

**TERMS OF REFERENCE FOR
THE BOARD OF DIRECTORS OF CAPITAL POWER INCOME L.P.
(the “Partnership”)**

I. INTRODUCTION

- A. The Board of Directors' (the "Board") primary responsibility is to foster the long-term success of the Partnership consistent with the requirements set out in the Limited Partnership Agreement as amended and restated from time to time and the Board's fiduciary responsibility to the Partnership's unitholders (the "Limited Partners") to maximize unitholder value.
- B. The Board of Directors has plenary power and is responsible for the stewardship of the Partnership. Any responsibility not delegated to management or a committee of the Board remains with the Board. This Terms of Reference has been prepared to assist the Board and management in clarifying responsibilities and seeking to ensure effective communication between the Board and management.

II. COMPOSITION AND BOARD ORGANIZATION

- A. Nominees for directors are initially considered and recommended by the nominating sub-committee of the Governance Committee of the Board, approved by the entire Board and elected annually by the shareholder of the General Partner, CPI Income Services Limited.
- B. The Board of Directors shall be composed of not more than eight members at least four of whom shall be independent directors who are not officers, directors or employees of Capital Power Corporation, ("Capital Power"), its subsidiaries or affiliates and are free from any direct or indirect interest, any business or other relationship that could interfere with a director's independence or ability to act in the best interests of the Company and the Partnership.
- C. Certain of the responsibilities of the Board referred to herein may be delegated to committees of the Board. The responsibilities of those committees will be as set forth in their terms of reference, as may be amended by the Board from time to time.

III. DUTIES AND RESPONSIBILITIES

A. Managing the Affairs of the Board

The Board operates by delegating certain of its authorities to management and by reserving certain powers to itself. Certain of the legal obligations of the Board are described in detail in Section IV. Subject to these legal obligations and to the Articles and By-laws of the General Partner and the covenants and agreements contained in the Limited Partnership Agreement made as of March 27, 1997, as may be amended and restated from time to time, among the General Partner, the Initial Limited Partner and

subsequent Limited Partners, the Board retains the responsibility for managing its own affairs, including:

- i) planning its composition and size;
- ii) selecting its Chair and any Lead Director;
- iii) approving appointment of Directors;
- iv) approving committees of the Board and membership of directors thereon;
- v) approving the terms of reference of the Board, Board Committees, and President;
- vi) determining independence of any member;
- vii) approving director compensation; and
- viii) assessing the effectiveness of the Board, committees and directors in fulfilling their responsibilities.

B. Management and Human Resources

The Board has the responsibility for the appointment and succession of the officers of the General Partner and the Partnership as well as:

- i) approving a position description for the President;
- ii) reviewing the President's performance at least annually, against agreed-upon written objectives; and
- iii) approving as may be required decisions relating to the appointment, discharge, and duties and responsibilities of senior management.

C. Strategy and Plans

The Board has the responsibility to:

- i) participate in strategic planning sessions seeking to ensure that management develops a strategic plan, and ultimately to approve the Partnership's strategies and objectives;
- ii) approve capital commitments and expenditure budgets and related operating plans for the Partnership;
- iii) approve the entering into, or withdrawing from, lines of business that are, or are likely to be, material to the Partnership;
- iv) approve material divestitures and acquisitions for the Partnership; and
- v) monitor management's and the Manager's progress and achievements in implementing major corporate strategies and objectives, in light of changing circumstances.

D. Financial and Corporate Issues

The Board has the responsibility to:

- i) monitor the Partnership's operational and financial results;
- ii) approve the Partnership's annual financial statements, and receive reports from the Audit Committee on the review and approval of quarterly financial results;

- ii) approve the Partnership's Annual Information Form and documents incorporated by reference therein;
- iv) declare Partnership cash distributions;
- v) approve information circulars to unitholders; Partnership financings and prospectuses, issuance of units, debt securities, subscription receipts and the listing of Partnership units and other securities and the entering into of trust indentures;
- vi) approve the external auditors and the external auditors' compensation;
- vii) approve banking relationships and any significant changes in such relationships;
- viii) approve appointments, agreements with or material changes in the relationships with any corporate trustees for the Partnership;
- ix) approve contracts, leases and other arrangements or commitments that may have a material impact on the General Partner or the Partnership;
- x) approve the commencement or settlement of litigation that may have a material impact on the General Partner or the Partnership; and
- xi) approve spending authority guidelines.

E. Business and Risk Management

The Board has the responsibility to:

- i) seek to ensure that management has identified the principal risks of the Partnership's business and has implemented appropriate systems and strategies to manage these risks and to understand the principal risks and whether the Partnership has an appropriate balance between risks and returns;
- ii) review reports on the Partnership's capital commitments and expenditures relative to approved budgets;
- iii) review the Partnership's operating and financial performance relative to budgets or objectives;
- iv) receive, on a regular basis, reports from management on matters relating to, among others, ethical conduct, environmental management, the health and safety practices and performance of the Manager, and related party transactions;
- v) assess and monitor internal control and management information systems applied to the Partnership by evaluating and assessing information provided by internal and external auditors about the effectiveness of the systems.

F. Policies and Procedures

The Board has responsibility to:

- i) monitor compliance with all significant policies and procedures by which the General Partner and the Partnership are operated;

- ii) direct management in seeking to ensure the General Partner and the Partnership operate at all times within applicable laws and regulations and to the highest ethical and moral standards;
- iii) provide policy direction to management while respecting its responsibility for day-to-day management of the General Partner's and Partnership's businesses, including the General Partner's contractual obligation to the Partnership and the Partners arising out of the Limited Partnership's Agreement; and
- iv) review significant new corporate policies or material amendments to existing policies (including, for example, policies regarding business conduct, conflict of interest and the environment).

G. Compliance Reporting and Corporate Communications

The Board has the responsibility to:

- i) seek to ensure the Partnership has in place effective communication processes with the unitholders and other stakeholders and financial, regulatory and other recipients;
- ii) approve interaction with unitholders on all items requiring unitholder response or approval;
- iii) take all reasonable and prudent steps in seeking to ensure there are processes in place so that financial performance of the Partnership is adequately reported to Limited Partners and regulators on a timely and regular basis;
- iv) take all reasonable and prudent steps in seeking to ensure there are processes in place so that financial results of the Partnership are reported fairly and in accordance with Canadian generally accepted accounting principles and in compliance with applicable law; and
- v) take all reasonable and prudent steps in seeking to ensure there are processes in place so that there is timely reporting of any other developments that could have significant or material impact on the General Partner or the Partnership.

IV. GENERAL LEGAL OBLIGATIONS OF THE BOARD OF DIRECTORS

A. The Board is responsible for:

- i) directing management to be diligent in seeking to ensure all legal requirements have been met and documents and records have been properly prepared, approved and maintained;
- ii) approving the Partnership's overall legal structure including for its subsidiaries all constating documents and any amendments thereto, and any amendments to the Limited Partnership Agreement, subject only to where applicable to shareholder or Limited Partner approval or confirmation;
- iii) confirming that management is seeking full compliance with all legal requirements applicable to the General Partner and the Partnership, including, but without limitation, corporate environmental and securities law;

- iv) performing such functions as it reserves to itself or which cannot, by law, be delegated to committees of the Board or to management; and
- v) confirming the Partnership is conducting itself and its business in compliance with the Limited Partnership Agreement.

V. CHAIR

The Chair of the Board plays a critical leadership role in promoting the optimum functioning of the General Partner's Board of Directors and in maintaining a positive working relationship between the Board of Directors and Management and the Partnership and the Partnership's limited partners. The Chair's prime responsibility is seeking to ensure the effective operation of the Board of Directors by managing Board and Shareholder meetings, monitoring and overseeing the strategic agenda of the Corporation, and providing leadership and advice respecting the General Partner's business planning processes and the Partnership's corporate governance. In order to fulfill this mandate, the Chair must seek to ensure that the responsibilities of the Board are well understood by both the Board and Management and that the boundaries between the Board and Management are clearly understood and respected.

The Chair of the Board reports to the Partnership's limited partners, except in cases in which there exists a conflict of interest between Capital Power and the other limited partners, in which case the Chair (like other Capital Power-elect Directors) must declare the conflict and recuse himself from any discussions regarding the subject of the conflict of interest. In situations in which the Chair experiences a conflict of interest or temporarily cannot perform his or her duties for any other reason, the Lead Director acts as chair.

The Chair's duties and obligations include:

- i) seeking to ensure that the limited partners and financial markets receive accurate, relevant and timely information respecting Board actions;
- ii) acting as chief spokesperson for the Board, including representing the Board's views to, and reporting back to the Board respecting communications with, the limited partners and financial markets;
- iii) chairing meetings of the Board and seeking to ensure that meetings are properly convened, business is conducted legally and accurate minutes of proceedings are recorded;
- iv) working with the Lead Director, President and the Corporate Secretary to set Board meeting schedules, establishing agenda that address areas within the Board's responsibility and seeking to ensure that Board information packages and presentations are focused and of appropriate length, content and context to support sound decisions;
- v) encouraging full participation by Directors in, and vigorous debate of issues at, meetings, creating an open atmosphere for Directors to ask questions or dissent freely;
- vi) maintaining open channels of communication with Directors between meetings;

- vii) seeking to ensure the adoption by the Board of good corporate governance practices which will assist in keeping the General Partner and the Partnership strong, viable and competitive;
- viii) providing leadership in Board organization, effectiveness and renewal, making recommendations respecting optimum Board and committee structure, processes, operation and membership;
- ix) taking a lead role in assessing and addressing any concerns related to the performance of the Board as a whole, committees of the Board (other than the Independent Directors Committee) or individual Directors;
- x) assisting Directors, collectively and individually, to achieve full utilization of individual abilities, recommending director orientation and training opportunities where required;
- xi) working with committee chairs to establish effective communication and information-sharing mechanisms and clear delineation of responsibilities between committees of the Board;
- xii) attending committee meetings, except the Independent Directors Committee, as an ex-officio member of all Board committees; and
- xiii) supporting and assisting the President to:
 - a) communicate Board directives and requests to Management and report responses to the Board;
 - b) communicate with the President between meetings;
 - c) contribute to the selection, performance assessment and compensation review process of the President and other Capital Power-elect Directors; and
 - d) work with the President to develop and maintain productive relationships with all stakeholders, and represent the General Partner and Partnership with limited partners, regulators, customers, stakeholders, the community and the media.