CAPSTONE INFRASTRUCTURE CORPORATION

ANNUAL INFORMATION FORM

For the Financial Year Ended December 31, 2013

March 26, 2014

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EXPLANATORY NOTES

Except where otherwise indicated, all references to dollar amounts and "$" are to Canadian dollars. In this Annual Information Form, unless the context otherwise requires, "Capstone" or the "Corporation" refers to Capstone Infrastructure Corporation (which prior to April 15, 2011 was named "Macquarie Power and Infrastructure Corporation") and its subsidiary entities on a consolidated basis and, in the case of references to matters undertaken prior to January 1, 2011, refers to the Corporation's predecessor, Macquarie Power & Infrastructure Income Fund, and its subsidiary entities on a consolidated basis (the "Fund"). **Please refer to the "Glossary" in this Annual Information Form for the definitions of certain defined terms.**

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of the Corporation based on information currently available to the Corporation. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "intend", "estimate", "plan", "believe" or other similar words, and include, among other things, statements concerning: the Corporation's strategy; the New Cardinal NUG Contract and expectations regarding the sale of electricity by the Cardinal Cogen Facility; arrangements with Ingredion in respect of the Cardinal Cogen Facility; the supply and transportation of natural gas to the Cardinal Cogen Facility; the expected completion and resulting production capacity of the Wind Development Projects; continuation of the Sechelt Hydro Facility's PPA; the sale of electricity following the expiry of the Whitecourt PPA; changes to the DH Act; the UK Government's Water Bill; any scheduled major maintenance projects; any refinancing of indebtedness; changes to Environmental, Health and Safety Laws, regulations, and guidelines; the regulatory environment affecting the Power Infrastructure Facilities, Värmevärden and Bristol Water; the renewal of Värmevärden's industrial contracts; and the Corporation's dividends and dividend policy. These statements are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation ("MD&A") for the year ended December 31, 2013 under the heading "Results of Operations", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that there will be no material delays in the Wind Development Projects that are in development achieving commercial operation; that the Power Infrastructure Facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no material changes to the Corporation's facilities, equipment or contractual arrangements; that there will be no material changes in the legislative, regulatory and operating framework for the Corporation's businesses; that there will be no material delays in obtaining required approvals and no material changes in rate orders or rate structures for the Power Infrastructure Facilities, Värmevärden or Bristol Water; that there will be no material changes in environmental regulations for the Power Infrastructure Facilities, Värmevärden or Bristol Water; that there will be no significant event occurring outside the ordinary course of the Corporation's businesses; that there will be no material change to the accounting treatment for Bristol Water's business under International Financial Reporting Standards, particularly with respect to accounting for maintenance capital expenditures; that there will be no material change to the amount and timing of capital expenditures by Bristol Water; that there will be no material changes to the Swedish Krona to Canadian dollar and UK pound sterling to Canadian dollar exchange rates; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying AMP5, including, among others: real and inflationary increases in Bristol Water's revenue, Bristol Water's expenses increasing in line with inflation, and capital investment, leakage, customer service standards and asset serviceability targets being achieved.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation's securities (dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation's securities; shareholder dilution; and convertible debentures credit risk, subordination and absence of covenant protection); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; foreign currency exchange rates; acquisitions, development and integration; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); risks related to the Power Infrastructure Facilities (power purchase agreements; completion of Wind Development Projects; operational performance; fuel costs and supply; contract performance and reliance on suppliers; land tenure and related rights; environmental; regulatory environment); risks related to Värmevärden (operational performance; fuel costs and availability; industrial and residential contracts; environmental; regulatory environment; and labour relations) and risks related to Bristol Water (Ofwat price determinations and changes to Instrument of Appointment; failure to deliver capital investment programs; economic conditions; operational performance; failure to deliver water leakage target; SIM and the serviceability assessment; pension plan obligations; regulatory environment; competition; seasonality and climate change; and labour relations .

The assumptions, risks and uncertainties described above are not exhaustive and other events and risk factors could cause actual results to differ materially from the results and events discussed in the forward-looking statements. The forward-looking statements within this document reflect current expectations of the Corporation as at the date of this document and speak only as at the date of this document. Except as may be required by applicable law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements.

This document contains statistical data, market research and industry forecasts that were obtained from government and industry publications and reports or which are based on estimates derived from same and management's knowledge of, and experience in, the markets in which the Corporation operates. Market and industry data is subject to variations and cannot be verified due to limits on the availability and reliability of data inputs and other limitations and uncertainties inherent in any statistical survey. While management believes this data to be reliable, the Corporation has not independently verified the accuracy or completeness of any of the data from third party sources or ascertained the underlying assumptions relied upon by such sources. Accordingly, the accuracy, currency and completeness of this information cannot be guaranteed. Actual outcomes may vary materially from those forecast in such publications or reports, and the prospect for material variation can be expected to increase as the length of the forecast period increases.

This Annual Information Form is not an offer or invitation for the subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of any investors. Before making an investment in the Corporation, an investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser, if necessary.

THE CORPORATION

The principal office of the Corporation is located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. The registered office of the Corporation is located at 595 Burrard Street, Suite 2600, Three Bentall Centre, Vancouver, British Columbia, V7X 1L3.

MISSION, VISION AND STRATEGY

The Corporation's vision is to be a Canadian leader in owning and operating diversified infrastructure businesses that benefit the communities we serve, the people we employ, and our investors.

The Corporation's mission is to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally. Capstone's portfolio comprises investments in gas cogeneration, wind, hydro, biomass and solar power generating facilities representing, as at March 26, 2014, approximately net 439 MW of installed capacity and ownership interests in a pipeline of contracted wind power development projects expected to total approximately net 79 MW of capacity. Capstone also owns a 33.3% interest in Värmevärden, a district heating business in Sweden, and a 50% interest in Bristol Water, a regulated water utility in the United Kingdom (the "UK").

The Corporation's strategy to achieve its vision and mission has three key elements:

(i) maximize and sustain the long-term value of the Corporation's businesses;

(ii) deliver strong financial performance and maintain financial flexibility; and

(iii) achieve prudent growth.

The Corporation's parameters for growth include:

(i) an international scope encompassing Canada as well as countries that are members of the Organization for Economic Cooperation and Development, with a primary focus on North America, the United Kingdom, and Northern and Western Europe, with Australia and New Zealand remaining markets of interest

(ii) focusing on regulated or contractually defined core infrastructure businesses in four pillars, including power, utilities, transportation and public-private partnerships;

(iii) seeking a blend of operating businesses as well as development opportunities that offer an appropriate risk-adjusted rate of return; and

(iv) a preference for wholly-owned businesses with the ability to take a minority position where the Corporation is protected by a strong governance framework.

STRUCTURE

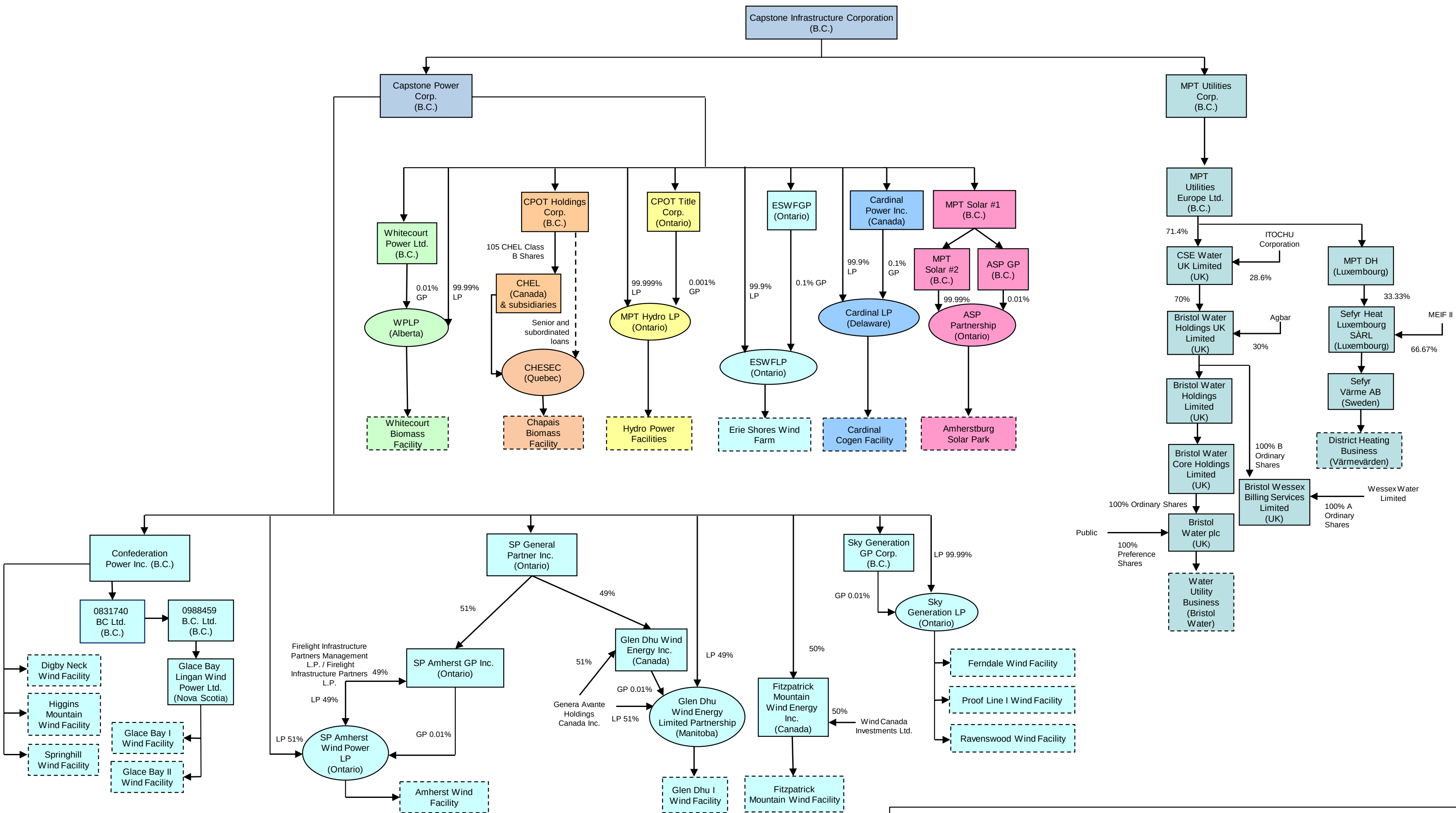
The Corporation was incorporated on May 20, 2010 as 0881592 B.C. Ltd. pursuant to the provisions of the *Business Corporations Act* (British Columbia) (the "BCBCA"). The Corporation's articles were amended on October 12, 2010 to change its name to "Macquarie Power and Infrastructure Corporation". The Corporation's articles were further amended on December 31, 2010 to create a class of preferred shares, issuable in series.

The Corporation is the successor to Macquarie Power & Infrastructure Income Fund pursuant to a plan of arrangement completed on January 1, 2011 under the BCBCA (the "Arrangement"). Under the Arrangement, (i) all of the issued and outstanding trust units of the Fund (the "Units") were automatically exchanged for common shares in the capital of the Corporation ("Common Shares") on a one-for-one basis and (ii) the Corporation became the sole owner of all of the issued and outstanding Units and the indirect owner of all of the businesses owned by the Fund. The Corporation changed its name to "Capstone Infrastructure Corporation" on April 15, 2011.

As at March 26, 2014, the Corporation had approximately 100 employees (not including employees at the Chapais Biomass Facility, Värmevärden and Bristol Water).

The chart on the following page presents a summary of the ownership and organizational structure of the Corporation, its material subsidiaries and certain other entities as at March 26, 2014. In the chart below, “GP” denotes a general partnership interest, “LP” denotes a limited partnership interest, the governing jurisdiction of each entity is noted in parentheses and, unless otherwise specified, all ownership interests denoted are 100%.

CAPSTONE INFRASTRUCTURE CORPORATION



Agbar:	Sociedad General de Aguas de Barcelona, S.A.	**MEIF II:**	Macquarie European Infrastructure Fund II
ASP GP:	Helios Solar Star A-1 Ltd.	**MPT DH:**	MPT District Heating Luxembourg SÀRL
ASP Partnership:	Helios Solar Star A-1 Partnership	**MPT Solar #1:**	MPT Solar Power #1 Ltd.
Cardinal LP:	Cardinal Power of Canada, L.P.	**MPT Solar #2:**	MPT Solar Power #2 Ltd.
CHEL:	Chapais Électrique Limitée	**Hydro Power Facilities:**	Dryden Hydro Facility, Hluey Lakes Hydro Facility, Sechelt Hydro Facility and Wawatay Hydro Facility
CHESEC:	Chapais Énergie, société en commandite		
ESWFGP:	Erie Shores Wind Farm General Partner Inc.	**WPLP:**	Whitecourt Power Limited Partnership
ESWFLP:	Erie Shores Wind Farm Limited Partnership		

GENERAL DEVELOPMENT OF THE BUSINESS

FISCAL YEAR 2011

On January 1, 2011, the Corporation and the Fund completed the Arrangement. Following the Arrangement, the organizational structure of the Corporation was simplified and certain of its subsidiaries were reorganized, amalgamated and/or wound-up.

On March 31, 2011, the Corporation, through an indirect wholly-owned subsidiary, acquired a 33.3% ownership interest in a portfolio of district heating businesses located in Sweden (referred to herein as "Värmevärden"). The purchase price for the Corporation's 33.3% ownership interest in Värmevärden was approximately $109 million, including transaction costs. The remaining 66.7% ownership interest was acquired by an indirect wholly-owned subsidiary of Macquarie European Infrastructure Fund II ("MEIF II"), which is managed by an indirect wholly-owned subsidiary of Macquarie Group Limited ("MGL"). See "Narrative Description of the Business - Utilities - District Heating Business – Värmevärden – Overview".

On April 15, 2011, the Corporation and certain of its subsidiaries terminated all management and administrative agreements with Macquarie Power Management Ltd. ("MPML"), an indirect wholly-owned subsidiary of MGL, for aggregate consideration equal to approximately $14 million (plus applicable tax), thereby internalizing the management of the Corporation (the "Internalization Transaction"). Prior to the Internalization Transaction, MPML provided administrative services to the Corporation and provided or arranged for certain management services to be provided to certain subsidiaries of the Corporation. Effective upon the termination of the management and administrative agreements with MPML, the senior management team of the Corporation, all of whom were employees of affiliates of MPML, became employees of the Corporation and continued in their previous roles. One-time costs related to the Internalization Transaction totalled approximately $20 million (including the consideration paid to MPML). In connection with the Internalization Transaction, an affiliate of MPML subscribed for 855,746 Common Shares, at a price of $7 million. After completion of the Internalization Transaction, the Corporation changed its name to "Capstone Infrastructure Corporation".

On June 30, 2011, the Corporation completed an offering of 3,000,000 cumulative five-year rate reset preferred shares, series A (the "Series A Preferred Shares"), at a price of $25.00 per Series A Preferred Share for gross proceeds of $75 million (see "Capital Structure of the Corporation – Preferred Shares – Series A Preferred Shares"). The Series A Preferred Shares are publicly listed for trading on the TSX under the symbol CSE.PR.A (see "Market for Securities – Series A Preferred Shares").

On October 5, 2011, the Corporation acquired an indirect 70% ownership interest in Bristol Water plc ("Bristol Water"), a regulated UK water utility, from Sociedad General de Aguas de Barcelona, S.A. ("Agbar"), for approximately $215 million plus transaction costs (see "Narrative Description of the Business - Utilities - Water Distribution Business – Bristol Water").

On November 10, 2011, the Corporation completed an offering of 12,000,000 Common Shares, at a price of $6.25 per Common Share for gross proceeds of $75 million.

On December 6, 2011, the Corporation updated certain previously disclosed financial outlook to reflect the impact of certain external events and revised assumptions. The Corporation also announced that the Board of Directors and management intended to re-evaluate the Corporation's dividend policy for the Common Shares in the first half of 2012.

FISCAL YEAR 2012

On May 10, 2012, the Corporation sold a 20% indirect ownership interest in Bristol Water to ITOCHU Corporation ("ITOCHU") for net proceeds of approximately $68 million. Pursuant to the transaction, I-Environment Investments Limited ("I-Environment"), an indirect wholly-owned subsidiary of ITOCHU, purchased a 2/7ths ownership interest in CSE Water UK Limited ("CSE Water"). CSE Water holds a 70% ownership interest in Bristol Water Holdings UK Limited ("Bristol Water Holdings"), which is the company that owns a 100% indirect ownership interest in Bristol Water. Following the sale, the Corporation now holds a 50% indirect ownership interest in Bristol Water, ITOCHU holds a 20% indirect ownership interest in Bristol Water and the remaining 30% indirect ownership interest in Bristol Water continues to be held by Agbar (see "Narrative Description of the Business – Utilities – Water Distribution Business – Bristol Water").

On June 1, 2012, the Board of Directors of the Corporation established a new policy with respect to the timing and amount of the Corporation's dividend, commencing with the month ended June 2012. Under the new dividend policy, the Corporation pays a quarterly dividend of $0.075 per Common Share, or $0.30 per Common Share on an annualized basis. See "Dividends – Dividend Policies".

On June 6, 2012, MPT Hydro LP, an indirect wholly-owned subsidiary of the Corporation which owns the Dryden Hydro Facility, the Hluey Lakes Hydro Facility, the Sechelt Hydro Facility and the Wawatay Hydro Facility (collectively, the "Hydro Power Facilities"), completed an offering of approximately $80.4 million aggregate principal amount of senior secured bonds and approximately $20.2 million aggregate principal amount of subordinated secured bonds (collectively the "Hydro Bonds"). See "Narrative Description of the Business – Power Infrastructure – Hydro – Hydro Bonds".

On December 12, 2012, the Corporation announced the formation of a new power development subsidiary, Capstone Power Development. Capstone Power Development has opened an office in Vancouver, British Columbia which will focus on developing and acquiring renewable and clean electricity generation projects primarily in western Canada and the United States of America ("US").

FISCAL YEAR 2013

On October 1, 2013, Capstone acquired 100% of the issued and outstanding common shares ("ReD Shares") of Renewable Energy Developers Inc. ("ReD") by the way of a plan of arrangement under the *Canada Business Corporation Act* (the "ReD Arrangement"). Pursuant to the ReD Arrangement, each ReD shareholder received 0.26 of a Common Share and $0.001 in cash in exchange for each ReD Share held. Also, pursuant to the Arrangement, the 6.75% extendible convertible unsecured subordinated CPC 2017 Debentures initially issued by ReD due December 31, 2017 became convertible into Common Shares and cash pursuant to the terms of the CPC 2017 Debenture Indenture, while remaining outstanding obligations of ReD (ReD subsequently amalgamated with Capstone Power Corp, ("CPC"), which became the successor issuer of the CPC 2017 Debentures). The Corporation has agreed to provide credit support for the CPC 2017 Debentures. The acquisition of ReD expanded Capstone's renewable power footprint in Canada by adding net 95 MW in operating wind power facilities in Nova Scotia and Ontario and a pipeline of contracted wind power development projects expected to total approximately net 79 MW in capacity. Details regarding the ReD Arrangement are available in the Corporation's business acquisition report on Form 51-102F4 available under the Corporation's SEDAR profile at www.sedar.com.

On November 12, 2013, the Corporation repaid its previously outstanding revolving and term credit facilities and entered into the new $32.5 million Revolving Credit Facility (subsequently increased to $50 million on January 21, 2014) with a three-year term (with annual options to extend) maturing in November 2016. See "Capital Structure of the Corporation – Revolving Credit Facility".

NARRATIVE DESCRIPTION OF THE BUSINESS

OPERATING SEGMENTS

As at March 26, 2014, the operating segments of the Corporation were power infrastructure, utilities- water and utilities-district heating. Revenue earned by the Corporation for each segment is reported in the following table:

Revenue ($000s)	Power [1]	Utilities		Total
		Water	District Heating [2]	
Year ended December 31, 2013	193,928	195,575	-	389,503
Year ended December 31, 2012	179,218	178,392	-	357,610
Year ended December 31, 2011	172,407	43,506	-	215,967

Notes:

(1) In addition, in 2013, the Corporation earned aggregate interest income of approximately $333,000 relating to the CHESEC Tranche A Senior Debt (approximately $446,000 in 2012 and approximately $547,000 in 2011), and approximately $125,000 relating to the CHESEC Tranche B Senior Debt (approximately $125,000 in 2012 and nil in 2011).

(2) In addition, in 2013, the Corporation earned interest income and received dividends in the aggregate amount of approximately $6 million (interest and dividends in the aggregate amount of approximately $5 million in 2012 and aggregate interest only in the amount of $5 million in 2011).

POWER INFRASTRUCTURE

Overview

The Corporation currently holds investments, directly or indirectly, in the following power infrastructure facilities:

Facility	Net Capacity of Facility	Capstone's Ownership Interest %	Capstone's Ownership Interest Net Capacity Ownership Interest	Location	Power Purchaser	Expiry of PPA[1]
Gas Cogeneration						
Cardinal	156 MW	100%	156 MW	Ontario	Ontario Electricity Financial Corporation	2014[2]
Wind						
Erie Shores	99 MW	100%[3]	99 MW	Ontario	Ontario Power Authority	2026
Wind Power Facilities – Nova Scotia						
Glen Dhu I	62.1 MW	49%	30.5 MW	Nova Scotia	Nova Scotia Power Inc.	2031
Amherst	31.5 MW	51%	16.1 MW	Nova Scotia	Nova Scotia Power Inc.	2037
Glace Bay I and II	17.5 MW and 2.3 MW	100%	19.8 MW	Nova Scotia	Nova Scotia Power Inc.	2020/2022 2032
Higgins Mountain	3.6 MW	100%	3.6 MW	Nova Scotia	Nova Scotia Power Inc.	2021
Springhill	2.1 MW	100%	2.1 MW	Nova Scotia	Nova Scotia Power Inc.	2021
Fitzpatrick Mountain	1.6 MW	50%	0.8 MW	Nova Scotia	Nova Scotia Power Inc.	2021
Digby Neck	0.9 MW	100%	0.9 MW	Nova Scotia	Nova Scotia Power Inc.	2021
Wind Power Facilities – Ontario						
Ravenswood	9.9 MW	100%	9.9 MW	Ontario	Ontario Power Authority	2027
Proof Line I	6.6 MW	100%	6.6 MW	Ontario	Ontario Power Authority	2029
Ferndale	5.1 MW	100%	5.1 MW	Ontario	Ontario Power Authority	2026
Hydro Power						
Sechelt	16 MW	100%	16 MW	British Columbia	British Columbia Hydro and Power Authority	2017
Hluey Lakes	3 MW	100%	3 MW	British Columbia	British Columbia Hydro and Power Authority	2020
Wawatay	13.5 MW	100%	13.5 MW	Ontario	Ontario Electricity Financial Corporation	2042
Dryden[4]	3.25 MW	100%	3.25 MW	Ontario	Ontario Electricity Financial Corporation	2020
Biomass						
Whitecourt	25 MW	100%	25 MW	Alberta	TransAlta Utilities Corp.	2014
Chapais	28 MW	- [5]	8.8 MW[6]	Québec	Hydro-Québec	2015
Solar						
Amherstburg	20 MW	100%	20 MW	Ontario	Ontario Power Authority	2031
Total			439 MW			

Notes:

(1) See "Risk Factors – Risks Related to the Power Infrastructure Facilities – Power Purchase Agreements".

(2) Cardinal LP entered into a new 20-year non-utility generator contract with the OPA in March 2014 that will commence January 1, 2015 (see "Narrative Description of the Business – Power Infrastructure – Gas Cogeneration – Cardinal Cogen Facility – Cardinal Power Purchase Agreements").

(3) One of the 1.5 MW wind turbines located at the Erie Shores Wind Farm is not owned by ESWFLP (see "Narrative Description of the Business – Power Infrastructure – Wind – Erie Shores Wind Farm – Overview").

(4) The Dryden Hydro Facility is comprised of the Wainwright, Eagle River and McKenzie Falls hydro power generating stations.

(5) The Corporation's investment in the Chapais Biomass Facility consists of approximately $2.6 million of the CHESEC Tranche A Senior Debt, $3.6 million of the CHESEC Tranche B Senior Debt and $2.6 million of other subordinated debt of CHESEC as well as a 31.3% interest in one of the two outstanding classes of preferred shares of CHEL (see "Narrative Description of the Business – Power Infrastructure – Biomass – Chapais Biomass Facility – Corporation's Investment").

(6) The Corporation's net capacity ownership interest reflects its indirect economic investment in the Chapais Biomass Facility.

The Corporation's material power infrastructure assets, being the Cardinal Cogen Facility, the Wind Power Facilities, the Hydro Power Facilities, the Whitecourt Biomass Facility and the Amherstburg Solar Park (collectively, the "Power Infrastructure Facilities") hold all material permits and approvals required for their respective operations.

Gas Cogeneration

Cardinal Cogen Facility

Overview

The Cardinal Cogen Facility is a combined-cycle cogeneration facility fuelled by natural gas with a net rated capacity of 156 MW of electrical power, comprised of a 110 MW (gross) Siemens combustion turbine generator and a 50 MW (gross) Siemens CMI Energy steam turbine. Located in Cardinal, Ontario, the Cardinal Cogen Facility began commercial operations in November 1994.

Cardinal Power Purchase Agreements

The electricity generated by the Cardinal Cogen Facility (less the amount consumed in its operations) is currently sold to the Ontario Electricity Financial Corporation (the "OEFC") at contracted rates (subject to certain escalation provisions) under a 20-year PPA (the "Cardinal PPA") made on May 29, 1992 between Ontario Hydro (which was succeeded by OEFC) and Cardinal LP, an indirect, wholly-owned subsidiary of the Corporation and the owner of the Cardinal Cogen Facility. The OEFC has agreed under the Cardinal PPA to purchase all electricity produced by the facility. In fiscal 2013, approximately 98% of the Cardinal Cogen Facility's revenues were derived from the sale of electricity to the OEFC.

On March 26, 2014, Cardinal LP entered into a new 20-year non-utility generator contract (the "New Cardinal NUG Contract") with the Ontario Power Authority (the "OPA") that provides for the sale of electricity from the Cardinal Cogen Facility as a Dispatchable facility commencing January 1, 2015. Under the New Cardinal NUG Contract, Cardinal LP is entitled to receive a monthly fixed facility participation payment (the "FFPP") (subject to certain escalation provisions) from the OPA, which is intended to cover the fixed operating costs and return on capital for the Cardinal Cogen Facility. During the term of the New Cardinal NUG Contract, Cardinal LP will bid, in accordance with the terms of the New Cardinal NUG Contract and the Independent Electricity System Operator (the "IESO") market rules, electricity produced by the Cardinal Cogen Facility into the market administered by the IESO and receive the market price. Such production is expected to occur in circumstances where the market price that Cardinal LP would receive for the electricity it produces exceeds the variable costs to produce such electricity. It is expected that FFPP and any income earned from the sale of electricity produced by the Cardinal Cogen Facility will be less than Cardinal LP earns under the Cardinal PPA, which is expected to negatively affect the financial performance of Cardinal LP and the Corporation (see "Risk Factors – Risks Related to the Power Infrastructure Facilities – Power Purchase Agreements" and "Dividends – Dividend Policies").

Arrangements with Ingredion

The Cardinal Cogen Facility currently generates and sells steam to Ingredion for its corn wet milling plant located adjacent to the Cardinal Cogen Facility under the terms of an energy savings agreement between Cardinal LP and Casco Inc. (as predecessor to Ingredion) dated to be effective as of September 3, 1992. In fiscal 2013, steam sale revenues represented approximately one percent of the Cardinal Cogen Facility's revenues. The Cardinal Cogen Facility, at its sole expense, also provides all of Ingredion's compressed air requirements.

On March 26, 2014, Cardinal LP entered into a binding term sheet (the "Binding Term Sheet") with Ingredion Canada Incorporated ("Ingredion") containing the terms for a new 20-year energy savings agreement with Ingredion, effective January 1, 2015. Under the new energy savings agreement, Cardinal LP will receive a fixed amount (subject to escalation) to provide operational and maintenance services with respect to the energy requirements of Ingredion's corn wet milling plant. The new energy savings agreement also provides for Ingredion to receive a portion of the market revenue earned by the Cardinal Cogen Facility from any electricity sales on or after January 1, 2015. In the event that Ingredion terminates the new energy savings agreement prior to the end of its term under certain prescribed circumstances Cardinal LP would have the option to purchase the land underlying the Cardinal Cogen Facility for a nominal amount. If Cardinal LP exercises such option, Cardinal LP would be required to pay an early termination fee that declines over time.

The land underlying the Cardinal Cogen Facility is currently leased from Ingredion for a nominal amount under a premises lease and facilities agreement which expires in January, 2015. The Binding Term Sheet also contains the terms for a new lease for the land underlying the Cardinal Cogen Facility. This new lease runs concurrently with new energy savings agreement between Cardinal LP and Ingredion and requires Cardinal LP to make monthly fixed lease payments to Ingredion.

Cardinal Gas Purchase Agreement and Gas Transportation

Cardinal LP purchases the natural gas to operate the Cardinal Cogen Facility from Husky Oil Operations Limited ("HOOL") under the gas purchase agreement made as of August 8, 1991, as amended (the "Cardinal GPA"). The Cardinal GPA expires on May 1, 2015 and requires that Cardinal LP purchase a minimum of 9,289,104 million British thermal units of natural gas each year (equivalent to 80% of the contract maximum), subject to financial compensation to HOOL for any shortfall. Cardinal LP is prohibited from purchasing natural gas for the Cardinal Cogen Facility from any other party for the term of the Cardinal GPA unless HOOL fails to deliver natural gas in accordance with the terms thereof. The Cardinal GPA does not entitle the gas supplier to renegotiate or arbitrate the price payable under the Cardinal GPA. Under the Cardinal GPA, increases in the price for natural gas are generally tied to increases in prices paid for electricity by the OEFC under the Cardinal PPA. Cardinal LP is able to sell certain amounts of natural gas in excess of the requirements of the Cardinal Cogen Facility, with the proceeds from sales shared with HOOL based on a set formula which provides that HOOL first receives payment for the variable costs of delivery and other adjustments. Until November 2014, HOOL will provide for the transportation of the natural gas purchased under the Cardinal GPA through the TransCanada Pipelines Limited ("TCPL") Canadian Mainline pipeline to its interconnection point with Union Gas Limited ("Union") near Cardinal, Ontario. Thereafter, Cardinal LP and HOOL have agreed that natural gas supplied under the Cardinal GPA will be delivered to a point within Alberta. Gas required for operation of the Cardinal Cogen Facility will then be purchased for delivery at Union's interconnection point near Cardinal, Ontario. Cardinal LP and Union are parties to an agreement providing for the transportation of natural gas from Union's interconnection point to the Cardinal Cogen Facility. Following the expiry of the Cardinal GPA, natural gas required by the Cardinal Cogen Facility is intended to be purchased by Cardinal LP on the spot market.

Wind

Erie Shores Wind Farm

Overview

The Erie Shores Wind Farm is located near Port Burwell, Ontario. The wind power facility is comprised of 66 General Electric Company 1.5 SLE wind turbines and it achieved commercial operation in May 2006. The wind turbines each have a capacity of 1.5 MW, for a total facility capacity of 99 MW. One of the wind turbines located at the facility is owned by a local land owner who hosts a number of the facility's other wind turbines on his land. The Erie Shores Wind Farm maintains operational and managerial control of this wind turbine and the land owner is entitled to receive the revenue generated by his wind turbine less 1/66th of all operating and maintenance expenses and costs of the facility as a whole, not including property taxes, land leases and interest expense and principal payments.

Erie Shores Power Purchase Agreement

ESWFLP (an indirect, wholly-owned subsidiary of the Corporation and the owner of the Erie Shores Wind Farm) is a party to a Renewable Energy Supply Contract (the "Erie Shores PPA") with the OPA which provides for the sale of all of the electricity generated by the Erie Shores Wind Farm until 2026. As a result of certain changes to the IESO's market rules regarding the Dispatch of certain renewable generators, ESWFLP and the OPA entered into an amendment to the Erie Shores PPA effective as of March 1, 2013 which provides compensation for any foregone production due to economic curtailment above both an annual cap and a total cap over the remaining term of the Erie Shores PPA. These caps are based on MWh per MW.

Erie Shores Trance A, Tranche B and Tranche C Debt

As at December 31, 2013, the following debt was outstanding related to the Erie Shores Wind Farm: (i) approximately $54.2 million fully-amortizing tranche A debt which bears interest at a rate of 5.96% per annum, payable quarterly with a maturity date of April 1, 2026; (ii) approximately $2.4 million fully-amortizing tranche B debt which bears interest at a rate of 5.28% per annum, payable quarterly with a maturity date of April 1, 2016; and (iii) approximately $35.6 million fully-amortizing tranche C debt which bears interest at a rate of 6.145% per annum, payable quarterly with a maturity date of April 1, 2026. The Erie Shores Wind Farm's debt contains standard representations and warranties, covenants (including financial covenants and financial ratios) and events of default. The debt is non-recourse to the Corporation's other assets and is secured by the facility's assets and the ownership interests in ESWFLP as well as a $5 million guarantee from CPC (a wholly-owned subsidiary of the Corporation).

Wind Power Facilities – Nova Scotia

Glen Dhu I Wind Facility

An indirect, wholly-owned subsidiary of CPC owns a 49% interest in, and manages and operates, Glen Dhu Wind Energy Limited Partnership, the owner of the 62.1 MW Glen Dhu I Wind Facility located near Merigomish, Nova Scotia. The remaining 51% ownership interest in Glen Dhu Wind Energy Limited Partnership is held by Genera Avante Holdings Canada Inc., which is not affiliated with the Corporation. The facility, which began commercial operations in March 2011, consists of 27 Enercon E82 2.3 MW wind turbines. The electrical output from the facility is contracted to Nova Scotia Power Inc. ("NSPI") under a 20-year PPA which expires in 2031. As at December 31, 2013, the following amounts related to the Glen Dhu I Wind Facility were outstanding: (i) approximately $112.3 million senior secured, long term, debt; and (ii) a $5.9 million variable rate standby loan facility for the purpose of funding the debt service reserve. The Glen Dhu Facility's debt bears interest at a rate of 5.33%, is secured by the facility's assets and the ownership interests in Glen Dhu Wind Energy Limited Partnership, is non-recourse to the Corporation's other assets and is fully-amortizing over the term of the PPA with NSPI.

Amherst Wind Facility

An indirect, wholly-owned subsidiary of CPC owns a 51% interest in SP Amherst Wind Power LP, the owner of the 31.5 MW Amherst Wind Facility located near Amherst, Nova Scotia. The remaining 49% ownership interest in SP Amherst Wind Power LP is held by Firelight Infrastructure Partners L.P. and its affiliates, which are not affiliated with the Corporation. The facility, which began commercial operations in April 2012, consists of 15 Suzlon S97 2.1 MW wind turbines. The electrical output from the facility is contracted to NSPI under a 25-year PPA which expires in 2037. As at December 31, 2013, approximately $43.2 million aggregate principal amount senior loans related to the Amherst Wind Facility was outstanding. The Amherst Wind Facility's senior loan bears interest at a rate of 6.2%, is secured by the facility's assets (with a $1 million guarantee from each of CPC and Firelight Infrastructure Partners L.P.) and the ownership interests in SP Amherst Wind Power LP, is non-recourse to the Corporation's other assets and matures in April 2032. Blended monthly payments of principal and interest are paid over the term of the senior loans.

Glace Bay I Wind Facility and Glace Bay II Wind Facility

Glace Bay Lingan Wind Power Ltd., an indirect, wholly-owned subsidiary of CPC, owns the 17.5 MW Glace Bay I Wind Facility, located near Lingan, Nova Scotia, and the 2.3 MW Glace Bay II Wind Facility, located near Glace Bay, Nova Scotia. The facilities, which began commercial operations in 2007 and 2012, respectively, consist of a total of six Enercon E70 2.31 MW wind turbines, two Enercon E48 0.8 MW wind turbines, one Enercon E82 2.3 MW wind turbine and one Enercon E70 2.05 MW wind turbine. The electrical output from the Glace Bay I Wind Facility is contracted to NSPI under two 15-year PPAs which expire in 2020 and 2022 and the electrical output from the Glace Bay II Wind Facility is contracted to NSPI under a 20-year PPA which expires in 2032. As at December 31, 2013, approximately $17.2 million aggregate principal amount of senior loans related to the Glace Bay I Wind Facility and the Glace Bay II Wind Facility was outstanding. These senior loans bear interest at a rate of between 4.72% and 6.36%, are secured by the facilities' assets and the ownership interests in Glace Bay Lingan Wind Power Ltd., are non-recourse to the Corporation's other assets and mature between 2019 and 2032. Blended monthly payments of principal and interest are paid over the term of the respective senior loans.

Higgins Mountain Wind Facility

Confederation Power Inc., an indirect, wholly-owned subsidiary of CPC, owns the 3.6 MW Higgins Mountain Wind Facility located near Westchester Station, Nova Scotia. The facility, which began commercial operations in 2006, consists of three Vensys V62 1.2 MW wind turbines. The electrical output from the facility is contracted to NSPI under a PPA expiring in 2021.

Springhill Wind Facility

Confederation Power Inc., an indirect, wholly-owned subsidiary of CPC, owns the 2.1 MW Springhill Wind Facility located near Springhill, Nova Scotia. The facility, which was commissioned in 2006, consists of one Vensys V62 1.2 MW wind turbine and one EWT 0.9 MW wind turbine. The electrical output from the facility is contracted to NSPI under a PPA expiring in 2021.

Fitzpatrick Mountain Wind Facility

An indirect, wholly-owned subsidiary of CPC owns a 50% interest in, and operates and manages, Fitzpatrick Mountain Energy Inc., the owner of the 1.6 MW Fitzpatrick Mountain Wind Facility located near Pictou, Nova Scotia. The remaining 50% ownership interest in Fitzpatrick Mountain Energy Inc.is held by Wind Canada Investments Ltd., which is not affiliated with the Corporation. The facility, which began commercial operations in 2007, consists of two Enercon E48 0.8 MW wind turbines. The electrical output from the facility is contracted to NSPI under a PPA expiring in 2021. Under an equipment sale and lease-back transaction, the facility sold its turbines to a commercial bank in June 2008 and entered into a five-year equipment lease. In 2013, at the end of the original lease term, a lease extension was entered into for a further five-year term. This extension also contains an option to purchase the equipment for a nominal amount at the end of the term.

Digby Neck Wind Facility

Confederation Power Inc., an indirect, wholly-owned subsidiary of CPC, owns the 0.9 MW Digby Neck Wind Facility located near Tiverton, Nova Scotia. The facility, which began commercial operations in 2006, consists of one EWT 0.9 MW wind turbine. The electrical output from the project is contracted to NSPI under a PPA expiring in 2021.

Wind Power Facilities – Ontario

Ravenswood Wind Facility

Sky Generation LP, an indirect, wholly-owned subsidiary of CPC, owns the 9.9 MW Ravenswood Wind Facility located near Forest, Ontario. The facility, which began commercial operations in 2008, consists of six Vestas V82 1.65 MW wind turbines. The electrical output from the facility is contracted to the OPA under the Province of Ontario's Renewable Energy Standard Offer Contract ("RESOP") program (a "RESOP Contract") expiring in 2027.

Proof Line I Wind Facility

Sky Generation LP, an indirect, wholly-owned subsidiary of CPC, owns the 6.6 MW Proof Line I Wind Facility located near Forest, Ontario. The facility, which began commercial operations in 2009, consists of four Vestas V82 1.65 MW wind turbines. The electrical output from the facility is contracted to the OPA under a RESOP Contract expiring in 2029.

Ferndale Wind Facility

Sky Generation LP, an indirect, wholly-owned subsidiary of CPC, owns the 5.1 MW Ferndale Wind Facility located near Lion's Head, Ontario. The facility consists of one Vestas V80 1.8 MW wind turbine which began commercial operations in 2002 and two Vestas V82 1.65 MW wind turbines which began commercial operations in 2006. The electrical output from the facility is contracted to the OPA under a RESOP Contract, which expires in 2026.

Wind Power Facilities – Ontario Senior Loans

As at December 31, 2013, approximately $26.8 million aggregate principal amount of senior loans and $10 million in promissory notes related to the Ravenswood Wind Facility, Proof Line I Wind Facility and Ferndale Wind Facility was owed by Sky Generation LP, the owner of these facilities. These senior loans bear interest at a rate of between 4.22% and 6.22%. are secured by the facilities' assets and the ownership interests in Sky Generation LP, are non-recourse to the Corporation's other assets and mature between 2016 and 2017. Blended monthly payments of principal and interest are paid over the term of the respective senior loans.

Wind Power Facilities' O&M Arrangements

The following operations and maintenance ("O&M") arrangements are in place at the Wind Power Facilities:

Wind Power Facility	O&M Provider	Expiry of O&M Agreement
Erie Shores	- (1)	-
Glen Dhu I	Enercon(2)	2024
Amherst	Suzlon	2022
Glace Bay I and II	Enercon	2018 and 2024
Higgins Mountain	- (3)	-
Springhill	- (3)	-
Fitzpatrick Mountain	Enercon	2021
Digby Neck	EWT	2016
Ravenswood	Vestas	2014
Proof Line I	Vestas	2014
Ferndale	Vestas	2017

Notes:

(1) O&M activities at the Erie Shores Wind Farm are provided by employees of ESWFLP, an indirect, wholly-owned subsidiary of the Corporation and the owner of the Erie Shores Wind Farm.

(2) O&M activities at the Glen Dhu I Wind Facility exclude costs related to cranes and transportation of parts.

(3) O&M activities at the Higgins Mountain Wind Facility and the Springhill Wind Facility are provided by employees of the Corporation.

Wind Development Projects

The Corporation has an aggregate net 79 MW of wind projects in development (the "Wind Development Projects") with executed PPAs, as summarized below:

Wind Development Project and Status	Expected Gross Capacity (MW)	Capstone's Expected Ownership Interest	Location	Power Purchaser	PPA Term (from Commercial Operation Date)
Under Construction					
Skyway 8	9.5 MW	100%	Ontario	OPA	20 years
Saint-Philémon	24 MW	51%	Québec	Hydro-Québec	20 years
Final Permitting					
Goulais	25 MW	51%	Ontario	OPA	20 years
Permitting					
Grey Highlands ZEP	10 MW	50%	Ontario	OPA	20 years
Grey Highlands Clean	18 MW	50%	Ontario	OPA	20 years
Ganaraska	20 MW	50%	Ontario	OPA	20 years
Snowy Ridge	10 MW	50%	Ontario	OPA	20 years
Settlers Landing	10 MW	50%	Ontario	OPA	20 years
Riverhurst	10 MW	100%	Saskatchewan	SaskPower	20 years

Under construction – Skyway 8

The 9.5 MW Skyway 8 wind project, located near Dundalk, Ontario, is presently under construction and is expected to commence commercial operation in Q3 2014. As at March 26, 2014, construction of access roads, crane pads, collection systems and turbine foundations have been completed. The project has a 20-year RESOP Contract with the OPA. The Skyway 8 wind project is expected to be comprised of five wind turbines to be supplied by Vestas and with the balance-of-plant being constructed by Carlsun Energy Inc. Vestas will also provide O&M services for the wind turbines under a 5-year O&M agreement.

Under construction – Saint-Philémon

The 24 MW Saint-Philémon wind project, located near Saint-Philémon, Québec, is presently under construction and is expected to commence commercial operation in Q4 2014. The Corporation is developing the project together with its 49% community partner, the Municipalité de Saint-Philémon and the Municipalité Régionale du Comté de Bellechasse. As at March 26, 2014, construction of access roads are underway. The project has a 20-year PPA with Hydro-Québec Distribution. The Saint-Philémon wind project is expected to be comprised of eight wind turbines to be supplied by Enercon. Enercon will also provide O&M services for the wind turbines under a 15-year O&M agreement. A tender process to select the balance-of-plant contractor is underway

Final Permitting – Goulais

The Corporation is developing the 25 MW Goulais wind project, located near Sault Ste. Marie, Ontario. The Corporation is in advanced staged discussions with the Batchewana First Nation for the first nation to acquire a 49% stake in the project. The project has a 20-year feed-in-tariff ("FIT") contract ("FIT PPA") with the OPA. Negotiations with the proposed equipment supplier are in progress for the project's 11 wind turbines. Hearings related to an appeal of the project's renewable energy approval ("REA") were completed in December 2013, and a final decision on appeal is expected by April 22, 2014. Construction is currently expected to commence in June 2014.

Permitting – Grey Highlands ZEP, Grey Highlands Clean, Ganaraska, Snowy Ridge and Settlers Landing

Each of the 10 MW Grey Highlands ZEP, 18 MW Grey Highlands Clean, 20 MW Ganaraska, 10 MW Snowy Ridge and 10 MW Settlers Landing wind projects are located in Ontario and each has a 20-year FIT PPA with the OPA. These wind projects are being developed by the Corporation and are expected to have the same 50% partner for each project. Review by the Ministry of Environment of each project under the REA process is currently underway.

Permitting – Riverhurst

The Corporation's 10 MW Riverhurst wind project is located near Riverhurst, Saskatchewan. The project has been awarded a 20-year PPA with SaskPower and permitting for the project is in progress.

<u>Hydro</u>

Sechelt Hydro Facility

The Sechelt Hydro Facility is a hydro power facility located near Sechelt, British Columbia ("BC"). The Sechelt Hydro Facility has an installed capacity of 16 MW and commercial operation began in March 1997. Regional Power Opco Inc., predecessor to Regional Power Inc. ("Regional Power") operates the Sechelt Hydro Facility pursuant to the Hydro Power O&M Agreement (see "Narrative Description of the Business – Power Infrastructure – Hydro – Hydro Power O&M Agreement"). The sale of power from the Sechelt Hydro Facility to BC Hydro is governed by a PPA dated August 31, 1990, with an initial term of 20 years from the commercial operation date expiring in 2017. Following the initial term, the Sechelt Hydro Facility's PPA will continue in force from year to year unless otherwise terminated upon six months' notice by either party. BC Hydro has agreed to purchase all electricity produced by the Sechelt Hydro Facility. Under the PPA, the Sechelt Hydro Facility is required to make available to BC Hydro not less than 57 GWhs per year. The Sechelt Hydro Facility has met this requirement every year since commissioning.

Hluey Lakes Hydro Facility

The Hluey Lakes Hydro Facility is a hydro power facility with an installed capacity of 3.0 MW located near Dease Lake, BC. Electrical power generated by the Hluey Lakes Hydro Facility is sold to BC Hydro for distribution in the community of Dease Lake through a non-integrated distribution system. The Hluey Lakes Hydro Facility commenced commercial operations in January 2000. Regional Power operates the Hluey Lakes Hydro Facility pursuant to the Hydro Power O&M Agreement (see "Narrative Description of the Business – Power Infrastructure – Hydro – Hydro Power O&M Agreement"). Under a PPA dated November 1, 1993, as amended, with BC Hydro, BC Hydro is obligated (subject to the terms of the agreement) to purchase all energy required to meet the load demand of the Town of Dease Lake from the Hluey Lakes Hydro Facility until January 31, 2020. The 3.0 MW installed capacity of the Hluey Lakes Hydro Facility is expected to meet the requirements of the Town of Dease Lake until such time.

The Tahltan First Nation entered into a non-disturbance agreement dated February 27, 1999 regarding any potential acquisition of jurisdiction through the treaty process to the lands on which the Hluey Lakes Hydro Facility is located or to the rights to impose taxes, fees, levies or other monetary charges. Pursuant to this agreement, the Tahltan First Nation has agreed that if it obtains any such jurisdiction, it will treat all leases, permits, licences and renewals with respect to the Hluey Lakes Hydro Facility in a manner consistent with the present treatment by the Province of BC. The Tahltan Nation Development Corporation (the "TNDC") has the right to purchase all or a portion of the Hluey Lakes Hydro Facility at fair market value within six months following the maturity of the initial 20-year term of the Hluey Lakes Hydro Facility's PPA. If the Hluey Lakes Hydro Facility is offered for sale any time after the fifth year of the PPA, TNDC has the right for a 90-day period to negotiate the purchase of the Hluey Lakes Hydro Facility before it is offered for sale to others. In addition, TNDC is entitled to a 33% net profit interest in the Corporation's net profit from the sale of electricity generated by the Hluey Lakes Hydro Facility to industrial customers other than BC Hydro. To date, there have been no sales to industrial customers other than BC Hydro.

Wawatay Hydro Facility

The Wawatay Hydro Facility is a hydro power facility with an installed capacity of 13.5 MW located near Marathon, Ontario. Commercial operation of the Wawatay Hydro Facility began in 1992. The Wawatay Hydro Facility is operated by Regional Power pursuant to the Hydro Power O&M Agreement (see "Narrative Description of the Business – Power Infrastructure – Hydro – Hydro Power O&M Agreement"). Power produced by the Wawatay Hydro Facility is sold to the OEFC under a PPA dated April 1, 1992 pursuant to which the OEFC has committed to purchase all electricity produced by the facility at contracted rates (subject to certain escalation provisions). The PPA has an initial term of 50 years from the commercial in service date expiring in 2042.

The Ojibways of the Pic River First Nation (the “Pic River FN”) are entitled to receive a net profit interest in the revenue earned by the Wawatay Hydro Facility equal to 10% of the positive amount obtained by subtracting the sum of the facility’s cumulative costs, the cumulative deemed interest charges and certain project financing charges from the cumulative revenues of the Wawatay Hydro Facility. The Pic River FN received payments totalling approximately $125,000 in respect of the year ended December 31, 2013. The Pic River FN has also agreed that if its claim to any aboriginal interest in or rights to any lands or waters or activities carried on in, on or over any lands or waters shall at any time be upheld by a court, the Pic River FN will not exercise any such interest or rights so as to in any manner interfere with the operation of the Wawatay Hydro Facility or any modification or expansion thereof. The agreement requires the Wawatay Hydro Facility to use its best efforts to give priority to employing members of the Pic River FN who are equally qualified with other persons being offered employment and to require its contractors and subcontractors to use their best efforts to give such priority in employing personnel to work at the Wawatay Hydro Facility. The Pic River FN is also entitled to 90 days’ notice of any proposed sale of the Wawatay Hydro Facility and has the right to purchase all of the assets proposed to be sold at the price and upon the terms specified in the notice within such 90-day period.

Dryden Hydro Facility

The Dryden Hydro Facility is comprised of three hydro generating stations with a total installed capacity of 3.25 MW. The Wainwright hydro generating station was built in 1922 on the Wabigoon River in Dryden, Ontario. The Eagle River hydro generating station was built in 1928 at the outlet of Eagle Lake about 30 kilometres west of Dryden. The McKenzie Falls hydro generating station was built in 1938 on the Eagle River two kilometres downstream of the Eagle River generating station. The Dryden Hydro Facility is operated by Regional Power pursuant to the Hydro Power O&M Agreement (see “Narrative Description of the Business – Power Infrastructure – Hydro –Hydro Power O&M Agreement”). Power produced from the Dryden Hydro Facility is sold to the OEFC under a PPA dated October 23, 1990 pursuant to which the OEFC has committed to purchase all electricity produced by the Dryden Hydro Facility at contracted rates (subject to certain escalation provisions). The PPA has an initial term of 30 years ending on November 1, 2020.

Hydro Power O&M Agreement

The Hydro Power Facilities are operated by Regional Power. Regional Power and its predecessors have operated the Sechelt Hydro Facility since its completion in 1997, the Hluey Lakes Hydro Facility since its completion in 2000, the Wawatay Hydro Facility since its completion in 1992 and the Dryden Hydro Facility since 1986. Under the Hydro Power O&M Agreement, Regional Power operates, maintains and manages the Hydro Power Facilities in accordance with prudent industry practice and an annual operating plan developed by Regional Power and approved by MPT Hydro LP, the owner of the Hydro Power Facilities. The Hydro Power O&M Agreement had an initial term of 10 years, which expired on November 30, 2011, and which was automatically renewed for the first of its two additional five-year terms expiring on November 30, 2016. The second five-year renewal will occur automatically unless Regional Power provides notice at least 180 days prior to the end of the first five-year renewal and is subject to the Hydro Power Facilities meeting certain production milestones over prescribed periods.

Hydro Bonds

On June 6, 2012, MPT Hydro LP completed an approximately $80.4 million aggregate principal amount senior secured bond and approximately $20.2 million aggregate principal amount subordinated secured bond offering. The Hydro Bonds are fully amortizing with 28-year and 29-year terms and bear interest at fixed rates of 4.555% and 7.0%, respectively. The senior secured Hydro Bonds are secured by the assets comprising the Hydro Power Facilities and a limited recourse guarantee with respect to CPC’s ownership interest in MPT Hydro LP and CPOT Title Corp. (the general partner of MPT Hydro LP). The subordinated secured Hydro Bonds are secured by the same security package, but are subordinated to any indebtedness owing to the holders of the senior secured Hydro Bonds. The Hydro Bonds are non-recourse to the Corporation’s other businesses and assets.

The Hydro Bonds were issued under bond purchase agreements (the “Hydro Bond Purchase Agreements”) entered into between each of the purchasers and MPT Hydro LP. The terms of the Hydro Bonds are governed by a trust indenture dated June 6, 2012 (the “Hydro Bond Indenture”) between MPT Hydro LP and Computershare Trust Company of Canada, as trustee, a first supplemental indenture dated June 6, 2012 to the Hydro Bond Indenture providing for the issuance of the senior secured Hydro Bonds, and a second supplemental indenture dated June 6, 2012 to the Hydro Bond Indenture providing for the issuance of the subordinated secured Hydro Bonds. The Hydro Bond Purchase Agreements and the Hydro Bond Indentures contain terms, representations and warranties, covenants, indemnities and events of default that are customary for bond financing transactions of this nature. Subject to certain conditions, the senior and subordinated secured Hydro Bonds are redeemable, in whole or in part, at the option of MPT Hydro LP and subject to certain additional conditions.

Biomass

Whitecourt Biomass Facility

Overview

The Whitecourt Biomass Facility is a wood waste-fired electricity generating facility located near Whitecourt, Alberta, with a net installed capacity of 25 MW. The Whitecourt Biomass Facility is comprised of one General Electric Company steam turbine generator and began commercial operations in 1994.

Whitecourt Power Purchase Agreement

The first 20.7 MW of electricity produced at the Whitecourt Biomass Facility is sold pursuant to a PPA dated November 6, 1990 (the “Whitecourt PPA”) with TransAlta Utilities Corp. (“TransAlta”). The Whitecourt PPA has a term of 20 years from December 1994. Pursuant to amendments to the *Electric Utilities Act* (Alberta) (the “Alberta EU Act”) in 2000, the rights and obligations of TransAlta under the Whitecourt PPA were transferred to the Balancing Pool and TransAlta simply functions as a flow-through entity between the Whitecourt Biomass Facility and the Balancing Pool. The contract price for electricity under the Whitecourt PPA escalated annually until 2004, but has remained fixed at the 2004 price as a result of a ruling of the Alberta energy utility regulatory authority. The balance of the net capacity of the Whitecourt Biomass Facility (which historically has averaged approximately 3.5 MW) is not contracted under the Whitecourt PPA and has historically been sold at either the hourly average Power Pool spot price or pursuant to fixed price commodity swap agreements. Following the expiry of the Whitecourt PPA in December 2014, the Corporation expects to sell all of the facility’s electricity at either the hourly average Power Pool spot price or pursuant to fixed price commodity swap agreements.

Renewable Energy Credits

In 2011, the Whitecourt Biomass Facility was re-certified under the Canadian Federal government’s EcoLogo environmental certification program. To qualify under the EcoLogo program, the facility was required to meet certain requirements, including not exceeding certain greenhouse gas emission thresholds and not using certain species of plants as fuel. During 2013, the Whitecourt Biomass Facility sold renewable energy credits (“RECs”) certified under the EcoLogo program. Each REC represents one MWh of electricity generated from an eligible renewable energy resource. It is expected that the Whitecourt Biomass Facility will continue to sell its RECs for future periods, provided that the facility remains certified under the EcoLogo program.

Wood Waste Supply Arrangements

The Whitecourt Biomass Facility consumes approximately 300,000 green metric tonnes of wood waste per year. Wood waste fuel is delivered at the Whitecourt Biomass Facility’s cost by the facility’s trucks. Millar Western Forest Products Ltd. and Millar Western Pulp Ltd. (collectively, “Millar Western”) operates a sawmill and a pulp mill that are located approximately three kilometres away from the Whitecourt Biomass Facility. Millar Western has agreed to supply (or procure at its cost) a minimum of 275,000 green metric tonnes of wood waste per contract year to the Whitecourt Biomass Facility for a term of 20 years that commenced in July 1996. Millar Western pays the Whitecourt Biomass Facility a flat fee of $0.50 per metric tonne during the term of the contract. In July 2011, a five-year supply agreement was entered into with Blue Ridge Lumber Inc., a subsidiary of West Fraser Mills Ltd., for the supply of a maximum of 25,000 green metric tonnes of wood waste per year.

Chapais Biomass Facility

Overview

The Chapais Biomass Facility is a wood waste-fired electricity generating facility located in Chapais, Québec, with a net installed capacity of 28 MW and it began commercial operations in 1992. The Chapais Biomass Facility is owned by Chapais Énergie, société en commandite ("CHESEC"), a limited partnership whose sole general partner is Chapais Électrique Limitée ("CHEL") and whose limited partners are CHEL and a wholly-owned subsidiary of CHEL. Northland Power Inc. provides O&M services to the facility. Electricity produced at the Chapais Biomass Facility is sold pursuant to a PPA with Hydro-Québec dated March 30, 1992, as amended, with an initial term ending on November 30, 2015, but which may be extended to 2020 at the request of CHESEC, subject to certain conditions.

Corporation's Investment

CPOT Holdings Corp., an indirect subsidiary of the Corporation owns 105 of the 336 outstanding Class B preferred shares in the capital of CHEL (the "CHEL Class B Shares"). The remaining outstanding capital of CHEL consists of 50 common shares and 400 Class A shares, all of which are owned by third parties (including Northland Power Inc.). Dividends on the CHEL Class B Shares have never been paid and the Corporation previously determined that its investment in CHEL Class B Shares was fully impaired and has written down its value to nil. CPOT Holdings Corp. is also a lender to CHESEC. As at December 31, 2013, CHESEC owed CPOT Holdings Corp. approximately: (i) $2.6 million constituting the CHESEC Tranche A Senior Debt, which bears interest at a rate of 10.789% per annum and is payable by monthly blended payments of principal and interest to fully repay the debt by the maturity date in December 2015; (ii) $3.6 million (including accrued and unpaid interest) constituting the CHESEC Tranche B Senior Debt, which bears interest at a rate of 4.91% per annum, payable by semi-annual interest payments payable each January and July with annual principal payments payable each January based on CHESEC's free cash flow and which matures in December 2015; and (iii) $2.6 million of subordinated debt of CHESEC, which matures in December 2015, does not bear interest and under which no principal payments are due until all of CHESEC's outstanding Tranche A and Tranche B senior debt owed to all lenders (including amounts owed to CPOT Holdings Corp.) is fully paid off. CHESEC has not made any principal payments on the CHESEC Tranche B Senior Debt since January 2004 and the date on which principal payments are expected to resume is uncertain.

Solar

Amherstburg Solar Park

The Amherstburg Solar Park is a 20 MW crystalline solar photovoltaic ("PV") electricity generating facility located in Amherstburg, Ontario. It achieved commercial operation on June 30, 2011. The facility utilizes SunPower solar PV panels and single-axis T20 Trackers, which are engineered to follow the sun during the day, thereby increasing electricity production over fixed-tilt systems. The Amherstburg Solar Park is also capable of producing electricity even in the winter and during cloudy weather, although at a reduced rate. Electricity generated by the Amherstburg Solar Park is sold under two 20-year RESOP Contracts with the OPA at contracted prices. SunPower operates and maintains the Amherstburg Solar Park under an O&M agreement which expires in 2031. As at December 31, 2013, approximately $86.7 million aggregate principal amount secured debt related to the Amherstburg Solar Park was outstanding. The Amherstburg Solar Park's secured debt bears interest at a rate of 7.32%, is secured by the facility's assets and the ownership interests therein, is non-recourse to the Corporation's other assets and matures in 2016.

Environmental, Health and Safety Matters

The Power Infrastructure Facilities and their respective operations are subject to complex and stringent environmental, health and safety regulatory regimes, including, Environmental, Health and Safety Laws. The Power Infrastructure Facilities are managed in a manner designed to maintain compliance with Environmental, Health and Safety Laws and the Corporation believes that the Power Infrastructure Facilities and their respective operations are in compliance in all material respects with Environmental, Health and Safety Laws.

Due to the nature of their operations, none of the Power Infrastructure Facilities are subject to any material contingent environmental liabilities or environmental remediation costs upon the retirement of assets.

See “Risk Factors – Risks Related to the Power Infrastructure Facilities – Regulatory Environment” and “Risk Factors – Risks Related to the Power Infrastructure Facilities – Environmental”.

Climate Change Initiatives

Both the Cardinal Cogen Facility and the Whitecourt Biomass Facility emit greenhouse gases (“GHGs”) and comply, in all material respects, with current federal and provincial environmental legislation and guidelines on GHG and other emissions. The Wind Power Facilities, the Hydro Power Facilities and the Amherstburg Solar Park do not emit any material amounts of GHGs or other pollutants.

Proposed Canadian federal and provincial legislation and guidelines to govern and regulate GHG emissions, air pollution and carbon trading systems are in various stages of development, making the final form and scope of such legislation and guidelines, and how they may apply to the Corporation’s businesses, difficult to predict. It is also unclear how federal and provincial legislation and guidelines will be coordinated. The Canadian federal climate change framework is expected to broadly match any climate change regulation activities that are undertaken in the US, where attempts to pass climate change legislation, including legislation for a cap-and-trade system, have been delayed.

The Corporation mitigates the potential impact of future federal and provincial environmental legislation and guidelines by remaining diligent in the operation of its facilities, including stringent policies and procedures to prevent the improper discharge of emissions or other pollutants from its facilities.

Greenhouse Gases and other Air Pollutants – Federal Requirements

The Cardinal Cogen Facility and the Whitecourt Biomass Facility are subject to various regulations promulgated under the *Canadian Environmental Protection Act, 1995* (Canada) (“CEPA”), in addition to provincial requirements. Pursuant to CEPA, facilities with GHG emissions of 50,000 tonnes CO_2-equivalent or more per year are required to report their annual emissions of CO_2 and certain other GHGs to Environment Canada. Both the Cardinal Cogen Facility and the Whitecourt Biomass Facility are subject to, and in compliance with, these reporting requirements.

In January 2010, the Canadian federal government announced an updated non-binding, GHG emissions reduction target of 17% from 2005 emission levels by 2020. Although it announced in December 2011 that it was invoking Canada’s legal right to formally withdraw from the Kyoto Protocol, the federal government has not yet expressed any intent to reduce Canada’s domestic emissions reduction target. The Corporation understands the Canadian federal government is committed to establishing an international climate agreement to replace the Kyoto Protocol. Until the federal requirements are finalized, it is difficult to predict their impact on the Corporation’s operations at this time.

The Canadian federal government along with the provincial and territorial governments has developed a national framework for managing and regulating air pollutant emissions such as NOx, sulphur oxides, volatile organic compounds and particulate matter, including specific caps on pollutants for each sector, including electricity generation. The new framework, known as the Air Quality Management System, is currently in development and certain specific emissions standards and compliance mechanisms have yet to be finalized. Until the Air Quality Management System is finalized, it is difficult to predict what impact and effect it may have on the business, operating results and financial condition of the Corporation.

Greenhouse Gases and Other Air Pollutants - Provincial Requirements

Ontario

The Cardinal Cogen Facility is subject to various provincial regulations promulgated by the Ontario Ministry of the Environment. Facilities with GHG emissions of 25,000 tonnes CO_2-equivalent or more per year are required to report their GHG emissions to the Ontario Ministry of the Environment. The Cardinal Cogen Facility emitted approximately 566,000 tonnes CO_2-equivalent in 2013 and is in compliance with its various CO_2 reporting requirements. Ontario also regulates the reporting, allocation and retirement of NOx and sulphur dioxide ("SO_2") emissions. The Cardinal Cogen Facility has no reportable SO_2 emissions and NOx emissions fall below the levels mandated by legislation.

The Western Climate Initiative ("WCI"), is an organization that includes Ontario, BC, Québec, Manitoba as well as several US states. The WCI seeks to develop regional strategies to address climate change, including setting an overall regional goal to reduce GHG emissions and the design of a market-based mechanism to help achieve the reduction goal. The WCI released the detailed design recommendations for its regional cap-and-trade program (the "WCI Program") in July 2010. The existence of the WCI Program is expected to increase liquidity for carbon instruments across its member jurisdictions and create potential opportunities for eligible assets owned by the Corporation to generate and sell offset credits. The Ontario government has also indicated that it intends to implement a cap-and-trade system as part of its strategy to reduce GHG emissions and that, once the WCI Program commences, the Ontario's system will be linked to the WCI Program. It is not known at this time what form the cap-and-trade system developed by the Ontario government will take, or when it will be implemented. Moreover, it is not yet clear how these initiatives would coordinate with federal and other provincial plans. As a result, the Corporation cannot estimate the impact of these regulations on its operations at this time.

Alberta

The Whitecourt Biomass Facility is subject to the Province of Alberta's various environmental regulations, including GHG emissions regulations. Facilities with GHG emissions greater than 50,000 tonnes CO_2-equivalent per year are required to report their GHG emissions, whereas facilities with GHG emissions greater than 100,000 tonnes per year are subject to emissions intensity reduction requirements, biomass excluded. The Alberta government also regulates other air emissions such as carbon monoxide, NOx and particulates. The Whitecourt Biomass Facility emitted approximately 300,000 tonnes CO_2-equivalent in 2012 (the most recent year in which it was required to report its emissions) and is in compliance with its GHG and air emissions compliance and reporting requirements.

Seasonality

Certain of the PPAs for the Power Infrastructure Facilities provide for higher prices to be paid for electricity delivered during winter months than electricity delivered during summer months and others contain lower electricity rates during the six-month period from April to September (and higher rates from October to March). In addition, the Power Infrastructure Facilities' operating results may fluctuate due to spot pricing and seasonal factors which affect seasonal production at a particular facility. Seasonal factors include scheduled major maintenance, seasonal electricity demands, and environmental factors such as water flows, wind speeds and density, temperature, solar insolation and humidity.

Lower ambient temperatures in the winter months positively affect the Cardinal Cogen Facility's efficiency and enhance its production. Further, the significant maintenance activities at the Cardinal Cogen Facility are generally performed during the April to May period, which affects operating results during that time.

Electricity generated by each of the Wind Power Facilities fluctuates with the natural wind speed and density in the area of the facility. During the autumn and winter periods, wind speed and density are generally greater than during the spring and summer periods.

A significant portion of electricity generated by the Hydro Power Facilities fluctuates with the natural water flows of the respective watersheds. Typically, the second quarter, during the spring run-off, is the most productive period for the Wawatay Hydro Facility and the Sechelt Hydro Facility. The Dryden Hydro Facility, which has lower variability, has historically produced the most electricity during the third quarter.

Production at the Whitecourt Biomass Facility is fairly consistent throughout the year, with annual maintenance activities generally scheduled in April and October.

Solar PV cells convert sunlight directly into electrical energy in proportion to the sunshine intensity and the angle at which solar photovoltaic cells are radiated. As a result, solar photovoltaic cells are capable of producing electricity even in the winter and during cloudy weather, although at a reduced rate. In the case of the Amherstburg Solar Park, electricity production typically varies over the course of a day, with peak production occurring at midday, and by season, with peak production occurring in the summer (in 2013, approximately 67% of the facility's annual production occurred during the second and third quarter).

Spot prices for electricity vary at different times of the year as a result of increased or decreased energy consumption or supply constraints or surpluses, often as a result of weather conditions. Commencing in 2015, each of the Cardinal Cogen Facility and the Whitecourt Biomass Facility will be bidding all of the electricity that they each produce into the Ontario and Alberta electricity markets, respectively, and receiving the applicable market price. Accordingly the financial results of the Cardinal Cogen Facility and the Whitecourt Biomass Facility could fluctuate in accordance with such seasonal variations.

Power Infrastructure Industry

Provincial governments have authority over the generation, transmission and distribution of electricity within the provinces of Canada. From time to time, the various federal and provincial governments have introduced programs designed to incentivize various activities in respect to the electricity generation industry, particularly renewable energy, and have also put forth specific renewable energy generation targets. One such initiative was the Wind Power Production Incentive ("WPPI"), a Canadian federal government program that provided incentive payments to eligible wind energy projects commissioned between March 31, 2002 and April 1, 2007. In January 2007, the Canadian government announced the ecoEnergy Renewable Power Program, with the objective to encourage the development of clean power generation projects in Canada and to bring electricity prices from such projects more in line with those of conventional sources of electricity. The ecoEnergy Renewable Power Program replaced WPPI, effective April 1, 2007. Each of the Erie Shores Wind Farm, Glen Dhu I Wind Facility, Glace Bay I Wind Facility, Glace Bay II Wind Facility, Ravenswood Wind Facility, Proof Line I Wind Facility and Ferndale Wind Facility qualified for WPPI and/or the ecoEnergy Renewable Power Program and are entitled to receive a payment of $10 per MWh generated for the first 10 years of production.

Competitive Conditions in the Power Infrastructure Industry

In the short term, as a result of the PPAs between the Power Infrastructure Facilities and their respective power purchasers, the Corporation believes that it does not face any material competition with respect to its Power Infrastructure Facilities. To the extent that electricity produced by a facility is sold in the market (as is currently the case for a small portion of the Whitecourt Biomass Facility's production and which is expected to occur for all of the Cardinal Cogen Facility's and the Whitecourt Biomass Facility's production following the expiry of their respective PPAs), or a facility's PPA expires, the particular facility may face competition resulting from bidding electricity into the open market and receiving the market price, or may face competition in entering into a bilateral power purchase contract with another counterparty to sell electricity at a negotiated price.

Regulatory Environment

The general movement toward restructuring the Canadian electricity industry from vertical-integrated provincial monopolies to a competitive market model has been uneven, as each province has determined its policy in this area based on its assessment of its unique regional circumstances and issues. Some provinces, such as Alberta, have restructured their electricity market culminating in full retail access. Other provinces such as BC do not appear to have any plans to introduce full retail competition (although BC transmission systems do provide open access to allow independent power producers to move electricity to the export market or to distribution utilities and large industrial customers within the province). Nova Scotia currently has a limited wholesale electricity market (open only to NSPI and a handful of small municipal utilities) and an open access transmission regime to support it, but legislation enabling the opening of a competitive retail market for renewable electricity has recently been passed and regulations detailing how this market will be regulated are expected to be released by the Nova Scotia government in the first half of 2014. Still other provinces, such as Ontario, incorporate a hybrid system with some aspects of retail competition in that consumers can purchase electricity from independent retailers, but a large component of the aggregate price paid by consumers is still determined by regulation.

UTILITIES

District Heating Business

Värmevärden

Overview

The Corporation, through MPT District Heating Luxembourg S.à.r.l. (“MPT DH”), an indirect wholly-owned subsidiary of the Corporation, holds a 33.3% ownership interest in a portfolio of district heating operations located in Sweden, which is branded as Värmevärden. The remaining 66.7% ownership interest is held by an indirect wholly-owned subsidiary (“MEIF II Sub”) of MEIF II, which is managed by an indirect wholly-owned subsidiary of MGL. MPT DH and MEIF II Sub are the 33.3% and 66.7%, respectively, shareholders of Sefyr Heat Luxembourg S.à.r.l. (“DH HoldCo”), which is the sole shareholder of Sefyr Värme AB (“DH OpCo”). DH OpCo, in turn, is the shareholder of certain entities (collectively with DH HoldCo and DH OpCo, the “Värmevärden Group”), which together own the 10 district heating operations comprising the Värmevärden district heating business. See “The Corporation – Structure”.

District heating refers to a distribution system that delivers heat to numerous buildings or industrial users within a community. District heating systems are community-scale infrastructure installations and are generally comprised of one or more central heat production facilities where fuel, such as biomass or oil, is converted into heat and/or steam, which is distributed through a closed-loop underground network of pipelines to customers. Customers use the heat and/or steam for space heating, domestic hot water heating and/or industrial heating and processes. Once the heat has been utilized, the water is returned to the central plant for reheating. For most industrial customers, district heating systems are highly integrated into their industrial processes.

The district heating operations which comprise Värmevärden operate as an integrated business with a dedicated management team leading approximately 93 employees (approximately 2/3 of which are unionized), and comprise a 100% ownership interest in seven district heating operations and a majority ownership interest in three district heating operations (in which local municipalities hold minority ownership interests ranging from 5% to 49%).

Värmevärden's facilities include both heat production, with a total capacity of approximately 639 MW thermal, and distribution. In the year ended December 31, 2013, Värmevärden's heat sales were approximately 1.1 terrawatt hours and its revenue was approximately SEK 655 million (or approximately $104 million). The following table lists the name, ownership interest and service area in Sweden of Värmevärden's 10 district heating operations as at March 26, 2014:

Name	**Ownership**	**Service Area**
Avesta	100%	Avesta, Skogsbo and Krylbo
Nynashamn	100%	Nynashamn region
Hudiksvall	100%	City of Hudiksvall and 4 smaller regions
Kristinehamn	100%	Kristinehamn and Gullspang
Grums	100%	Municipality of Grums
Hofors	60%	Urban areas of Hofors and Torsaker
Hällefors	95%	Urban Hällefors and Grythyttan
Torsby	100%	Urban areas of Torsby
Ljusnarsberg	100%	Areas of Kopparberg and Bangbro
Säffle	51%	Area of Säfffle

Värmevärden's closed-loop networks of pipelines total approximately 317 kilometres in aggregate with approximately 4,000 supply points in aggregate (the majority of which are connections to multi-unit residential buildings). Värmevärden derives its revenue from both residential customers, primarily the residents of multi-unit residential buildings, and a number of industrial customers. Rates under residential contracts are set annually, which provides Värmevärden with some flexibility to manage any increases in the price of fuel. Industrial customers generally enter into long-term contracts which contain price escalators linked to a combination of inflation and fuel price indices. Current industrial contracts are scheduled to expire on a staggered basis over the next six years, but are generally expected to be renewed on comparable terms as a result of the extensive integration of Värmevärden's system into the operations of these industrial customers. See "Risk Factors – Risks Related to Värmevärden – Industrial and Residential Contracts". A small portion of Värmevärden's revenue is derived from other sources, such as sales of merchant power and electricity emissions certificates. Värmevärden's residential and industrial customers each pay a fixed capacity payment as well as for the volume of heat they consume.

Värmevärden relies on various fuel sources, including biomass and oil, in its production of heat and has agreements with various fuel suppliers to ensure that such fuels are available. Biomass, a by-product of Sweden's large domestic forestry industry, comprised approximately 50% of the fuel used by Värmevärden in 2013, with approximately 30% of fuel derived from a combination of waste products and biofuel. Some of Värmevärden's facilities also partner with local industries, such as saw mills, paper mills and steel mills, to distribute the excess heat generated by their industrial processes to Värmevärden's district heating consumers. Such heat contributed approximately 15% of Värmevärden's fuel mix in 2013, with oil comprising approximately five percent of Värmevärden's fuel mix.

Governance

The DH HoldCo Board of Managers**,** which is analogous to the board of directors of a Canadian corporation, is currently comprised of four Managers: one Manager appointed by the Corporation, two Managers appointed by MEIF II and one independent Manager. The boards of other entities in the Värmevärden Group are similarly comprised of representatives of each DH HoldCo shareholder. Generally, board matters are approved by a majority of Managers voting on the matter. However, certain board matters require the approval of all Managers appointed by the DH HoldCo shareholders, including (subject to specified monetary thresholds, as applicable): the annual business plan and budget, material litigation, material acquisitions and dispositions, material indebtedness, material capital expenditures, and the appointment, compensation and removal of the Chief Executive Officer, Chief Financial Officer and any senior officer. In addition, certain other matters require the approval of at least 70% of the votes cast by DH HoldCo shareholders, including: significant changes in the scope or nature of the business, amendments to constating documents, the admission of new shareholders (with certain exceptions) and a change in the dividend policy to distribute 100% of available cash each year at semi-annual intervals, subject to certain exceptions. In addition, the Corporation and MEIF II each have a right of first refusal over the transfer of the other party's interest in DH HoldCo ordinary shares along with a tag-along right where greater than 66% of DH HoldCo ordinary shares are proposed to be transferred.

DH OpCo Bond Financing

During February and March 2012, DH OpCo completed the issuance of senior secured bonds (the "Värmevärden Bonds") to certain institutional investors in Sweden for aggregate proceeds of SEK 1 billion (approximately $150 million). The Värmevärden Bonds carry a coupon of 7.0%, have a term of five years and are non-amortizing. The terms and conditions governing the Värmevärden Bonds contain representations and warranties, covenants, indemnities and events of default that are customary for instruments of this nature.

Environmental Matters

Värmevärden holds all material permits and approvals required for its various operations, which are subject to a complex and stringent environmental, health and safety regulatory regime, including Environmental, Health and Safety Laws. Värmevärden's facilities are managed in a manner designed to maintain compliance with Environmental, Health and Safety Laws. The Corporation believes that Värmevärden and its operations are in compliance in all material respects with Environmental, Health and Safety Laws.

In 2007, the European Union (the "EU") adopted a long-term climate change target, which is commonly referred to as 20-20-20. The goal of the target is for member states to increase the proportion of renewable energy to 20% of total production, reduce carbon dioxide emissions by 20% and reduce energy use by 20%, all by 2020. The government of Sweden has subscribed to the 20-20-20 targets and it has made biomass-fired and waste-fired district heating facilities an important component in its overall plan to meet its CO_2 reduction commitments. See "Risk Factors – Risks Related to Värmevärden – Regulatory Environment".

Seasonality

Värmevärden delivers heat to customers primarily for the heating of buildings. Since the demand for heat varies with weather, Värmevärden's financial results are seasonally affected in respect of both revenues and direct costs. Historically, Värmevärden's business has experienced significantly higher revenues and direct costs during the first and fourth quarters (the winter months) compared to the second and third quarter (spring and summer months). Approximately 65% of Värmevärden's revenue is typically earned during the first and fourth quarters combined each year.

Competitive Conditions and Regulatory Environment

District heating businesses face competition from other sources of heating available to consumer and industrial customers, such as standalone furnaces and hot water boilers. However, the Corporation believes that the relative cost of Värmevärden's heating service is below that of all alternative heating sources available to such customers, namely geothermal heat pumps, wood pellet-fuelled boilers, electric heating systems and oil burning furnaces and boilers. In addition, the Corporation believes that district heating systems enjoy higher reliability, lower maintenance costs and less exposure to electricity price fluctuations than competing heating sources.

The Swedish energy market, including the district heating industry, was deregulated in 1996. In 2008, the District Heating Act (the “DH Act”) came into force. Under the DH Act, certain pricing transparency and disclosure provisions are required to be included in all district heating consumer contracts. The DH Act also provides for a mandatory non-binding mediation process for disputes between district heating operators and their customers, with a right for the customer to terminate the contract should the mediation not result in an agreement. The DH Act also addresses the relationship between the operator of a district heating system and third party heat suppliers wishing to access the system. In the event that a third party wishes to access a district heating system, the operator of the system is required to negotiate such access in good faith. However, there is no requirement that the operator grant access if the third party is not willing to accept the operator’s terms.

In February 2014, after a number of years of studies, public discussions and governmental preparations, the Swedish government proposed a number of changes to the DH Act. Previously, discussions had involved, among other things, price control and third party access to distribution networks to create competition. The current proposal presented by the Swedish government has no price control clauses or regulation, but instead encourages businesses to proceed with ongoing initiatives to enhance customer relations. With respect to third party access, the proposal includes the right for industries with excess heat to supply this to the district heating networks on commercial terms. Overall, this is viewed as a positive outcome for the industry and is expected to have no negative impact on Värmevärden’s business.

Other than the DH Act and other legislation and regulations of general application, Värmevärden is not subject to any other material regulatory oversight of its operations.

Water Distribution Business

Bristol Water

Overview

The Corporation indirectly holds a 50% interest in Bristol Water Holdings, the indirect owner of Bristol Water.

Founded in 1846, Bristol Water is the regulated monopoly provider of water services to an area of approximately 2,400 square kilometres centered on Bristol, England. Bristol Water is responsible for the abstraction, treatment, storage and distribution of approximately 240 million litres of water every day (“Ml/d”) to over 1.2 million people. Bristol Water’s system encompasses 68 water sources (including reservoirs, rivers, springs and wells), approximately 6,700 kilometres of water mains, 164 pumping stations and 139 treated water storage reservoirs.

Corporate Structure

Bristol Water has one class of ordinary shares, each of which carry the right to one vote at general meetings of the company and carry no right to dividends. Bristol Water is an indirect, wholly-owned subsidiary of Bristol Water Holdings. 70% of the issued ordinary shares of Bristol Water Holdings are held by CSE Water and the balance of 30% by Agbar. The Corporation indirectly holds a 71.4% interest in CSE Water, which represents a 50% indirect ownership interest in Bristol Water and ITOCHU indirectly holds a 28.6% interest in CSE Water, representing a 20% indirect ownership interest in Bristol Water. See “The Corporation – Structure” and “General Development of the Business – Fiscal Year 2012”. The board of directors of Bristol Water is comprised of 12 directors: the chairman of the board, two Agbar-appointed directors, three independent directors, three directors from the company’s senior management team and four directors appointed by CSE Water (three of who are appointed by MPT Europe and one which is appointed by I-Environment pursuant to the CSE Water Shareholders Agreement discussed below).

Bristol Water Shareholders' Agreement

The Corporation, CSE Water, Agbar and Bristol Water Holdings are parties to a shareholders' agreement dated October 5, 2011 (the "Bristol Water Shareholders' Agreement") which governs the relations between CSE Water and Agbar, as shareholders of Bristol Water Holdings, and sets the parameters for how the business of Bristol Water Holdings and its subsidiaries (collectively, the "Bristol Water Group"), including Bristol Water, will be conducted. The Bristol Water Shareholders' Agreement governs, among other things, the composition and conduct of the boards of each entity in the Bristol Water Group, the appointment and removal of certain officers of Bristol Water, the procedures for undertaking certain material actions and undertaking certain material changes to the businesses and/or operations of any company in the Bristol Water Group and the conditions under which shares of the Bristol Water Group (and, in certain circumstances, the shares of subsidiaries of the Corporation which indirectly hold Bristol Water Holdings shares) may or must be transferred (including transfer restrictions, a right-of-first offer in the event a liquidator/manager/receiver is appointed in respect of a shareholder, a right-of-first refusal in the event a shareholder wishes to directly or indirectly transfer its ownership interest in Bristol Water Holding shares, a put option in favour of Agbar whereby Agbar can require CSE Water to purchase Agbar's entire interest in Bristol Water Holdings in certain prescribed circumstances and a tag along right in favour of Agbar whereby a third party purchase of more than 50% of the shares in Bristol Water Holdings from CSE Water must offer to buy Agbar's shares in Bristol Water Holdings on the same terms).

CSE Water Shareholders' Agreement and Bristol Water Deed of Consent

In connection with ITOCHU's indirect investment in CSE Water, the Corporation, MPT Europe, CSE Water, ITOCHU and I-Environment entered into a shareholders' agreement dated May 10, 2012 (the "CSE Water Shareholders' Agreement") which governs the relations between MPT Europe and I-Environment, as shareholders of CSE Water, and sets the parameters for how the business of CSE Water will be conducted. The board of directors of CSE Water consists of three directors appointed by MPT Europe and one director appointed by I-Environment. The CSE Water Shareholders' Agreement governs, among other things, the composition and conduct of the board of CSE Water, the procedures for undertaking certain material actions and undertaking certain material changes to the businesses and/or operations of CSE Water, the disposal of any shares of Bristol Water Holdings by CSE Water, any amendment to the Bristol Water Shareholders' Agreement, I-Environment's approval of the exercise by CSE Water of certain of its rights under the Bristol Water Shareholders' Agreement (such as alteration of constitutional documents, by I-Environment's right to direct CSE Water regarding the appointment of one of the Bristol Water directors, share issuances/redemptions/repurchases or a change in the nature or scope of the Bristol Water Group's business) and the conditions under which shares of CSE Water may or must be transferred (similar to those contained in the Bristol Water Shareholders' Agreement, but subject to certain provisions contained in the Bristol Water Deed of Consent described below). As well, the CSE Water Shareholders' Agreement contains provisions regarding the funding by its shareholders in the event that Agbar exercises its put option under the Bristol Water Shareholders' Agreement.

Concurrently with entering into the CSE Water Shareholders' Agreement, the Corporation, MPT Europe, CSE Water, Agbar, ITOCHU, I-Environment and Bristol Water Holdings entered into a deed of consent dated May 10, 2012 (the "Bristol Water Deed of Consent") which supplements various provisions in the Bristol Water Shareholders' Agreement and the CSE Water Shareholders' Agreement and provides for, among other things, a pre-emptive right in favour of Agbar for transfers of CSE Water shares directly or indirectly held by ITOCHU in the event that MPT Europe does not exercise its right of first refusal over such shares (subject to certain conditions and with a further right of first refusal granted to MPT Europe to acquire a specified proportionate amount of such shares in the event that Agbar exercises such pre-emptive right). Agbar has also agreed that if certain special termination events occur under the Bristol Water Shareholders' Agreement that are attributable to either the Corporation and its subsidiaries or to ITOCHU and its subsidiaries, then Agbar's related purchase rights under the Bristol Water Shareholders' Agreement will be limited to the Bristol Water Holdings shares held by CSE Water that represents the Corporation's or ITOCHU's, as applicable, indirect interest.

Financing Structure

Bristol Water has long- and short-term structured debt financing in place, primarily comprised of Artesian loans, bonds, credit facilities, debentures and preference shares.

Artesian Loans

As at December 31, 2013, Bristol Water had outstanding an aggregate amount of £121.5 million of UK Retail Prices Index ("RPI")-linked Artesian loans maturing in 2032 (with a real interest rate of 3.635%) and an aggregate amount of £57.5 million of 6.01% fixed-rate Artesian loans maturing in 2033. The Artesian loan financing structure is a bond issuance program designed to facilitate long-term debt financing by smaller UK water companies, such as Bristol Water.

Subject to the restrictions set out in the UK *Water Industry Act 1991*, as amended (the "WIA") and its instrument of appointment issued under the WIA (the "Instrument of Appointment", see "Narrative Description of the Business – Utilities – Water Distribution Business – Bristol Water –Regulation of Water Distribution Industry – Instrument of Appointment"), Bristol Water has created fixed and floating security over its assets including, but not limited to, its bank accounts, its accounts receivables, its rights under certain contracts with third parties, its land and other property, but only to the extent that such security would not otherwise contravene the terms of the WIA or the Instrument of Appointment. Security has also been granted over the shares in Bristol Water.

Bonds

As at December 31, 2013, Bristol Water had outstanding £43.7 million of RPI-linked secured bonds maturing in 2041 (with a real interest rate of 2.701%).

Credit Facility

As at December 31, 2013, Bristol Water had £30.0 million of drawn and £40.0 million of undrawn credit facilities with two UK-based financial institutions, expiring in 2015 and 2017, respectively.

Debentures

Bristol Water has four outstanding tranches of debentures listed on the London Stock Exchange: (i) 4.00% consolidated irredeemable debenture stock in an amount of approximately £1.4 million; (ii) 4.00% perpetual irredeemable debenture stock in an amount of approximately £55,000; (iii) 4.25% perpetual irredeemable debenture stock in an amount of approximately £37,000; and (iv) 3.50% perpetual irredeemable debenture stock in an amount of approximately £73,000.

Preference Shares

Bristol Water has issued £12.5 million of 8.75% irredeemable cumulative preference shares of £1 each. The preference shares are listed on the London Stock Exchange and are entitled to receive dividends at a rate of 8.75% per annum on their par value on a cumulative basis, such dividends being payable semi-annually on April 1 and October 1. In the event of a wind up of Bristol Water, the preference shareholders rank ahead of Bristol Water Core Holdings Limited, the sole holder of Bristol Water's ordinary shares (See "The Corporation – Structure") and such preference shareholders are entitled to receive at least £1 per preference share (the actual price to be determined in accordance with Bristol Water's constitution but, in any event, not to exceed £2 per preference share) and any dividends accrued but unpaid in respect of their shares. The preference shares usually do not carry any voting rights, however, in the event that dividends on the preference shares are in arrears for six months or more, holders of the preference shares become entitled to vote at general meetings of members of Bristol Water.

Water Supply Operations

Bristol Water's water supply services consist of the abstraction of water and its subsequent treatment and distribution to homes and other premises.

Abstraction

Abstraction involves the removal of water from surface sources (such as rivers, reservoirs and canals) and from underground sources (such as aquifers). Bristol Water has the ability to abstract water from 26 licenced sources, linked by a flexible, integrated distribution system enabling economical use of such sources in terms of cost, energy and conservation. These water sources can be divided into three types: groundwater; surface water reservoirs; and surface river water. The proportion of water used from each type of source varies on a daily and seasonal basis according to the availability of water, the relative costs and other operational constraints.

Water Source	**Approximate Percentage of Bristol Water's Requirements**	**Information on Water Source**
Groundwater	15%	Groundwater sources are principally comprised of aquifers, from which water is abstracted through wells, springs and boreholes.
Surface Water Reservoirs	40%	Bristol Water owns 10 surface water reservoirs, five of which are raw water reservoirs that store run-off from the Mendip Hills, while the remaining five reservoirs are located adjacent to Bristol Water's treatment facilities.
Surface River Water	45%	Surface river water sources include the River Severn, other rivers and the Sharpness Canal. Bristol Water abstracts water from the Sharpness Canal pursuant to a long-term management agreement with British Waterways, which controls the canal.

Treatment

All abstracted water is treated by Bristol Water prior to being supplied to customers. Each of Bristol Water's 16 treatment plants is designed to meet the characteristics of the water abstracted from the applicable source supplying water to the plant.

Distribution

Treated water is distributed to domestic household and non-domestic commercial customers through Bristol Water's distribution system of approximately 6,690 kilometres of networked potable water mains and approximately 478,000 pipes connecting mains in the street to customer properties.

Approximately 22% of Bristol Water's mains are over 100 years old, with the average age being approximately 66 years. The age profile of Bristol Water's mains is in the oldest quartile of UK water companies and, accordingly, Bristol Water has a robust capital investment program focused on water main replacement. As well, a key element of Bristol Water's strategy to meet customer demand for water is to reduce leakage, which is a common issue faced by all UK water companies.

Customers

During the first half of Bristol Water's financial year ended March 31, 2014, Bristol Water treated an average of 263 Ml/d of water for use by approximately 518,000 premises. Bristol Water has approximately 35,000 non-domestic customers, of which 44 customers are defined as large users (consumption in excess of 50 million litres per annum) and who therefore fall outside of the price limit regime (see "Narrative Description of the Business – Utilities – Water Distribution Business – Bristol Water – Regulation of Water Distribution Industry – Economic Regulation"). Bristol Water's large consumers include healthcare providers, infrastructure operators, utilities and other industrial users. No single customer accounts for over 0.6% of Bristol Water's revenues. Approximately 40% of domestic customers pay for their water on a metered basis. Bristol Water's strategy is to increase meter penetration (which tends to reduce usage) in order to enhance the efficient use of its water resources, promote environmental stewardship, identify potential leakages, comply with regulatory objectives and reduce operating expenses. Regulated water companies are not permitted to disconnect domestic customers from their water supply for failure to pay bills but industrial and commercial customers are subject to normal payment recovery processes, including disconnection. Throughout the industry, there is a focus on alternative methods to manage increasing levels of bad debts and the UK government is consulting on measures to help companies recover bad debts. Bristol Water has made substantial investments in effective debt management and the collection of bad debts.

Bristol Wessex Billing Services Limited, which is 50% owned by Bristol Water Holdings Limited and 50% owned by Wessex Water Services Limited ("Wessex Water"), the main provider of sewerage services in Bristol Water's service area, provides combined billing to customers for Bristol Water's water supply service and Wessex Water's wastewater services.

Employees and Management

As at March 1, 2014, Bristol Water had approximately 485 employees. Bristol Water has a highly-skilled management team with significant industry knowledge and expertise and, in the case of the executive team, each with many years of experience in the water sector. Bristol Water has collective agreements with two different trade unions and estimates that, as at March 1, 2014, these unions collectively represented approximately 150 employees. Bristol Water enjoys a good relationship with the unions representing its employees (see "Risk Factors – Risks Related to Bristol Water – Labour Relations").

Bristol Water O&M Agreement

In connection with the Corporation's investment in Bristol Water, Bristol Water Holdings entered into an operational and management agreement dated October 5, 2011 with Agbar pursuant to which Agbar provides strategic advice and certain limited management services to the Bristol Water Group.

Seasonality

Although there is little seasonal variation in demand, the proportion of water used from each type of Bristol Water's water sources varies on a daily and seasonal basis according to the availability of water, the relative costs and other operational constraints, and the quantity of treated water supplies fluctuates owing to a variety of seasonal factors, such as dry weather and burst pipes due to freeze/thaw cycles affecting the ground during winter months. There is also a seasonal effect on Bristol Water's cash flow as a result of unmetered customers who pay their water bills in semi-annual installments in March/April and in September/October of each year.

Regulation of Water Distribution Industry

Bristol Water operates within a highly regulated industry in England and Wales, subject to a range of UK and EU legislation, as well as the terms of its Instrument of Appointment, and its operations are strongly influenced by economic, drinking water quality and environmental regulation.

Instrument of Appointment

The water sector in England and Wales is governed by the WIA, the *Water Resources Act 1991*, the *Water Act 2003* (the "WA") and related secondary legislation. Under the WIA, each regulated water company holds an Instrument of Appointment and is regulated through the conditions of that licence and the WIA. These conditions include, without limitation, provisions allowing the Instrument of Appointment to be terminated on 25 years' notice; restrictions on dealings with associated companies; corporate governance requirements; ensuring that the regulated water company has adequate financial resources and facilities, management resources and systems of planning and internal control to carry out the regulated activities and maintain an investment grade credit rating. A number of these conditions are often referred to as the "regulatory ring fence", which are designed to ensure that Bristol Water's regulated business is protected from any adverse developments in other parts of the Bristol Water Group and that Bristol Water has the ability to manage and finance itself. The ring-fenced members of the Bristol Water Group consist of Bristol Water and Bristol Water Core Holdings Limited (see "The Corporation – Structure"). Regulatory ring-fencing is common to each of the regulated water companies in England and Wales pursuant to their Instruments of Appointment. Failure to comply with the Instrument of Appointment conditions can result in penalties. See "Risk Factors – Risks Related to Bristol Water – Regulatory Environment."

Economic Regulation

The UK Water Services Regulatory Authority ("Ofwat") regulates water companies by capping the average increase in charges to most customers that a company can impose in any year. The price limit on amounts that a regulated water company may charge its customers is set by reference to inflation as measured by the RPI together with an adjustment factor known as "K", which is specific to each regulated water company and which can vary from year to year (subject to additional adjustments for certain extraordinary events). The size of a regulated water company's K factor (which can be positive, negative or zero) reflects the scale of its capital investment program, its operating cost, its cost of capital and its operational and environmental obligations, taking into account the scope for it to improve efficiency. One of the elements that Ofwat considers when assessing the revenues that a regulated water company should earn is a return on capital invested in the business, with RCV being used by Ofwat as the value of the capital base of each such company.

Ofwat conducts a periodic review (a "Periodic Review"), which includes a review of each regulated water company's K factor, and sets the applicable price limits, every five years. The current regulatory price review period, the asset management plan 5 ("AMP5") five-year regulatory period, runs from April 2010 to March 2015. For AMP5, the average K factor for Bristol Water is 3.2% per annum. Ofwat is currently conducting a Periodic Review for the asset management plan 6 ("AMP6") five-year regulatory period, and price limits (and K factors) are next scheduled to be reset in the fourth quarter of 2014 for AMP6, which commences on April 1, 2015. In 2013, Bristol Water, along with all other regulated water companies, submitted its AMP6 business plan to Ofwat explaining how it intends to meet its obligations and provide services to customers. Following the submission of these AMP6 business plans, Ofwat carries out a risk-based review and will assign each company's business plan to one of three streams – enhanced, standard or resubmission – which determines the likely level of scrutiny and challenge of the plan by Ofwat. On March 10, 2014, Bristol Water was advised by Ofwat that its AMP6 business plan was classified as standard. Bristol Water will now begin a consultation process with Ofwat to refine its business plan over the next few months and is expected to receive its draft determination of its K factor in the third quarter of 2014. The final determination of the K factor is expected to be published by Ofwat in December 2014, to take effect upon the commencement of AMP6 on April 1, 2015.

In late 2013, an amendment to each regulated water company's Instrument of Appointment became effective that allows Ofwat to set different price limits for different parts of each company's business and allow Ofwat to make determinations that it believes will incentivise companies to respond efficiently, innovatively and sustainably to the challenges they face. In particular, the RPI+/-K factor formula for price limits on a company's "wholesale" activities (such as abstraction, treatment and distribution of water) will be retained. However, Ofwat believes that RPI+/-K factor is not necessarily the most appropriate form of price limit to use for "retail" (or "asset light") activities related to the provision of goods or services directly to customers (such as billing and debt management) and so the changes to the Instruments of Appointment grant Ofwat the flexibility to define the nature and form of retail price limits. These license changes contain prescriptive provisions that avoid the risk of regulatory capital being transferred into a new business unit with a different approach to remunerating regulatory capital as well as an appeal process. Bristol Water's management does not expect that the changes to its Instrument of Appointment will have a material negative effect on Bristol Water's financial performance or results of operations.

Customer Service

Effective April 1, 2010, Ofwat introduced a new mechanism for assessing customer service, the service incentive mechanism ("SIM"). Service is measured by a mix of customer satisfaction surveys and quantitative data relating to complaints and the SIM ranks each water company's relative performance in terms of the quality of service that is delivered to customers. The SIM is being measured over the period commencing April 1, 2011 through March 31, 2014. Depending upon Bristol Water's relative performance under the SIM, it could receive a revenue penalty or reward when price limits are reset for AMP6.

Drinking Water Quality and Environmental Regulation

The water industry in the UK is subject to substantial domestic and EU regulation, placing significant statutory obligations on Bristol Water relating to, among other factors, the quality of treated water supplied, monitoring water quality and the effects of Bristol Water's abstraction and discharge activities on the environment, biodiversity and human health and safety. Any pollution of controlled waters or other environmental harm caused by Bristol Water may also result in liability for remedial or compensatory works under a number of statutory liability regimes.

Energy used in water treatment and other activities carried out by Bristol Water results in indirect emissions of GHGs. Bristol Water is subject to the UK Climate Change Levy although the forecast cost for 2014-2015 is an immaterial amount due to credits arising from Bristol Water's purchase of "green" energy. Bristol Water is also subject to the CRC Energy Efficiency Scheme, a mandatory UK carbon emissions reduction plan for significant consumers of energy. Estimated costs to Bristol Water for 2014-2015 related to the CRC Energy Efficiency Scheme are projected to be an immaterial amount.

Bristol Water's core water abstraction activities require permits from the UK Environment Agency and compliance with the conditions to which such permits are subject. Bristol Water is also required to maintain discharge permits in respect of its water treatment facilities. All material permits are valid and Bristol Water has no areas of material non-compliance.

Competitive Conditions

The water industry in England and Wales is essentially comprised of a number of regional monopolies. The UK government, through Ofwat, has taken progressive steps to open up competition within the industry for large industrial and commercial customers and greenfield domestic developments. Currently, the two main forms of competition permitted in the water industry are: (i) inset appointments and (ii) the Water Supply Licensing regime. An inset appointment is made when an existing regulated water company is replaced by another as the supplier of water and services for one or more customers within a particular licenced area. The WA has also extended opportunities for competition in the water industry by introducing a new Water Supply Licensing regime in December 2005. The Water Supply Licensing regime is designed to open up a small fraction of the water supply market by permitting a licenced water supplier to provide to non-household users with an annual consumption of not less than 5 million litres either: (a) retail supply (i.e. the supply by a licensee of water purchased from a regulated water company's supply system to an eligible customer) or (b) combined supply (i.e. the introduction of water into a regulated water company's existing network for retail by the licensee to an eligible customer, plus retail supply). A regulated water company is obliged to allow a licenced water supplier to use its network for this purpose, subject to payment of charges and certain conditions and rights of refusal. Ofwat is responsible for implementing the regime. To date, the above forms of competition have had no significant impact on Bristol Water.

A water bill (the "Water Bill") that is currently in its final stages before the UK Parliament will enable the UK government to implement proposals set out in its *Water for Life* paper (the "Water for Life Paper") published in December 2011. The Water for Life Paper supported the objective of introducing greater competition in the UK water industry and stated the UK government's intention to introduce a number of reforms, including: abstraction licence trading to optimize efficient use of water resources across different regions; upstream competition through the introduction of separate network and supply licences; retail competition for non-household consumers; and the relaxation of the special regime applicable to mergers between water companies. The Water Bill amends the WIA by expanding and revising the current water supply licensing regime and adding a sewerage licensing regime. It also increases choice in the retail market by enabling earlier repeal of the threshold which sets the water usage limit for when non-household customers can switch supplier. This will allow all business, charity and public sector customers to choose their water and sewerage supplier for the first time, and enable multi-site operators to tender for one supplier. The Water Bill provides for the creation of a cross-border retail market between England and Wales and Scotland. In relation to merger control in the water sector, the Water Bill will amend the WIA to allow the UK CC to determine whether or not to make a merger reference, or to accept undertakings to compensate for the loss of a comparator in lieu of a reference. There is a new primary duty to secure the long-term resilience of water supply and sewerage systems with particular reference to managing the impacts of environmental pressures, population growth and changes in consumer behavior.

The final version of the legislation and the guidelines required to implement and regulate the provisions introduced in the Water Bill have not yet been published. However, based upon its review of the Water for Life Paper and the Water Bill, Bristol Water's management does not expect that the implementation of the provisions contained in the Water Bill will have a material negative effect on Bristol Water's financial performance or results of operations.

CAPITAL STRUCTURE OF THE CORPORATION

OVERVIEW

The authorized capital of the Corporation consists of an unlimited number of Common Shares and a limited number of preferred shares issuable in series. The aggregate number of preferred shares that may be issued is limited to 50% of the number of Common Shares outstanding at the relevant time. The following is a summary of the rights, privileges, restrictions and conditions attaching to the securities of the Corporation and securities exchangeable for securities of the Corporation.

As at March 26, 2014 there were 93,002,477 Common Shares and 3,000,000 Series A Preferred Shares issued and outstanding. There are no cumulative floating rate preferred shares, series B ("Series B Preferred Shares") issued and outstanding.

As at March 26, 2014, an aggregate principal amount of approximately $42.7 million 6.50% convertible unsecured subordinated debentures of the Corporation, due December 31, 2016 (the "Capstone 2016 Debentures") were outstanding.

As at March 26, 2014, there were an aggregate of 3,249,390 Class B exchangeable limited partnership units (the "Class B Exchangeable Units") of MPT LTC Holding LP ("LTC Holding LP"), which are convertible into Common Shares, issued and outstanding.

As at March 26, 2014, an aggregate principal amount of approximately $27.4 million 6.75% extendible convertible unsecured subordinated debentures issued by CPC (successor issuer to ReD), due December 31, 2017 (the "CPC 2017 Debentures"), which are convertible into Common Shares, were outstanding.

As at March 26, 2014, an aggregate amount of approximately $11.3million had been advanced and was outstanding under the Revolving Credit Facility.

As at March 26, 2014, the Corporation had 183,009 Common Share purchase options ("Options") issued and outstanding with exercise prices ranging from $2.81 to $4.54 per Common Share.

COMMON SHARES

Holders of Common Shares are entitled to one vote per share at meetings of Shareholders, to receive dividends if, as and when declared by the Board of Directors (subject to the rights of securities, if any, having priority over the Common Shares) and to receive *pro rata* the remaining property and assets of the Corporation upon its dissolution or winding-up (subject to the rights of securities, if any, having priority over the Common Shares).

PREFERRED SHARES

Each series of preferred shares will consist of such number of shares and having such rights, privileges, restrictions and conditions as may be determined by the Board of Directors prior to the issuance thereof. The aggregate number of preferred shares that may be issued is limited to 50% of the number of Common Shares outstanding at the relevant time.

With respect to the payment of dividends and distribution of assets in the event of liquidation, dissolution or wind up of the Corporation, whether voluntary or involuntary, each series of preferred shares ranks *pari passu* with every other series of preferred shares of the Corporation and the preferred shares will be entitled to a preference over the Common Shares and any other securities ranking junior to the preferred shares.

In the event of the liquidation, dissolution or winding-up of the Corporation or any other distribution of assets of the Corporation among its shareholders for the purpose of winding-up its affairs, subject to the prior satisfaction of the claims of all creditors of the Corporation and of holders of shares of the Corporation ranking prior to any series of preferred shares, the holders of preferred shares will be entitled to receive an amount equal to $25.00 per share, together with an amount equal to all accrued and unpaid dividends up to but excluding the date of payment or distribution.

The Corporation may issue other series of preferred shares ranking on parity with any series of preferred shares without the authorization of the holders of preferred shares.

The holders of any series of preferred shares will not (except as otherwise provided by law and, except as noted below, in respect of meetings of the holders of preferred shares as a class and meetings of holders of preferred shares as a series) be entitled to receive notice of, attend, or vote at any meeting of shareholders of the Corporation, unless and until the Corporation shall have failed to pay eight quarterly dividends on the specific series of preferred shares, whether or not consecutive and whether or not such dividends were declared and whether or not there are any moneys of the Corporation properly applicable to the payment of such dividends. In the event of such non-payment, and for only so long as any such dividends remain in arrears, the holders of the specific series of preferred shares as at the applicable record date will be entitled to receive notice of and to attend each meeting of the Corporation's shareholders, other than meetings at which only holders of another specified class or series are entitled to vote, and will be entitled to vote together with all of the voting shares of the Corporation on the basis of one vote in respect of each preferred share of the specified class held by such holder, until all such arrears of such dividends have been paid, whereupon such rights shall cease.

Subject to applicable law, holders of any series of preferred shares will not be entitled to vote separately as a class or series on a proposal to amend the articles of the Corporation to (a) increase any maximum number of authorized shares of a class or series having rights or privileges equal to or superior to the applicable series of preferred shares or (b) create a new class or series of shares equal or superior to applicable series of preferred shares.

Series A Preferred Shares

The Series A Preferred Shares have an issue price of $25.00 per share. For the period from and including June 30, 2011 up to, but excluding, July 31, 2016 (the "Initial Fixed Rate Period"), holders of Series A Preferred Shares will be entitled to receive fixed, cumulative, preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly each year, at an annual rate equal to $1.25 per share. Thereafter, during "Subsequent Fixed Rate Periods" (that is, for the initial Subsequent Fixed Rate Period, the period from and including July 31, 2016 up to, but excluding, July 31, 2021 and for each succeeding Subsequent Fixed Rate Period, the period from and including the day immediately following the end of the immediately preceding Subsequent Fixed Rate Period up to, but excluding, July 31 in the fifth year thereafter), the holders of Series A Preferred Shares will be entitled to receive fixed, cumulative, preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly in each year during the Subsequent Fixed Rate Period, in an annual amount per share determined by multiplying the "Annual Fixed Dividend Rate" (that is, the rate equal to the sum of the yield to maturity determined on the 30th day prior to the first day of the applicable Subsequent Fixed Rate Period (assuming semi-annual compounding) of a Canadian dollar denominated non-callable Government of Canada bond with a term to maturity of five years plus 2.71%) applicable to such Subsequent Fixed Rate Period by $25.00.

On July 31, 2016 and on July 31 every five years thereafter, and subject to certain other restrictions, the Corporation may, at its option, redeem all or any number of the outstanding Series A Preferred Shares by payment in cash of a per share sum equal to $25.00, together with all accrued and unpaid dividends thereon.

Subject to the right of the Corporation to redeem the Series A Preferred Shares and provided that there will be at a minimum of 1,000,000 Series B Preferred Shares outstanding after conversion, each holder of Series A Preferred Shares will have the right, at its option, on July 31, 2016 and on July 31 every five years thereafter to convert all or any of the Series A Preferred Shares into Series B Preferred Shares on the basis of one Series B Preferred Share for each Series A Preferred Share converted. If the Corporation determines that after conversion there would remain outstanding fewer than 1,000,000 Series A Preferred Shares, then all, but not part, of the remaining outstanding Series A Preferred Shares will be automatically converted into Series B Preferred Shares, on the basis of one Series B Preferred Share for each Series A Preferred Share.

Series B Preferred Shares

The holders of the Series B Preferred Shares will be entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by $25.00. The “Floating Quarterly Dividend Rate” means, for any Quarterly Floating Rate Period (that is, for the initial Quarterly Floating Rate Period, the period from and including July 31, 2016 up to, but excluding, October 31, 2016, and thereafter the period from and including the day immediately following the end of the immediately preceding Quarterly Floating Rate Period up to, but excluding, the next succeeding “Quarterly Commencement Date” (that is, the last day of each of January, April, July and October in each year)), the rate equal to the sum of the T-Bill Rate (that is for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the 30th day prior to the first day of the applicable Quarterly Floating Rate Period) plus 2.71%.

The Corporation may, at its option, redeem all or any number of the outstanding Series B Preferred Shares by payment in cash of a per share sum equal to (i) $25.00 in the case of redemptions on July 31, 2021 and on July 31 every five years thereafter (each a “Series B Conversion Date”), or (ii) $25.50 in the case of redemptions on any date which is not a Series B Conversion Date after July 31, 2016.

Subject to the right of the Corporation to redeem the Series B Preferred Shares as described above and provided that there will be at a minimum of 1,000,000 Series A Preferred Shares outstanding after conversion, each holder of Series B Preferred Shares will have the right, at its option, on any Series B Conversion Date, to convert all or any of the Series B Preferred Shares into Series A Preferred Shares on the basis of one Series A Preferred Share for each Series B Preferred Share converted. If the Corporation determines that after conversion there would remain fewer than 1,000,000 Series B Preferred Shares, then all, but not part, of the remaining outstanding Series B Preferred Shares will be automatically converted into Series A Preferred Shares, on the basis of one Series A Preferred Share for each Series B Preferred Share, on the applicable Series B Conversion Date.

OPTIONS

Pursuant to the terms of the ReD Arrangement, all of the outstanding options (“ReD Options”) to purchase ReD Shares, which had been issued pursuant to ReD’s stock option plan and which were held by certain directors and officers of ReD, were exchanged for replacement Options based on an exchange ratio reflecting the offer price paid by the Corporation per ReD Share. The Options entitle the holders thereof to purchase one Common Share per Option at an exercise price ranging from $2.81 to $4.54. The Options vest and expire on the same schedule as the ReD Options they replaced. The Options have a five-year term from the date of the grant of the original ReD Options, with one third of the granted options vesting after each of the first, second and third anniversaries of the grant of the original ReD Options. As at March 26, 2014, there were 183,009 outstanding Options, 115,657 of which were vested. The Options are non-transferrable and will expire no later than May 15, 2017. The Corporation does not have a stock option plan and currently has no intention of issuing additional options.

CLASS B EXCHANGEABLE UNITS

In connection with the Fund's acquisition of the Leisureworld long-term care business in 2005 (which the fund subsequently divested in 2010), the vendors of that business (the "LSCLP Vendors") acquired all of the Class B Exchangeable Units of LTC Holding LP, a limited partnership established under the laws of the Province of Ontario, which have economic rights equivalent in all material respects to those of the Common Shares (such as the entitlement to receive a distribution for each Class B Exchangeable Unit equivalent to a dividend paid on a Common Share). The distributions on the Class B Exchangeable Units are supported through an arrangement contained in an exchange agreement dated October 18, 2005, as amended and restated as of January 1, 2011 (the "Exchange Agreement") among the Corporation, LTC Holding LP and the LSCLP Vendors. The Exchange Agreement and the provisions of the Class B Exchangeable Units grant the LSCLP Vendors the right to require LTC Holding LP and the Corporation to directly or indirectly exchange each Class B Exchangeable Unit for a Common Share on a one-for-one basis (subject to customary anti-dilution provisions and other conditions contained in the Exchange Agreement). The Exchange Agreement also provides that, on or after October 18, 2020, any outstanding Class B Exchangeable Units will be automatically exchanged for Common Shares on a one-for-one basis. In addition, the Exchange Agreement prohibits certain of the LSCLP Vendors from acquiring additional Common Shares (subject to certain conditions), limits the amount of any Common Shares that such persons may sell from time to time and contains certain other transfer restrictions. Assuming the exchange, as at March 26, 2014, of all of the Class B Exchangeable Units for Common Shares in accordance with the Exchange Agreement, the LSCLP Vendors would hold, in aggregate on a *pro forma* basis, approximately 3.5% of the total number of Common Shares outstanding following such exchange.

In the event of a take-over bid for the Common Shares, a holder may exchange its Class B Exchangeable Units for Common Shares on a conditional basis in order to tender to such bid or, if such holder does not tender and Common Shares representing more than 90% of the aggregate number of outstanding Common Shares and Common Shares for which outstanding Class B Exchangeable Units may be exchanged are tendered to such bid, then the offeror will have the right to acquire the Class B Exchangeable Units held by such holder on the same terms as the Common Shares were acquired under the take-over bid.

CAPSTONE 2016 DEBENTURES

The following is a summary of the material attributes of the Capstone 2016 Debentures and certain provisions of the indenture dated as of December 22, 2009 (the "Capstone 2016 Debenture Indenture") and the supplemental indenture dated as of January 1, 2011 (the "First Supplemental Capstone 2016 Debenture Indenture", and together with the Capstone 2016 Debenture Indenture, the "Supplemented Capstone 2016 Debenture Indenture") governing the Capstone 2016 Debentures, but does not purport to be complete. Reference should be made to the full text of the indentures, which can be found under the Corporation's SEDAR profile at www.sedar.com.

General

On December 22, 2009, the Fund issued $50 million principal amount of 6.50% convertible unsecured subordinated debentures (the "Capstone 2016 Debentures"). On January 5, 2010, the underwriters of the offering of Capstone 2016 Debentures exercised in full their option to purchase an additional $7.5 million principal amount of Capstone 2016 Debentures, bringing the outstanding aggregate principal amount of the Capstone 2016 Debentures to $57.5 million. In connection with the Arrangement, the Capstone 2016 Debentures were assumed by the Corporation pursuant to the First Supplemental Capstone 2016 Debenture Indenture. As at December 31, 2013, $42.7 million aggregate principal amount of Capstone 2016 Debentures were outstanding.

The outstanding Capstone 2016 Debentures have a maturity date of December 31, 2016 (the "Capstone 2016 Debenture Maturity Date") and are listed on the TSX and trade under the symbol "CSE.DB.A".

Interest Payments

The Capstone 2016 Debentures bear interest at an annual rate of 6.50%, payable in semi-annual installments, in arrears, on June 30 and December 31 of each year (or the immediately following business day if such date would not otherwise be a business day) (the “2016 Debenture Interest Payment Date”). At the option of the Corporation, and subject to regulatory approval, the Corporation may issue and solicit bids to sell sufficient Common Shares in order to raise funds to satisfy all or any part of the Corporation’s obligations to pay interest on the Capstone 2016 Debentures, but, in any event, the holders of Capstone 2016 Debentures are entitled to receive cash payments equal to the interest otherwise payable on the Capstone 2016 Debentures.

Conversion Privilege

The Capstone 2016 Debentures are convertible at a holder’s option into fully-paid, non-assessable and freely-tradable Common Shares at any time prior to 5:00 p.m. (Toronto time) on the earlier of the Capstone 2016 Debenture Maturity Date and the business day immediately preceding the date specified by the Corporation for redemption of the Capstone 2016 Debentures, at a conversion price of $7.00 per Common Share (the “Capstone 2016 Debenture Conversion Price”), being a ratio of 142.8571 Common Shares per $1,000 principal amount of Capstone 2016 Debentures, all subject to certain terms and conditions and in the manner set forth in the Supplemented Capstone 2016 Debenture Indenture. No adjustment to the Capstone 2016 Debenture Conversion Price will be made for dividends on Common Shares issuable upon conversion or for interest accrued on Capstone 2016 Debentures surrendered for conversion; however, holders converting their Capstone 2016 Debentures will be entitled to receive, in addition to the applicable number of Common Shares, accrued and unpaid interest in respect thereof for the period from and including the latest Capstone 2016 Debenture Interest Payment Date up to, but excluding, the date of conversion. Notwithstanding the foregoing, no Capstone 2016 Debentures may be converted during the period from the close of business on June 15 and December 15 of each year (or the first business day following such date if not a business day) to and including the next Capstone 2016 Debenture Interest Payment Date, as the registers of the Capstone 2016 Debenture Trustee will be closed during such periods.

Subject to the provisions of the Supplemented Capstone 2016 Debenture Indenture, the Capstone 2016 Debenture Conversion Price will be adjusted on account of certain events including: (a) the subdivision or consolidation of the outstanding Common Shares; (b) the distribution of Common Shares to all or substantially all Shareholders by way of distribution or otherwise, other than pursuant to any dividend reinvestment or share purchase plans or similar arrangements of the Corporation; (c) the issuance of options, rights or warrants to all or substantially all Shareholders entitling them for a period of not more than 45 days after June 15 and December 15 of each year (or the first business day following such date if not a business day) to acquire Common Shares or other securities convertible into Common Shares at less than 95% of the then current market price of the Common Shares (as calculated pursuant to the terms of the Supplemented Capstone 2016 Debenture Indenture, the “Current Market Price”); and (d) the distribution to all holders of any units, rights, options or warrants (other than those referred to in paragraph (c) above), evidences of indebtedness of the Corporation, or other assets (other than cash dividends and equivalent dividends in securities paid in lieu of cash dividends in the ordinary course). There will be no adjustment of the Capstone 2016 Debenture Conversion Price in respect of any event described in (b), (c) or (d) above if, subject to prior regulatory approval, the holders of the Capstone 2016 Debentures are allowed to participate as though they had converted their Capstone 2016 Debentures prior to the applicable record date or effective date. The Corporation will not be required to make adjustments in the Capstone 2016 Debenture Conversion Price unless the cumulative effect of such adjustments would change the Capstone 2016 Debenture Conversion Price by at least one percent.

In the case of any reclassification of the Common Shares or a capital reorganization of the Corporation (other than a change resulting only from consolidation or subdivision) or in the case of any amalgamation, consolidation, arrangement or merger of the Corporation with or into any other entity, or in the case of any sale or conveyance of the properties and assets of the Corporation as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of the Corporation, the terms of the conversion privilege will be adjusted so that each Capstone 2016 Debenture will, after such reclassification, capital reorganization, amalgamation, consolidation, arrangement or merger, sale or conveyance or liquidation, dissolution or winding-up, be exercisable for the kind and number of securities of the continuing, successor or purchaser entity, as the case may be, which the holder thereof would have been entitled to receive as a result of such reclassification, capital reorganization, amalgamation, consolidation, arrangement or merger, sale or conveyance or liquidation, dissolution or winding-up, if on the effective date or record date thereof it had been the holder of the number of Common Shares into which the Capstone 2016 Debenture was convertible prior to the effective date of such event.

No fractional Common Shares will be issued on any conversion of the Capstone 2016 Debentures, but in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the Current Market Price of such fractional interest.

Redemption and Purchase

The Corporation was prohibited from redeeming any Capstone 2016 Debentures prior to December 31, 2012, except in the event of the satisfaction of certain conditions after a change of control has occurred as described below under “Capital Structure of the Corporation – 2016 Debentures – Put Right upon a Change of Control”. On and after December 31, 2012, but prior to December 31, 2014, the Capstone 2016 Debentures may be redeemed at the option of the Corporation, in whole at any time or in part from time to time, on not more than 60 days’ and not less than 30 days’ prior written notice, at a price equal to the principal amount thereof plus accrued and unpaid interest in respect thereof for the period from and including the latest Capstone 2016 Debenture Interest Payment Date up to, but excluding, the date of redemption, provided that the Current Market Price immediately preceding the date upon which the notice of redemption is given is not less than 125% of the Capstone 2016 Debenture Conversion Price. On and after December 31, 2014, and prior to the Capstone 2016 Debenture Maturity Date, the Corporation may redeem the Capstone 2016 Debentures in whole at any time or in part from time to time, on not more than 60 days’ and not less than 30 days’ prior written notice, at a price equal to the principal amount thereof plus accrued and unpaid interest in respect thereof for the period from and including the latest Capstone 2016 Debenture Interest Payment Date up to, but excluding, the date of redemption.

The Corporation may purchase Capstone 2016 Debentures in the market, by tender or by private contract, subject to regulatory requirements; provided, however, that if an event of default in respect of the Capstone 2016 Debentures has occurred and is continuing, the Corporation will not have the right to purchase the Capstone 2016 Debentures by private contract.

In the case of redemption of less than all of the Capstone 2016 Debentures, the Capstone 2016 Debentures to be redeemed will be selected by the Capstone 2016 Debenture Trustee on a *pro rata* basis or in such other manner as the Capstone 2016 Debenture Trustee deems equitable, subject to the consent of the TSX.

Payment upon Redemption or Maturity

On redemption or the Capstone 2016 Debenture Maturity Date, the Corporation will repay the indebtedness represented by the Capstone 2016 Debentures by paying to the Capstone 2016 Debenture Trustee an amount equal to the principal amount of the outstanding Capstone 2016 Debentures, together with accrued and unpaid interest thereon. The Corporation may, at its option, on not more than 60 days' and not less than 40 days' prior notice and subject to any required regulatory approvals, unless an event of default in respect of the Capstone 2016 Debentures has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the Capstone 2016 Debentures which are to be redeemed or which have matured by issuing freely-tradable Common Shares, in whole or in part, to the holders of the Capstone 2016 Debentures. The number of Common Shares to be issued will be determined by dividing the principal amount of the Capstone 2016 Debentures by 95% of the Current Market Price on the date fixed for redemption or the Capstone 2016 Debenture Maturity Date, as the case may be. Any accrued and unpaid interest will be paid in cash. No fractional Common Shares will be issued to holders of Capstone 2016 Debentures, but in lieu thereof, the Corporation will satisfy such fractional interest by a cash payment equal to the Current Market Price of such fractional interest.

Cancellation

All Capstone 2016 Debentures converted, redeemed or purchased will be cancelled and may not be reissued or resold.

Subordination

The Capstone 2016 Debentures are direct obligations of the Corporation, are not secured by any mortgage, pledge, hypothec or other charge and are subordinated to all indebtedness of the Corporation (whether outstanding as at the date of the Supplemented Capstone 2016 Debenture Indenture or thereafter incurred) which, by the terms of the instrument creating or evidencing such indebtedness, is not expressed to be *pari passu* with, or subordinate in right of payment to, the Capstone 2016 Debentures. The Corporation and its subsidiaries are not restricted from incurring additional indebtedness for borrowed money, including indebtedness that ranks senior to the Capstone 2016 Debentures, or from mortgaging, pledging or charging the Corporation's real or personal property or properties to secure any indebtedness. As a result, the Capstone 2016 Debentures are effectively subordinate to claims of creditors (including trade creditors) of the Corporation's subsidiaries, except to the extent the Corporation is itself a creditor of such subsidiaries ranking at least *pari passu* with such other creditors.

Put Right upon a Change of Control

The Supplemented Capstone 2016 Debenture Indenture provides holders of Capstone 2016 Debentures with a right, in the event of a change of control of the Corporation, to require the Corporation to purchase the Capstone 2016 Debentures at 101% of the principal amount thereof, plus accrued and unpaid interest thereon. Subject to certain conditions, the Corporation may satisfy the purchase price, in whole or in part, for any put Capstone 2016 Debentures through the issuance of Common Shares. If, in the event of a change of control, 90% or more of the then outstanding Capstone 2016 Debentures are put to the Corporation, the Corporation has the right, but not the obligation, to redeem all of the remaining outstanding Capstone 2016 Debentures at the same price paid for the put Capstone 2016 Debentures.

For these purposes, a change of control of the Corporation means the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction of $66^2/_3$% or more of the votes attaching, collectively, to all outstanding Common Shares.

Events of Default

If an event of default in respect of the Capstone 2016 Debentures has occurred and is continuing, the Capstone 2016 Debenture Trustee may, in its discretion, and will, upon the request of holders of not less than 25% of the principal amount of the then outstanding Capstone 2016 Debentures, declare the principal of (and premium, if any) and interest on all outstanding Capstone 2016 Debentures to be immediately due and payable. Certain events of default in respect of the Capstone 2016 Debentures may be waived by the holders of Capstone 2016 Debentures or by the Capstone 2016 Debenture Trustee, in accordance with the terms of the Supplemented Capstone 2016 Debenture Indenture.

Offers for Capstone 2016 Debentures

If an offer is made for the Capstone 2016 Debentures which is a take-over bid for Capstone 2016 Debentures within the meaning of the *Securities Act* (Ontario) and not less than 90% of the outstanding principal amount of the Capstone 2016 Debentures (other than Capstone 2016 Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror or any person acting jointly or in concert with the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Capstone 2016 Debentures held by holders of Capstone 2016 Debentures who did not accept the offer on the terms offered by the offeror.

CPC Credit Support

CPC has provided credit support for the Corporation's obligations under the Capstone 2016 Debentures.

CPC 2017 DEBENTURES

General

On August 30, 2012, ReD completed an offering of $34.5 million principal amount of CPC 2017 Debentures, The CPC 2017 Debentures have an interest rate of 6.75% per annum payable semi-annually in arrears on June 30 and December 31 in each year and mature on December 31, 2017. Following the completion of the ReD Arrangement, each $1,000 principal amount of CPC 2017 Debentures is convertible into 200 Common Shares and $0.76923 in cash. The CPC 2017 Debentures were issued pursuant to a debenture indenture (the "CPC 2017 Debenture Indenture") dated August 28, 2012 between CPC (successor to ReD) and Equity Financial Trust Company, as debenture agent. The CPC 2017 Debenture Indenture was subsequently amended in connection with the ReD Arrangement on October 1, 2013, November 12, 2013 and February 15, 2014. As at December 31, 2013, $27.4 million aggregate principal amount of CPC 2017 Debentures were outstanding.

Upon completion of the ReD Arrangement and pursuant to the terms of the CPC 2017 Debenture Indenture, the CPC 2017 Debentures that remained outstanding and were not duly converted prior to the effective time of the ReD Arrangement became convertible into Common Shares. In the first quarter of 2014, CPC and ReD were amalgamated, with the amalgamated company retaining CPC's name and CPC becoming the successor issuer of the CPC 2017 Debentures. CPC is a reporting issuer in all the provinces of Canada and the CPC 2017 Debentures are listed on the TSX under the symbol "CPW.DB". Capstone has provided credit support for CPC's obligations under the CPC 2017 Debentures.

The CPC 2017 Debentures may not be redeemed before December 31, 2015 (except in certain limited circumstances following a change of control). On or after December 31, 2015 and at any time prior to December 31, 2016, the CPC 2017 Debentures may be redeemed by CPC, in whole or in part, from time to time, at the option of CPC with not more than 60 and not less than 30 days' prior notice at a redemption price equal to their principal amount plus accrued and unpaid interest thereon up to (but excluding) the redemption date, provided that the current market price of the Common Shares is at least 125% of the conversion price (such amount being $5.00, subject to further adjustment in accordance with the terms of the CPC 2017 Debenture Indenture)(the "CPC 2017 Debenture Conversion Price"). On or after December 31, 2016, the CPC 2017 Debentures may be redeemed in whole or in part from time to time at the option of CPC at a price equal to their principal amount plus accrued and unpaid interest thereon up to (but excluding) the date of redemption.

If a change of control of the Corporation occurs in which 10% or more of the consideration for the Common Shares in the transaction or transactions constituting the change of control consists of: (i) cash; (ii) equity securities that are not traded or intended to be traded immediately following such transactions on a stock exchange; or (iii) other property that is not traded or intended to traded immediately following such transactions on a stock exchange (a "Cash Change of Control"), then subject to regulatory approvals, during the period beginning ten trading days before the anticipated date on which the change of control becomes effective (the "Cash Change of Control Effective Date") and ending 30 days after the notice of the change of control is delivered, holders of 2017 CPC Debentures will be entitled to convert their debentures at a new conversion price (the "Cash Change of Control Conversion Price") calculated as follows:

Cash Change of Control Conversion Price = OCP/(1+(32.65% x (c/t))) where:

"OCP" is the CPC 2017 Debenture Conversion Price in effect on the Cash Change of Control Effective Date;
"c" is the number of days from and including the Cash Change of Control Effective Date to but excluding December 31, 2017; and
"t" is the number of days from and including August 28, 2012 to but excluding the December 31, 2017.

In the event that the Cash Change of Control Conversion Price calculated in accordance with the formula above is less than any regulatory permitted discount to market price, the Cash Change of Control Conversion Price shall be deemed to be that implied by the maximum permitted discount to market price. The foregoing adjustment does not apply after December 31, 2015, if concurrent with or prior to the making of the notice of a Cash Change of Control, a notice of redemption is delivered to holders of all outstanding 2017 CPC Debentures.

Other than as described in this section, the terms of the CPC 2017 Debentures are similar to the Capstone 2016 Debentures and general information on the CPC 2017 Debentures' interest payments, conversion privileges, redemption and purchase, payment upon redemption or maturity, cancellation, subordination, put right upon a change of control of Capstone, event of default and offers for the CPC 2017 Debentures can be found in the corresponding descriptions for the Capstone 2016 Debentures under "Capital Structure of the Corporation – Capstone 2016 Debentures" by reading references to the Capstone 2016 Debentures as references to CPC 2017 Debentures.

However, for a full description of the terms and conditions of the CPC 2017 Debentures, including, without limitation, provisions related to the redemption of the CPC 2017 Debentures at the option of CPC, a change of control of CPC and events of default and covenants, reference should be made to the full text of the CPC 2017 Debenture Indenture, which can be found under CPC's SEDAR profile at www.sedar.com.

REVOLVING CREDIT FACILITY

The Corporation, as borrower, CPC, MPT Utilities Corp., MPT Utilities Europe, Cardinal GP, Cardinal LP, Whitecourt Power Limited Partnership, Whitecourt Power Ltd. and CSE Financing Corp., as guarantors (collectively, the "Revolving Credit Facility Guarantors"), the lenders that are parties thereto from time to time, and an administrative agent (the "Revolving Credit Facility Agent"), are parties to the Revolving Credit Agreement. The Revolving Credit Facility is a revolving credit facility in the amount of $50,000,000, with a final maturity date of November 12, 2016. As at March 14, 2014, an aggregate amount of approximately $11.3 million had been advanced and was outstanding and $24.7 million in Letters of Credit had been issued under the Revolving Credit Facility.

Borrowings under the Revolving Credit Facility are available by way of floating rate loans and/or bankers' acceptances bearing interest as calculated under the Revolving Credit Agreement. Borrowings under the Revolving Credit Facility may also be made by way of the issuance of standby instruments. The Corporation is required to pay (i) a letter of credit fee and (ii) a fronting fee in respect of each standby instrument issued at a rate per annum equal to an applicable margin calculated on the maximum amount payable under such standby instrument. Drawings under the Revolving Credit Facility were used to repay the amounts outstanding under the Corporation's previous credit facility and may be used for general corporate purposes, including the issuance of standby instruments, working capital requirements and the financing of acquisitions and investments.

The Revolving Credit Facility is secured by (i) unconditional and unlimited guarantees from each of the Revolving Credit Facility Guarantors, (ii) general security agreements from the Corporation and each of the Revolving Credit Facility Guarantors (collectively, the "Revolving Credit Facility Parties") granting a first ranking security interest (subject to certain permitted liens) over all present and future personal property of the Revolving Credit Facility Parties, and (iii) first ranking securities pledge agreements (subject to certain permitted liens) made by each of the Revolving Credit Facility Parties in favour of the Revolving Credit Facility Agent.

The Revolving Credit Agreement contains terms, representations and warranties, positive and negative covenants (including, without limitation, covenants that restrict certain types of debt incurrence, liens, distributions, dispositions, sale-leaseback transactions, acquisitions, investments, hedging arrangements and non-arm's length transactions), indemnities, and events of default (including, without limitation, the change of control of the Corporation) that are customary for credit agreements of this nature. Financial covenants include the following, each calculated in accordance with the terms of the Revolving Credit Agreement: (a) a total leverage ratio not to be greater than 4.0:1 for each Test Period (defined below); (b) an interest coverage ratio not to be less than 2.50:1 for each Test Period; and (c) certain quarterly minimum requirements for consolidated cash available for debt service throughout the term of the Revolving Credit Facility. The foregoing ratios in (a) and (b) above will be calculated on a rolling four quarter basis, based on the most recently completed period of four consecutive fiscal quarters most recently ended (the "Test Period").

MANAGEMENT OF THE CORPORATION

DIRECTORS

The Board of Directors of the Corporation currently consists of seven Directors. The Corporation must have a minimum of three Directors.

The term of office of any Director continues until: (a) the next annual meeting of Shareholders following his or her election or appointment; (b) the date on which his or her successor is elected or appointed or earlier if he or she dies, resigns or is removed or disqualified; or (c) his or her term of office is lawfully terminated for any other reason.

With the exception of Michael Bernstein, the Corporation's President and Chief Executive Officer, each of the Directors is "independent" in accordance with the applicable provisions of Canadian Securities Administrators' National Instrument 52-110 – *Audit Committees* ("NI 52-110"). The Corporation currently has an Audit Committee and a Corporate Governance & Compensation Committee, each of which has a minimum of three Directors as members, all of whom must be "independent" in accordance with the applicable provisions of NI 52-110. The members of such committees are indicated below.

The name, province or state and country of residence, and principal occupation for the last five years for each Director as at March 26, 2014 are as follows:

Name, Jurisdiction of Residence and Date elected Director	Principal Occupation and Employment
Michael Bernstein Ontario, Canada Director since June 18, 2013	Mr. Bernstein was appointed President and Chief Executive Officer of the Corporation effective July 6, 2009, after serving in those roles on an interim basis since April 2009. From April 2009 to the date of the Internalization Transaction, Mr. Bernstein's principal occupation was Senior Managing Director of the Macquarie Group and President of Macquarie Infrastructure and Real Assets Canada Ltd. From 2005 to 2009, Mr. Bernstein served as head of the infrastructure and utilities advisory practice for Macquarie Capital Markets Canada Ltd. Previously, Mr. Bernstein was a senior member of the Power & Utilities Group at CIBC World Markets. Mr. Bernstein is a Chartered Financial Analyst and holds a Bachelor of Arts degree in Economics and Philosophy from Dartmouth College and a Master of Business Administration degree from the Richard Ivey School of Business. Mr. Bernstein is a member of the Institute of Corporate Directors and holds the ICD.D designation.
Richard Knowles (5) Ontario, Canada Director since June 18, 2013	Mr. Knowles is currently on the Investment Advisory Committee of the Canada Post Pension Fund and is a member of the Davis Rea Wealth Management Investment Review Committee. From 2000 to 2008, Mr. Knowles served as President and Chief Executive Officer of Sceptre Investment Counsel Ltd., and was previously President and Chief Executive Officer of Jones Heward Investment Management and Executive Vice President of Nesbitt Burns Inc. He is also past chairman of the Portfolio Management Association of Canada and former treasurer of North York General Hospital. Mr. Knowles is a Chartered Financial Analyst and holds an Honors Bachelor of Business degree from the Richard Ivey School of Business and an Honorary Doctorate of Laws from Assumption University (Windsor).

Name, Jurisdiction of Residence and Date elected Director	Principal Occupation and Employment
Goran Mornhed (3) New York, United States Director since June 5, 2012	Mr. Mornhed is a principal of Ariston Research LLC, a company engaged in the development and application of quantitative investment strategies. From 2004 to 2007, Mr. Mornhed was the Chief Executive Officer of Countryside Ventures, the manager of Countryside Power Income Fund. Previously, Mr. Mornhed was the President and Chief Executive Officer of U.S. Energy Systems Inc. and the Chief Executive Officer of Trigen-Cinergy Solutions LLC. He has extensive experience with companies involved in developing, operating and owning power assets and he began his career in engineering consulting, where he specialized in energy, power generation (including renewable power) and district energy projects. Mr. Mornhed earned his Master of Business Administration degree from New York University and his Master of Science, Engineering degree from the University of Lund, Sweden Institute of Technology.
Jerry Patava (4) Ontario, Canada Director since June 5, 2012	Mr. Patava is the Chief Executive Officer of the Great Gulf Group of Companies, a position he has held since 2007. He is also the lead director and a member of the governance and compensation committee of Trimac Transportation Ltd. (formerly Trimac Income Fund) and a director and chair of the governance committee of EnerCare Inc. Mr. Patava served as a trustee of Osprey Media Income Fund from December 2004 until August 2007 and as a director of TransAlta Power, L.P. from May 2005 until December 2007. Mr. Patava was the Executive Vice President and Chief Financial Officer of Fairmont Hotels & Resorts Inc., a position he held from 1998 to 2005. Previously, he was Vice President and Treasurer of Canadian Pacific Limited from 1990 to 1997 and served as Vice President and director of RBC Dominion Securities Inc. from 1986 to 1990. Mr. Patava holds a Bachelor of Arts degree from the University of Toronto and a Master of Business Administration degree from York University.
François R. Roy (2) Québec, Canada Director since March 15, 2004	Mr. Roy is a corporate director and is a trustee and member of the audit committee, governance and HR committee and vice chair of the independent committee of Noranda Income Fund, and a director and member of the audit committee of Transcontinental Inc. He was the Vice Principal (Administration and Finance) of McGill University from 2007 to 2010 and, in that capacity, he was McGill's Chief Financial Officer and Chief Administration Officer. Mr. Roy was the Chief Financial Officer of Telemedia Corporation between 2000 and 2003. Mr. Roy earned his Bachelor of Arts and Master of Business Administration degrees from the University of Toronto.

Name, Jurisdiction of Residence and Date elected Director	Principal Occupation and Employment
V. James Sardo(1)(5) Ontario, Canada Director since November 4, 2009	Mr. Sardo is a corporate director with significant operational and corporate governance expertise. He is currently a director of New Flyer Industries Inc. (since 2005), Currency Exchange International Corporation (since May 2012) and Cline Mining Corporation (since June 2013). Mr. Sardo served as interim Chief Executive Officer of Royal Group Technologies Limited from 2004 to 2005 and was President of the Canadian operations of Moore Corporation Limited, a business forms and communications company, from 1999 to 2001, and President and Chief Executive Officer of SMK Speedy International Inc., an international automotive repair company, from 1997 to 1999. Mr. Sardo was Chief Executive Officer of Amre Inc., a Dallas-based marketer of home improvement products, from 1994 to 1995 and Chief Executive Officer of SNE Inc., a manufacturer and marketer of windows and doors, from 1991 to 1994. Previously, he was Chairman and Chief Executive Officer of Firestone Canada Inc. Mr. Sardo earned his Bachelor of Arts degree at the University of Western Ontario and his Master of Business Administration degree at McMaster University. Mr. Sardo is a member of the Institute of Corporate Directors and holds the ICD.D designation.
Janet Woodruff (3) British Columbia, Canada Director since June 18, 2013	Ms. Woodruff is a consultant and corporate director and is currently a director of Nordion Inc., and is the chair of its finance and audit committee and a member of the human resources and compensation committee. Ms. Woodruff is also a director of FortisBC Inc. and its subsidiaries FortisBC Holdings Inc. and FortisBC Energy Inc.. Most recently, she was the Chief Financial Officer (Interim) of Transportation Investment Corporation, a BC Crown Corporation, and from 2010 to 2011, Ms. Woodruff was Vice President and Special Advisor at BC Hydro. Prior to this, Ms. Woodruff served BC Transmission Corporation as interim President (2009-10) and Vice President and Chief Financial Officer (2007-08). Ms. Woodruff also served as an executive for a number of operating subsidiaries and at the corporate head office of Westcoast Energy Group from 1988 to 2002. She serves on the board of the Mutual Fund Dealers Association of Canada and is a member of the Directors Advisory Group of CPA Canada. Ms. Woodruff is a member of the Institute of Corporate Directors, holding the ICD.D designation, and is a Fellow Chartered Accountant. She earned her Master of Business Administration degree from York University.

Notes:

(1) Chairman of the Board.
(2) Chairman of the Audit Committee of the Board.
(3) Member of the Audit Committee of the Board.
(4) Chairman of the Corporate Governance & Compensation Committee of the Board.
(5) Member of the Corporate Governance & Compensation Committee of the Board.

EXECUTIVE OFFICERS

The name, province or state and country of residence, and principal occupation for at least the last five years for each person serving as the executive officers of the Corporation as at March 26, 2014 are as follows:

Name and Jurisdiction of Residence	Office with the Corporation
Michael Bernstein Ontario, Canada	President and Chief Executive Officer(1)
Michael Smerdon Ontario, Canada	Executive Vice President and Chief Financial Officer(2)
Stuart M. Miller Ontario, Canada	Executive Vice President, General Counsel and Corporate Secretary(3)
Jack Bittan Ontario, Canada	Senior Vice President, Business Development(4)
Rob Roberti Ontario, Canada	Senior Vice President, Power Generation(5)
Jens Ehlers Ontario, Canada	Senior Vice President, Finance(6)
Sarah Borg-Olivier Ontario, Canada	Senior Vice President, Communications(7)
Michael Chapin British Columbia, Canada	Senior Vice President(8)

Notes:

(1) Mr. Bernstein's biographical information is contained under the heading "Management of the Corporation – Directors".

(2) Mr. Smerdon was appointed Vice President, Chief Financial Officer and Secretary effective August 14, 2009 and Executive Vice President, Chief Financial Officer and Corporate Secretary effective January 1, 2011. Effective March 10, 2011, Mr. Smerdon ceased serving as Corporate Secretary of the Corporation. From 2002 to the date of the Internalization Transaction, Mr. Smerdon's principal occupation was as a Managing Director of the Macquarie group and Macquarie Infrastructure and Real Assets Canada Ltd. ("MIRACL"). Mr. Smerdon joined the Macquarie group in 1998 and he served with its infrastructure advisory group until 2002.

(3) Mr. Miller was appointed Vice President and General Counsel in February 2007 and Executive Vice President and General Counsel effective January 1, 2011. Effective March 10, 2011, Mr. Miller was also appointed Corporate Secretary. From 2006 to the date of the Internalization Transaction, Mr. Miller was employed by the Macquarie group as a senior executive officer and the General Counsel of each of MIRACL, the Corporation and Macquarie Essential Assets Partnership ("MEAP"), a Canadian-domiciled infrastructure fund managed by MIRACL. Mr. Miller was an Executive Director of the legal department and Corporate Secretary of Fairmont Hotels & Resorts Inc. and Senior Legal Counsel and Secretary of Legacy Hotels Real Estate Investment Trust from 2005 to 2006 and was previously a partner with McCarthy Tétrault LLP, a Canadian law firm.

(4) Mr. Bittan was appointed Senior Vice President, Business Development effective April 15, 2011. Prior to the Internalization Transaction, Mr. Bittan's principal occupation was as an Associate Director of the Macquarie group, Senior Vice President of MIRACL and Chief Financial Officer of MEAP.

(5) Mr. Roberti was appointed Senior Vice President, Power Generation effective April 15, 2011. Prior to the Internalization Transaction, Mr. Roberti's principal occupation was as an Associate Director of the Macquarie group and Senior Vice President of MIRACL. Mr. Roberti was previously the Chief Financial Officer of Clean Power Income Fund.

(6) Mr. Ehlers was appointed Senior Vice President, Finance effective April 15, 2011. From April 2010 to the date of the Internalization Transaction, Mr. Ehlers' principal occupation was as an Associate Director of the Macquarie group and Senior Vice President of MIRACL. Prior to April 2010, Mr. Ehlers was employed by Home Trust Company, most recently as Vice President, Planning and Performance Measurement.

(7) Ms. Borg-Olivier was appointed Vice President, Communications effective April 15, 2011 and Senior Vice President, Communications effective January 1, 2012. Prior to the Internalization Transaction, Ms. Borg-Olivier's principal occupation was as Senior Manager of the Macquarie group and Vice President of MIRACL.

(8) Mr. Chapin was appointed Senior Vice President of the Corporation and President of Capstone Power Development (B.C.) Corp. effective December 1, 2012. Prior to his appointment, Mr. Chapin was a founding shareholder and Vice President, Corporate Development for GreenWing Energy Management Ltd. from 2005 to 2011 and from 1995 to 2005 he was President of a management and advisory consulting firm. Prior to 1995, Mr. Chapin held various management positions in electric utility companies.

As at March 26, 2014, the Directors and the executive officers of the Corporation as a group own or exercise control or direction over, directly or indirectly, 89,742 Common Shares, representing less than 1% of the outstanding number of Common Shares, and no other voting securities of the Corporation or any subsidiary thereof.

CEASE TRADE ORDER, BANKRUPTCIES, PENALTIES OR SANCTIONS

To the knowledge of the Corporation, no Director or executive officer of the Corporation (or a personal holding company of such person): (A) is, as at the date of this Annual Information Form or was within the last 10 years, a director, trustee, chief executive officer or chief financial officer of any issuer that was subject to a cease trade order or similar order, or an order that denied the issuer access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days that was issued: (i) while the person was acting in the capacity as director, trustee, chief executive officer or chief financial officer; or (ii) was issued after the person ceased to be a director, trustee, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, trustee, chief executive officer or chief financial officer; (B) is, as at the date of this Annual Information Form or has been within the last 10 years, a director, trustee or executive officer of any issuer (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; (C) has in the last 10 years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets; (D) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (E) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision, except for the following:

> Mr. Roy ceased to be a director of Komunik Corporation on April 1, 2008. Komunik Corporation filed for protection under the *Companies' Creditors' Arrangement Act* (Canada) in the fall of 2008.
>
> Mr. Roy ceased to be a director of Pixman Nomadic Media Inc. on November 27, 2009. Between November 5, 2009 and February 17, 2010, the Alberta Securities Commission, British Columbia Securities Commission, the Ontario Securities Commission and the Autorité des marchés financiers issued cease trade orders in respect of Pixman Nomadic Media Inc. in connection with its failure to file annual audited financial statements for the year ended June 30, 2009 and interim unaudited financial statements for the interim period ended September 30, 2009, as well as related continuous disclosure documents. On February 2, 2010, Pixman Nomadic Media Inc. filed a notice of intention to make a proposal to creditors under the *Bankruptcy and Insolvency Act* (Canada).
>
> Between April 3, 2006 and May 3, 2006, Mr. Sardo, who was then a director of Royal Group Technologies Limited, was prohibited from trading in securities of Royal Group Technologies Limited pursuant to a management cease trade order issued by the Ontario Securities Commission in connection with the delay in filing of certain of Royal Group Technologies Limited's financial statements.

AUDIT COMMITTEE INFORMATION

Charter of the Audit Committee

The text of the Charter of the Audit Committee of the Board of Directors of the Corporation (the "Audit Committee") is set out in Schedule "A" to this Annual Information Form.

Composition of the Audit Committee

The Audit Committee is composed of three Directors, namely Goran Mornhed, François R. Roy (Chairman) and Janet Woodruff. Each member of the Audit Committee is "independent" and "financially literate", in accordance with the applicable provisions of NI 52-110.

Relevant Education and Experience of the Audit Committee Members

The education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an member of the Audit Committee are set forth in their respective biographies above under the heading "Management of the Corporation – Directors".

External Audit Fees

The following table outlines the fees billed to the Corporation by PricewaterhouseCoopers LLP, the Corporation's external auditors, for each of the Corporation's last two fiscal years, categorized by audit fees, audit-related fees, tax fees, and all other fees and includes a description of the nature of services comprising such non-audit fees:

	January 1, 2012 – December 31, 2012	January 1, 2013 – December 31, 2013
Audit Fees	\$268,434	\$212,500
Audit-Related Fees(1)	\$172,185	\$512,363
Tax Fees(2)	\$ 44,745	\$0
All Other Fees(3)	\$ 43,094	\$0
Total	\$528,457	\$724,863

Notes:

(1) The Corporation's audit-related fees include fees paid to the Corporation's auditors for statutory audits, attestation services, quarterly reviews and services provided in connection with the Corporation's acquisition of ReD.

(2) Tax fees relate to services performed by the Corporation's auditors' tax division except those tax services related to the audit. These services include fees for tax compliance, tax planning and tax advice.

(3) All other fees include fees for services provided by the Corporation's auditors including the French translation services.

The Corporation's Audit Committee has implemented a policy restricting the services that may be provided by the Corporation's external auditors. Any service to be provided by the Corporation's external auditors must be permitted by law and by the policy, and must be pre-approved by the Audit Committee pursuant to the policy. The policy provides for the annual pre-approval of specific types of services, and gives detailed guidance to management as to the specific services that are eligible for such annual pre-approval. All other services must be specifically pre-approved by the Chairman of the Audit Committee as they arise throughout the year. In making its determination regarding services to be provided by the Corporation's external auditors, the Audit Committee considers the compliance with the policy and the provision of services in the context of avoiding any impact on auditor independence. This includes considering applicable regulatory requirements and guidance and whether the provision of the services would place the auditors in a position to audit their own work, result in the auditors acting in the role of the Corporation's management or place the auditors in an advocacy role on behalf of the Corporation. Four times a year, the Corporation's Executive Vice President and Chief Financial Officer makes a presentation to the Audit Committee detailing the services performed by the Corporation's external auditors on a year-to-date basis and provides details of any proposed assignments for consideration by the Audit Committee and pre-approval, if appropriate.

The Audit Committee has determined that PricewaterhouseCoopers LLP's provision of non-audit services during the financial year ending December 31, 2013 was compatible with maintaining its independence.

CORPORATE SOCIAL RESPONSIBILITY

Capstone's Corporate Social Responsibility Policy (a copy of which is available at www.capstoneinfrastructure.com) requires the Corporation to recognize and manage its impact on society and to see that its business activities and, where practical, those of supplier organizations, are conducted in a socially and environmentally responsible manner. Capstone's social responsibility commitment includes contributing to the quality of life in the communities where its businesses operate and, together with its employees, the Corporation has a history of community engagement and fundraising, supporting health organizations and causes, children's sports teams and various community and social services. The Corporation's commitment to environmental responsibility includes managing the impact of its businesses on resources such as water, energy and other raw materials as well as on its employees, customers, investors and the communities it serves. Capstone manages these responsibilities throughout the investment process, which includes:

- Review and evaluation of possible acquisitions: Capstone's due diligence process includes reviewing a business' environmental and occupational health and safety risk management as part of Capstone's assessment of the broader risk management framework.

- Ongoing management: Capstone maintains a comprehensive risk management system to manage its obligations and risks, which helps to ensure compliance with regulatory requirements as well as timely identification and resolution of issues.

- Stakeholder reporting: Capstone reports annually to Shareholders on environmental and social responsibility management.

The Corporation's Health and Safety Policy (a copy of which is available at www.capstoneinfrastructure.com) also applies to all of Capstone's businesses and supports the aims of the occupational health and safety laws and regulations in the jurisdictions where Capstone operates. This policy recognizes the needs and rights of employees and contractors to a healthy, safe workplace. At a minimum, Capstone's businesses must fully comply with all appropriate laws and regulations.

RISK FACTORS

The following information is a summary only of certain risks applicable to an investment in the Corporation's securities and risks applicable to the Corporation, its subsidiaries and its investees (particularly, Värmevärden and CHESEC) and the facilities which they operate and is qualified in its entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this Annual Information Form and in the Corporation's filings with the Canadian securities regulators from time to time.

An investment in securities of the Corporation involves significant risk. Investors should carefully consider the risks described below, the other information described elsewhere in this Annual Information Form and those risks set out in subsequent filings by the Corporation with the Canadian securities regulators before making a decision to buy securities of the Corporation. If any of the matters set out in the following or other risks were to occur, the Corporation's business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted and the ability of the Corporation to make payments of interest or dividends or upon redemption or maturity, as applicable, to its securityholders could be adversely affected, the trading price of securities of the Corporation could decline and investors could lose all or part of their investment in such securities.

The Corporation recognizes the importance and benefits of timely identification, assessment and management of risks that may impact the Corporation's ability to achieve its objectives. In this respect, the Corporation is committed to prudent risk management practices within the context of an enterprise risk management ("ERM") framework. Further information regarding the Corporation's risk management practices and its ERM framework is contained under the heading "Risks and Uncertainties" in the MD&A for the year ended December 31, 2013, which is available under the Corporation's SEDAR profile at www.sedar.com. There is, however, no assurance that the risk management practices employed by the Corporation will avoid future loss due to the occurrence of the matters set out in risks described below or other unforeseen risks.

RISKS RELATED TO THE CORPORATION'S SECURITIES

Dividends on Common Shares and Preferred Shares are not Guaranteed

Although the Directors of the Corporation has adopted a policy of paying a quarterly dividend to Shareholders and holders of Series A Preferred Shares are entitled to receive fixed, cumulative, preferential cash dividends, if, as and when declared by the Directors, payable quarterly each year, at an annual rate equal to $1.25 per share, the declaration of common and preferred share dividends is at the discretion of the Directors. Further, the Corporation's dividend policies may vary in the future depending upon, among other things, the Corporation's cash flows, earnings, financial requirements, the satisfaction of solvency tests imposed by the BCBCA for the declaration of dividends and other relevant factors.

Volatile Market Price for the Corporation's Securities

A publicly-traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Corporation's securities will trade cannot be predicted. The market price for the Corporation's securities may be subject to significant fluctuations in response to numerous factors, many of which are beyond the Corporation's control, including, without limitation, the following: actual or anticipated fluctuations in the Corporation's quarterly results of operations; recommendations by securities research analysts; investor expectations on future dividends and financial performance (including the economics of various Power Infrastructure Facilities following the expiry of the applicable PPAs); changes in the economic performance or market valuations of other issuers that investors deem comparable to the Corporation; changes to interest rates; real or anticipated changes in the Corporation's credit ratings; the expected return on the Corporation's securities as compared to other financial instruments; additions or departures of the Corporation's executive officers and other key personnel; sales or perceived sales of additional securities; significant acquisitions, divestitures or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Corporation or its competitors; and news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Corporation's industry or target markets.

In recent years, financial markets have experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have, in many cases, been unrelated or disproportionate to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the Corporation's securities may decline even if the Corporation's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that such fluctuations in price and volume will not occur.

Shareholder Dilution

The Corporation's constating documents permit the issuance of an unlimited number of Common Shares and a limited number of preferred shares issuable in series on such terms as the Directors determine without the approval of Shareholders, who have no pre-emptive rights in connection with such issuances. In addition, the Corporation is required to issue Common Shares upon the conversion of the Options, Capstone 2016 Debentures and the CPC 2017 Debentures in accordance with their terms and the Corporation may, in certain circumstances, determine to redeem outstanding Capstone 2016 Debentures or CPC 2017 Debentures for Common Shares or to repay outstanding principal or interest amounts thereunder by issuing additional Common Shares. Additionally, the Corporation may issue additional Common Shares under its DRIP. Accordingly, holders of Common Shares may suffer dilution. Shareholders have no pre-emptive rights in connection with such further issues of Common Shares.

Capstone 2016 Debentures and CPC 2017 Debentures Credit Risk, Subordination and Absence of Covenant Protection

The likelihood that holders of the Capstone 2016 Debentures or the CPC 2017 Debentures (collectively, "Capstone Debentures") will receive payments owing to them under the terms of the Capstone Debentures depends on the cash flows of the Corporation or CPC, as applicable. In addition, the Capstone Debentures are unsecured obligations and are subordinate in right of payment to all of their existing and future senior indebtedness of Corporation or CPC, as applicable. If the Corporation or CPC, as applicable, becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, its assets will be available to pay its obligations with respect to the applicable Capstone Debentures only after it has paid all of its senior and secured indebtedness in full. There may not be sufficient assets remaining following such payments to pay amounts due on any or all of the applicable Capstone Debentures then outstanding. Although CPC has provided credit support to Capstone in respect of the Capstone 2016 Debentures and Capstone has provided credit support to CPC in respect of the CPC 2017 Debentures, the Capstone Debentures are effectively and structurally subordinate to claims of creditors (including trade creditors) of their respective subsidiaries and investees except to the extent the Corporation or CPC, as applicable, is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Capstone 2016 Debenture Indenture and the CPC 2017 Debenture Indenture do not prohibit or limit the ability of the Corporation or CPC, as applicable, its subsidiaries or its investees to incur additional debt or liabilities (including senior indebtedness) or to make distributions or pay dividends, except, in respect of distributions or dividends, where an event of default has occurred and such default has not been cured or waived. These indentures do not contain any provision specifically intended to protect holders of Capstone Debentures in the event of a future leveraged transaction involving the Corporation.

RISKS RELATED TO THE CORPORATION AND ITS BUSINESSES

Availability of Debt and Equity Financing

In recent years, global financial market events have experienced volatility which has negatively impacted the liquidity of debt and equity markets and overall global economic activity. There can be no assurance that debt or equity financing will be available or, together with internally-generated funds, will be sufficient to meet or satisfy the Corporation's objectives or requirements or, if the foregoing are available to the Corporation, that they will be available on acceptable terms. In particular, Bristol Water is expected to continue to require access to the capital markets in connection with its capital investment program and certain of the Corporation's subsidiaries are expected to require access to the private debt markets to finance the construction of the Wind Development Projects, so the inability to raise debt or equity financing could have a material adverse effect on their respective businesses. In addition, the inability of the Corporation to access sufficient capital on acceptable terms could have a material adverse effect on the Corporation's ability to meet its objectives or requirements, including, without limitation, repayment obligations under its various debt instruments or credit facilities.

Default under Credit Agreements and Debt Instruments

The Corporation and several of its subsidiaries and investees, as applicable, are parties to a number of credit agreements and debt instruments, including: the Revolving Credit Facility, the various loans and credit facilities at the Wind Power Facilities, the Hydro Bonds, the Amherstburg secured debt, Bristol Water's long- and short-term structured debt financing and the Värmevärden Bonds. These credit agreements and debt instruments each contain a number of customary financial and other covenants. A failure to comply with the obligations under the applicable credit agreement or debt instrument could result in a default, which, if not cured or waived, could result in the termination of distributions generated by the applicable entity and permit acceleration of the relevant indebtedness. Further, if the indebtedness under any of the credit agreements or debt instruments were to be accelerated, there could be no assurance that the assets of the applicable borrower, or the applicable guarantors, would be sufficient to repay that indebtedness in full.

A portion of the cash flow of each applicable subsidiary or investee is devoted to servicing its debt and there can be no assurance that such entity will continue to generate sufficient cash flows from operations to meet the required interest and principal payments on its credit facility or debt instruments. If such an entity were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing.

Although many of the credit facilities related to the Power Infrastructure Facilities are fully-amortizing over the term of the applicable PPAs, there can also be no assurance that the Corporation, its subsidiaries or its investees could refinance any of their credit facilities or debt instruments or obtain additional financing on commercially reasonable terms, if at all. Borrowings under the various credit facilities and debt instruments may be at variable rates of interest, which, in the absence of effective hedges, expose the Corporation to the risk of increased interest rates. This factor may increase the sensitivity of the Corporation's cash flows to interest rate variations.

Geographic Concentration

Approximately 58.6% of the Corporation's Adjusted EBITDA is derived from Power Infrastructure Facilities that are located in Ontario, namely the Cardinal Cogen Facility, the Erie Shores Wind Farm, the Ravenswood Wind Facility, the Proof Line I Wind Facility, the Ferndale Wind Facility, the Wawatay Hydro Facility, the Dryden Hydro Facility and the Amherstburg Solar Park. In addition, Bristol Water's operations are all located in the Bristol area of the UK and Värmevärden's heat production facilities and distribution networks are all located in certain municipalities in Sweden. Accordingly, the Corporation, its subsidiaries and investees, as applicable, are subject to risks associated with adverse changes in local or regional economic conditions or adverse changes to the regulatory environment in Ontario, Bristol, UK or certain municipalities in Sweden, as applicable.

Foreign Currency Exchange Rates

Through its investments in Bristol Water and Värmevärden, and as a result of certain capital expenditures related to the Wind Development Projects, the Corporation is exposed to foreign currency exchange risk through exchange rate movements attributable to future cash flows or capital expenditures (transaction exposure) and in the revaluation of net assets in foreign subsidiaries (translation or balance sheet exposure) as the revenue generated by and the assets of Bristol Water and Värmevärden are denominated in UK pounds sterling and Swedish krona, respectively, and the cost of certain components (such as wind turbines) of the Wind Development Projects are denominated in Euros, US dollars and Danish kroner. The Corporation's foreign currency exchange hedging strategy focuses on reducing foreign currency exchange risk primarily in relation to expected future dividends from and interest paid by Bristol Water and Värmevärden, as applicable, and foreign currency denominated capital expenditure costs. The Corporation selects a hedging strategy which takes into consideration hedging costs and tax implications. However, the Corporation could be exposed to losses by undertaking hedging activities.

Acquisitions, Development and Integration

The Corporation's strategy includes growth through identifying suitable acquisition and development opportunities, pursuing such opportunities, consummating acquisitions, constructing development projects and effectively integrating and operating (or contracting for the operation of) such businesses. The Corporation competes for acquisitions and development opportunities with individuals, corporations and institutions (both Canadian and foreign) which are seeking or may seek investments similar to those desired by the Corporation. Many of these investors have greater financial resources than those of the Corporation and/or operate according to more flexible conditions, and so there is a risk that the Corporation may not be successful in acquiring or developing such opportunities. Further, if the Corporation is unable to identify, pursue, integrate or manage acquisition or development projects, this could have an adverse impact upon its strategy. As well, in pursuing development opportunities, the Corporation may be required to make material capital expenditures with no guarantee that the development project will achieve commercial operation. Acquisition and development projects are subject to the normal commercial risks and satisfaction of closing conditions that may include, among other things, lender and various regulatory approvals. Such acquisition or development projects may not be completed or, if completed, may not be on terms that are exactly the same as initially negotiated. Acquisitions and development activities present risks and challenges relating to the integration of the business into the Corporation and the potential assumption of unknown liabilities (which may not be subject to indemnification from vendors or other parties).

Environmental, Health and Safety

The Power Infrastructure Facilities, Bristol Water and Värmevärden are each subject to a complex and stringent environmental, health and safety regulatory regime, which includes Environmental, Health and Safety Laws. As such, the operation of these businesses carries an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, fines and other penalties) and may result in the applicable business being involved from time to time in administrative and judicial proceedings related to such matters. The Corporation has not been notified of any such civil or regulatory action in regards to its operations. However, it is not possible to predict with certainty what position a regulatory authority may take regarding matters of non-compliance with Environmental, Health and Safety Laws. Changes in such laws, or more aggressive enforcement of existing laws, could lead to material increases in unanticipated liabilities or expenditures for investigation, assessment, remediation or prevention, capital expenditures, restrictions or delays in the business' activities, the extent of which cannot be predicted.

To mitigate the risk of administrative sanctions and to minimize safety risks to employees and contractors, the Corporation works continuously with all employees and contractors to ensure the development and implementation of a progressive, proactive safety culture within all operations. The Corporation has safety committees operating within each operating unit to ensure existing safety programs are continuously improved.

Changes in Legislation and Administrative Policy

There can be no assurance that certain laws applicable to the Corporation, its subsidiaries and its investees, including tax laws, will not be changed in a manner which could adversely affect the Corporation. In addition, there can be no assurance that the administrative policies and assessing practices of the Canada Revenue Agency will not be changed in a manner which adversely affects the holders of the Corporation's securities.

Reliance on Key Personnel

The Corporation's success depends heavily on its ability to attract, retain and motivate key employees, including its senior management, individuals with operational experience in industries related to the Power Infrastructure Facilities and the management of Bristol Water and Värmevärden. If the Corporation loses the services of any of these key personnel and cannot replace him or her in a timely manner, its business and prospects may be adversely affected. Since the Corporation and its businesses are managed by a small group of executive officers, the loss of the technical knowledge, management expertise and knowledge of operations of one or more of these key executives could result in a diversion of management resources, as the remaining members of management would need to cover the duties of any executive officer who leaves and would need to spend time usually reserved for managing the business to search for, hire and train new members of management. The loss of some or all of the Corporation's executives could negatively affect the Corporation's ability to develop and pursue its business strategy. The Corporation does not currently carry "key person" life insurance on any of its executives.

RISKS RELATED TO THE POWER INFRASTRUCTURE FACILITIES

Power Purchase Agreements

Most of the electricity that is generated by the Power Infrastructure Facilities is sold to large utilities or creditworthy customers under PPAs, which provide a specified rate, but carry expiration dates and termination provisions. In particular, the Cardinal PPA will terminate on December 31, 2014. As PPAs expire or are terminated, there can be no assurance that the applicable Power Infrastructure Facility will be able to renegotiate or enter into a power supply contract on terms that are commercially reasonable, if at all, and it is possible that the price received by a Power Infrastructure Facility for power under subsequent arrangements may be reduced significantly. It is also possible that subsequent PPAs may not be available at prices that permit the operation of a facility on a profitable basis and the affected facility may temporarily or permanently cease operations. With respect to the Cardinal Cogen Facility, which contributed approximately 26% of the Corporation's Adjusted EBITDA and approximately 74% of its AFFO in 2013, it is expected that the revenue earned by the Cardinal Cogen Facility after 2014 will be less than Cardinal LP currently earns under the Cardinal PPA, which is expected to negatively affect the financial performance of Cardinal LP and the Corporation.

Certain excess power generated by certain of the facilities may be sold in the open market. Further, if a Power Infrastructure Facility chooses to sell the power it produces on the open market upon expiry or termination of its PPA, the prices received will depend on market conditions at the time and there can be no assurance that the market price received for the electricity so offered will exceed the facility's marginal cost of operation. As a result, distributions to the Corporation's securityholders may depend and may increasingly depend, in part, upon prices paid for energy sold in the open market.

Completion of Wind Development Projects

The Corporation may not complete construction and may not obtain or may face delays in obtaining all approvals, licenses and permits required for the construction and operation of its Wind Development Projects. The Corporation believes that it has the necessary permits based on the stage of each project's development but it does not currently hold all of the approvals, licenses and permits required for the later stages of construction and operation of certain of its Wind Development Projects, including environmental approvals and permits necessary to construct and operate certain of the projects. Federal and provincial environmental permits to be issued in connection with any Wind Development Project may contain conditions that need to be satisfied prior to construction, during construction and during and after the commercial operation date. It is not possible to forecast all of the conditions that may be imposed by such permits or the cost of any mitigating measures required by such permits. The failure to obtain or delays in obtaining all necessary licenses, approvals or permits, including renewals thereof or modifications thereto, could result in construction of any Wind Development Project being delayed or not being completed.

Delays and cost over-runs may also occur in completing the construction of the Wind Development Projects. A number of factors which could cause such delays or cost over-runs include, but are not limited to, permitting delays, changing engineering and design requirements, the performance of contractors, labour disruptions, adverse weather conditions and the availability of financing. If a Wind Development Project is not brought into commercial operation within the period stipulated in its respective PPA, the Corporation may be subject to penalty payments or the counterparty may be entitled to terminate the applicable PPA. Following the commencement of commercial operations, a Wind Development Project may not operate as planned and design or manufacturing flaws may occur, which could conceivably not be covered by warranty. In addition, the Corporation may in some cases be required to advance funds and post-performance bonds in the course of constructing a Wind Development Project, in the event that a Wind Development Project is not completed or does not operate to the expected specifications, such funds advanced and or performance bonds may not be recouped by the Corporation.

Operational Performance

The Corporation's operating results, financial condition and cash flows are highly dependent upon the amount of electrical energy generated by the Power Infrastructure Facilities. The operational performance of the Wind Power Facilities, the Hydro Power Facilities and the Amherstburg Solar Park are dependent upon wind speed and density, water flows and the availability and constancy of solar insolation, respectively. The weather-related risk at the Hydro Power Facilities is partially offset by their geographic diversification in the three different watersheds. Ambient temperatures, humidity and air pressure can also affect the performance of the Cardinal Cogen Facility.

The performance of the Power Infrastructure Facilities are also subject to risks related to the failure of a component to perform as expected, premature wear or failure, defects in design, material or workmanship, the failure to maintain the facility, longer than anticipated down times for maintenance and repair, and grid outages and curtailment. These risks are partially mitigated by the proven nature of the technologies employed at each facility, regular maintenance and the design of each facility. While much of the technology utilized at the Power Infrastructure Facilities has a history of reliable performance at similar facilities throughout Canada, some components may not have previously been used in operations in Canada for extended periods of time. The Corporation has attempted to mitigate some of these risks at some of the Power Infrastructure Facilities by obtaining manufacturers' warranties for principal components and having manufacturers or other reputable third parties provide O&M services. Notwithstanding the foregoing, it is possible that a Power Infrastructure Facility may not operate as planned and that design or manufacturing flaws may occur, which could conceivably not be covered by warranty, or mechanical breakdown could occur in equipment after the warranty period has expired, resulting in loss of production as well as the cost of repair.

Fuel Costs and Supply

The supply of natural gas required by the Cardinal Cogen Facility is contracted under the Cardinal GPA, which expires on May 1, 2015. The Whitecourt Biomass Facility has contracts with two substantial forest products companies to supply its wood waste fuel requirements, both expiring in 2016. Upon the expiry of each of these supply agreements, the Corporation will have to renegotiate the agreement or enter into a new supply agreement or buy fuel in the open market, where available. There can be no assurance that an agreement will be able to be renegotiated or that a new supply agreement will be able to be entered into on terms that are similar to the existing agreement. Furthermore, there can be no assurance as to the supply or price of natural gas or wood waste available at the time of the expiry of the supply agreement. Accordingly, there is the risk that, at the time of the expiry of a particular supply agreement, the price of natural gas or wood waste, as applicable, available to the relevant facility may be in excess of the price under the current supply arrangement or such fuel may not be available in the quantities required.

Furthermore, each of the Cardinal Cogen Facility and the Whitecourt Biomass Facility is also dependent on the supply of fuel to it. There is the risk that there could be an interruption in the supply of fuel (as a result of transportation or otherwise) or the risk of increases in fuel transportation costs.

Contract Performance and Reliance on Suppliers

To a large extent, the Corporation’s cash flows are dependent upon the parties to the various agreements relating to the Power Infrastructure Facilities fulfilling their contractual obligations, particularly the OEFC, the OPA and NSPI under various PPAs, HOOL under the Cardinal GPA, Millar Western under its wood waste supply agreement for the Whitecourt Biomass Facility and the various parties providing O&M services to various Power Infrastructure Facilities. As such, there is the risk of the inability or failure by any such party to meet its contractual commitments.

The Corporation has entered into, and expects to enter into additional, purchase orders with third party suppliers for components for the Wind Development Projects. Failure of any supplier to meet its commitments could result, delay in construction and increase in construction costs for the Wind Development Project and a failure by the Corporation to comply with its obligations under certain PPAs leading to potential defaults under such PPAs.

Land Tenure and Related Rights

The Power Infrastructure Facilities have various land tenure and resource access rights upon which they depend for their operations. There can be no assurance that these rights will not be challenged and, if challenged, whether such challenge will be successful. Furthermore, there can be no assurance that such rights will be able to be renegotiated or extended on commercially reasonable terms, if at all. At such time as any of these rights are successfully challenged or expire and cannot be renewed or renegotiated upon acceptable terms, the affected Power Infrastructure Facility will likely be unable to continue to operate. In addition, in these circumstances, there can be no assurance that the Corporation or its subsidiaries will have the necessary financial resources or will be able to obtain the necessary financial resources to fund or cause to be funded any required restoration and remediation works.

Environmental

The primary environmental risks associated with the operation of the Cardinal Cogen Facility and the Whitecourt Biomass Facility include potential air quality and emissions issues, soil and water contamination resulting from oil spills, issues around the storage and handling of chemicals used in normal operations and, in the case of the Whitecourt Biomass Facility, storage of wood waste fuel on site. The Corporation has procedures in place to prevent and minimize any impact of the foregoing, which meet generally acceptable industry practices.

The primary environmental risks associated with the operation of the Hydro Power Facilities include possible dam failure which could result in downstream flooding and equipment failure which could result in oil or other lubricants being spilled into the waterway. In addition, the operation of a Hydro Power Facility may cause the water in the associated waterway to flow faster, or slower, which could result in water flow issues which could impact fish population, water quality and potential increases in soil erosion upstream or downstream or around a dam or facility.

The primary environmental risks associated with the operation of the Wind Power Facilities include potential harm to the local migratory bird population, harm to the local bat population as well as concerns over sound levels and visual "harm" to the scenic environment around the facility.

In order to monitor and mitigate these risks, the Corporation completes facility inspections and ensures its facilities are in compliance with the appropriate regulatory requirements. However, in the event of environmental complaints or impacts, the Corporation could be subject to claims, costs and/or enforcement actions.

Regulatory Environment

The Corporation's Power Infrastructure Facilities are highly regulated and must abide by the relevant market rules or operating procedures as administered by the electricity system operators or utility, as applicable, in each local jurisdiction. The performance of these facilities also depends in part on a favourable regulatory climate and on the ability to obtain, maintain, comply with or renew all material licences, permits or government approvals. While these facilities are currently compliant with all material regulatory requirements, the Corporation could incur significant expense to achieve or maintain compliance with any new laws, rules or regulations that are introduced or with any modifications to their necessary licences, permits or government approvals. If the Corporation is unable to comply with applicable regulations and standards, or material licences, permits or government approvals, it could become subject to claims, costs or enforcement actions.

RISKS RELATED TO VÄRMEVÄRDEN

Operational Performance

Värmevärden controls and operates several district heating networks and maintains the associated assets with the objective of providing heat to its customers on a continuous basis. However, its facilities are subject to risks related to the failure of a component to perform as expected, premature wear or failure, defects in design, material or workmanship, the failure to maintain facilities, longer than anticipated down times for maintenance and repair, energy shortages, malicious intervention, failure by suppliers, human error, unavailability of access to critical sites or key staff, labour disputes, pollution or contamination and other events. These risks are partially mitigated by the proven nature of the technologies employed at each facility, regular maintenance and the design of each facility. In addition, Värmevärden's revenue and costs are also affected by the demand for heat, which varies with weather conditions. Unusually cold weather may result in Värmevärden's marginal cost of production exceeding its marginal revenue. Warmer weather may also lead to a decrease in demand for heat which could result in lower revenue.

Fuel Costs and Availability

Värmevärden purchases most of its fuel on a rolling basis and is therefore exposed to market price fluctuations. Although Värmevärden has the ability to pass on fuel price increases on an annual basis to its customers, this ability is limited in the short term. Additionally, price increases may make alternative heating technologies, such as pellet boilers and geothermal pumps, more competitive with the district heating service provided by Värmevärden. Further, Värmevärden could be materially and negatively affected if the supply of fuel, particularly biomass which comprises a majority of its fuel mixture, is interrupted or if there is an increase in the costs to transport the fuel to the district heating facilities. There can be no assurance as to the supply or price of fuel (or alternative fuel sources) available on the open market. As a result, Värmevärden is subject to the risk of significant increases in fuel costs or the unavailability of fuel.

Industrial and Residential Contracts

Värmevärden has entered into a number of contracts with large industrial consumers for the supply of heat and/or steam which account for a material amount of Värmevärden's total revenue. Värmevärden is subject to counterparty credit risk and risk of reduction in demand from such industrial customers. Certain of the contracts also include termination and/or buyback options. Värmevärden enjoys a relatively stable base of residential customers as a result of the large majority of the Swedish population residing in multi-unit residential buildings, the majority of which derive their heat from district heating operations. However, residential customers are able to cancel their contracts with Värmevärden at any time upon short notice. As its industrial and residential contracts expire, there is a risk that Värmevärden may not be able to renegotiate or enter into new contracts or do so on commercially reasonable terms.

Environmental

The primary environmental risks associated with Värmevärden operations include potential air quality and emissions issues, soil contamination resulting from oil spills, issues around the storage and handling of chemicals used in normal operations and the storage of fuel on site. Värmevärden's procedures, in place to prevent and minimize any impact of the foregoing, meet generally acceptable industry practices.

Regulatory Environment

Värmevärden is subject to regulation under the DH Act as well as other legislation and regulations of general application. Värmevärden's business is presently not subject to price regulation or third party access requirements. However, there is the risk that price regulation or third party access could occur in the future.

Värmevärden's operations, including its heat production and distribution activities, require numerous licences and permits from various governmental authorities and such operations are subject to laws and regulations governing production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, safety and other matters. Värmevärden may experience increased costs and delays in the production and distribution of district heating as a result of complying with applicable laws, regulations, licences and permits. While Värmevärden is currently compliant with all material regulations and standards, Värmevärden could incur significant expenses to achieve or maintain compliance with any new laws or regulations that are introduced. If Värmevärden is unable to comply with applicable regulations and standards, it could become subject to claims, costs and enforcement actions.

Labour Relations

Approximately 2/3 of Värmevärden's employees are represented by unions. While Värmevärden has traditionally maintained positive labour relations, there can be no future assurance that it will not, whether in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees. Such risks may be partially mitigated by Swedish legislation that prohibits labour disruptions in the provision of essential services, such as district heating.

RISKS RELATED TO BRISTOL WATER

Ofwat Price Determinations and Changes to Instrument of Appointment

Bristol Water operates in an industry that is substantially influenced by the service levels, regulatory targets and price determinations set by its economic regulator, Ofwat, as well as Ofwat's assessment of delivery against these measures. The price determinations periodically made by Ofwat limit the prices Bristol Water can charge its customers and reflect Ofwat's assessment of the appropriate return on capital invested in the business. Under the terms of Bristol Water's Instrument of Appointment, Ofwat is required to review Bristol Water's price limits periodically (currently every five years). Ofwat's determination of price limits may be appealed to the UK CC. Implicit within the price limits set by Ofwat will be assumptions concerning Bristol Water's future operating expenditures and the achievement of operating cost savings. If these efficiencies are not achieved, this may be reflected in less favourable outcomes in future profitability and cash flows or in Ofwat's future price determinations.

The conditions of Bristol Water's Instrument of Appointment, including any condition relating to the prices Bristol Water can charge its customers, can also be modified by Ofwat either with Bristol Water's agreement or, following reference to the UK CC, on public interest grounds. During 2013, Ofwat obtained the consent of all regulated water companies (including Bristol Water) to certain amendments to their Instruments of Appointment which will enable Ofwat to set different price limits for different parts of each company's business. While these changes do not impact the RPI+/-K factor formula for price limits on a company's "wholesale" activities, there is no certainty that Ofwat will retain in future periods the RPI+/-K factor form of price limit for "retail" activities related to the provision of goods or services directly to non-domestic customers.

Failure to Deliver Capital Investment Programs

Bristol Water is expected to continue to be required to undertake significant capital expenditures in its business, particularly in relation to new and replacement plant and equipment for water distribution networks and treatment facilities. Historically, Bristol Water has financed these capital expenditures from operating cash flows, from external debt, an issue of irredeemable preference shares and retained profits. There can be no assurance that operating cash flows will not decline or that external debt financing and other sources of capital will be available or at similar cost to that assumed by Ofwat in order to meet future capital expenditure requirements.

Delivery of capital investment programs could also be affected by a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance or enhancement costs), failure to adequately deliver specified outputs, the insolvency of contractors retained in relation to capital programs or amounts funded in regulatory capital investment programs proving insufficient to meet the actual amount required. This may affect Bristol Water's ability to meet regulatory and other environmental performance standards, which may result in sanctions being imposed against Bristol Water. In addition, the failure by Bristol Water to successfully complete its capital investment programs could adversely impact future calculations of Bristol Water's RCV, which could adversely impact Ofwat's determination of future price limits for Bristol Water.

Economic Conditions

Bristol Water's RCV is adjusted annually for inflation. Accordingly, if RPI decreases, then RCV would be adjusted downward to reflect this decrease. Further, generally unfavourable economic conditions may also adversely influence Ofwat's determination of future price limits. This may lead to pressure on leverage and other key financial ratios, which may have an adverse impact on the credit ratings of Bristol Water, and increase the cost or limit the availability of credit. In the extreme, Bristol Water may be required to increase its equity base by either reducing its dividend payments or raising new equity capital. The movement of the Construction Price Index ("COPI") relative to RPI will also influence the calculation of RCV at the next Periodic Review. If the COPI decreases relative to RPI then the initial RCV at the start of the next regulatory period will be lower, potentially adversely impacting financial leverage. Given the significant investments Bristol Water expects to undertake over the remainder of AMP5 and during AMP6, it faces risks arising from any adverse changes in RPI.

Operational Performance

Bristol Water controls and operates a large water network and maintains the associated assets with the objective of providing high quality drinking water on a continuous basis. However, its facilities are subject to risks related to premature wear or failure, defects in design, material or workmanship, the failure to maintain its facilities, longer than anticipated down times for maintenance and repair, energy shortages, malicious intervention, failure by suppliers, human error, unavailability of access to critical sites or key staff, labour disputes, pollution or contamination and other events. These risks are partially mitigated by the proven nature of the technologies employed at each facility, regular maintenance and the design of each facility. In exceptional circumstances, a significant interruption of service provision or catastrophic damage could occur, resulting in significant loss of life, environmental damage and/or economic and social disruption. Further, a failure by Bristol Water to provide its water services could result in fines for breaches of statutory obligations, liability to third parties and/or Bristol Water being required to provide an alternative water supply of equivalent quality. Insurance coverage for such risks may be inadequate or unobtainable.

Management also has limited control over future energy or chemical costs, abstraction charges, levels of customer bad debt or taxes. Changes in these costs from the current position could materially affect Bristol Water's future profitability or financial position. In particular, domestic customers cannot currently be disconnected from their water supply for failure to pay their bill. This adds to debt collection costs and bad debt write offs. An allowance for bad debts is included when Ofwat sets price limits, which partially mitigates the risk of such bad debts.

Failure to Deliver Water Leakage Target

Bristol Water is required to meet an annual target for water leakage. If Bristol Water fails to achieve the leakage target by a significant margin in any one year or by a small margin over a number of years, Ofwat may impose various sanctions, including a reduced revenue allowance at the next Periodic Review. In addition, if performance were to decline, Bristol Water may incur additional operating or capital expenditure to restore performance.

SIM and the Serviceability Assessment

Commencing for AMP5, Ofwat introduced the SIM, a new comparative incentive mechanism to reward or penalize regulated water companies' service performance. The SIM compares all water companies' performance in terms of the quality of service that is delivered to customers. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service that they receive. Depending upon Bristol Water's relative performance under the SIM, it could receive a reduced or increased revenue allowance when price limits are reset for a future Periodic Review.

Bristol Water is required to maintain the serviceability of its water assets, ensuring they continue to deliver a level of service and performance at least as good as in the past. Where serviceability falls below required reference levels of performance, Ofwat may impose a reduced revenue allowance at a future Periodic Review. In addition, if performance were to decline, Bristol Water may incur additional operating or capital expenditure to restore performance.

Pension Plan Obligations

Bristol Water operates both defined benefit and defined contribution pension arrangements. Pension arrangements for the majority of Bristol Water's employees are provided through Bristol Water's membership in the Water Companies' Pension Scheme ("WCPS"), which provides defined benefits based on final pensionable pay. Bristol Water's pension assets and liabilities are managed within a separate section of WCPS, which was closed to new employees in 2002. Since that closure, all new employees are offered membership in a defined contribution pension plan outside of the WCPS. Estimates of the amount and timing of future funding for Bristol Water's defined benefit plan are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the plan assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require Bristol Water to make additional contributions to its pension plan which may not be recoverable under the regulatory price determination process.

Regulatory Environment

Bristol Water is subject to various laws and regulations of the UK and the EU. Regulatory authorities may, from time to time, make enquiries of companies within their jurisdiction regarding compliance with regulations governing their operations. In addition to regulatory compliance proceedings, Bristol Water could become involved in a range of third party proceedings relating to, for example, land use, environmental protection and water quality. These proceedings may include civil actions by third parties for infringement of rights, nuisance claims or other matters or criminal liability. Furthermore, the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business cannot always be predicted and, from time to time, interpretation of existing laws or regulations may also change or the approach to their enforcement may become more rigorous.

If Bristol Water fails to comply with applicable law or regulations, in particular in relation to its Instrument of Appointment, or it has not successfully undertaken corrective action, regulatory action could be taken that could include the imposition of a financial penalty (of up to 10% of relevant revenue for each infringement) or the imposition of an enforcement order requiring Bristol Water to incur additional capital or operating expenditures to remedy its non-compliance. In the most extreme cases, non-compliance may lead to revocation of Bristol Water's Instrument of Appointment or the appointment of an administrator to manage the affairs, business and property of the company.

Competition

If the Draft Water Bill is implemented as currently drafted, it could eventually expand the competitive market allowing retail competition for all non-household customers as an initial step in opening markets to competition. Ofwat and the UK Environment Agency are considering the introduction of reforms to the regulation of water abstraction licences that would allow the trading of licences. Ofwat is also examining the scope for upstream competition in treated water supply and has taken steps to introduce competition into the water supply market through inset appointments and the water supply licensing regime. In addition, Ofwat or the UK government may take steps that lead to other changes in the structure of the water industry with potentially adverse consequences to Bristol Water.

Seasonality and Climate Change

Although there is little seasonal variation in demand, the proportion of water used from each type of Bristol Water's sources of water varies on a daily and seasonal basis according to the availability of water, the relative costs and other operational constraints, and the quantity of treated water supplies fluctuates owing to a variety of seasonal factors, such as dry weather and burst pipes due to freeze/thaw cycles affecting the ground during winter months. In addition, climate or weather pattern changes may adversely affect the availability of water resources or the demand by customers. As with other UK water companies, Bristol Water is dependent upon suitable weather conditions supplying raw water as inflow for its abstraction points and it has a drought contingency plan in place should there be a lack of such rainfall.

Labour Relations

Approximately 33% of Bristol Water's employees are represented by unions. While Bristol Water has traditionally maintained positive labour relations, there can be no future assurance that it will not, either in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees.

DIVIDENDS

DIVIDEND POLICIES

The Corporation's current dividend policy for the Common Shares is to pay a quarterly dividend of $0.075 per Common Share (equivalent to $0.30 on annual basis). The Corporation targets an average long-term dividend payout ratio of 70% to 80% of AFFO.

For the Initial Fixed Rate Period, holders of Series A Preferred Shares are entitled to receive fixed, cumulative, preferential cash dividends, if, as and when declared by the Directors, payable quarterly each year, at an annual rate equal to $1.25 per share (see "Capital Structure of the Corporation – Preferred Shares – Series A Preferred Shares"). The holders of the Series B Preferred Shares will be entitled to receive floating rate cumulative, preferential cash dividends, if, as and when declared by the Directors, payable quarterly each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by $25.00 (see "Capital Structure of the Corporation – Preferred Shares – Series B Preferred Shares"). The Corporation's current policy is to pay a quarterly dividend of $0.3125 on its Series A Preferred Shares (equivalent to $1.25 per year).

The Corporation's dividend policies are subject to the discretion of the Directors and may vary depending on, among other things, the Corporation's cash flows, earnings, financial requirements, the satisfaction of solvency tests imposed by the BCBCA for the declaration of dividends and other relevant factors. In particular, the Corporation is dependent on the operations of the Power Infrastructure Facilities, Värmevärden and Bristol Water to generate cash flows to fund the payment of dividends. In turn, the earnings and cash flows of the Power Infrastructure Facilities, Värmevärden and Bristol Water are affected by certain risks described elsewhere in this Annual Information Form (see "Risk Factors").

PAYMENT OF DIVIDENDS

For each of the months ended January 31, 2011 through to and including May 31, 2012, the Corporation distributed dividends of $0.0550 per Common Share. For the quarter ended June 30, 2012, the Corporation distributed a dividend of $0.025 per Common Share (such payment was pro-rated to reflect the dividends previously declared for the months of April and May 2012 and the implementation of the Corporation's current dividend policy). For the quarters ended September 30, 2012 through December 31, 2013, the Corporation declared and distributed, as applicable, dividends of $0.075 per Common Share. Holders of Class B Exchangeable Units have received distributions from LTC Holding LP equivalent to amounts paid in respect of Common Shares. See "Capital Structure of the Corporation – Class B Exchangeable Units".

For the quarter ended October 31, 2011, the Corporation distributed dividends of $0.4212 per Series A Preferred Share. For the quarters ended January 31, 2012 through January 31, 2014, the Corporation declared and distributed, as applicable, quarterly dividends of $0.3125 per series A Preferred Share.

DIVIDEND REINVESTMENT PLAN

Eligible holders of Common Shares participating in the Corporation's dividend reinvestment plan ("DRIP") are entitled to invest the cash dividends paid on the Common Shares to purchase additional Common Shares without incurring brokerage commissions, service charges or brokerage fees. The Common Shares acquired under the DRIP are, at the discretion of the Corporation, either purchased on the open market ("Market Purchases") through the TSX and/or any alternative market or issued by the Corporation from treasury ("Treasury Purchases"). In the case of Treasury Purchases, the price of Common Shares purchased under the DRIP is the average of the daily volume weighted average price of Common Shares traded on the TSX for the five trading days immediately preceding the applicable Common Share dividend payment date less a discount, if any, of up to 5% at the Corporation's election. In the case of Market Purchases, the price of Common Shares purchased under the DRIP is the average weighted cost of all Common Shares so purchased for the DRIP participants at prevailing market prices, excluding any brokerage commissions which will be paid by the Corporation. The Common Shares will be purchased over a period of five trading days following the Common Share dividend payment date.

MARKET FOR SECURITIES

COMMON SHARES

The Common Shares are listed on the TSX under the symbol “CSE”. The following table sets forth the high and low sales prices per outstanding Common Share and trading volumes for the outstanding Common Shares on the TSX for the periods indicated:

	Price Per Common Share		Trading Volume
	High ($)	Low ($)	
2013			
January	4.51	4.00	2,676,704
February	4.51	4.23	2,794,967
March	4.38	4.17	3,380,241
April	4.30	4.04	1,789,869
May	4.29	3.76	7,418,932
June	4.22	3.72	5,624,870
July	4.13	3.72	4,252,579
August	4.05	3.83	2,555,007
September	3.94	3.74	2,026,876
October	3.95	3.50	4,092,283
November	3.93	3.45	4,254,515
December	3.75	3.50	4,255,843
2014			
January	3.74	3.57	3,518,296
February	3.97	3.57	4,172,754
March (to March 26)	4.04	3.84	3,077,996

SERIES A PREFERRED SHARES

The Series A Preferred Shares are listed on the TSX under the symbol “CSE.PR.A”. The following table sets forth the high and low sales prices per outstanding Series A Preferred Share and trading volumes for the outstanding Series A Preferred Shares on the TSX for the periods indicated:

	Price Per Series A Preferred Share		Trading Volume
	High ($)	Low ($)	
2013			
January	19.64	18.25	80,887
February	19.19	18.50	49,360
March	19.20	18.60	45,006
April	19.15	18.00	46,214
May	18.04	16.10	94,386
June	17.80	16.00	73,424
July	17.98	17.00	39,686
August	18.51	16.52	63,759
September	19.10	17.61	59,186
October	18.29	17.00	41,232
November	17.20	15.77	119,039
December	16.30	15.00	211,912
2014			
January	15.75	15.55	148,088
February	15.66	15.05	123,646
March (to March 26)	17.25	15.25	88,832

CAPSTONE 2016 DEBENTURES

The Capstone 2016 Debentures are listed on the TSX under the symbol "CSE.DB.A". The following table sets forth the high and low sales prices per $100 principal amount of outstanding Capstone 2016 Debentures and trading volumes for the outstanding Capstone 2016 Debentures on the TSX for the periods indicated:

	Price Per $100 Principal Amount of Capstone 2016 Debentures		Trading Volume
	High ($)	Low ($)	
2013			
January	105.00	102.00	1,820
February	104.96	102.00	2,190
March	103.15	100.50	4,930
April	102.00	100.00	5,530
May	102.01	100.52	2,850
June	103.00	101.05	5,000
July	102.00	100.50	2,350
August	102.84	100.20	4,010
September	102.00	100.10	2,430
October	101.50	100.50	6,230
November	101.40	100.00	5,200
December	101.00	96.00	2,950
2014			
January	102.00	100.50	5,210
February	102.44	100.50	5,290
March (to March 26)	102.74	100.75	9,280

CPC 2017 DEBENTURES

The CPC 2017 Debentures are listed on the TSX under the symbol "CPW.DB". Prior to February 15, 2014, the CPC 2017 Debentures were listed on the TSX under the symbol "RDZ.DB" and under the symbol "SPZ.DB" before July 2, 2013.The following table sets forth the high and low sales prices per $100 principal amount of outstanding CPC 2017 Debentures and trading volumes for the outstanding CPC 2017 Debentures on the TSX for the periods indicated:

	Price Per $100 Principal Amount of CPC 2017 Debentures		Trading Volume
	High ($)	Low ($)	
2013			
January	113.25	103.50	37,310
February	110.00	103.81	9,650
March	110.00	106.00	17,750
April	109.00	106.50	8,590
May	109.00	105.13	5,900
June	103.21	101.00	9,390
July	103.50	100.26	22,470
August	102.00	101.00	36,830
September	102.00	100.50	10,120
October	102.00	101.00	6,840
November	101.50	101.10	12,900
December	101.01	100.00	4,370
2014			
January	100.75	100.00	2,640
February	101.00	100.37	7,590
March (to March 26)	101.00	100.50	1,250

CREDIT RATINGS

The following information has been obtained from the website of Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P").

The Corporation is rated BB+ on S&P's long-term issuer credit rating scale. An S&P issuer credit rating is a forward-looking opinion about an obligor's overall creditworthiness in order to pay its financial obligations. S&P's opinion focuses on the obligor's capacity and willingness to meet its financial commitments as they come due. It does not apply to any specific financial obligation, as it does not take into account the nature of and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation.

A BB rating is the fifth highest of ten major rating categories used by S&P in its long-term issuer credit rating scale. Generally, these major rating categories may be modified by the addition of a "+" or "-" to show relative standing within the category, while the absence of either a "+" or "-" designation indicates the rating is in the middle of the category. Obligors rated BB, B, CCC, and CC are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and CC the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. An obligor rated BB is less vulnerable in the near term than other lower-rated obligors, however, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitments.

The Corporation's long-term issuer credit rating has been assigned a stable outlook by S&P. An S&P rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. A stable outlook means that a rating is not likely to change.

The Corporation's Series A Preferred Shares are rated P-4(high) on S&P's Canadian national preferred share rating scale. The S&P Canadian preferred share rating scale serves issuers, investors, and intermediaries in the Canadian financial markets by expressing preferred share ratings (determined in accordance with global rating criteria) in terms of rating symbols that have been actively used in the Canadian market over a number of years. An S&P preferred share rating on the Canadian scale is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific preferred share obligation issued in the Canadian market, relative to preferred shares issued by other issuers in the Canadian market. There is a direct correlation between the specific ratings assigned on the Canadian preferred share scale and the various rating levels on the global debt rating scale of S&P. The Canadian scale rating is fully determined by the applicable global scale rating, and there are no additional analytical criteria associated with the determination of ratings on the Canadian scale. It is the practice of S&P to present an issuer's preferred share ratings on both the global rating scale and on the Canadian national scale when listing the ratings for a particular issuer.

A P-4 rating is the fourth highest of eight major rating categories used by S&P in its Canadian national preferred share rating scale. Generally, these major rating categories may be modified by "high" and "low" grades which indicate relative standing within the category, while the absence of either a "high" or "low" designation indicates the rating is in the middle of the category.

The Series A Preferred Shares' rating of P-4(high) on S&P's Canadian national preferred share rating scale corresponds to B+ on S&P's global preferred share rating scale. A B+ rating is the sixth highest of ten major rating categories used by S&P in its global preferred share rating scale. Generally, these major rating categories may be modified by the addition of a "+" or "-" to show relative standing within the category, while the absence of either a "+" or "-" indicates the rating is in the middle of the category. Obligations rated BB, B, CCC, CC, and C are regarded as having significant speculative characteristics, while BB indicates the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions. An obligation rated B is more vulnerable to nonpayment than obligations rated BB, but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

S&P cautions that while investors may use credit ratings in making investment decisions, S&P's ratings are not indications of investment merit. In other words, the ratings are not recommendations to buy, sell or hold securities of the Corporation, or a measure of the Corporation's asset value. Nor does S&P intend for a rating to signal the suitability of an investment as ratings speak to one aspect of an investment decision – credit quality –which in some cases, may include S&P's view of what investors can expect to recover in the event of default. S&P ratings opinions are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default. Instead, ratings express relative opinions about the creditworthiness of an issuer or credit quality of an individual issue, from strongest to weakest, within a universe of credit risk. There is no assurance that any rating will remain in effect for any given period of time or that any rating will not be revised upward or downward or withdrawn entirely by S&P in the future if, in its judgement, circumstances so warrant.

The Corporation has made customary payments of fees to S&P in connection with the above-mentioned ratings, and expects to continue to make such payments to S&P in the ordinary course from time to time in connection with the confirmation of such ratings and future offerings of certain securities of the Corporation, if any. The Corporation has not made any payments to S&P in respect of any other service provided to the Corporation by S&P during the last two years.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Common Shares, Series A Preferred Shares and Series B Preferred Shares is Computershare Investor Services Inc. at its principal office in Montréal, Québec.

The transfer agent and registrar for the Capstone 2016 Debentures is Computershare Trust Company of Canada and the register for the Capstone 2016 Debentures is located at its office in Toronto, Ontario.

The transfer agent and registrar for the CPC 2017 Debentures is Equity Financial Trust Company and the register for the CPC 2017 Debentures is located at its office in Toronto, Ontario.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the knowledge of the Corporation, except as otherwise disclosed elsewhere in this Annual Information Form, no Director or executive officer of the Corporation, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, directly or indirectly, more than 10% of the outstanding Common Shares, and no associate or affiliate of any of the foregoing persons or companies, has or has had any material interest, direct or indirect, in any transaction within the three most recently completed financial years of the Corporation, or during 2014 (up to March 26, 2014) that has materially affected or is reasonably expected to materially affect the Corporation.

INTEREST OF EXPERTS

The Corporation's auditor is PricewaterhouseCoopers LLP, Chartered Accountants, and it has prepared an independent auditor's report dated March 6, 2014, in respect of the Corporation's consolidated financial statements with accompanying notes as at December 31, 2013, December 31, 2012 and January 1, 2012 and for the years ended December 31, 2012 and 2013. PricewaterhouseCoopers LLP has advised that it is independent with respect to the Corporation within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

ReD's auditors, Grant Thornton, Chartered Accountants, prepared an independent auditors' report dated March 28, 2013, in respect of ReD's consolidated financial statements with accompanying notes as at and for the years ended December 31, 2011 and 2012, which was incorporated by reference into the management information circular of the Corporation dated August 1, 2013 and in its business acquisition report on Form 51-102F4, each relating to the ReD Arrangement. Grant Thornton, has advised that they are independent with respect to ReD within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

LEGAL PROCEEDINGS

To the knowledge of the Corporation, except as may be described elsewhere in this Annual Information Form, there are no material legal proceedings to which the Corporation is a party or to which its property is subject, nor were there any such proceedings during 2013, and, to the Corporation's knowledge, no such proceedings are contemplated.

MATERIAL CONTRACTS

Except for certain contracts entered into in the ordinary course business of the Corporation and its subsidiaries, the following are the only contracts entered into by the Corporation or its subsidiaries on or after January 1, 2013 (or prior to January 1, 2013 if still in effect) that are material to the Corporation:

(a) Supplemented Capstone 2016 Debenture Indenture (described under "Capital Structure of the Corporation – Capstone 2016 Debentures"); and

(b) CPC 2017 Debenture Indenture (described under "Capital Structure of the Corporation – CPC 2017 Debentures).

The description contained herein of each such material contract is a summary only of certain provisions of such agreement, which summary does not purport to be complete and is subject to and qualified in its entirety by the full text of the applicable agreement. Reference should be made to such agreement for the full text of its provisions. Copies of all material contracts listed above have been filed with the securities regulatory authorities in each of the provinces and territories of Canada and can be found under the Corporation's or CPC's, as applicable, SEDAR profile at www.sedar.com.

ADDITIONAL INFORMATION

Additional information, including Directors' and officers' remuneration and indebtedness, will be contained in the Corporation's management information circular for its annual general meeting. Additional financial information is provided in the Corporation's 2013 Annual Report, which contains the Corporation's audited annual consolidated financial statements and management's discussion and analysis as at and for the years ended December 31, 2012 and 2013. Such documentation, along with the information incorporated herein by reference as well as additional information relating to the Corporation may be found under the Corporation's SEDAR profile at www.sedar.com.

GLOSSARY

In this Annual Information Form, unless the context otherwise requires:

"**Alberta EU Act**" means the *Electric Utilities Act* (Alberta).

"**Adjusted EBITDA"** means adjusted earnings before interest, expenses, taxes, depreciation and amortization. Adjusted EBITDA is calculated as revenue less operating and administrative expenses plus interest income and dividends or distributions received from equity accounted investments. Amounts attributed to any non-controlling interest are deducted. Adjusted EBITDA for the investment in Bristol Water is included at Capstone's proportionate ownership interest.

"**AFFO**" means Adjusted Funds from Operations. AFFO measures the cash generated by Capstone's infrastructure business investments that is available for dividends and general corporate purposes. For wholly owned businesses, AFFO is equal to Adjusted EBITDA less interest paid, repayment of principal on debt, income, taxes paid and maintenance capital expenditures. For businesses that are not wholly owned, the cash generated by the business is only available to Capstone through periodic dividends. For these businesses, AFFO is equal to distributions received. Also deducted are corporate expenses and dividends on preferred shares.

"**Agbar**" means Sociedad General de Aguas de Barcelona, S.A.

"**Amherst Wind Facility**" means the 31.5 MW wind power facility located near the town of Amherst, Nova Scotia.

"**AMP**" means asset management plan.

"**AMP5**" means AMP period 5, commencing April 1, 2010 through to March 31, 2015.

"AMP6" means AMP period 6, commencing April 1, 2015 through to March 31, 2020.

"**Arrangement**" means the plan of arrangement under the BCBCA pursuant to which the former Unitholders became Shareholders and the Corporation became the sole owner of all of the issued and outstanding Units.

"**Amherstburg Solar Park**" means the 20 MW solar photovoltaic power project located in Amherstburg, Ontario.

"**BC**" means the Province of British Columbia.

"**Balancing Pool**" means the Balancing Pool created under the Alberta EU Act and corresponding regulations.

"**BC Hydro**" means British Columbia Hydro and Power Authority.

"**BCBCA**" means the *Business Corporations Act* (British Columbia).

"**Bristol Water**" means Bristol Water plc.

"**Bristol Water Deed of Consent**" means a deed of consent dated May 10, 2012 entered into by the Corporation, MPT Europe, CSE Water, Agbar, ITOCHU, I-Environment and Bristol Water Holdings.

"**Bristol Water Group**" means Bristol Water Holdings and its subsidiaries, including Bristol Water.

"**Bristol Water Holdings**" means Bristol Water Holdings UK Limited.

"**Bristol Water Shareholders' Agreement**" means the shareholders' agreement dated October 5, 2011 among the Corporation, CSE Water, Agbar and Bristol Water Holdings to govern the relations between CSE Water and Agbar.

"**business day**" means any day that is not a Saturday, Sunday or civic or statutory holiday in the Province of Ontario.

"**Capstone 2016 Debentures**" means the 6.50% convertible unsecured subordinated debentures of the Corporation due December 31, 2016.

"**Capstone 2016 Debenture Conversion Price**" means the conversion price for the Capstone 2016 Debentures of $7.00 per Common Share, being a ratio of 142.8571 Common Shares per $1,000 principal amount of Capstone 2016 Debentures.

"**Capstone 2016 Debenture Indenture**" means the indenture dated as of December 22, 2009 between the Fund and the Capstone 2016 Debenture Trustee, which indenture governed the Capstone 2016 Debentures until supplemented by the First Supplemental Capstone 2016 Debenture Indenture.

"**Capstone 2016 Debenture Interest Payment Date**" means June 30 and December 31 of each year (or the immediately following business day if such date would not otherwise be a business day).

"**Capstone 2016 Debenture Maturity Date**" means the date on which the Capstone 2016 Debentures mature, being December 31, 2016.

"**Capstone 2016 Debenture Trustee**" means Computershare Trust Company of Canada, as trustee of the Capstone 2016 Debentures.

"**Capstone Debentures**" means the Capstone 2016 Debentures and the CPC 2017 Debentures, collectively.

"**Cardinal Cogen Facility**" means the 156 MW combined-cycle cogeneration plant fuelled by natural gas located in Cardinal, Ontario.

"**Cardinal GP**" means Cardinal Power Inc., the general partner of Cardinal LP.

"**Cardinal GPA**" means the gas purchase agreement made as of August 8, 1991 between HOOL and Cardinal LP.

"**Cardinal LP**" means Cardinal Power of Canada, L.P.

"**Cardinal PPA**" means the PPA made on May 29, 1992 between Ontario Hydro (continued as OEFC) and Cardinal LP, as amended.

"**Chapais Biomass Facility**" means the 28 MW wood waste fired electricity-generating station in Chapais, Québec.

"**CHEL Class B Shares**" means the Class B preferred shares of CHEL.

"**CHEL**" means Chapais Électrique Limitée, the general partner and one of the limited partners of CHESEC.

"**CHESEC Tranche A Senior Debt**" means the aggregate outstanding principal amount of $3.7 million owed by CHESEC to CPOT Holdings Corp., which bears interest at a rate of 10.789% per annum, and is payable by monthly blended payments of principal and interest to fully repay the debt by the maturity date in December 2015.

"**CHESEC Tranche B Senior Debt**" means the aggregate outstanding principal amount of $3.6 million owed by CHESEC to CPOT Holdings Corp., which bears interest at a rate of 4.91% per annum, payable by semi-annual interest payments, with annual principal payments based on CHESEC's free cash flow and which matures in December 2015.

"**CHESEC**" means the Chapais Énergie, société en commandite, a limited partnership.

"**Class B Exchangeable Units**" means Class B exchangeable limited partnership units of LTC Holding LP.

"**CO_2**" means carbon dioxide.

"**cogeneration**" means the simultaneous production of electricity and thermal energy in the form of heat or steam from a single fuel source.

"**Common Shares**" means common shares in the capital of the Corporation.

"**CPC**" means Capstone Power Corp.

"**CPC 2017 Debentures**" means the 6.75% extendible convertible unsecured subordinated debentures of CPC due December 31, 2017.

"**CPC 2017 Debenture Indenture**" means the indenture dated as of August 28, 2012 between the CPC (as successor to ReD) and Equity Financial Trust Company, as debenture agent, as amended on October 1, 2013, November 12, 2013 and February 15, 2014.

"**CSE Water**" means CSE Water UK Limited.

"**CSE Water Shareholders' Agreement**" means the shareholders' agreement dated May 10, 2012 between the Corporation, MPT Europe, CSE Water, ITOCHU and I-Environment.

"**DH Act**" means Swedish District Heating Act.

"**DH HoldCo**" means Sefyr Heat Luxembourg S.à.r.l.

"**DH OpCo**" means Sefyr Värme AB.

"**Digby Neck Wind Facility**" means the 0.9 MW wind power facility located near Digby, Nova Scotia.

"**Director**" or "**Directors**" mean the directors of the Corporation or any one of them.

"**Dispatch**" means the process by which the IESO directs the real-time operation of registered facilities to cause a specified amount of electric energy or ancillary service to be provided to or taken off the electricity system.

"**DRIP**" means the Corporation's dividend reinvestment plan.

"**Dryden Hydro Facility**" means, collectively, the 1.25 MW Eagle River hydro power generating station, the 0.95 MW McKenzie Falls hydro power generating station and the 1.05 MW Wainwright generating station, each of which is located near Dryden, Ontario.

"**EBITDA**" means earnings before interest expense, taxes, depreciation and amortization. EBITDA is net income (loss), including that net income (loss) related to the non-controlling interest and interest income excluding interest expense, income taxes, depreciation and amortization.

"**Enercon**" means Enercon Canada Inc.

"**Environmental, Health and Safety Laws**" means, as applicable: (a) EU, federal, national, provincial, municipal, aboriginal and local laws; (b) regulations, by-laws, common law, licences, permits and other approvals; (c) government directions and orders; and (d) government guidelines and policies and other requirements governing or relating to, among other things: (i) air emissions; (ii) taking of water, management of water and discharges into water, including seasonality issues; (iii) the storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual material (such as chemicals); (iv) the prevention of releases of hazardous materials into the environment; (v) the presence and remediation of hazardous materials in soil and ground water, both on and off site; (vi) workers' health and safety issues; (vii) sound regulation; and (viii) preservation of wildlife.

"**Erie Shores PPA**" the renewable energy supply contract dated as of November 24, 2004 between ESWFLP and OEFC, as assigned by OEFC to the OPA on November 10, 2005.

"**Erie Shores Wind Farm**" means the 99 MW wind power facility, located near Port Burwell, Ontario, consisting of 66 wind turbines, each with 1.5 MW (nameplate) capacity.

"**ESWFLP**" means Erie Shores Wind Farm Limited Partnership.

"**EU**" means the European Union.

"**EWT**" means Emergya Wind Technologies.

"**Ferndale Wind Facility**" means the 5.1 MW wind power facility located near Ferndale, Ontario.

"**FFPP**" means fixed facility participation payment.

"**First Supplemental Capstone 2016 Debenture Indenture**" means the supplemental indenture dated as of January 1, 2011, entered into between the Corporation and the Capstone 2016 Debenture Trustee, supplementing the Capstone 2016 Debenture Indenture.

"**FIT**" means feed-in tariff.

"**FIT PPA**" means a PPA with the OPA under the Province of Ontario's renewable energy FIT program.

"**Fitzpatrick Mountain Wind Facility**" means the 1.6 MW wind power facility located near Fitzpatrick Mountain, Nova Scotia.

"**Floating Quarterly Dividend Rate**" means, for any Quarterly Floating Rate Period, the rate equal to the sum of the T-Bill Rate plus 2.71%.

"**Fund**" means Macquarie Power & Infrastructure Income Fund, an unincorporated open-ended limited purpose trust established under the laws of the Province of Ontario, which was wound-up and terminated on January 1, 2011.

"**GHG**" means greenhouse gas.

"**Glen Dhu I Wind Facility**" means the 62.1 MW wind power facility located near Merigomish, Nova Scotia.

"**Glace Bay I Wind Facility**" means the 17.5 MW wind power facility located near Glace Bay, Nova Scotia.

“**Glace Bay II Wind Facility**” means the 2.3 MW expansion wind power facility located near the Glace Bay I Wind Facility.

“**GWh**” means gigawatt hour and is a unit of electrical energy equal to 1,000 MWh.

“**Higgins Mountain Wind Facility**” means the 3.6 MW wind power facility located near Westchester Station, Nova Scotia.

“**Hluey Lakes Hydro Facility**” means the 3.0 MW hydro power generating station located near Dease Lake, BC.

“**HOOL**” means Husky Oil Operations Limited, formerly Husky Energy Marketing Inc.

“**Hydro Bonds**” means the bonds issued under the Hydro Bond Indenture.

“**Hydro Bond Indenture**” means the trust indenture dated June 6, 2012 between MPT Hydro LP and Computershare Trust Company of Canada, as trustee and any supplements thereof.

“**Hydro Power Facilities**” means the Dryden Hydro Facility, the Hluey Lakes Hydro Facility, the Sechelt Hydro Facility and the Wawatay Hydro Facility.

“**Hydro Power O&M Agreement**” means the O&M agreement between Regional Power and MPT Hydro LP dated November 14, 2001.

“**I-Environment**” means I-Environment Investments Limited.

“**IESO**” means the Independent Electricity System Operator in Ontario.

“**Ingredion**” means Ingredion Canada Incorporated.

“**Initial Fixed Rate Period**” means, with respect to the Series A Preferred Shares, the period from and including June 30, 2011 up to, but excluding, July 31, 2016.

“**Instrument of Appointment**” means the instrument of appointment issued to Bristol Water under the WIA.

“**Internalization Transaction**” means the internalization of all management and administrative functions that were provided to the Corporation and certain of its subsidiaries by MPML.

“**ITOCHU**” means ITOCHU Corporation.

“**LTC Holding LP**” means MPT LTC Holding LP.

“**Macquarie group**” means MGL and all direct or indirect subsidiaries or affiliates of MGL, all funds (or similar vehicles) that any such subsidiary or affiliate of MGL manages and all direct and indirect subsidiaries of such funds (or similar vehicles).

“**MEIF II**” means Macquarie European Infrastructure Fund II.

“**MEIF II Sub**” means the subsidiary of MEIF II which owns a 66.7% interest in Värmevärden.

“**MGL**” means Macquarie Group Limited, an Australian public company listed on the Australian Securities Exchange.

“**Millar Western**” means collectively, Millar Western Industries Ltd. and Millar Western Pulp Ltd.

“**MIRACL**” means Macquarie Infrastructure and Real Assets Canada Ltd., an indirect wholly-owned subsidiary of MGL.

“**Ml/d**” means million litres per day.

“**MPML**” means Macquarie Power Management Ltd., an indirect wholly-owned subsidiary of MGL.

“**MPT DH**” means MPT District Heating Luxembourg S.à.r.l.

“**MPT Europe**” means MPT Utilities Europe Ltd., an indirect wholly-owned subsidiary of the Corporation.

“**MW**” means megawatts and is 1,000 kilowatts.

“**MWh**” means megawatt hour and is an hour during which one MW of electrical power has been continuously produced.

“**New Cardinal NUG Contract**” means the 20-year non-utility generator contract with the OPA that provides for the sale of electricity from the Cardinal Cogen Facility commencing January 1, 2015.

“**NI 52-110**” means Canadian Securities Administrators’ National Instrument 52-110 – *Audit Committees*.

“**NOx**” means nitrogen oxide.

“**NSPI**” means Nova Scotia Power Inc.

“**O&M**” means operations and maintenance.

“**OEFC**” means the Ontario Electricity Financial Corporation.

“**Ofwat**” means the UK Water Services Regulatory Authority.

“**OPA**” means the Ontario Power Authority.

“**Options**” means the Common Share purchase options issued by the Corporation.

“**Periodic Review**” means Ofwat’s review of K, which occurs every five years.

“**Power Infrastructure Facilities**” means collectively, the Cardinal Cogen Facility, the Wind Power Facilities, the Hydro Power Facilities, the Whitecourt Biomass Facility, the Chapais Biomass Facility and the Amherstburg Solar Park.

“**Power Pool**” means the power pool created by the Alberta EU Act, through which all electrical power must be traded in Albert, subject to certain exceptions.

“**PPA**” means power purchase agreement.

“**Proof Line I Wind Facility**” means the 6.6 MW wind power facility located near Forest, Ontario.

“**RCV**” means regulated capital value.

“**Ravenswood Wind Facility**” means the 9.9 MW wind power facility located near Forest, Ontario.

“**REA**” means a renewable energy approval permit.

“**ReD**” means Renewable Energy Developers Inc.

“**ReD Arrangement**” means the plan of arrangement under the *Canada Business Corporations Act* pursuant to which the Corporation acquired all the issued and outstanding common shares of ReD.

“**ReD Shares**” means the common shares of ReD

“**Regional Power**” means Regional Power Inc. and, unless the context otherwise requires, includes its predecessor corporations and certain of the predecessors in title to the Hydro Power Facilities and Regional Power Opco Inc.

“**RESOP Contract**” means a 20-year contract pursuant to which electricity generated by the applicable facility is sold to the OPA under the RESOP.

“**RESOP**” means the Province of Ontario’s Renewable Energy Standard Offer Program.

“**Revolving Credit Agreement**” means the credit agreement dated November 12, 2013 between the Corporation, as borrower, the Revolving Credit Facility Guarantors, as guarantors, the lenders from time to time parties thereto, and an administrative agent, as amended.

“**Revolving Credit Facility**” means the revolving credit facility under the Revolving Credit Agreement in the amount of $50,000,000.

“**Revolving Credit Facility Agent**” means the administrative agent under the Revolving Credit Agreement.

“Revolving Credit Facility Guarantors” means CPC, MPT Utilities Corp., MPT Utilities Europe, Cardinal GP, Cardinal LP, Whitecourt Power Limited Partnership, Whitecourt Power Ltd. and CSE Financing Corp., as guarantors under the Revolving Credit Agreement.

“**RPI**” means the UK Retail Prices Index.

"**SaskPower**" means Saskatchewan Power Corporation.

"**Sechelt Hydro Facility**" means the 16 MW hydro power generating station located near Sechelt, BC.

"**SEDAR**" means the Canadian Securities Administrators' System for Electronic Document Analysis and Review.

"**SEK**" means Swedish krona.

"**Series A Preferred Shares**" means the cumulative five-year rate reset preferred shares, series A, of the Corporation.

"**Series B Preferred Shares**" means floating rate preferred shares, series B, of the Corporation.

"**Shareholder**" means a holder of Common Shares.

"**SIM**" means Ofwat's Service Incentive Mechanism.

"**Springhill Wind Facility**" means the 2.1 MW wind power facility located near Springhill, Nova Scotia.

"**Supplemented Capstone 2016 Debenture Indenture**" means the Capstone 2016 Debenture Indenture, as supplemented by the First Supplemental Capstone 2016 Debenture Indenture.

"**Suzlon**" means Suzlon Wind Energy Corporation.

"**T-Bill Rate**" means for any Quarterly Floating Rate Period, the average yield expressed as a percentage per annum on three-month Government of Canada Treasury Bills, as reported by the Bank of Canada, for the most recent treasury bills auction preceding the 30th day prior to the first day of the applicable Quarterly Floating Rate Period.

"**TCPL**" means TransCanada Pipelines Limited.

"**TransAlta**" means TransAlta Utilities Corp.

"**TSX**" means the Toronto Stock Exchange.

"**UK**" means the United Kingdom.

"**UK CC**" means the UK Competition Commission (which has announced that it will be known as the UK Competition & Markets Authority effective April 1, 2014).

"**US**" means the United States of America.

"**Unit**" means a trust unit of the Fund.

"**Unitholder**" means a holder of Units.

"**Vensys**" means Vensys Energy AG.

"**Vestas**" means Vestas-American Wind Technology, Inc.

"**Värmevärden**" means the Corporation's Swedish district heating business.

"**Värmevärden Bonds**" means the SEK 1 billion (approximately $150 million) senior secured bonds issued by DH OpCo in February and March, 2012.

"**Värmevärden Group**" means collectively Värmevärden AB, Värmevärden I Nynäshamn AB, DH HoldCo and DH OpCo.

"**WA**" means the *UK Water Act 2003*.

"**Water Bill**" means the water bill before the UK parliament designed to implement some of the recommendations of the Water for Life Paper.

"**Water for Life Paper**" means the white paper released by the UK government in December 2011 which reviewed competition and innovation in UK water markets.

"**Wawatay Hydro Facility**" means the 13.5 MW hydro power generating station located near Marathon, Ontario.

"**Whitecourt Biomass Facility**" means the 25 MW wood waste fired electricity generating station located near Whitecourt, Alberta.

"**Whitecourt PPA**" means the PPA dated November 6, 1990 between Whitecourt Power Limited Partnership (as successor owner of the Whitecourt Biomass Facility) and TransAlta.

"**WIA**" means the UK *Water Industry Act 1991*, as amended.

"**Wind Development Projects**" means the Skyway 8, Saint-Philémon, Goulais, Grey Highlands ZEP, Grey Highlands Clean, Ganaraska, Snowy Ridge, Settlers Landing and Riverhurst wind projects under development, as described under the heading "Narrative Description of the Business – Power Infrastructure – Wind – Wind Development Projects".

"**Wind Power Facilities**" means the Erie Shores Wind Farm, the Glen Dhu I Wind Facility, the Amherst Wind Facility, the Glace Bay I Wind Facility, the Glace Bay II Wind Facility, the Higgins Mountain Wind Facility, the Springhill Wind Facility, the Fitzpatrick Mountain Wind Facility, the Digby Neck Wind Facility, the Ravenswood Wind Facility, the Proof Line I Wind Facility and the Ferndale Wind Facility.

SCHEDULE "A"

CAPSTONE INFRASTRUCTURE CORPORATION

AUDIT COMMITTEE CHARTER

The term "Corporation" herein shall refer to Capstone Infrastructure Corporation and the term "Board" shall refer to the Board of Directors of the Corporation. "Capstone Infrastructure Group" means, collectively, the Corporation and each controlled subsidiary entity of the Corporation (a "Subsidiary"). The term "Management" herein shall refer to senior management of the Corporation and all Subsidiaries.

PURPOSE

The Audit Committee (the "Committee") is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting including responsibility to:

i. oversee the work of the Corporation's external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attestation services for the Corporation;

ii. oversee the integrity of the Corporation's financial statements and financial reporting process, including the audit process and the Corporation's internal accounting controls and procedures and compliance with related legal and regulatory requirements;

iii. oversee the qualifications and independence of the external auditors;

iv. oversee the work of the Corporation's financial management and external auditors in these areas;

v. oversee the Enterprise Risk Management process and the work of the internal auditor (see Internal Audit Mandate in Appendix A); and

vi. provide an open avenue of communication between the external auditors, the Board and Capstone Infrastructure Group, including the Board of Directors of the Corporation and Management, thus enabling information and points of view to be freely exchanged.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

The function of the Committee is oversight. It is not the duty or responsibility of the Committee or its members to:

(i) plan or conduct audits,

(ii) (ii) determine that the Corporation's financial statements are complete and accurate and are in accordance with generally accepted accounting principles or other reporting standards; or

(iii) (iii) conduct other types of auditing or accounting reviews or similar procedures or investigations.

The Committee and its Chairman are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Corporation and are specifically not accountable or responsible for the day to day operation or performance of such activities.

Management is responsible for the preparation, presentation and integrity of the Corporation's financial statements. Management is also responsible for maintaining appropriate accounting and financial reporting principles and policies and systems of risk assessment and internal controls and procedures designed to provide reasonable assurance that assets are safeguarded and transactions are properly authorized, recorded and reported and to assure the effectiveness and efficiency of operations, the reliability of financial reporting and compliance with accounting standards and applicable laws and regulations.

The external auditors are responsible for planning and carrying out an audit of the Corporation's annual financial statements in accordance with generally accepted auditing standards to provide reasonable assurance that, among other things, such financial statements are in accordance with generally accepted accounting principles or other reporting standards.

PROCEDURES, POWERS AND DUTIES

In addition to the procedures and powers set out in the resolution of the Board establishing this Committee, the Committee shall have the following procedures, powers and duties:

General

(a) *Composition* - The Committee shall be composed of a minimum of three members. Each member of the Committee shall be an "independent" director (as that term is defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Corporation's securities are listed for trading or if it is not so defined as that term is interpreted by the Board in its business judgement) and none of the members shall have participated in the preparation of the financial statements of the Corporation at any time over the past three years; provided that if a director is also a director of one or more Subsidiaries it will not disqualify the director from being a member of the Committee so long as the director would otherwise be eligible to be a member of the Committee.

All members of the Committee must be "financially literate" (as that term is defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Corporation's securities are listed for trading or if it is not so defined as that term is interpreted by the Board in its business judgement) or must become financially literate within a reasonable period of time after their appointment to the Committee.

(b) *Appointment and Replacement of Committee Members* - Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board may fill vacancies on the Committee by appointing another director to the Committee. The Board shall fill any vacancy if the membership of the Committee is less than three directors. Whenever there is a vacancy on a Committee, the remaining members may exercise all its power as long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be appointed by the Board annually and each member of the Committee shall remain on the Committee until the next annual meeting of shareholders after his or her appointment or until his or her successor shall be duly appointed and qualified.

(c) *Committee Chairman* - The Chairman of the Committee shall be designated by the Board. The Chairman of the Committee shall be responsible for leadership of the Committee, including preparing the agenda, presiding over the meetings, making committee assignments and reporting to the Board. The designation of the Chairman of the Committee shall take place annually at the first meeting of the Board after a meeting of shareholders at which Directors are elected, provided that if the designation of the Chairman of the Committee is not so made, the Director who is then serving as the Chairman of the Committee shall continue as the Chairman of the Committee until his or her successor is appointed.

(d) *Conflicts of Interest* - If a Committee member faces a potential or actual conflict of interest relating to a matter before the Committee, that member shall be responsible for alerting the Committee Chairman. If the Committee Chairman faces a potential or actual conflict of interest, the Committee Chairman shall advise the Chairman of the Board. If the Committee Chairman, or the Chairman of the Board, as the case may be, concurs that a potential or actual conflict of interest exists, the member faced with such conflict shall disclose to the Committee the member's interest and shall not participate in consideration of the matter and shall not vote on the matter.

(e) *Compensation of Committee Members* - The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the Board may from time to time determine. No member of the Committee shall receive from the Corporation any compensation other than the fees to which he or she is entitled as a director, a member of a committee of the Board, a member of the Board of Directors of a Subsidiary or a committee thereof.

(f) *Separate Executive Meetings* - The Committee shall meet periodically with the Chief Financial Officer, the head of the internal audit function (if other than the Chief Financial Officer) and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately and such persons shall have access to the Committee to bring forward matters requiring its attention. However, the Committee shall also meet periodically without Management present.

(g) *Meetings of the Committee* -

Procedures for Meetings - Subject to any applicable statutory or regulatory requirements and the Articles of the Corporation, the time at which and place where the meetings of a Committee shall be held and the calling of Committee meetings and the procedure in all things at such meetings shall be determined by the Committee.

Calling of Meetings - The Committee shall meet as often as it deems appropriate to discharge its responsibilities. Notice of the time and place of every meeting shall be given in writing, by any means of transmitted or recorded communication, including facsimile, telex, telegram or other electronic means that produces a written copy, to each member of a Committee at least 48 hours prior to the time fixed for such meeting. However, a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. Whenever practicable, the agenda for the meeting and the meeting materials shall be provided to members before each Committee meeting in sufficient time to provide adequate opportunity for their review.

Quorum - No business may be transacted by the Committee unless a quorum of the Committee is present. A majority of members constitute quorum for the transaction of Committee business.

Chairman of Meetings - If the *Chairman* of a Committee is not present at any meeting of the Committee, one of the other members of the Committee who is present shall be chosen by the Committee to preside at the meeting.

Secretary of Meeting - The *Chairman* of the Committee shall designate a person who need not be a member of the Committee to act as secretary or, if the *Chairman* of the Committee fails to designate such a person, the Corporate Secretary of the Corporation shall be secretary of the Committee. The agenda of each Committee meeting will be prepared by the secretary of the Committee and, whenever reasonably practicable, circulated to each member prior to each meeting.

Minutes - The secretary of the Committee shall prepare and maintain minutes of the proceedings of the Committee. Minutes shall be kept in minute books provided for that purpose. The minutes of Committee meetings shall accurately record the discussions of and decisions made by the Committee, including all recommendations to be made by the Committee to the Board and shall be distributed to all Committee members.

(h) *Professional Assistance* - The Committee may require the external auditors and internal auditors to perform such supplemental reviews or audits as the Committee may deem desirable. In addition, the Committee may retain such special legal, accounting, financial or other consultants as the Committee may reasonably determine to be necessary to carry out the Committee's duties at the

Corporation's expense in accordance with the procedures for retaining professional advisors as set out in the Corporation's Corporate Governance Guidelines.

(i) *Reliance* - Absent actual knowledge to the contrary (which shall be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside Capstone Infrastructure Group from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by Management and the external auditors as to any information technology, internal audit and other non-audit services provided by the external auditors to the Corporation and Capstone Infrastructure Group.

(j) *Reporting to the Board* - The Committee will report through the Committee Chairman to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

(k) *Powers of the Committee* -

Access - The Committee is entitled to full access to all books, records, facilities, and personnel of the Corporation and Capstone Infrastructure Group, as related to the investment activities and affairs of the Corporation. The Committee may require such officers, directors and employees of the Corporation and Capstone Infrastructure Group and others as it may see fit from time to time to provide any information about the Corporation and Capstone Infrastructure Group it may deem appropriate and to attend and assist at meetings of the Committee.

Delegation - The Committee may delegate from time to time to any person or committee of persons any of the Committee's responsibilities that lawfully may be delegated.

Adoption of Policies and Procedures - The Committee may adopt policies and procedures for carrying out its responsibilities.

AUDIT RESPONSIBILITIES OF THE COMMITTEE

1. Selection and Oversight of the External Auditors and Independence Requirements

The external auditors are ultimately accountable to the Committee and the Board as the representatives of the shareholders of the Corporation and shall report directly to the Committee and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Corporation to be proposed in the Corporation's proxy circular for shareholder approval and shall have authority to terminate the external auditors. If a change in external auditors is proposed, the Committee shall review the reasons for the change and any other significant issues related to the change, including the response of the incumbent auditors, and enquire on the qualifications of the proposed auditors before making its recommendation to the Board. The Board is responsible for selecting the external auditor to be proposed in the Corporation's proxy circular for shareholder approval and appointment.

The Committee shall approve in advance the terms of engagement and the compensation to be paid by the Corporation to the external auditors with respect to the conduct of the annual audit.

The Committee shall review the independence of the external auditors and shall make recommendations to the Board on appropriate actions to be taken which the Committee deems necessary to protect and enhance the independence of the external auditors. In connection with such review, the Committee shall:

(a) actively engage in a dialogue with the external auditors about all relationships or services that may impact the objectivity and independence of the external auditors;

(b) require that the external auditors submit to it on a periodic basis, and at least annually, a formal written statement delineating all relationships between the Corporation and Capstone Infrastructure Group, on the one hand, and the external auditors and their affiliates on the other hand, and that it has remained independent for the full-year;

(c) require that (i) both the lead audit partner and the partner responsible for performing a second review respecting the audit be rotated at least every seven years and be subject to a seven year time out and (ii) all other partners on the audit engagement team who provide more than 10 hours of audit, review or attestation services with respect to the Corporation's consolidated financial statements or who serve as the lead partner in connection with any audit or review related to financial statements of a subsidiary whose assets or revenues constitute at least 20% of the consolidated assets or revenues of the Corporation be rotated at least every seven years and be subject to a two year time out;

(d) require that the audit partners and any audit firm employee on the audit of the Capstone Infrastructure Group are prohibited from being an officer of the Capstone Infrastructure Group;

(e) require that immediate family members of an audit partner or any audit firm employee on the audit of the Capstone Infrastructure Group are prohibited from being a director or in a senior audit facing role at the Capstone Infrastructure Group until lapse of a "cooling off" period of at least five years and, after the five years "cooling off" period, can have no continuing financial relationship with the audit firm. The five year "cooling off" period is measured from the time that the former audit firm partner or employee ceases to be on the engagement team of the Capstone Infrastructure Group;

(f) require that the audit firm engagement team in any given year cannot include a person who had been a former officer of the Capstone Infrastructure Group during that year;

(g) require that officers of the Capstone Infrastructure Group are prohibited from receiving any remuneration from the audit firm;

(h) require that members of the audit team and firm are prohibited from having a business relationship with the Capstone Infrastructure Group or any officer of the Capstone Infrastructure Group unless the relationship is clearly insignificant to both parties;

(i) require that the audit firm, its partners, its employees on the audit of the Capstone Infrastructure Group and the immediate family members are prohibited from having loans or guarantees with the Capstone Infrastructure Group;

(j) require that the audit firm is prohibited from having a financial interest in any entity with a controlling interest in the Capstone Infrastructure Group;

(k) consider whether there should be a regular rotation of the external audit firm itself; and

(l) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies.

The Committee shall prohibit the external auditor and its subsidiaries from providing certain non-audit services to the Corporation. This is to ensure the auditor does not assume the role of management, become an advocate for their own client, or audit their own professional expertise. All non-audit services to be provided to the Corporation or any of its affiliates by the external auditors or any of their affiliates shall be subject to pre-approval by the Committee Chair (including, among others, provision of taxation planning and consulting services). The Committee may approve policies and procedures for the pre-approval of non-audit services to be rendered by the external auditors, which policies and procedures (i) shall include reasonable detail with respect to the services covered, (ii) shall require that the Committee be informed of each non-audit service and (iii) shall not include delegation of the Committee's responsibilities to Management.

The auditor will not normally provide the following services:

(a) bookkeeping or other services relating to the accounting records or financial statements of the Capstone Infrastructure Group;

(b) appraisal or valuation and fairness opinions;

(c) financial information or information technology systems design and implementation;

(d) internal audit outsourcing services;

(e) management functions, including temporary staff assignments or human resource services, including recruitment of senior management;

(f) legal or litigation support services;

(g) broker or dealer, investment adviser or investment banking;

(h) actuarial services;

(i) accounting and tax work on behalf of members of the senior management team of Capstone or the senior executives of Capstone's subsidiaries.

Under this policy, any fee arrangement between the Capstone Infrastructure Group and the auditor must not contain any contingent or success fees element.

Committee approval is required prior to the hiring by Capstone Infrastructure Group of partners, employees and former partners and employees of the external auditors.

The Committee shall require the external auditors to provide to the Committee, and the Committee shall review and discuss with the external auditors, all reports which the external auditors are required to provide to the Committee or the Board under rules, policies or practices of professional or regulatory bodies applicable to the external auditors, and any other reports which the Committee may require. Such reports shall include:

(a) a description of the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; and

(b) a report describing (i) all critical accounting policies and practices used in the preparation of the Corporation's financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles or other standards related to material items that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors (iii) other material written communication between the external auditors and Management, such as any management letter or schedule of unadjusted differences; and (iv) disagreements between Management and/or the internal auditors and the external auditors regarding financial reporting.

The Committee is responsible for resolving disagreements between Management and the external auditors regarding financial reporting.

2. Oversight of Internal Audit Function

The Committee shall determine the appropriate internal audit function for the Corporation and oversee its processes, reports and the terms of compensation for any individuals engaged in such function, if any. The Internal Audit Mandate is attached as Appendix A.

3. Oversight and Monitoring of Audits

The Committee shall review with the external auditors and Management the audit function generally, the objectives, staffing, locations, co-ordination, reliance upon Management, any internal audit and general audit approach and scope of proposed audits of the financial statements of the Corporation, the overall audit plans, the responsibilities of Management and the external auditors, the audit procedures to be used and the timing and estimated budgets of the audits.

The Committee shall meet periodically with the internal finance management staff to discuss the progress of their activities and any significant findings stemming from any internal audits and any difficulties or disputes that arise with Management and the adequacy of Management's responses in correcting audit-related deficiencies.

The Committee shall discuss with the external auditors any difficulties or disputes that arise with Management or any internal auditors during the course of the audit and the adequacy of Management's responses in correcting audit-related deficiencies.

The Committee shall review with Management the results and scope of any internal and all external audits.

The Committee shall take such other reasonable steps as it may deem necessary to satisfy itself that the audit was conducted in a manner consistent with all applicable legal requirements and auditing standards of applicable professional or regulatory bodies.

4. Oversight and Review of Accounting Principles and Practices

The Committee shall, as it deems necessary, oversee, review and discuss with Management, the external auditors and any internal auditors:

(a) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

(b) all significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including the effects of alternative methods within generally accepted accounting principles and other standards on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;

(c) disagreements between Management and the external auditors or any internal auditors regarding the application of any accounting principles or practices;

(d) any material change to the Corporation's auditing and accounting principles and practices as recommended by Management, the external auditors or any internal auditors or which may result from proposed changes to applicable generally accepted accounting principles and other standards;

(e) the effect of regulatory and accounting initiatives on the Corporation's financial statements and other financial disclosures;

(f) any reserves, accruals, provisions, estimates or Management programs and policies, including factors that affect asset and liability carrying values and the timing of revenue and expense recognition, that may have a material effect upon the financial statements of the Corporation;

(g) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of Capstone Infrastructure Group and their impact on the reported financial results of the Corporation;

(h) any legal matter, claim or contingency that could have a significant impact on the financial statements, the Corporation's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Corporation's financial statements;

(i) the treatment for financial reporting purposes of any significant transactions which are not a normal part of the Corporation's operations;

(j) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles; and

(k) Management's determination of goodwill impairment, if any, as required by applicable accounting standards.

The Committee will review and resolve disagreements between Management and the external auditors regarding financial reporting or the application of any accounting principles or practices.

5. Oversight and Monitoring of Internal Controls and Disclosure Controls

The Committee shall, as it deems necessary, exercise oversight of, review and discuss with Management and the external auditors:

(a) the adequacy and effectiveness of the Corporation's internal accounting and financial controls (including accounting and operational risk management controls) based on recommendations of Management and the external auditors for the improvement of accounting practices and internal controls;

(b) any material weaknesses in the internal control environment, including with respect to computerized information system controls and security;

(c) any material weaknesses in the disclosure control environment; and

(d) Management's compliance with the Corporation's processes, procedures and internal controls.

6. Communications with Others

The Committee shall establish and monitor procedures for the receipt and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or audit matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with Management and senior finance officers of Capstone Infrastructure Group responsible for the internal audit function, these procedures and any significant complaints received. A key component of this is the Corporation's Whistleblower Policy.

7. Oversight and Monitoring of the Corporation's Financial Disclosures

The Committee shall:

(a) review with the external auditors and Management and recommend to the Board for approval the audited financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements, the Corporation's annual report and the financial information of the Corporation contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Corporation; and

(b) review with the external auditors and Management and review or approve, subject to the determination of the Board, each set of interim financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements and any other disclosure documents or regulatory filings of the Corporation containing or accompanying financial information of the Corporation.

Such reviews shall be conducted prior to the release of any summary of the financial results or the filing of such reports with applicable regulators.

Prior to their distribution and filing, the Committee shall review and discuss earnings press releases. The Committee shall also review and discuss financial information and earnings guidance provided to analysts and ratings agencies prior to their distribution. The Chairman of the Committee may perform the review function in respect of the earnings guidance provided to analysts and rating agencies, on behalf of the Committee, as is required. Such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and the Committee need not discuss in advance each instance in which the Corporation gives earning guidance if it has reviewed and approved the Corporation's policies and procedures with respect to such matters.

The Committee shall meet with Management to review and assess the process and systems in place for the review of public disclosure documents that contain audited and unaudited financial information and their effectiveness.

As part of the process by which the Committee shall satisfy itself as to the reliability of public disclosure documents that contain audited and unaudited financial information, the Committee shall require each of the Chief Executive Officer and the Chief Financial Officer of the Corporation to provide a certificate addressed to the Committee certifying in respect of each annual and quarterly report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws.

The Committee shall review the disclosure with respect to its pre-approval of audit and non-audit services provided by the external auditors.

8. Oversight of Finance Matters

The Committee shall receive and review:

(a) periodic reports on compliance with requirements regarding statutory deductions and remittances, the nature and extent of any non-compliance together with the reasons therefore and Management's plan and timetable to correct any deficiencies;

(b) material policies and practices of Capstone Infrastructure Group respecting cash management and material financing strategies or policies or proposed financing arrangements and objectives of Capstone Infrastructure Group (documented in the Corporation's Treasury Policy); and

(c) material tax policies and tax planning initiatives, tax payments and reporting and any pending tax audits or assessments.

The Committee shall meet periodically with Management to review and discuss the Corporation’s major financial risk exposures and the policy steps Management has taken to monitor and control such exposures, including the use of financial derivatives and hedging activities.

The Committee shall meet as required with the Corporate Secretary of the Corporation to review issues arising out of compliance activities, as well as assess contingent legal and regulatory risks.

9. Committee Reporting

As required by applicable laws or regulations or stock exchange requirements, the Committee shall review and approve the information required to be reported to shareholders and others in the Corporation’s Annual Information Form, and for such purposes, each member of the Committee shall provide information respecting that member’s education and experience that relate to his or her responsibilities as a Committee member.

10. Board, Committee and Breach Reporting

To assist the Committee in monitoring and reviewing (at least annually) the effectiveness of the operational risk management framework and compliance with key risk management policies, Management will provide the following items to the Committee for its review:

(a) Results of the annual enterprise risk management assessment (“ERM”)

(b) A summary of policies and procedures established during the period

(c) Results of due diligence carried out on external service providers, if any

(d) Current Business Continuity Plan for the operations

(e) Results of internal audit reviews and a rolling four quarter internal audit plan.

As necessary:

(f) Any significant changes to the ERM, including external factors to be considered (such as major regulatory or industry developments)

(g) Any significant operational risk incidents relating to the Corporation, not already reported to the Board.

11. Additional Responsibilities

Each new member of the Committee shall receive such training as may be approved by the Chairman of the Committee. Training should cover the requirements and obligations of audit committees, issues of accounting principles, auditing standards, risk management and ethical compliance.

The Committee should request and review a report from Management at least twice each year as to compliance with the Corporation’s prohibitions against any related party transactions between directors or employees and their families and the Corporation or any of the Capstone Infrastructure Group entities.

The Committee shall review on an annual basis, insurance programs and policies relating to the Corporation and its businesses.

The Committee shall review and/or approve any other matter specifically delegated to the Committee by the Board and undertake on behalf of the Board such other activities as may be necessary or desirable to assist the Board in fulfilling its oversight responsibilities with respect to financial reporting.

THE CHARTER

The Committee shall review and reassess the adequacy of this Charter at least annually and otherwise as it deems appropriate and recommend changes to the Board. The performance of the Committee shall be evaluated with reference to this Charter annually.

The Committee shall ensure that this Charter or a summary of it which has been approved by the Committee is disclosed in accordance with all applicable securities laws or regulatory requirements.

Appendix A: Internal Audit Mandate

1. Introduction

This Mandate establishes the purpose, scope, authorities and responsibilities for Capstone Infrastructure Corporation's ("Capstone") Internal Audit function ("Internal Audit"). This Mandate will be reviewed annually by the Audit Committee in conjunction with the Audit Committee Charter.

2. Purpose

Internal Audit provides the Audit Committee and Management with independent, objective assurance and best practice recommendations designed to evaluate and improve the effectiveness and efficiency of Capstone's activities. Internal Audit achieves these objectives by bringing a systematic, disciplined approach when evaluating and reporting on Capstone's risk management, control and governance processes.

Internal Audit supports the Audit Committee and Management in the effective discharge of their respective responsibilities by providing them with analyses, reports, recommendations and counsel concerning the subject areas reviewed and by promoting effective control at reasonable cost.

3. Scope of Internal Audit Activities

The scope of the internal audit function encompasses all of the operations of Capstone and its subsidiaries and includes, but is not limited to, activities to address the following:

- Risks are identified, managed and supported by adequate risk management systems;
- Reliability and integrity of financial and other operational information;
- Adequacy and effectiveness of controls to manage operations;
- Compliance with corporate policies, standards, procedures and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Operations are conducted in an effective and efficient manner
- Adequacy and effectiveness of systems design and implementation; and
- Adequacy of benchmarking processes and practices and key performance indicators.

These attributes are assessed by Internal Audit through the conduct of audits, information system reviews and special investigations, projects and consulting engagements.

4. Independence and Authority

In order to ensure independence of the Internal Audit function, the Audit Committee has assumed oversight responsibility on behalf of the Board. Internal Audit reports functionally to the Chair of the Audit Committee and administratively to the Chief Financial Officer (or his designate). Capstone has chosen to outsource Internal Audit to maximize the expertise available to evaluate and provide recommendations for Capstone's diverse and complex operations.

The Audit Committee will:

a) Exercise functional authority over Internal Audit;
b) Review and approve the Internal Audit mandate;
c) Periodically arrange and participate in meetings with the internal auditor to review the results of internal audit activities and related reports; and
d) Approve the appointment or removal of the Internal Auditor.

Internal Audit has full and unrestricted access to all activities, records, property and personnel of Capstone Infrastructure and its subsidiaries, for audit purposes. Documents and information given to Internal Audit during a periodic review will be handled in the same prudent and confidential manner as by those employees normally accountable for them.

Internal Audit has no direct responsibility or authority for any of the operations they review. The services performed by Internal Audit do not relieve other personnel of their respective operating responsibilities.

5. **Professional Standards and Proficiency**

Internal Audit will meet or exceed the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors and the Information Systems Audit and Control Association Standards.

Internal Audit is comprised of staff with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter.

6. **Audit Planning**

Quarterly, Internal Audit will provide the Audit Committee with a rolling twelve month internal audit projects work plan which includes recommendations for future projects for Audit Committee approval. The work plan is developed utilizing a risk based methodology to prioritize projects. Any significant deviation from the formally approved work plan will be communicated to management and the Audit Committee.

7. **Reporting**

Quarterly, Internal Audit will provide the Audit Committee with a summary report with the results of projects completed since the last report to the Audit Committee. Reports will include recommendations as well as auditee responses and action plans. The detailed audit report will be distributed to appropriate Capstone personnel including the Chief Financial Officer and Chief Executive Officer.

Internal Audit shall be responsible for following up on audit recommendations. All significant findings will remain in an open issues file until cleared by the audit staff responsible.