

# Audit Committee Terms of Reference

## A. Overview and purpose

1. The Audit Committee (the “Committee”), except to the extent otherwise provided by law, is responsible to the Board of Directors (the “Board”) of Capital Power Corporation (the “Corporation”). The Committee provides assistance to the Board in fulfilling its oversight responsibility to shareholders of the Corporation, the investment community and others in relation to the integrity of the Corporation’s financial statements, financial reporting processes, systems of internal accounting and financial controls, the risk identification assessment conducted by the President and Chief Executive Officer (the “CEO”) and their management team (“Management”) (including fraud risk assessment) and the programs established by the CEO and Management and the Board in response to such assessment, the internal audit function and the external auditors’ qualifications, independence, performance and reports to the Corporation. In addition, the Committee monitors, evaluates, advises or makes recommendations, in accordance with these terms of reference and any other directions of the Board, on matters affecting the financial and operational control policies and practices relating to the Corporation, including the external, internal or special audits thereof. 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.
2. The CEO and Management are responsible for preparing the interim and annual financial statements of the Corporation and for maintaining a system of risk assessment and internal controls to provide reasonable assurance that assets are safeguarded and that transactions are authorized, recorded and reported properly. The Committee is responsible for reviewing the CEO and Management’s actions and has the authority to investigate any activity of the Corporation. The primary responsibilities of the Committee include:
  - a. assessing the processes related to identification of the risks and effectiveness of the Corporation’s control environment, as they relate to the production of financial statements and other publicly disclosed financial information;
  - b. overseeing and monitoring the Corporation’s financial reporting;
  - c. evaluating the Corporation’s internal control systems for financial reporting;
  - d. overseeing the audit of the Corporation’s financial statements;
  - e. overseeing and monitoring the qualifications, independence and performance of the Corporation’s external auditors;
  - f. maintaining direct lines of communication between the Corporation’s external auditors, its internal auditing department, the CEO, Management and the Board;

- g. evaluating the internal and external, and any special, audit processes; and
  - h. monitoring and evaluating the Corporation's financial risks.
3. The Committee will have unrestricted access to the Corporation's personnel and documents, including its internal auditors, and will be provided with the resources required to carry out its responsibilities. The Committee is authorized to retain, at the expense of the Corporation, independent outside advisors and consultants as it sees fit to assist it in carrying out its duties and responsibilities.
  4. The Committee will be the direct report for the external auditors, will evaluate their performance and will recommend their compensation to the Board.

## **B. Structure and membership**

1. The Committee will be composed of such number of directors of the Corporation ("Directors") as may be specified by the Board from time to time, which number will be not less than three (the "Committee Members").
2. The Chair of the Board (the "Chair") is an ex-officio and non-voting member of the Committee, unless appointed by the Board as a Committee Member.
3. At least once every calendar year, and as otherwise may be required, Committee Members and the chair of the Committee (the "Committee Chair") will be appointed by the Board on the recommendation of the People, Culture, and Governance Committee (the "PCG Committee").
4. All Committee Members will be independent and unrelated, as set forth in all applicable securities laws and regulations or the rules or guidelines of any stock exchange on which the securities of the Corporation are listed for trading (including, without limitation, National Instrument 52-110 *Audit Committees* or "NI 52-110", as implemented by the Canadian Securities Administrators and as amended or replaced from time to time), and have no relationship with the Corporation that may materially interfere with the ability of each Committee member to act with a view to the best interests of the Corporation.
5. All Committee Members will be financially literate (as such term is defined in NI 52-110). At least one member of the Committee will have a professional accounting designation or equivalent financial expertise as determined by the Board.
6. All members of the Board will be free to attend and participate at any meetings of the Committee, but only Committee Members will be entitled to vote on any question before the Committee. Other than members of the Board, entitlement to attend all or a portion of any Committee meeting will be determined by the Committee Chair or Committee Members

## C. Duties and responsibilities

The Committee will:

1. Review the Corporation's integrated annual report, including the annual audited financial statements, the notes thereto, management's discussion and analysis, the earnings press release and the Corporation's annual information form, including any report or opinion or independent external assurance to be rendered in connection therewith, and make recommendations as to their approval by the Board.
2. Review, and make recommendations for subsequent approval by the Board, the Corporation's quarterly financial statements including the notes thereto, management's discussion and analysis and earnings press releases of the Corporation.
3. Review with the CEO and Management, the external auditors and, if necessary, internal and external legal counsel, any material litigation, claim, compliance issues, or regulatory or other contingency that could have a material effect upon the financial position or operating results of the Corporation and the manner in which these will be, or have been, disclosed in the Corporation's financial statements.
4. Review on a quarterly basis with the Corporation's chief financial officer (the "CFO") and General Counsel, and if necessary, external legal counsel, the status of all material litigation, claims, compliance issues, or regulatory or other contingencies faced by the Corporation.
5. Review, or establish procedures for the review of, all public disclosure documents containing audited, unaudited or forward-looking financial information before release by the Corporation, including any prospectus, management information circulars, offering memoranda, annual reports, management certifications, management's discussion and analysis, annual information forms and press releases.
6. Review the process used by Management to measure publicly disclosed progress toward the achievement of material non-financial, sustainability related performance metrics to ensure accuracy and reasonableness.
7. As required, review Management's plans and strategies around investment practices, banking performance, treasury risk management, corporate finance and financial capital allocation, including, without limiting the generality of the foregoing, reviewing financing transactions such as offerings of debt or equity securities and obtaining, amending or extending credit facilities, and recommending the same to the Board.
8. Assess Management's procedures to ensure compliance by the Corporation with its loan and indenture covenants and restrictions, if any.
9. Monitor the appropriateness of the accounting policies and practices and financial reporting used by the Corporation, review any actual and prospective significant changes to such accounting policies and practices financial reporting to be adopted by the Corporation and review and assess any new or proposed developments in accounting and reporting standards that may affect or have an impact on the Corporation.

10. Review and recommend the nomination of the external auditors to the Board for appointment by the shareholders at the Corporation's annual general meeting. In connection therewith, the Committee will review the experience and qualifications of the external auditors' senior personnel who are providing audit services to the Corporation and the quality control procedures of the external auditors.
11. Review and discuss with the external auditors all relationships that the external auditors and their affiliates have with the Corporation and its affiliates in order to determine the independence of the Corporation's external auditors, including, without limitation (i) requesting, receiving and reviewing, at least annually, a formal written report from the external auditors delineating all relationships that may reasonably bear on the independence of the external auditors with respect to the Corporation; and (ii) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors. Following receipt and review of the external auditors' report and discussion with the external auditors, recommending that the Board, in response to the relationships or services disclosed in the report, take appropriate action to satisfy itself of the external auditors' independence.
12. Discuss with the Board whether, due to the passage of time or for other reasons, it would be appropriate to change the Corporation's external auditors or the audit engagement partner and, after consultation with appropriate Management, recommending either that the external auditors be changed or retained for each future fiscal year. This is achieved through annual reviews of the external auditors, with a comprehensive review conducted every 5 years. Annual reviews include evaluation of the external auditors based on audit quality indicators including metrics for fee competitiveness, involvement of partners/managers in the Corporation's audits, audit team turnover, use of topical specialists in the audit, and audit file inspection results by internal or external regulators.
13. Review and recommend to the Board for approval the compensation paid to the external auditors on an annual basis.
14. Review and pre-approve all non-audit services performed by the external auditors in relation to the Corporation and its subsidiaries. If, due to timing issues, the pre-approval of non-audit services must be expedited and it is not practical to wait until the next scheduled Committee meeting, the Chair is delegated, on behalf of the Committee, to pre-approve the non-audit services when the individual engagement fees are projected to be less than \$100,000, subject to an annual maximum approval limit of \$250,000, and any such pre-approval will be reported to the Committee for ratification at its next meeting.
15. Oversee the work of the external auditor, including reviewing and approving the planning of the annual audit and reviewing the results thereof with the external auditors, including:
  - a. approving the auditors' engagement letters;
  - b. approving the scope of the audit, including materiality, audit reports required, area of audit risk, timetable and deadlines;

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

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

- 16. Review the rationale for any proposed change in auditors which is not initiated by the Committee or the Board.
- 17. Review reports from external auditors respecting their internal quality control procedures, peer reviews and investigations by governmental or professional authorities.
- 18. Obtain and review annually, prior to the completion of the external audit: (a) a report from the external auditors describing: (i) all critical accounting policies used by the Corporation in the preparation of its annual and interim financial statements; (ii) all alternative treatments of financial information within GAAP that have been discussed with Management; (iii) the ramifications of the use of such alternative treatments; and (iv) the treatment preferred by the external auditors; and (b) all other material written communications.
- 19. Obtain reasonable assurance from discussions with and/or reports from the CEO and Management and reports from external and internal auditors that the Corporation's accounting systems are reliable and that the prescribed internal controls are operating effectively.
- 20. Assess whether Management has implemented policies ensuring that the Corporation's financial risks are identified and that controls are adequate, in place and functioning properly. In connection therewith, as part of the financial risk assessment, Management will prepare tax compliance and planning strategies annually for review by the Committee, including a review of any tax reserves.

21. Monitor compliance with the Corporation's Code of Conduct (the "Code of Conduct") and ensure Management Compliance Certificates have been executed.
22. Meet with the external auditors, at least annually and when requested by the external auditors, without Management representatives present.
23. Meet with the internal auditors, at least annually or as requested by the internal auditors, without Management representatives present.
24. Review and ensure that appropriate liaison and cooperation exists where necessary between the external auditors and the internal auditors, and provide a direct line of communication between the external and internal auditors, the Committee and the Board.
25. Review the responses of Management to information requests from government or regulatory authorities in respect of filing documents required under securities legislation, which may affect the financial reporting of the Corporation.
26. Review and approve the annual internal audit plan, including the charter, staffing, scope and objectives of the internal audit department, and the appointment, termination, and compensation of the chief audit person (Senior Manager, Internal Audit) and receive and review a summary of all internal audit reports issued in relation thereto.
27. Receive and review all follow-up action or status reports relating to the non-financial recommendations of the external auditor, and the internal auditor.
28. Obtain such information and explanations regarding the accounts of the Corporation as the Committee may consider necessary and appropriate to carry out its duties and responsibilities.
29. Annually review the performance, budget and independence of the internal audit function and direct the Senior Vice President, Finance and Chief Financial Officer (or their delegate) to make any changes necessary.
30. Establish procedures for receiving, retaining and responding to complaints relating to accounting, internal accounting controls or auditing matters, on a basis that protects the confidentiality of the complainant.
31. Review and approve the hiring policies regarding employees and former employees of the present and former external auditors.
32. Periodically assess procedures for the review of disclosure of financial information, extracted or derived from the Corporation's financial statements.
33. Review and monitor quarterly results of financial and commodity exposure management activities, counterparty credit exposure and the use of derivative instruments, as well as annually review foreign currency and interest rate risk strategies, and ensure that they are appropriately reflected in the Corporation's financial reporting.

34. Monitor and evaluate the Corporation's insurance programs.
35. Review with Management and the external auditor any off balance sheet arrangements and special purpose vehicle structures.
36. Review disclosure made to the Committee by the CEO, the CFO and the General Counsel of a violation of applicable securities laws, a breach of a fiduciary duty under applicable laws or a similar violation by the Corporation or by any officer, director, employee or agent of the Corporation, which has been reported to the Committee, and determine whether an investigation is necessary regarding any such violation and report to the Board.
37. Receive, review and consider the annual and interim certificates provided by the CEO and CFO of the Corporation pursuant to National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, as implemented by the Canadian Securities Administrators and as amended or replaced from time to time, along with reports from the Corporation's Disclosure Committee regarding the design and effectiveness of the Corporation's disclosure controls and internal controls over financial reporting.
38. Conduct all other matters required by law or stock exchange rules to be dealt with by an audit committee.
39. Review at least every three years the Code of Conduct and recommend any required material changes to the Board.
40. Review annually these terms of reference and the Corporation's Disclosure and Insider Trading Policy regarding public disclosure of material information and insider trading and recommend any required material changes to the PCG Committee for further recommendation to the Board.
41. Conduct a regular, periodic survey relating to Committee effectiveness and performance.
42. The Committee Chair, as well as a member of Management independent from Internal Audit, will pre-approve the project scope of audits of areas which directly report to the Senior Manager, Internal Audit.
43. Report to the Board as required.

## **D. Meetings**

1. The Committee will meet at least quarterly and may call other meetings as required.
2. Committee meetings may be called by the Committee Chair or by a majority of the Committee Members. In addition, the Committee Chair will call a meeting upon request of the external auditors. A majority of Committee Members will constitute a quorum. The Committee Chair will be a voting member and questions will be decided by a majority of votes.

3. Meetings may be called with 24 hours' notice, which may be waived, before or after the meeting, by Committee Members. Attendance at a meeting will be deemed to be waiver of notice of the meeting, except where the Committee member attends the meeting for the express purpose of objecting to the transaction of business on the grounds that the meeting has not been duly called.
4. Meetings are chaired by the Committee Chair or in the Committee Chair's absence, by a Committee Member chosen from among and by Committee Members present at the meeting.
5. At each meeting, an in camera session will be held with just the Committee members in attendance.
6. Agendas will be set by the Committee Chair with such assistance as the Committee Chair may request from the CEO, General Counsel, Corporate Secretary, CFO and auditors, and will be circulated with the materials for consideration at the meeting by the Committee Chair or the Corporate Secretary to all Committee and Board Members and, if directed by the Committee Chair, to the CEO, the General Counsel, Corporate Secretary, and CFO, no later than the day prior to the date of the meeting. However, it should be standard practice to deliver the agenda and draft materials for consideration at the meeting at least five business days prior to the proposed meeting except in unusual circumstances.
7. Except as provided in these terms of reference, the Chair of the meeting may establish rules of procedure to be followed at meetings.
8. Meetings may be conducted with the participation of Committee Members by telephone, video, or other virtual meeting techniques which permits all persons participating in the meeting to hear and communicate with each other. A Committee Member participating in a meeting by those means is deemed to be present at the meeting.
9. The powers of the Committee may be exercised by vote at a meeting at which a majority of the Committee Members are present or by a resolution in writing signed by all Committee Members who would have been entitled to vote on the resolution at a meeting of the Committee. In the case of an equality of votes, the person acting as Chair of the Committee meeting, as applicable, will not be entitled to a second or casting vote.
10. A resolution in writing may be signed and executed in separate counterparts by Committee Members and the signing or execution of a counterpart will have the same effect as the signing or execution of the original. An executed copy of a resolution in writing or counterpart thereof transmitted by any means of recorded electronic transmission will be valid and sufficient.
11. Attendance at all or a portion of Committee meetings by staff, the auditors and others will be determined by the Committee and will normally include the CEO, CFO, the Corporate Secretary and appropriate staff.



12. The Corporate Secretary, or such other person as may be designated by the Committee, will keep minutes of the proceedings of all meetings of the Committee, which following Committee approval, will, subject to determination by the Committee otherwise, be available to any member of the Board. All minutes will be circulated to the Chair. With the exception of “in camera” items, minutes will be circulated to those receiving the agenda. Minutes will be retained by the Corporate Secretary.
13. The Committee may delegate its power and authority to individual Committee Members, where the Committee determines it is appropriate to do so in order for necessary decisions to be made between meetings of the Committee and where such delegation is permitted by law. Any such decisions will be reported to the Committee at its next meeting.