

Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar affect Capital Power's capital and operating costs, revenues and cash flows and could have an adverse impact on Capital Power's financial performance and condition. The U.S. plant operations and the foreign-sourced equipment required for capital projects are transacted in U.S. dollars. In addition, certain indebtedness is denominated in U.S. dollars.

*Strategies for managing reliance on foreign exchange risk.*

- Utilize foreign currency forward contracts.
- Contract significant purchases or borrowings in Canadian dollars.
- Utilize U.S. dollar denominated debt to finance U.S. acquisitions and developments.

The Company is dependent upon cash dividends, distributions or other transfers from its subsidiaries, including CPLP, in order to repay any debt the Company may incur, make dividend payments to its shareholders and meet its other obligations. The right of the Company, as a unitholder or shareholder of these entities, to realize on the assets of these entities in the event of their bankruptcy or insolvency, would be subordinate to the rights of their creditors and claimants preferred by statute. CPLP's credit facilities prohibit CPLP from making distributions, if an event of default has occurred and is continuing or would reasonably be expected to result from the distribution. As of December 31, 2012, the Company has loaned \$266 million to CPLP under subordinated debt agreements. The terms of this agreement allow interest to be deferred. If interest is deferred, then CPLP has covenanted not to make distributions on any of its outstanding common limited partnership units.

For as long as EPCOR maintains a significant indirect equity and voting interest in the Company, EPCOR will have the ability to significantly influence the outcome of shareholder votes, including the ability to prevent certain fundamental transactions. As a result, EPCOR has the ability to influence many matters affecting the Company.

Conflicts of interest and disputes may arise between Capital Power and EPCOR relating to a potential misalignment between the companies' corporate objectives and business interests or the companies' past and ongoing relationships. Capital Power may not be able to resolve a potential conflict, and if it does, the resolution may be less favourable to Capital Power than if it were dealing with a party that was not a significant holder of equity of the Company.

Furthermore, EPCOR's significant equity ownership may discourage transactions involving a change of control of the Company, including transactions in which a holder of common shares might otherwise receive a premium for its common shares over the then-current market price.

The interests of other common shareholders are protected by the Board structure which provides EPCOR the right, voting separately as a class, to nominate and elect four directors of the Company. There are currently twelve directors on Capital Power's Board of Directors.

EPCOR has no contractual obligation to retain any exchangeable common limited partnership units of CPLP or common shares of the Company. At December 31, 2012, EPCOR's interest in the Company was approximately 29%. EPCOR has advised the Company that it intends to eventually sell all or a substantial number of the common shares underlying its exchangeable common limited partnership units, subject to market conditions, its requirement for capital and other circumstances that may arise in the future. Capital Power is entitled to defer such offerings of common shares requested by EPCOR in certain circumstances for a limited period. Any sale of substantial amounts of common shares in the public market by EPCOR or the Company, or the perception that such sales could occur, could adversely affect prevailing market prices for the common shares and impede the Company's ability to raise capital through the issuance of additional equity securities.

*Strategies for managing corporate structure risk*

- Maintain good relationship with EPCOR to ensure that EPCOR continues to act only as an investor in and not as a manager of the Company.

Weather can have a significant impact on Capital Power's operations. Temperature levels, seasonality and precipitation, both within Capital Power's markets and adjacent geographies, can affect the level of demand for electricity and natural gas, thus resulting in electricity and natural gas price volatility.

In the normal course of Capital Power's operations, it may become involved in various legal proceedings including arbitration of the interpretation of any contract. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty. However, the Company does not believe that the outcome of any claims or potential claims of which it is aware will have a material adverse effect on Capital Power's financial condition and results of operations. See Contractual Obligations and Contingent Liabilities.