement. • Each member of the management team must certify quarterly that he or she has disclosed to their executive (for senior managers) or the board (for executives) every significant event or condition that could materially affect Capital Power or our results and updated them appropriately. • Our incentive claw-back policy applies to everyone at Capital Power. • 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.

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

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

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

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 2017

The board, on the committee's recommendation, approved the following decisions on executive compensation for performance in 2017.

Base salary

Based on management's executive compensation review, base salaries for the Senior Vice President, Finance and CFO, and the Senior Vice President, Corporate Development and Commercial Services were increased by 6% in 2017. The President and CEO, Senior Vice President, Operations, Engineering and Construction, and Senior Vice President, Legal and External Relations did not receive a base salary adjustment in 2017 as their base salaries were competitively positioned.

Base salaries for the following executives will be increased in 2018 based on a subsequent executive compensation review completed in November 2017:

- Senior Vice President, Finance and CFO (increasing by 5.7%)
- Senior Vice President, Operations, Engineering and Construction (increasing by 2.9%)
- Senior Vice President, Corporate Development and Commercial Services (increasing by 5.7%)
- Senior Vice President, Legal and External Relations (increasing by 6.3%)

The President and CEO will not receive a base salary adjustment in 2018, as his base salary remains competitively positioned.

2017 STIP award

	Base salary ($)		Target incentive		Corporate performance results + Individual performance results		2017 STIP award ($)
Brian Vaasjo	725,000	x	75%	x	(54.11% + 60%)	=	620,473
Bryan DeNeve	350,000	x	55%	x	(54.11% + 60%)	=	219,662
Darcy Trufyn	340,000	x	55%	x	(54.11% + 60%)	=	213,386
Mark Zimmerman	350,000	x	55%	x	(54.11% + 80%)	=	258,162
Kathryn Chisholm	320,000	x	50%	x	(54.11% + 40%)	=	150,576

Note

- With the exception of Brian Vaasjo, short term incentive targets for the above-named executives will be increased to 60% in 2018. Brian Vaasjo will not receive a short term incentive target adjustment in 2018, as he remains competitively positioned.

Corporate performance

Performance measure	Weighting	Target	Result	Performance assessment
Financial				
Funds from operations (FFO) • cash provided by operating activities (IFRS-defined term), less changes in operating working capital	50%	$385 million	$373 million	Below target
Corporate safety				
Health, Safety & Environment (HSE) Index • a measurement of safe, healthy and environmentally accountable work performance. Utilizes a weighted combination of five (5) leading indicators and two (2) lagging indicators	10%	1.00	1.03	Above target

Note

- For the 2017 STIP performance year, a targeted corporate strategic objective was not selected as it was considered that the relevant strategic priorities for 2017 were accounted for in the business objectives. The board exercised discretion and reallocated the weight of the corporate strategic objective (10%) to individual business objectives (increasing from 30% to 40%) for all executives except the CEO.

Individual performance

Named executive	Business objectives rating	Comments
Brian Vaasjo President and CEO	Frequently Exceeds Expectations	Mr. Vaasjo achieved Frequently Exceeds Expectations on his 2017 Individual Measures. Measures relating to maintenance, capital expenditures, general and administrative costs, safety and environment were all exceeded. Operating performance met expectations. Initiatives relating to reducing the carbon footprint and future conversion optionality at Genesee were excellent. Strategic objectives relating to executing two power purchase agreements, including through the highly competitive Alberta REP, were met. The acquisition, integration and financing of five thermal contracted assets was outstanding, while continuing to develop the base of future growth opportunities in Alberta and the US.
Bryan DeNeve Senior Vice President Finance and CFO	Frequently Exceeds Expectations	Mr. DeNeve achieved Frequently Exceeds Expectations on his 2017 Individual Measures. Measures associated with costs in his areas of responsibility, tax and timing of quarter end closings, all exceeded expectations. Extensive financing activities, including tax equity partnerships and support of acquisitions and development were outstanding.
Darcy Trufyn Senior Vice President Operations, Engineering and Construction	Frequently Exceeds Expectations	Mr. Trufyn achieved Frequently Exceeds Expectations on his 2017 Individual Measures. Safety and environment results exceeded expectations, while cost performance was outstanding and operating results met expectations. Initiatives relating to reducing the carbon footprint such as biofuels and efficiency improvements, as well as future conversion optionality at Genesee, were excellent. His contributions to acquisition and development initiatives were excellent.
Mark Zimmerman Senior Vice President, Corporate Development and Commercial Services	Outstanding	Mr. Zimmerman achieved Outstanding on his 2017 Individuals Measures. The objective of executing two power purchase agreements was met, including the highly competitive Alberta REP, while continuing to develop future opportunities was outstanding in the US and Alberta renewable opportunities exceeded expectations. The successful acquisition and integration of five thermal assets was outstanding. Contribution to Genesee initiatives was also excellent. Commodity portfolio management performance in 2017 exceeded expectations.
Kathryn Chisholm Senior Vice President Legal and External Relations	Fully Successful	Ms. Chisholm achieved Fully Successful on her 2017 Individual Measures. Regulatory and government relations advocacy efforts and legal support were effective in 2017. Cost management results for her areas of responsibility also met expectations.

Payment of 2015 PSU awards

PSU awards are at-risk compensation. The named executives realized 85% of the grant value of the 2015 PSU awards when they vested on January 1, 2018. The table below is based on $24.21, the 30-day volume-weighted average closing price of our common shares on the TSX immediately preceding the vesting date.

	Accumulated PSUs		**Payout multiplier**		**Payout**
	2015 grant plus reinvested dividends		based on relative TSR		realized value
	(#)		(%)		($)
Brian Vaasjo	29,171.65	x	85	=	600,287
Bryan DeNeve	8,592.05	x	85	=	176,806
Kathryn Chisholm	6,816.84	x	85	=	140,273
Darcy Trufyn	8,852.67	x	85	=	182,156

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.
- *Mark Zimmerman* – did not hold PSUs granted in 2015. Mr. Zimmerman became eligible for and received his first LTI grant in March 2016.

Relative TSR

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

We calculated TSR for the period ending December 31, 2017 for the 2015 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:

Measurement Period	Starting	Ending
Tranche 1	November 18, 2014 to December 31, 2014	November 18, 2015 to December 31, 2015
Tranche 2	November 18, 2015 to December 31, 2015	November 17, 2016 to December 30, 2016
Tranche 3	November 17, 2016 to December 31, 2016	November 16, 2017 to December 29, 2017
Final Tranche	November 18, 2014 to December 31, 2014	November 16, 2017 to December 29, 2017

- 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 2015 PSU grant:

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

The following table details the results of Capital Power's relative TSR for the 2015 PSU award.

	Tranche 1 (2015)	Tranche 2 (2016)	Tranche 3 (2017)	Tranche 4 (2015-2017)
25th Percentile	-19.5%	13.7%	7.4%	11.5%
50th Percentile	-0.7%	29.5%	10.4%	35.1%
75th Percentile	10.2%	41.1%	19.3%	48.6%
Capital Power Corporation	**-31.2%**	**45.1%**	**12.4%**	**12.1%**
Payout Factors	0%	200%	122%	51%
Weighted Average	**0.0%** (0% x 20%)	**40.0%** (200% x 20%)	**24.5%** (122% x 20%)	**20.5%** (51% x 40%)
Aggregate Weighted Average (Payout Factor)		**85.0%** (0% + 40% + 24% + 20%)		

In the aggregate (weighted average basis), our TSR finished below the 50th percentile, resulting in a payout factor of 85%. See Performance share units on page 49.

2018 LTI award

The board approved a grant of PSUs and stock options, effective as of March 7, 2018, to the named executives and other eligible participants. Based on a review of the LTI targets against market competitive data for our peers, the board approved: (i) an adjustment of the LTI target for Brian Vaasjo (to be made effective with the 2018 grant), increasing it from 170% to 190%, and (ii) an adjustment of the award mix for Mr. Vaasjo from 50% PSUs and 50% stock options to 55% PSUs and 45% stock options. The LTI targets and award mix for the other named executives were not adjusted as they remain competitively positioned.

PSUs will vest on January 1, 2021 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 to three to seven years for our long-term incentives.

Compensation under our incentive programs is variable, or at-risk, to motivate executives to deliver strong corporate and individual performance. Equity-based compensation adds another element of risk and motivation as the value of long-term incentive pay is directly tied to share price performance.

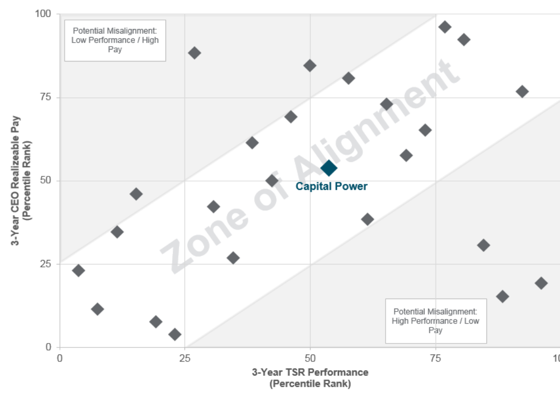
Zone of alignment

The charts below illustrate the relationship between the chief executive officers' compensation and company performance over the period from 2015 to 2017 for the organizations in the compensation peer group. The diagonal white area of the charts indicate alignment between relative pay and performance.

	Pay opportunity	Realizable pay
CEO pay definition	Sum of annual base salary, actual bonus received, and the *estimated value of long term incentives on the date of grant*	Sum of annual base salary, actual bonus received, and *the in-the-money value of long term incentive grants*
Company performance definition	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
Outcome	**Aligned** as Mr. Vaasjo's compensation is at the 50th percentile while TSR performance is at the 54th percentile	**Aligned** as both Mr. Vaasjo's compensation and TSR performance are at the 54th 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 and CEO against the actual value he has received from his compensation during his tenure.

On a weighted average basis over the cumulative period of 2010 to 2017, Mr. Vaasjo has realized 4% less than the expected value of the compensation that the committee awarded him (awarded compensation) while the shareholder's investment has increased by 44% demonstrating a positive relationship on behalf of the shareholder.

				Value of $100		
	Targeted compensation(1)	**Awarded compensation(2)**	**Actual compensation value as of December 31, 2017(3)**	**Period**	**Mr. Vaasjo(4)**	**Shareholder(5)**
2010	$2,020,000	$2,170,731	$2,151,886	2010JAN01 to 2017DEC31	$99	$184
2011	$2,165,750	$2,556,592	$1,959,327	2011JAN01 to 2017DEC31	$77	$157
2012	$2,283,750	$2,148,072	$1,761,649	2012JAN01 to 2017DEC31	$82	$140
2013	$2,283,750	$2,511,620	$2,251,729	2013JAN01 to 2017DEC31	$90	$147
2014	$2,589,370	$2,643,606	$2,145,960	2014JAN01 to 2017DEC31	$81	$148
2015	$2,449,511	$2,558,959	$1,895,427	2015JAN01 to 2017DEC31	$78	$115
2016	$2,480,957	$2,654,631	$4,724,881	2016JAN01 to 2017DEC31	$178	$158
2017	$2,521,693	$2,598,416	$2,081,055	2017JAN01 to 2017DEC31	$80	$112
				Weighted average(6)	***$96***	***$144***

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 29, 2017 of $24.49 per share.

(4) Represents the actual value to Mr. Vaasjo for each $100 awarded in total direct compensation during the fiscal year indicated.

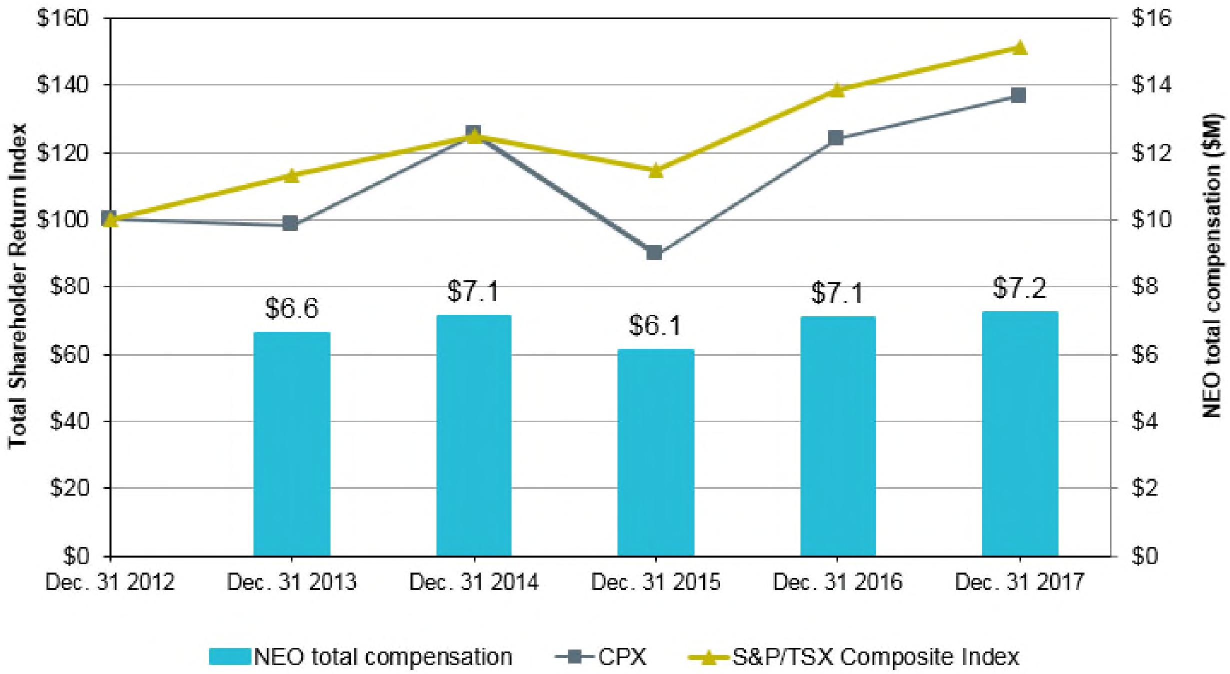
(5) Represents the cumulative value of a $100 investment in common shares made on the first trading day of the period indicated, including reinvested dividends.

(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, 2012 and the reinvestment of dividends.



	Dec 31, 2012	Dec 31, 2013	Dec 31, 2014	Dec 31, 2015	Dec 31, 2016	Dec 31, 2017
Capital Power (CPX)	$100	$98	$125	$90	$124	$137
S&P/TSX Composite Index	$100	$113	$125	$115	$139	$151

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 gains 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.

2017 details

SUMMARY COMPENSATION TABLE

The table below shows the compensation each named executive received for the fiscal years ended December 31, 2017, 2016, and 2015. 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 ($)
Brian Vaasjo	2017	725,000	636,700	616,243	620,473	206,552	80,870	2,885,838
President and CEO	2016	725,000	606,107	606,099	717,424	223,087	87,259	2,964,976
	2015	752,885	590,384	590,378	625,313	139,343	89,783	2,788,086
Bryan DeNeve	2017	344,615	230,141	222,761	219,662	203,492	54,907	1,275,578
Senior Vice President,	2016	330,000	219,083	219,086	212,246	83,223	50,682	1,114,320
Finance and CFO	2015	342,692	173,881	173,886	208,725	49,567	52,120	1,000,871
Darcy Trufyn	2017	340,000	228,334	221,006	213,386	14,826	51,487	1,069,039
Senior Vice President, Operations, Engineering and	2016	340,000	217,362	217,370	218,678	14,701	70,966	1,079,077
Construction	2015	353,077	179,151	179,161	243,100	14,340	74,054	1,042,883
Mark Zimmerman	2017	344,615	187,523	181,495	258,162	13,115	107,713	1,092,623
Senior Vice President, Corporate Development and	2016	330,000	178,513	178,516	212,246	13,005	63,523	975,803
Commercial Services	2015	50,769	-	-	27,923	2,538	10,732	91,962
Kathryn Chisholm	2017	320,000	148,780	144,010	150,576	69,490	50,681	883,537
Senior Vice President,	2016	320,000	141,631	141,638	187,104	84,960	50,768	926,101
Legal and External Relations	2015	332,308	137,957	137,960	208,000	58,256	52,060	926,541

Notes

- Share-based awards values represent accounting fair value of PSUs for all named executives.
- *Mark Zimmerman* – commenced employment with Capital Power on November 2, 2015 and has held the position of SVP, Corporate Development and Commercial Services since his date of hire. Mr. Zimmerman's 2015 STIP award was pro-rated for service in the 2015 calendar year. Mr. Zimmerman became eligible for and received his first LTI grant in March 2016.

Salary

Base salaries for the Senior Vice President, Finance and CFO, and the Senior Vice President, Corporate Development and Commercial Services were increased by 6% for 2017. These adjustments were based on management's executive compensation review. The President and CEO, Senior Vice President, Operations, Engineering and Construction, and Senior Vice President, Legal and External Relations did not receive a base salary adjustment in 2017 as their base salaries were competitively positioned. Base salaries for the following executives will be increased in 2018:

- Senior Vice President, Finance and CFO (increasing by 5.7%)
- Senior Vice President, Operations, Engineering and Construction (increasing by 2.9%)
- Senior Vice President, Corporate Development and Commercial Services (increasing by 5.7%)
- Senior Vice President, Legal and External Relations (increasing by 6.3%)

The President and CEO will not receive a base salary adjustment in 2018, 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:

	2017 Accounting	2016 Accounting	2015 Accounting
Fair value	$20.82	$45.78	$32.81

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 2015, 2016 and 2017. The actual fair values in 2015, 2016 and 2017 were less than the minimum; therefore, the minimum was adopted for all three grants.

	2017 Accounting	2016 Accounting	2015 Accounting
Volatility	17.9%	16.5%	15.4%
Dividend yield	5.92%	8.14%	5.27%
Expected life	4.5 years	4.5 years	4.5 years
Risk-free rate	1.12%	0.73%	1.29%
Vesting discount	0%	0%	0%
Fair value	$3.83	$2.60	$3.73

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

- 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.
- 2015 pension value represents compensatory changes from January 1, 2015 to December 31, 2015. The 2015 pension value reflects changes in the obligation due to actual salary experience during 2015 and includes service cost based on a 4.50% increase in pensionable earnings for 2015 and a 4.25%per annum increase thereafter.

All other compensation

Relates to parking allowance ($4,410 for all executives) and perquisites. The 2017 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. Darcy Trufyn received a payment of $19,554 on April 7, 2017 that represents an entitlement under the defined contribution component of the Capital Power Supplemental Retirement Plan for service accrued in 2016. The payment attributed to service in 2017, which has not yet been paid, is $19,429.
- 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. Mark Zimmerman received a payment of $12,570 on April 7, 2017 that represents an entitlement under the defined contribution component of the Capital Power Supplemental Retirement Plan for service accrued in 2016. The payment attributed to service in 2017, which has not yet been paid, is $13,593.
- 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, 2017.

		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 21/11	206,591	24.90	March 21/18	-			-
	March 26/12	231,701	24.27	March 26/19	50,974			-
	March 14/13	182,607	21.76	March 14/20	498,517			-
	March 12/14	180,032	24.80	March 12/21	-			-
	March 04/15	158,195	24.88	March 04/22	-	29,172	607,252	-
	March 01/16	233,163	17.33	March 01/23	1,669,447	40,161	633,406	-
	March 09/17	166,262	25.53	March 09/24		26,581	158,836	-
Bryan DeNeve	March 21/11	35,929	24.90	March 21/18	-			-
	March 26/12	35,611	24.27	March 26/19	7,834			-
	March 14/13	32,743	21.76	March 14/20	89,388			-
	March 12/14	36,266	24.80	March 12/21	-			-
	March 04/15	46,592	24.88	March 04/22	-	8,592	178,856	-
	March 01/16	84,279	17.33	March 01/23	603,438	14,517	228,956	-
	February 28/17	n/a	n/a	n/a				20,466
	March 09/17	60,097	25.53	March 09/24		9,609	57,416	-
Darcy Trufyn	March 21/11	38,474	24.90	March 21/18	-			-
	March 26/12	39,617	24.27	March 26/19	8,716			-
	March 14/13	36,252	21.76	March 14/20	98,968			-
	March 12/14	37,394	24.80	March 12/21	-			-
	March 04/15	48,004	24.88	March 04/22	-	8,853	184,282	-
	March 01/16	83,617	17.33	March 01/23	598,698	14,403	227,163	
	March 09/17	59,625	25.53	March 09/24		9,533	56,964	
Mark Zimmerman	March 01/16	68,672	17.33	March 01/23	491,692	11,829	186,559	
	March 09/17	48,968	25.53	March 09/24		7,829	46,780	
Kathryn Chisholm	March 21/11	42,665	24.90	March 21/18	-			-
	March 26/12	43,772	24.27	March 26/19	9,630			-
	March 14/13	35,667	21.76	March 14/20	97,371			-
	March 12/14	37,394	24.80	March 12/21	-			-
	March 04/15	36,966	24.88	March 04/22	-	6,817	141,903	-
	March 01/16	54,484	17.33	March 01/23	390,105	9,385	148,019	-
	March 09/17	38,851	25.53	March 09/24		6,212	37,118	

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, 2017 of $24.49 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, 2017 of $24.49 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, 2017 no PSUs had vested. The named executives realized 97% of the grant value of the 2015 PSU awards when they vested on January 1, 2018. See Compensation Decisions for 2017 – Payment of 2015 PSU Awards starting on page 55. The value denoted for Bryan DeNeve represents the closing price of our common shares on the TSX of $24.49 as of December 31, 2017 multiplied by the number of DSUs he held as of December 31, 2017.

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	740,746	822,974	620,473
Bryan DeNeve	257,367	165,578	219,662
Darcy Trufyn	256,275	170,912	213,386
Mark Zimmerman	190,221	n/a	258,162
Kathryn Chisholm	171,971	170,912	150,576

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 2014 PSU awards that vested on January 1, 2017 and were paid to the named executives on February 24, 2017.
- *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.
- *Mark Zimmerman* – The share-based awards column represents the value of the 2014 PSU grant which vested on January 1, 2017. Mr. Zimmerman became eligible for and received his first LTI grant in March 2016.

Stock options

The following table provides details of the option-based awards exercised by named executives during the year ended December 31, 2017:

Name	Grant date	Number exercised (#)	Exercise Price ($)	Market Price ($)	Value Realized ($)
Brian Vaasjo	March 09/10	171,600	22.50	25.50	384,841
Bryan DeNeve	March 09/10	11,086	22.50	25.75	27,033
Darcy Trufyn	March 09/10	23,000	22.50	25.21	62,353
	March 09/10	8,580	22.50	25.28	23,852
	TOTAL	*31,580*	*n/a*	*n/a*	*86,205*
Mark Zimmerman	n/a	n/a	n/a	n/a	n/a
Kathryn Chisholm	March 09/10	28,528	22.50	25.26	58,996

Notes

- Mr. Zimmerman became eligible for and received his first LTI grant in March 2016.

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, 696,057 options were issued under the LTI plan in 2017.

The table below gives details about the equity compensation plans as at December 31, 2017:

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	3.9%	3,957,502	$22.94	2.6%	2,681,683	6.6%	6,639,185
Total	3.9%	3,957,502	$22.94	2.6%	2,681,683	6.6%	6,639,185

Note

- Stock options were granted for 2,183,100 common shares under the 2009 plan, and 7,951,431 common shares under the current LTI plan for a total of 10,135,531 options. Of the total granted under the two plans, stock options for 3,622,708 common shares have been cancelled or expired, and stock options for 2,555,321 common shares have been exercised.

The table below shows the stock option overhang, dilution and run rate. See Stock options on page 50 for details.

Rate	Description	2017	2016	2015
Overhang	• the total potential dilution from stock options • the total number of stock options outstanding plus the number of shares available for future issue, divided by the number of common shares outstanding	6.62%	5.50%	5.35%
Dilution	• the current dilution from stock options • the total number of stock options outstanding divided by the number of common shares outstanding	3.95%	4.26%	3.71%
Run rate	• shows the size of annual stock option grants and indicates how quickly the stock option reserve is being used • the total number of stock options issued in a year, divided by the number of common shares outstanding	0.69%	1.01%	0.67%

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)
2011	1,445,457	1.65%
2012	1,449,568	1.48%
2013[1]	740,304	0.75%
2014	725,571	0.72%
2015	671,804	0.67%
2016	977,624	1.01%
2017	696,057	0.69%

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). See also Stock options on page 50.

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 2017, members were required to contribute 10.39% up to the YMPE plus 14.84% of pensionable earnings in excess of the YMPE, and employers contributed 11.39% up to the YMPE and 15.84% 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 ($) At year end (c1)	 At age 65 (c2)	Opening present value of defined benefit obligation ($) (d)	2017 Compensatory changes ($) (e)	2017 Non-compensatory changes ($) (f)	Closing present value of defined benefit obligation ($) (g)
Brian Vaasjo	19.5577	458,878	526,209	6,294,113	206,552	745,894	7,223,310
Bryan DeNeve	15.2922	146,192	266,489	1,592,880	203,492	306,983	2,080,106
Kathryn Chisholm	13.2615	120,669	215,194	1,319,918	69,490	228,224	1,594,383

Notes

(b) Number of years of credited service

- Brian Vaasjo — the amount reflects credited service under the LAPP and 18 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 13.3142 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, 2017 and payable at normal retirement age of 65 based on highest average earnings, average YMPE and pensionable service as at December 31, 2017. 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, 2017.

(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) 2017 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 $23,249 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 (a)	Accumulated value at Dec 31, 2016 ($) (b)	2017 Compensatory changes ($) (c)	Accumulated value at Dec 31, 2017 ($) (d)
Darcy Trufyn	238,970	14,826	281,403
Mark Zimmerman	32,813	13,115	62,976

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, 2017 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.

			For Termination without Cause			For Double Trigger Change of Control		
Name	Length of service for calculating the severance payment	Estimated severance ($)	Estimated value of vested stock options ($)	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	3,976,054	556,482	1,927,767	6,460,304	112,965	2,955,815	8,044,834
Bryan DeNeve	24 months	182,712	201,146	676,619	2,060,477	402,292	1,048,248	2,633,253
Darcy Trufyn	20 months	938,219	199,566	657,838	1,795,623	399,132	1,026,530	2,363,881
Mark Zimmerman	14 months	676,443	163,897	388,891	1,229,231	327,794	691,685	1,695,923
Kathryn Chisholm	23 months	1,006,703	130,035	450,433	1,587,171	260,070	690,702	1,957,475

Notes

Estimated value of vested stock options

The difference between $24.49, the closing price of our common shares on the TSX on December 29, 2017, 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 29, 2017 of $24.49 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, 2017) are available free of charge:

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

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

We want your feedback

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

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

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

By order of the board,

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

March 1, 2018

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 and risks of the business of the Corporation; and

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

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

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

C. Management and Human Resources

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

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

ii) approving CEO compensation;

iii) approving terms of reference for the CEO;

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

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

vi) approving compensation and benefits for directors;

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

  a) appointment and termination of executive officers; and

  b) compensation and benefits for executive officers;

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

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

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

  a) the overarching compensation policy/program for employees;

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

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

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

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

D. Business and Risk Management

The Board has the responsibility to:

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

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

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

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

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

E. Financial and Corporate Issues

The Board has the responsibility to:

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

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

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

iv) declare dividends from time to time;

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

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

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

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

F. Shareholder and Corporate Communications

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

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

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

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

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

G. Policies and Procedures

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

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

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

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

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

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

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

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

c) confidentiality of corporate information;

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

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

f) reporting of any illegal or unethical behaviour.

IV. GENERAL LEGAL OBLIGATIONS OF THE BOARD OF DIRECTORS

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

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

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

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

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

V. MEETINGS

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
Salary and benefits	All salary and benefits programs end.					
STIP	Annual STIP payment is forfeited.	Annual STIP payment is paid at target on a pro rata basis.			Annual STIP payment is not paid.	Annual STIP payment is paid at target and included in severance
Stock options[1]	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.
Share Units	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.
Pension **LAPP/DB SRP**	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	Vested pension is paid as a commuted value or a deferred (if less than 55) or immediate benefit (if 55 or older).

[1] All options under the 2009 plan expired in 2016, and the 2009 plan was terminated.

	Resignation	Retirement/Disability	Death	Termination without cause	Termination for cause	Double trigger change of control
					forfeited at Capital Power's sole discretion.	
DC RPP/SRP	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.
Severance *(Brian Vaasjo)*	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.
Severance *(Darcy Trufyn, Mark Zimmerman and Kathryn Chisholm)*	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.
Severance (*Bryan DeNeve*)	Not applicable.			Severance is provided representing a total of 12 months plus 1 month for each year of service with	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

	Resignation	Retirement/Disability	Death	Termination without cause	Termination for cause	Double trigger change of control
				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.		months each of salary, STIP at target, annual company benefits, pension contributions, and annual business allowance.

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