

Second-Party Opinion

Capital Power Green Financing Framework



Evaluation Summary

Use of Proceeds Instruments

Green Bond Principles 2021 and Green Loan Principles 2021

Sustainalytics is of the opinion that the Capital Power Green Financing Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2021. The project category for the Use of Proceeds – Renewable Energy – is aligned with those recognized by the Green Bond Principles 2021 and the Green Loan principles 2021. Sustainalytics considers that investments in the project category will lead to positive environmental impacts and considers investments in renewable energy projects to be credible from a transition perspective.

Climate Transition Finance Handbook

Sustainalytics has evaluated Capital Power’s transition governance, strategy, decarbonization targets, and intentions to report on transition progress and finds the Company to be partially aligned¹ with the recommendations of the Climate Transition Finance Handbook 2020. As a power generation company, Capital Power is involved in a carbon intensive sector and has developed a multi-pronged roadmap to become carbon neutral by 2050.

Evaluation Date	July 28, 2022
Issuer/Borrower Location	Edmonton, Canada

The UoPs contribute to the following SDGs:



¹ Sustainalytics notes that the Company is partially aligned with the third component of the Climate Transitions Finance Handbook 2020, namely “Climate transition strategy to be ‘science-based’ including targets and pathways”, and fully aligned with the remaining three components.

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Scope of Work and Limitations

Sustainalytics' Second-Party Opinion reflects Sustainalytics' independent² opinion on the alignment of the Capital Power Green Financing Framework with current market standards. As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework's alignment with the Green Bond Principles 2021 and the Green Loan Principles 2021^{3,4} (the "Principles");
- The credibility and anticipated positive impacts of the use of proceeds;
- The issuer's sustainability strategy, performance and sustainability risk management; and
- The alignment with the recommendations of the Climate Transition Finance (CTF) Handbook 2020⁵;

As part of this engagement, Sustainalytics held conversations with various members of Capital Power's management team to understand the sustainability impact of their business processes and the core components of the Framework. Capital Power representatives have confirmed that:

- (1) They understand it is the sole responsibility of Capital Power to ensure that the information provided is complete, accurate and up to date;
- (2) They have provided Sustainalytics with all relevant information; and
- (3) Any provided material information has been duly disclosed in a timely manner.

Sustainalytics also reviewed relevant public documents and non-public information. This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework. Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Capital Power.

Sustainalytics' Second-Party Opinion assesses alignment of the Framework with current market standards, but does not provide any guarantee of alignment nor warrants alignment with any future versions of such standards. Regarding the portion of the Second-Party Opinion which assesses:

- use of proceeds categories, Capital Power is encouraged to update the associated parts of the Framework after 24 (twenty-four) months from the evaluation date, if necessary, and seek an update to this Second-Party Opinion to ensure ongoing alignment of the Framework with market standards and expectations.

For use of proceeds instruments, Sustainalytics relied on its internal taxonomy, version 1.11, which is informed by market practice and Sustainalytics' expertise as an ESG research provider. This Second-Party Opinion:

- addresses the anticipated impacts of eligible projects but does not measure their actual impact. Reporting and measuring impact of projects financed under the Framework is the responsibility of the Framework owner.
- opines on the potential allocation of proceeds but does not guarantee their realized allocation towards eligible activities.

No information Sustainalytics provides under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument in favour or against the truthfulness, reliability or completeness of any facts or statements and related circumstances that Capital Power may have disclosed to Sustainalytics for the purpose of this Second-Party Opinion.

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² When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics' hallmarks is integrity, another is transparency.

³ The bond Principles, Guidelines and Handbooks are administered by the International Capital Market Association and are available at: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁴ The loan Principles and Guidelines are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: https://www.lsta.org/content/?industry_sector=guidelines-memos-primary-market

⁵ The Climate Transition Finance Handbook is administered by the International Capital Market Association and is available at: <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Climate-Transition-Finance-Handbook-December-2020-091220.pdf>

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Introduction

Capital Power Corporation (“Capital Power”, or the “Company”) is an independent power producer headquartered in Edmonton, Alberta, in Canada. The Company builds, owns, and operates high-quality, utility-scale generation facilities across North America, including wind, solar, waste heat, and thermal. Currently, it owns approximately 6,600 megawatts (MW) of power generation capacity across 27 facilities. As of December 31, 2021, Capital Power had a workforce of 773 employees and reported CAD 1.9 billion in revenues and other income.⁶

Capital Power has developed the Capital Power Green Financing Framework (the “Framework”) under which the Company and its subsidiaries⁷ intend to originate loans or issue debentures, bonds,⁸ and other debt financing instruments.⁹ Capital Power engaged Sustainalytics to review the Framework, dated July 2022, and provide a Second-Party Opinion on the Framework’s alignment with the Green Bond Principles 2021 and Green Loan Principles 2021 (the “Principles”), and the recommendations of the Climate Transition Finance (CTF) Handbook 2020. This Framework has been published in a separate document.¹⁰

Under use of proceeds instruments, the proceeds will finance and/or refinance, in whole or in part, existing and/or future projects that are expected to create positive environmental impacts. The Framework defines eligibility criteria in one area:

1. Renewable Energy

Sustainalytics’ Opinion

Section 1: Sustainalytics’ Opinion on the Alignment of the Framework with Relevant Market Standards

Alignment with Use of Proceeds Principles

Sustainalytics is of the opinion that the Capital Power Green Financing Framework is credible, impactful and aligns with the Principles. For detailed information, please refer to Appendix 1: Green Bond Programme External Review Form. Sustainalytics highlights the following elements of the Framework:



Use of Proceeds

Overall Assessment of Use of Proceeds

Use of Proceeds	Activity	Classification	Description and Sustainalytics’ Assessment
Renewable Energy	Solar Energy	Green	- Investments in solar PV energy projects. - Sustainalytics views this to be aligned with market practice.
	Wind Energy		- Investments in wind energy projects. - Sustainalytics considers this to be aligned with market practice.
	Energy Storage		- Investments in battery energy storage projects to support the above-mentioned solar and wind energy projects. - Sustainalytics considers the criteria for financing energy storage projects to be in line with market practice.

⁶ Capital Power, “2021 Integrated Annual Report - Powering a sustainable future for people and planet”, (2021), at:

<https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Integrated-Annual-Report.pdf>

⁷ Capital Power has communicated that the subsidiaries issuing instruments through the Framework will either be wholly owned, majority or joint controlled (greater or equal to 50%) by the Company. The Company has further confirmed that it will be responsible for ensuring continual alignment of the issuance with the criteria defined with the Framework.

⁸ Capital Power has communicated to Sustainalytics that the hybrid bonds will not convert to common equity and that the bonds could have terms requiring the delivery of or conversion into preferred shares based on prescribed events.

⁹ Sustainalytics has reviewed only those instruments that have been specified in the Framework.

¹⁰ The Capital Power Green Financing Framework is available on Capital Power’s website at: <https://www.capitalpower.com/wp-content/uploads/2022/07/Capital-Power-Green-Financing-Framework.pdf>

Additional Considerations on Use of Proceeds

- The Framework has established a look-back period of three years for refinancing activities. Sustainalytics considers this criterion to be in line with market practice.
- Sustainalytics recognizes the energy sector as well-suited for transition, as it is carbon-intensive, important for the economy and human needs, and faces technological barriers to rapid decarbonization.
- The renewable energy projects financed under the Framework are expected to help the Company to be off coal by the end of 2023 and be carbon neutral by 2050.



Project Evaluation and Selection

- Capital Power's Sustainability Financing Committee (the "Committee") comprising its Treasury, Corporate Sustainability and Legal departments will be responsible for the evaluation and selection of projects per the criteria defined in the Framework. The Company's Chief Financial Officer is entrusted for continually reviewing the participating departments in the Committee.
- The Committee will also be responsible for ensuring compliance with the Company's internal processes for addressing environmental and social risks associated with the financed projects. For additional details see Section 2.
- Based on the defined roles and responsibilities, Sustainalytics considers this process to be in line with market practice.



Management of Proceeds

- Capital Power's Treasury department will be responsible for the allocation and management of net proceeds from each issuance.
- The Company intends to achieve full allocation within 36 months of each issuance.
- Pending full allocation, the unallocated proceeds may be temporarily used per the Company's internal liquidity management policies and strategies.
- Based on the management of bond proceeds and the disclosure on the temporary use of unallocated proceeds, Sustainalytics considers this process to be in line with market practice.



Reporting

- Capital Power intends to publish allocation and impact reporting annually on its website, until full allocation.
- Allocation reporting will include project-wide details on the allocation of proceeds, a brief description or update on the projects, and the balance of unallocated proceeds, if any.
- Impact reporting is expected to provide category-wide impact of the projects against respective key performance indicators, including (i) renewable energy production (MWh), installed capacity (MW), and energy storage capacity (MW and MWh).
- Based on the commitment to allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

Alignment against the Climate Transition Finance Handbook 2020

Sustainalytics has assessed Capital Power’s alignment with the recommendations of the Climate Transition Finance (CTF) Handbook and considers the Company’s transition strategy to be partially aligned overall.¹¹ Sustainalytics highlights the following key elements of the assessment:

Key Elements	ICMA Recommendation	Sustainalytics’ Assessment	
Issuer’s climate transition strategy and governance	<ul style="list-style-type: none"> - Transition strategy to address climate-related risks and contribute to alignment with the goals of the Paris Agreement - Relevant interim targets on the trajectory towards long-term goal - Governance of transition strategy 	<ul style="list-style-type: none"> - Capital Power has developed a pathway for achieving net carbon neutrality by 2050. This pathway details the deployment of decarbonization technologies such as carbon capture, utilization and storage, hydrogen and direct air capture. See detailed assessment of decarbonization pathway and implementation plan in Section 2. - The Company’s board oversees the creation and execution of its strategy, long-term plan, and the identification, management and mitigation of risks to the strategy. The responsibility for climate-related issues lies with the CEO. - The Board’s focus on climate change includes annually approving the long-term plan, including strategies relating to decarbonization, technology and renewable energy generation. The Board also approves the Company’s emission reduction targets and receives regular progress reports toward meeting them. - In addition, the Board’s Health, Safety and Environment Committee provides a structured approach to monitoring and assessing the effectiveness of Capital Power’s environmental stewardship and reviewing related goals, compliance practices and policies relating to GHG emissions and climate change. 	Aligned
Business model environmental materiality	<ul style="list-style-type: none"> - Transition trajectory should be relevant to the environmentally-material parts of the issuer’s business model 	<ul style="list-style-type: none"> - As a power generation company, Capital Power’s energy transition strategy addresses the environmental impact of its operations. - Initiatives outlined in Capital Power’s transition strategy –including reduction in greenhouse gas emissions through post-combustion capture or hydrogen technologies, and expansion of the use of renewable energy and storage technology for renewable sources – are directly relevant to environmentally material aspects of Capital Power’s operations. - The Company’s transition strategy directly addresses the environmental impact of the core part of its business. 	Aligned
Climate transition strategy to be ‘science-based’ including targets and pathways	<ul style="list-style-type: none"> - Transition strategy should reference science-based targets and transition pathways 	<ul style="list-style-type: none"> - Capital Power intends to be net carbon neutral by 2050 and reduce its Scope 1 emission intensity by 65% over the 2005 intensity figure by 2030.¹² - The Company’s estimated target does not fully align with the decarbonization (B2DS)¹³ trajectory for its sector.^{14, 15} 	Partially Aligned

¹¹ Sustainalytics notes that the Company is partially aligned with the third component of the Climate Transitions Finance Handbook 2020, namely “Climate transition strategy to be ‘science-based’ including targets and pathways”, and fully aligned with the remaining three components.

¹² Capital Power, “2021 Integrated Annual Report - Powering a sustainable future for people and planet”, (2021), at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Integrated-Annual-Report.pdf>

¹³ Beyond 2°C Scenario

¹⁴ Analysis based on Capital Power’s carbon emission intensity target for 2030 that it shared with Sustainalytics in confidence. Sustainalytics further notes the target is close to meeting the 2030 decarbonization (B2DS)¹⁴ trajectory for its sector.

¹⁵ More details at: <https://www.transitionpathwayinitiative.org/sectors/electricity-utilities>

<p>Implementation transparency</p>	<ul style="list-style-type: none"> - Disclosure of capex and opex plans - Climate-related outcomes and impacts that expenditures are intended to result in 	<p>The Company additionally tests the resilience of its climate strategy against the 2021 IEA scenarios for the power sector (B2DS) per the TCFD recommendations.</p> <ul style="list-style-type: none"> - Until the full allocation of net proceeds has been achieved, information regarding Capital Power’s use of proceeds will be published in its allocation report to reflect: (i) The total net proceeds of all outstanding issuances, (ii) amount of net proceeds allocated to projects, including a brief description or project updates, and (iii) the remaining balance of unallocated proceeds. - Capital Power annually reports on climate-related risks through its Management’s Discussion and Analysis (MD&A), Annual Information Forms (AIF), corporate sustainability reports and integrated annual reports as well as details on the capital expenditures. The Company intends to continue reporting on these parameters along with the outcome related to its transition strategy. - The Company also discloses to CDP’s Climate Change and Water Security, and Electricity Canada’s sustainable electricity reporting framework on an annual basis. 	<p>Aligned</p>
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Section 2: Assessment of Capital Power’s Sustainability Strategy

Capital Power has adopted a multi-pronged sustainability transition strategy that expands the use of renewable energy, employs storage technologies to optimize those renewable sources, and transitions to low-carbon thermal generation through improved efficiency and the deployment of carbon capture, utilization and storage (CCUS) technology and hydrogen.¹⁶

Credibility of Capital Power’s Climate Transition Strategy

Sustainalytics recognizes that proceeds from issuances under the Framework will contribute to the decarbonization of Capital Power’s operations. Within this context, Sustainalytics has assessed Capital Power’s climate transition strategy below:

Emission-Reduction Targets

As part of Capital Power’s pathway to carbon neutrality by 2050, the Company intends to reduce Scope 1 CO₂ emissions by 50% at the Genesee Generating Station¹⁷ by 2030 compared to 2005 levels, targeting a 10% reduction of its 2019 fleet emissions by 2030 relative to the 2005 baseline, and reducing the overall Scope 1 CO₂ emissions intensity by 65% by 2030 in reference to the same baseline.¹⁸ In line with these targets, Capital Power announced its inaugural CAD 1 billion Sustainability-Linked Credit Facilities (“SLCs”) in 2021. The SLCs are structured to align the KPIs with the aforementioned Scope 1 CO₂ emission intensity reduction target of 65%.¹⁹

Sustainalytics considers these targets to have a positive impact on Capital Power’s transition towards low-carbon operations and encourages the Company to adopt a science-based approach for aligning its emission reduction target with a recognized B2DS or 1.5-degree decarbonization pathway for the energy sector.

¹⁶ Capital Power, “Capital Power 2021 Climate Change Disclosure Project”, (2021), at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Climate-Change-Disclosure.pdf>

¹⁷ The Genesee Generating Station consists of three generating units which are powered by natural gas and coal fuel sources.

¹⁸ Capital Power, “Capital Power 2021 Climate Change Disclosure Project”, (2021), at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Climate-Change-Disclosure.pdf>

¹⁹ Capital Power, “Capital Power 2021 Integrated Annual Report”, (2021), at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Integrated-Annual-Report.pdf>

Decarbonization Pathway and Implementation Plan

Capital Power has adopted a short-term, medium-term, and long-term decarbonization roadmap. The Company has identified investments in CCUS, hydrogen blending and direct air capture technologies as essential components to reduce emissions from its portfolio of assets.²⁰ The Company organizes its emission reduction strategies in a hierarchy of the following priorities:²¹

1. Capital Power intends to prioritize reducing onsite emissions through operational enhancements, including post-combustion capture or hydrogen blending technologies.
2. The Company also aims to employ the use of direct air capture technologies or strive to reduce physical emissions reductions elsewhere in its generation portfolio if direct onsite emissions cannot be reduced.
3. In instances where emissions cannot be physically reduced throughout the Company's assets portfolio, Capital Power would consider procuring certified offsets through programs such as Alberta's Technology Innovation and Emissions Reduction Regulation, renewable energy certificates, and offsets.

To support its decarbonization efforts, Capital Power is undertaking the transformation of all three units at its flagship Genesee Generating Station by transitioning from coal-fired power generation to natural gas.²² Furthermore, Capital Power will be repowering two of its units, Genesee 1 and 2, to use natural gas combined cycled ("NGCC") technology. Genesee 1 is anticipated to become a dedicated NGCC unit in 2023, while Genesee 2 will become a dedicated NGCC unit in 2024.²³ Capital Power projects that, upon the repowering and conversion of these generation units, the Company will reduce its emissions at the Genesee Generating station by 40%, translating into a reduction of 3.4 MT of emissions.²⁴ Additionally, in alignment with the Company's goals to develop and invest in CCUS technologies, Capital Power is currently developing a project to implement CCUS technology at Genesee 1 and 2.²⁵ The project is anticipated to begin capturing carbon in 2027, and is projected to capture 95% of the CO₂ emissions from the repowered units and reducing 3 million tonnes of CO₂ annually.²⁶

Lastly, Capital Power also identifies investing in renewable energy generation projects to play a pivotal role in the decarbonization of its asset portfolio. Since 2009, Capital Power has invested in or committed to more than CAD 3 billion in renewable energy projects, with CAD 710 million in projects under development in 2021. In the same year, the projects consisted of one wind and five solar projects, and upon completion, the Company estimates that these projects will contribute 425 MW of power generation capacity to the fleet.²⁷

While recognizing the strength of Capital Power's decarbonization plan, Sustainalytics encourages the Company to prioritize investments in projects that are not reliant on fossil fuel.

Capital Power's Environmental and Social Risk Management

While Sustainalytics recognizes that the use of proceeds from the Framework will be directed towards eligible projects that are anticipated to have positive environmental impacts, Sustainalytics is aware that such eligible projects could also lead to negative environmental outcomes. Some potential environmental and social risks associated with the eligible projects include occupational health and safety, community relations and stakeholder participation, land use and biodiversity issues associated with large-scale infrastructure development, emissions, effluents, and waste generated in construction.

- To address occupational health and safety risks, Capital Power has developed an Occupational Health and Safety Management System, a risk-based management system which the Company uses to identify, treat, monitor, and report on safety risks.²⁸ Capital Power's commitment to health and safety is set forth in its Health, Safety and Environment Policy,²⁹ which all employees, contractors and third parties are obligated to follow. The Company also requires its

²⁰ Capital Power, "Capital Power 2021 Climate Change Disclosure Project", (2021), at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Climate-Change-Disclosure.pdf>

²¹ Ibid.

²² Capital Power, "Capital Power 2021 Integrated Annual Report", (2021), at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Integrated-Annual-Report.pdf>

²³ Ibid.

²⁴ Ibid.

²⁵ Capital Power has communicated that the formal investment decision on this project is expected in mid-2023. More information at: https://www.capitalpower.com/media/media_releases/capital-power-advances-carbon-capture-project-at-genesee/

²⁶ Capital Power, "Decarbonization Technology- Building a Low-Carbon Energy Future through Decarbonization Technology", at: <https://www.capitalpower.com/sustainability/innovation/decarbonization/>

²⁷ Capital Power, "Capital Power 2021 Integrated Annual Report", (2021), at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Integrated-Annual-Report.pdf>

²⁸ Capital Power, "2021 Climate Change Disclosure Report: Powering a Sustainable Future for People and Planet", at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Climate-Change-Disclosure.pdf>

²⁹ Capital Power, "Health, Safety and Environment Policy", at: <https://www.capitalpower.com/sustainability/hse/#policies>

suppliers and third parties to abide by its General Terms and Conditions – Professional Services,³⁰ that ensures compliance with all applicable laws and regulatory requirements related to workers’ health and safety. Capital Power also embeds a culture of safety across its employees and suppliers through its Life Critical Standards³¹ and Life Safety Critical Rules.³²

- Capital Power manages its relationship with community stakeholders through continual engagements, which includes direct meetings and dialogue, desktop community assessments prior to new developments and formal consultations with regulatory authorities. The Company employs its engagement plans to gather community concerns, such as noise, lighting, land impacts etc., and address them in their project design. Capital Power also fosters community relations through annual community investment plans which are centered around investments for promoting education and supporting environmental initiatives by youth.³³
- The Company takes biodiversity risks into account as part of its sourcing strategy, planning and design, construction plans, community engagement, operations, and remediation and decommissioning of projects. Its initiatives to minimize the impact of its operations on land-use include reclamation projects to restore wildlife and restore previously mined areas into farmland. To-date, the Company has reclaimed 35% of total surface area at its flagship Genesee coal mine. Initiatives for preserving biodiversity also include reforestation practices and a biomonitoring program to measure and assess environmental impact from aerial and water emissions from the Genesee facility.³⁴
- Capital Power is subject to, and complies with, extensive laws and regulations related to the construction of projects, pollution and environmental protection, air emissions, water usage, wastewater discharges, hazardous materials handling, waste treatment and disposal, land-use responsibility, and ISO market rules.³⁵ Sustainalytics also notes that all financing under the Framework will take place in Canada or the US, which are among the list of Designated Countries under the Equator Principles, indicating that environmental and social governance legislation systems and institutional capacity are sufficient to ensure mitigation of the common environmental and social risks.³⁶

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Capital Power has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible category.

Section 3: Impact of the Selected Use of Proceeds

The use of proceeds category is aligned with those recognized by the GBP and the GLP. Sustainalytics has focused below on the impact that is specifically relevant in the local context.

Importance of Financing Renewable Energy Projects in Canada and the US

The electricity and heat generation sectors in Canada are the sixth largest source of GHG emissions, accounting for 8.4% of the total GHG emissions in the country in 2019.³⁷ In this context, increasing the share of renewable energy generation has the potential to have significant impact on meeting the country’s climate goals. A study from the IEA and the International Renewable Energy Agency (“IRENA”) supports this assessment, estimating that 65-70% of worldwide primary energy demand would need to be met by low-carbon energy sources by 2050 to meet the 2°C target. The proportion of electricity derived from

³⁰ Capital Power, “General Terms and Conditions – Professional Services”, at: <https://www.capitalpower.com/wp-content/uploads/2019/06/Professional-Terms-and-Conditions.pdf>

³¹ Capital Power, “11 Life Critical Standards”, at: <https://www.capitalpower.com/wp-content/uploads/2021/03/11-Life-Critical-Standards-Capital-Power.pdf>

³² Capital Power, “Life Safety Critical Rules”, at: <https://www.capitalpower.com/wp-content/uploads/2021/03/Life-Safety-Critical-Rules-Capital-Power.pdf>

³³ Capital Power, “2021 Integrated Annual Report”, at: <https://www.capitalpower.com/wp-content/uploads/2022/02/2021-Capital-Power-Integrated-Annual-Report.pdf>

³⁴ Ibid.

³⁵ Ibid.

³⁶ Equator Principles, “Designated Countries”, (2020) at: <https://equator-principles.com/about-the-equator-principles/designated-countries>

³⁷ Environment and Climate Change Canada, “Greenhouse Gas Emissions”, (2021), at: <https://www.canada.ca/content/dam/eccc/documents/pdf/cesindicators/ghg-emissions/2021/greenhouse-gas-emissions-en.pdf>

renewable sources in Canada grew 3.4% between 2010 and 2018 and is expected to grow by only 4.8% by 2030 with current strategies, representing a slow growth rate.^{38,39}

In the US, the electricity sector is the second largest source of GHG emissions, accounting for 25% of total GHG emissions in 2020.⁴⁰ As of 2020, 60% of US electricity generation comes from fossil fuels, such as natural gas, coal and petroleum, and 20% comes from nuclear energy.⁴¹ Although renewable energy generation in the US has experienced significant growth since 2008, it only accounts for 20.1% of the country's total electricity generated in 2021.^{42,43} While the projections show that renewable sources are likely to provide approximately 33% of the total US electricity generation in 2030, these figures still fall short of the US government's goal of having 80% electricity from renewable sources by the end of 2030.⁴⁴ Consequently, significant investments in renewable energy in the US are required in order to meet the Paris Agreement climate target of limiting temperature increases to well below 2°C.⁴⁵

Canada is a signatory to the Paris Agreement and has committed to becoming a net-zero emission economy by 2050.⁴⁶ In line with this, the country has set a target of producing 90% of its electricity from non-emitting sources by 2030.⁴⁷ In order to meet its commitment of the Paris Agreement, Canada recently published a climate plan, A Healthy Environment and A Healthy Economy, outlining the government's plan to accelerate the growth of renewable energy usage across various industries.⁴⁸ For example, in June 2021, the federal government announced a CAD 964 million investment in a renewable energy program to increase the number of smart energy and grid modernization projects that promote the use of clean technologies such as wind, solar and hydro energy.⁴⁹ In the context of the US, in 2021, the US government established targets to reduce GHG emissions by 50-52% in comparison to the 2005 levels and achieve 100% carbon-free electricity by 2035.⁵⁰ In the same year, the White House also announced its commitment to expand and modernize the American electricity grid to reliably transmit renewable energy and support the country's 2030 emission reduction targets submitted to the United Nations Framework Convention on Climate Convention.⁵¹

Sustainalytics expects Capital Power's financing in renewable energy projects to contribute positively to the energy transition in North America, that may also help meet global environmental objectives.

³⁸ Canada Energy Regulator, "Prairie Provinces to lead Canada in renewable energy growth", (2021), at: <https://www.cer-rec.gc.ca/en/about/news-room/news-releases/2021/prairie-provinces-to-lead-canada-in-renewable-energy-growth.html>

³⁹ Marshall, D. (2019), "Cleaner, cheaper and growing: renewables are ready. Canadian policy isn't.", Environmental Defence, at: <https://environmentaldefence.ca/2019/06/06/cleaner-cheaper-growing-renewables-ready-canadian-policy-isnt/>

⁴⁰ US Environmental Protection Agency, "Sources of Greenhouse Gas Emissions", at: <https://www.epa.gov/ghgemissions/sources-greenhouse-gas-emissions#electricity>

⁴¹ US Energy Information Administration, "Electricity Explained", at: <https://www.eia.gov/energyexplained/electricity/electricity-in-the-us.php>

⁴² US Energy Information Administration, "U.S. primary energy consumption by energy source", (2020), at: <https://www.eia.gov/energyexplained/us-energy-facts/>

⁴³ US Energy Information Administration, "What is U.S. electricity generation by source", at: <https://www.eia.gov/tools/faqs/faq.php?id=427&t=3>

⁴⁴ Renewables Now, "Renewables on track to provide 33-50% of US 2030 electricity, Biden's 80% goal still possible", (2021) at: <https://www.renewablesnow.com/news/renewables-on-track-to-provide-33-50-of-us-2030-electricity-bidens-80-goal-still-possible-748426/>

⁴⁵ International Renewable Energy Agency, "Renewable energy: a key climate solution", (2017) at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Nov/IRENA_A_key_climate_solution_2017.pdf?la=en&hash=A9561C1518629886361D12EFA11A051E004C5C98

⁴⁶ Government of Canada, "Progress towards Canada's greenhouse gas emissions reduction target", at: <https://www.canada.ca/en/environmentclimatechange/services/environmental-indicators/progress-towards-canada-greenhouse-gas-emissions-reduction-target.html>

⁴⁷ Government of Canada, "Powering our future with clean electricity", at: <https://www.canada.ca/en/services/environment/weather/climatechange/climate-action/powering-future-clean-energy.html>

⁴⁸ Environment and Climate Change Canada, "A Healthy Environment and A Healthy Economy", (2021), at: https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/climate-plan/healthy_environment_healthy_economy_plan.pdf

⁴⁹ Natural Resources Canada, "Canada Invests Over \$960-Million in Renewable Energy and Grid Modernization Projects", (2021), at: <https://www.canada.ca/en/natural-resources-canada/news/2021/06/canada-invests-over-960-million-in-renewable-energy-and-grid-modernization-projects.html>

⁵⁰ The White House, "Fact Sheet: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Jobs and Securing U.S. Leadership on Clean Energy Technologies", (2021), at: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/>

⁵¹ The White House, "Fact Sheet: President Biden Sets 2030 Greenhouse Gas Pollution Reduction Target Aimed at Creating Good-Paying Jobs and Securing U.S. Leadership on Clean Energy Technologies", (2021), at: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/22/fact-sheet-president-biden-sets-2030-greenhouse-gas-pollution-reduction-target-aimed-at-creating-good-paying-union-jobs-and-securing-u-s-leadership-on-clean-energy-technologies/>

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. The Framework advances the following SDG goal and target:

Use of Proceed	SDG	SDG Target
Renewable Energy	7. Affordable and Clean Energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Conclusion

Capital Power has developed the Capital Power Green Financing Framework under which it may originate loans, and issue green bonds, and other debt instruments and use the proceeds to finance renewable energy projects. Sustainalytics considers that the projects funded by the proceeds from bonds and loans are expected to provide positive environmental impacts. The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Additionally, Sustainalytics is of the opinion that Capital Power has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible activities funded by the proceeds.

Based on the above, Sustainalytics is confident that Capital Power is well-positioned to issue use of proceeds bonds and loans and that the Framework is in alignment with the Green Bond Principles 2021 and Green Loan Principles 2021. Furthermore, Sustainalytics believes that the Framework is partially aligned with the recommendations of the Climate Transition Finance Handbook 2020.

Appendix 1 Green Bond / Green Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Capital Power Corporation
Green Bond ISIN or Issuer Green Bond Framework Name, if applicable:	Capital Power Green Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	July 28, 2022
Publication date of review publication:	
Original publication date [please fill this out for updates]:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section *(if applicable)*:

The eligible category for the use of proceeds, Renewable Energy, is aligned with those recognized by the Green Bond Principles 2021 and the Green Loan Principles 2021. Sustainalytics considers that investments in the eligible category are expected to lead to positive environmental impacts and help advance the UN Sustainable Development Goals, specifically SDG 7.

Use of proceeds categories as per GBP:

- | | |
|---|--|
| <input checked="" type="checkbox"/> Renewable energy | <input type="checkbox"/> Energy efficiency |
| <input type="checkbox"/> Pollution prevention and control | <input type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input type="checkbox"/> Clean transportation |
| <input type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBP | <input type="checkbox"/> Other <i>(please specify)</i> : |

If applicable please specify the environmental taxonomy, if other than GBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section *(if applicable)*:

Capital Power’s Sustainability Financing Committee comprising its Treasury, Corporate Sustainability and Legal departments will be responsible for the evaluation and selection of projects per the criteria defined in the Framework. The Committee will also be responsible for ensuring compliance with the Company’s internal processes for addressing environmental and social risks associated with the financed projects. This is aligned with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer’s environmental sustainability objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
|---|---|

- Defined and transparent criteria for projects eligible for Green Bond proceeds
- Documented process to identify and manage potential ESG risks associated with the project
- Summary criteria for project evaluation and selection publicly available
- Other (*please specify*):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification
- In-house assessment
- Other (*please specify*):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Capital Power’s Treasury department will be responsible for the allocation and management of net proceeds from each issuance. The Company intends to achieve full allocation within 36 months of each issuance. Pending full allocation, the unallocated proceeds may be temporarily used per the Company’s internal liquidity management policies and strategies. This is aligned with market practice.

Tracking of proceeds:

- Green Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (*please specify*):

Additional disclosure:

- Allocations to future investments only
- Allocations to both existing and future investments
- Allocation to individual disbursements
- Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds
- Other (*please specify*):

4. REPORTING

Overall comment on section (*if applicable*):

Capital Power intends to publish allocation and impact reporting annually on its website, until full allocation. Allocation reporting will include project-wide details on the allocation of proceeds, a brief description or update on the projects, and the balance of unallocated proceeds, if any. In addition, Capital Power is committed to reporting on relevant impact metrics. Sustainalytics views Capital Power’s allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported:

- Allocated amounts Green Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project On a project portfolio basis
- Linkage to individual bond(s) Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings Energy Savings
- Decrease in water use Other ESG indicators (please specify): Renewable energy production (MWh), Installed Capacity (MW) and Energy storage capacity (MW and MWh).

Frequency

- Annual Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report Information published in sustainability report
- Information published in ad hoc documents Other (please specify): The Company’s website

Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer’s documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF INDEPENDENT REVIEW PROVIDERS AS DEFINED BY THE GBP

- i. **Second-Party Opinion:** An institution with environmental expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer’s adviser for its Green Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Green Bond Principles. In particular, it can include an assessment of the issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability, and an evaluation of the environmental features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer’s internal tracking method for use of proceeds, allocation of funds from Green Bond proceeds, statement of environmental impact or alignment of reporting with the GBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Green Bond or associated Green Bond framework or Use of Proceeds certified against a recognised external green standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Green Bond Scoring/Rating:** An issuer can have its Green Bond, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental performance data, the process relative to the GBP, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental risks.

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In case of discrepancies between the English language and translated versions, the English language version shall prevail.

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For more information, visit www.sustainalytics.com

Or contact us contact@sustainalytics.com

