CAPSTONE INFRASTRUCTURE CORPORATION

ANNUAL INFORMATION FORM

For the Financial Year Ended December 31, 2011

March 21, 2012

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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, 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 Corporation's future growth, results of operations, performance and business 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", "estimate", "plan", "believe" or other similar words, and include, among other things, statements concerning: the Corporation's investment strategies; negotiations regarding a new PPA for the Cardinal Facility and the intention to renew other PPAs; changes in the TCPL gas transportation tolls; changes to the IESO market rules; amendments to the regulations governing the Global Adjustment component of price escalators under the PPAs for the Cardinal Facility and the Hydro Power Facilities located in Ontario; scheduled major maintenance projects; refinancing of indebtedness; environmental laws, regulations, and guidelines; the regulatory environment affecting our Power Infrastructure Facilities, Värmevärden and Bristol Water; the renewal of Värmevärden's industrial contracts; risk factors; 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, 2011 under the heading "Results of Operations", as updated in subsequently filed interim MD&A of the Corporation (such documents are available under the Corporation's profile on www.sedar.com). Other 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; a full year of contribution from the Amherstburg Solar Park, Värmevärden and Bristol Water; a TCPL gas transportation toll of approximately $2.24 per gigajoule in 2012; the level of gas mitigation revenue earned by the Cardinal Facility; that there will be no unplanned material changes to the Corporation's facilities, equipment or contractual arrangements, no unforeseen changes in the legislative, regulatory and operating framework for the Corporation's businesses, no delays in obtaining required approvals, no unforeseen changes in rate orders or rate structures for the Power Infrastructure Facilities, Värmevärden or Bristol Water, no unfavourable changes in environmental regulation and no significant event occurring outside the ordinary course of business; that the Senior Credit Facility, used to partially fund the Bristol Water acquisition, will be repaid on or prior to its maturity on October 3, 2012; the refinancing of the Issuer Credit Facility and project financing of the Hydro Power Facilities (that potentially include amortization profiles); that there will be no further amendments by the Ontario government to the regulations governing the mechanism for calculating the Global Adjustment (which affects the calculation of the DCR escalator under the PPA for the Cardinal Facility and price escalators under the Hydro Power Facilities located in Ontario); the accounting treatment for Bristol Water's business under IFRS, particularly with respect to accounting for maintenance capital expenditures; the amount and timing of capital expenditures by Bristol Water; the Swedish Krona to Canadian dollar exchange rate; the UK pound sterling to Canadian dollar exchange rate; 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: variability and payments of dividends on Common Shares, which are not guaranteed; volatile market price for the Corporation's securities; availability of debt and equity financing; default under credit agreements; 2016 Debentures credit risk, prior ranking indebtedness and absence of covenant protection; dependence on subsidiaries and investees; acquisitions; geographic concentration and non-diversification; foreign exchange risk; reliance on key personnel; insurance; Shareholder dilution; derivatives risks; changes in legislation and administrative policy; competition; private companies and illiquid securities; operational performance; power purchase agreements; fuel costs and supply; contract performance; Amherstburg Solar Park technology risk; land tenure and related rights; environmental, health and safety regime; regulatory regime and permits; *force majeure*; influence of Ofwat price determinations; failure to deliver capital investment programs; failure to deliver water leakage target; Ofwat's introduction of the Service Incentive Mechanism and the serviceability assessment; economic environment, inflation and capital market conditions; pension plan obligations; operational risks; competition; default under Bristol Water's artesian loans, bonds, debentures and credit facility; seasonality and climate change; labour relations; special administration; general risks inherent in the district heating sector; industrial and residential contracts; default under Värmevärden Bonds; and minority interest.

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 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 mission is to build and responsibly manage a high quality portfolio of infrastructure businesses in Canada and internationally in order to deliver a superior total return to shareholders by providing reliable income and capital appreciation. As at March 21, 2012, the Corporation's portfolio included investments in gas cogeneration, wind, hydro, biomass and solar power generating facilities, representing approximately 370 MW of installed capacity, a 33.3% ownership interest in Värmevärden, a district heating business in Sweden, and a 70% ownership interest in Bristol Water, a regulated water utility in the United Kingdom (the "UK").

The Corporation's vision is to be the pre-eminent diversified infrastructure company in Canada with a high quality portfolio that could include electricity generation and distribution businesses, utilities, water or wastewater facilities, roads, hospitals and schools, among others, including investments through public-private partnerships.

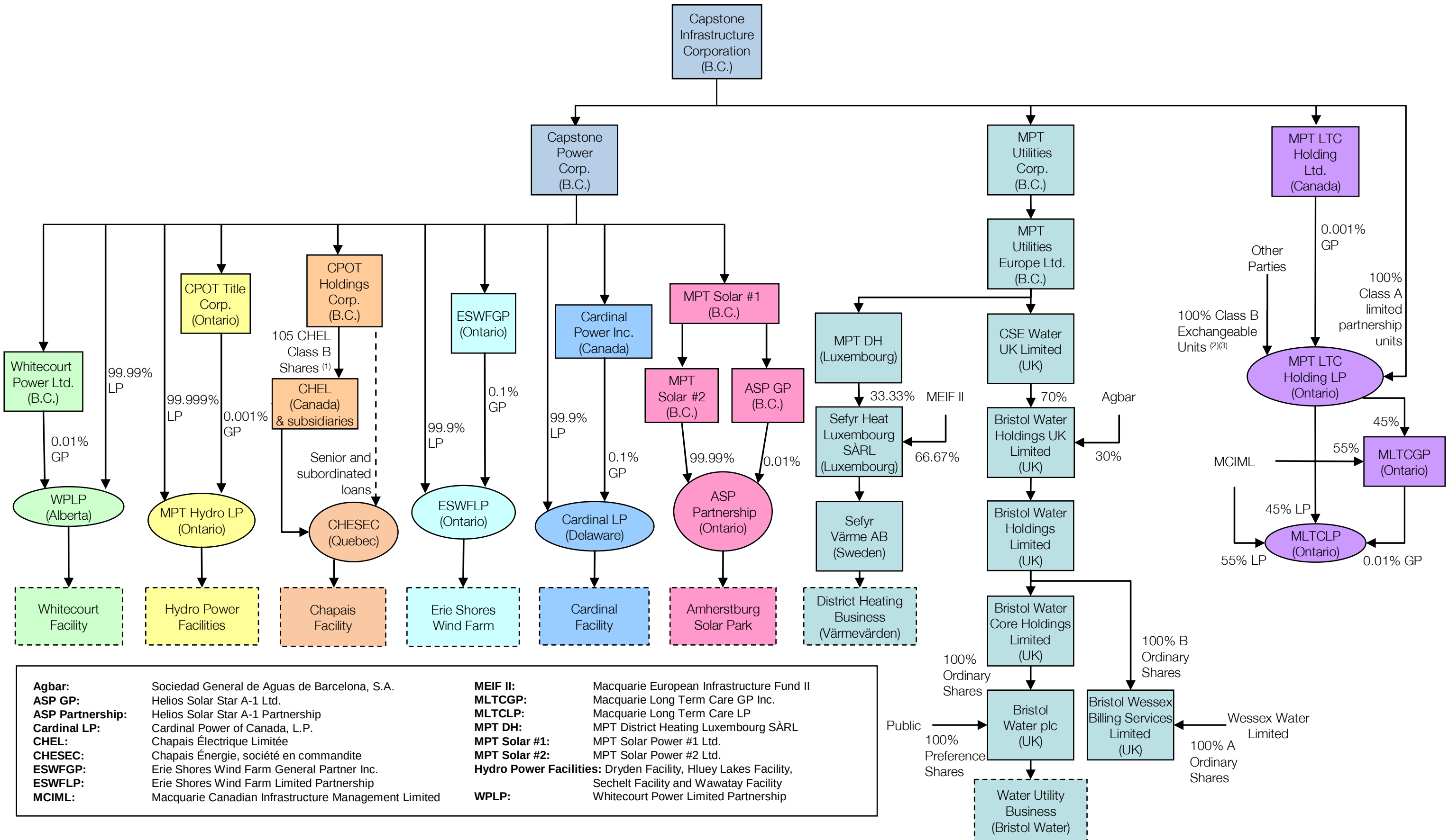
The Corporation's strategy to achieve its mission and vision has three key elements: (i) maximize and sustain the long-term value of the Corporation's businesses; (ii) deliver strong financial performance; and (iii) achieve prudent growth. The Corporation's parameters for growth include: (i) an international scope encompassing Canada as well as countries that are members of the Organization for Economic Cooperation and Development; (ii) focusing on regulated or contractually defined core infrastructure businesses; (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 minority positions 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.

On January 1, 2011, pursuant to a plan of arrangement under the BCBCA (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 (the "Common Shares") on a one-for-one basis, (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, and (iii) the Corporation became the successor to Macquarie Power & Infrastructure Income Fund (see "General Development of the Business").

The following chart presents a summary of the ownership and organizational structure of the Corporation, its material subsidiaries and certain other entities as at March 21, 2012. 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%.



Notes:

(1) CPOT Holdings Corp. owns a 31.3% interest in one of the two classes of preferred shares of CHEL. See "Narrative Description of the Business – Power Infrastructure – Biomass Power Facilities – Chapais Facility".

(2) The Class B Exchangeable Units have economic rights equivalent to those of Common Shares and, subject to certain conditions, are exchangeable on a one-for-one basis for Common Shares. See "Description of the Corporation – Class B Exchangeable Units and Exchange Agreement".

(3) The holders of Class A limited partnership units and Class B Exchangeable Units, as the limited partners of LTC Holding LP, collectively have a 99.999% interest in any distributions of the limited partnership. Out of that interest, the Class B Exchangeable Units are entitled to distributions from LTC Holding LP equal to the distributions paid by the Corporation on Common Shares. See "Dividends – Distributions". The holders of Class A limited partnership units are entitled to receive any remaining limited partner distributions.

GENERAL DEVELOPMENT OF THE BUSINESS

On May 19, 2009, certain subsidiaries of the Fund entered into an amended and restated credit agreement (as further amended as of June 16, 2009, September 30, 2009 and June 23, 2010, and amended and restated as of January 1, 2011, the "Issuer Credit Agreement"). See "Material Contracts – Issuer Credit Agreement". As at December 31, 2011, an aggregate amount of $119 million had been advanced and was outstanding under the Issuer Credit Facility.

On July 6, 2009, the Fund appointed Mr. Michael Bernstein as President and Chief Executive Officer. Mr. Bernstein had served in that capacity on an interim basis since April 2009. Mr. Michael Smerdon was appointed as

Vice President, Chief Financial Officer and Secretary of the Fund, effective August 14, 2009. In connection with the Arrangement, effective January 1, 2011, Mr. Bernstein was appointed President and Chief Executive Officer of the Corporation, Mr. Smerdon was appointed Executive Vice President, Chief Financial Officer and Corporate Secretary of the Corporation and Mr. Stuart M. Miller was appointed Executive Vice President and General Counsel of the Corporation. Effective March 10, 2011, Mr. Miller was also appointed as the Corporate Secretary of the Corporation and Mr. Smerdon ceased serving in such capacity. See "Management of the Corporation – Executive Officers".

On December 22, 2009, the Fund completed a public offering of $50 million principal amount of 6.50% convertible unsecured subordinated debentures due December 31, 2016 (the "2016 Debentures"). The 2016 Debentures were sold to a syndicate of underwriters on a bought deal basis. On January 5, 2010, the underwriters exercised in full their option to purchase an additional $7.5 million principal amount of 2016 Debentures, bringing the outstanding aggregate principal amount of the 2016 Debentures to $57.5 million. In connection with the Arrangement, the 2016 Debentures were assumed by the Corporation pursuant to a supplemental indenture dated as of January 1, 2011 (the "First Supplemental Debenture Indenture"), entered into with Computershare Trust Company of Canada, as trustee of the 2016 Debentures (the "Debenture Trustee") (see "Capital Structure of the Corporation – 2016 Debentures"). The 2016 Debentures are publicly listed for trading on the TSX under the symbol CSE.DB.A (see "Market for Securities – 2016 Debentures"). On January 11, 2010, a portion of the proceeds from the offering of the 2016 Debentures was used to redeem the outstanding 6.75% convertible debentures of the Fund that were originally issued by Clean Power Income Fund, then a subsidiary of the Fund, for an aggregate redemption amount of $38.9 million.

On March 23, 2010, Macquarie Long Term Care LP ("MLTCLP"), the entity through which the Fund and Macquarie International Infrastructure Fund (a publicly-listed infrastructure fund in Singapore managed by a subsidiary of Macquarie Group Limited ("MGL")) held their respective 45% and 55% interests in Leisureworld Senior Care LP ("LSCLP") and its general partner (collectively with LSCLP, the "Leisureworld Entities"), sold its entire 100% ownership interest in the Leisureworld Entities to Leisureworld Senior Care Corporation ("LSCC") for aggregate consideration equal to approximately $122 million (the Fund's share of the aggregate consideration being approximately $55 million). At the time, LSCLP owned and operated 26 long term care homes, one retirement home, one independent living home and certain ancillary businesses. The sale of the Leisureworld Entities coincided with the initial public offering by LSCC of its common shares. MLTCLP received a portion of the sale consideration in the form of 958,649 LSCC common shares, which MLTCLP sold on December 10, 2010 for proceeds of approximately $9,729,000.

On June 23, 2010, the Fund indirectly acquired ASP Partnership, the owner of a 20 MW solar photovoltaic power project in Amherstburg, Ontario (the "Amherstburg Solar Park"), and Helios Solar Star A-1 Ltd. (the managing general partner of ASP Partnership), from a subsidiary of SunPower Corporation (collectively with its subsidiaries, "SunPower") and ASP Partnership and Capstone Power Corporation ("CPC"), among others, entered into certain agreements under which SunPower agreed to design, build and operate the facility on behalf of ASP Partnership and pursuant to which CPC contributed approximately $47.8 million to pay or fund the remaining costs of the facility. On June 30, 2011, the Amherstburg Solar Park successfully achieved commercial operations. See "Narrative Description of the Business – Power Infrastructure – Amherstburg Solar Park".

On December 22, 2010, the Fund completed a private placement of 9,079,250 Units (including Units issued pursuant to the exercise of the underwriters' option) to a syndicate of underwriters on a bought deal basis at a price of $7.60 per Unit for aggregate gross proceeds of approximately $69 million. The net proceeds of the offering were used by the Corporation for acquisitions and general corporate purposes.

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. As a result of these transactions, each of Clean Power Income Fund, Clean Power Operating Trust, Macquarie Power & Infrastructure Income Trust and the Fund was terminated and their rights and obligations under various agreements were assigned or succeeded to by the Corporation and its subsidiaries.

On January 1, 2011, the Corporation implemented International Financial Reporting Standards ("IFRS") as its financial reporting framework with a transition date of January 1, 2010. Consequently, the Corporation commenced using IFRS applicable to the preparation of interim financial statements, including International Accounting Standard 34 – Interim Financial Reporting and IFRS 1 – First-time Adoption of IFRS in initial application of IFRS in its unaudited consolidated financial statements for the three month period ended March 31, 2011.

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, which have been branded as Värmevärden. The purchase price for the Corporation's 33.3% ownership interest in Värmevärden was approximately $109 million, including transaction costs, which was funded using cash on hand. 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 MGL. The vendors of Värmevärden were subsidiaries of Fortum Corporation, whose shares are quoted on NASDAQ OMX Helsinki. See "Narrative Description of the Business – Utilities – District Heating Business: Värmevärden". The Corporation filed a business acquisition report dated June 14, 2011 relating to the foregoing acquisition.

On April 1, 2011, the Corporation completed the refinancing of the Erie Shores Wind Farm Tranche C non-recourse project finance loan. Under the refinancing, the loan was replaced with a fully-amortizing term loan in the amount of $40 million with a fixed rate of interest at 6.145% that matures on April 1, 2026. See "Narrative Description of the Business – Power Infrastructure – Erie Shores Wind Farm – Erie Shores Credit Agreement".

On April 15, 2011, the Corporation and certain of its subsidiaries terminated all management and administrative agreements (collectively, the "Management 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 Agreements, the senior management team of the Corporation, all of whom were employees of Macquarie Infrastructure and Real Assets Canada Ltd. ("MIRACL"), an affiliate of MPML, became employees of the Corporation and continued in their previous roles, and certain employees of other affiliates of MPML who had provided services to the Corporation also became employees of the Corporation. 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, then-valued at approximately $7 million. See "Material Contracts – Internalization Agreement". 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 were sold to a syndicate of underwriters on a bought deal basis and are publicly listed for trading on the TSX under the symbol CSE.PR.A (see "Market for Securities – Series A Preferred Shares"). The net proceeds of the offering were used by the Corporation to fund its final equity payment for the construction of the Amherstburg Solar Park, to fund future potential acquisitions and for general corporate purposes.

On July 8, 2011, the outstanding balance of the Amherstburg Solar Park construction facility was converted into a five-year term facility, which requires regular principal and interest payments amortized over 17 years. ASP Partnership had previously entered into a swap to convert its floating interest rate obligations under the credit agreement to a fixed rate, resulting in an effective interest rate of 7.32% on the debt. See "Narrative Description of the Business – Power Infrastructure – Amherstburg Solar Park – ASP Credit Agreement".

On October 5, 2011, the Corporation acquired an indirect 70% ownership interest in 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 Utility Business: Bristol Water"). The purchase price was funded through a combination of existing credit facilities (see "Material Contracts – Issuer Credit Agreement"), cash on hand and a new $150 million senior credit facility (the "Senior Credit Facility") (see "Material Contracts – Senior Credit Agreement"). The Corporation filed a business acquisition report dated December 17, 2011 relating to the Bristol Water acquisition.

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. The Common Shares were sold to a syndicate of underwriters on a bought deal basis and the net proceeds from the offering were used to repay a portion of the Senior Credit Facility.

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 and noted that it was unlikely that the Corporation would maintain its dividend at the then-current level through 2014.

During February and March 2012, Sefyr Värme AB, in which the Corporation holds an indirect 33.3% interest and which is the parent company of the entities in the Värmevärden Group, completed the issuance of senior secured bonds to select institutional investors in Sweden for aggregate proceeds of SEK 1 billion (approximately $150 million). The bonds carry a coupon of 7.0%, have a term of five years and are non-amortizing**.** See "Narrative Description of the Business – Utilities - District Heating Business: Värmevärden - DH OpCo Bond Financing". The proceeds of the bonds are to be distributed on a *pro rata* basis to subsidiaries of the Corporation and Macquarie European Infrastructure Fund II. On March 7 and 8, 2012, the Corporation used approximately $46 million of its share of the proceeds to repay a portion of the outstanding balance of the Senior Credit Facility (see "Material Contracts – Senior Credit Agreement").

NARRATIVE DESCRIPTION OF THE BUSINESS

Operating Segments

As at March 21, 2012, the principal operating segments of the Corporation were power infrastructure and utilities infrastructure. Revenue earned by the Corporation for each segment is reported in the following table:

	Year Ended December 31, 2011				Year Ended December 31, 2010 (1)		
		Utilities					
($000s)	**Power(2)**	**Water**	**District Heating(3)**	**Total**	**Power(2)**	**Social**	**Total**
Revenue	$172,407	$43,560	-	$215,967	$158,512	–	$158,512

Notes:

(1) Does not include equity-accounted income or loss from the Corporation's former investment in LSCLP, which was accounted for as an equity investment prior to its sale to LSCC (see "General Development of the Business).

(2) In addition, the Corporation earned aggregate interest income of approximately $547,000 relating to the CHESEC Tranche A Senior Debt (2010 – approximately $639,000).

(3) Does not include equity – accounted income or loss from the Corporation's investment in DH HoldCo. Additionally, the Corporation earned aggregate interest income of approximately $5 million relating to shareholder loans to DH HoldCo.

Power Infrastructure

Overview

The Corporation currently holds investments in the following power infrastructure facilities:

Facility	Size[1] (MW)	Location	Employees	Percentage Ownership	Power Purchaser	Expiry of PPA[2]
Gas Cogeneration						
Cardinal	160[3]	Ontario	18	100%	Ontario Electricity Financial Corporation	2014
Wind						
Erie Shores	99[4]	Ontario	9	100%	Ontario Power Authority	2026
Hydro Power						
Sechelt	16	British Columbia	-[5]	100%	British Columbia Hydro and Power Authority	2017
Hluey Lakes	3	British Columbia	-[5]	100%	British Columbia Hydro and Power Authority	2020
Wawatay	13.5	Ontario	-[5]	100%	Ontario Electricity Financial Corporation	2042
Dryden[6]	3.25	Ontario	-[5]	100%	Ontario Electricity Financial Corporation	2020
Biomass						
Whitecourt	28[7]	Alberta	33	100%	TransAlta Utilities Corp.[8]	2014
Chapais	31[9]	Québec	-[10]	-[11]	Hydro-Québec	2015
Solar						
Amherstburg	20	Ontario	-[12]	100%	Ontario Power Authority	2031
Total Gross MW	**373.75**					

Notes:

(1) Gross capacity of facility.
(2) See "Risk Factors – Risks Related to the Power Infrastructure Facilities – Power Purchase Agreements".
(3) 156 MW net capacity.
(4) One of the 1.5 MW wind turbines located at the Erie Shores Wind Farm is not owned by ESWFLP (see "– Erie Shores Wind Farm – Overview").
(5) The Hydro Power Facilities are managed by Regional Power under the Hydro Power O&M Agreement (see "– Hydro Power Facilities – Maintenance of Hydro Power Facilities and Hydro Power O&M Agreement").
(6) The Dryden Facility is comprised of the Wainwright, Eagle River and McKenzie Falls hydro power facilities.
(7) 25 MW net capacity.
(8) The benefits and obligations of the Whitecourt PPA flow through to the Balancing Pool, which only applies to the first 20.7 MW of production (see "Narrative Description of the Business – Power Infrastructure Industry – Regulatory Environment – Alberta"). (see "– Biomass Power Facilities – Whitecourt Facility – Whitecourt Power Purchase Agreement").
(9) 28 MW net capacity.
(10) The Chapais Facility is managed by Probyn Power under the Chapais O&M Agreement (see "– Biomass Power Facilities – Chapais Facility – Chapais O&M Agreement").
(11) The Corporation's investment in the Chapais Facility consists of $4.7 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 "– Biomass Power Facilities – Chapais Facility – Corporation's Investment").
(12) The Amherstburg Solar Park is managed by SunPower under the ASP O&M Agreement (see "– Amherstburg Solar Park – ASP O&M Agreement").

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

Cardinal Facility

Overview

The Cardinal Facility is a combined cycle cogeneration facility fuelled by natural gas with a net rated capacity of 156 MW of electrical power located in Cardinal, Ontario. The Cardinal Facility was commissioned in November 1994 and is directly interconnected to Hydro One's transmission system and supplies electricity to the Hydro One grid on a continuous basis, except for planned and unplanned downtime through the facility's six kilometre connection line.

The Cardinal Facility's main building houses the combustion turbine and generator, the heat recovery steam generator, the steam turbine and generator, the office and the control and electrical rooms. Power generation is achieved using a Westinghouse combustion turbine generator operating in combined cycle with a Westinghouse steam turbine. The combustion turbine generator produces 110 MW (gross) of electrical power. Hot gas leaving the combustion turbine passes through a heat recovery steam generator where steam is produced to drive a steam turbine. The steam turbine drives a generator that produces a nominal 50 MW (gross) of electrical power. Steam is extracted from the steam turbine to supply process steam to the Casco Inc. ("Casco") corn wet milling plant located adjacent to the facility (see "– Cogeneration" and "– Land Tenure"). A small portion of the low pressure steam passes through a heat exchanger to meet the circulating hot water heating requirements of an adjacent elementary school. The combustion turbine generator and steam turbine generator are operated to produce an average aggregate gross facility output of approximately 160 MW with 156 MW of net power output after in-plant consumption. Electricity is generated by the Cardinal Facility at 13.8 kV and stepped up to 115 kV by two main step-up transformers.

Cardinal Power Purchase Agreement

The electricity generated by the Cardinal Facility (less the amount consumed in its operations) is sold exclusively to Ontario Electricity Financial Corporation ("OEFC") at contracted rates under the PPA (the "Cardinal PPA") made on May 29, 1992 between Ontario Hydro (continued as OEFC) and Cardinal LP. In fiscal 2011, approximately 96% of the Cardinal Facility's revenues were derived from the sale of electricity to OEFC.

Under the Cardinal PPA, OEFC is obligated to make monthly payments for the electricity that is delivered by the Cardinal Facility. Generally, more of the Cardinal Facility's revenues are generated during the winter season (October through March, inclusive) than during the summer season (April through September, inclusive). This can be attributed primarily to the fact that higher rates are paid by OEFC for electricity delivered during the winter than during the summer and that lower ambient temperatures during the winter season enable the Cardinal Facility's combustion turbine to reach its peak output and thus produce more electricity. In addition, subject to certain exceptions, where the Cardinal Facility delivers between 80% and 100% of its monthly target quantity (the "Target Quantities") of electricity to be delivered between the weekday hours of 7:00 a.m. to 11:00 p.m. (the "On-peak Hours"), the Cardinal PPA provides for OEFC to make certain additional capacity payments to Cardinal LP.

Payments under the Cardinal PPA escalate in accordance with the direct customer rate ("DCR") calculated by OEFC from time to time. The DCR is an index rate that is used to calculate the rate payable by OEFC under PPAs with various non-utility generators of electricity ("NUGs") including the Cardinal PPA. The DCR is designed to represent the fully-delivered cost of uninterruptible power at 100% load factor to Ontario's wholesale market participant industrial customers. Under the Cardinal PPA, the monthly payments for electricity delivered are equal to the sum of the amount of electricity delivered each month, multiplied separately by each of the "Energy A" and "Energy B" rates. The "Energy A" rate increases each year by the greater of: (i) 4% and (ii) the cumulative percentage increase in the DCR since 1992, being the base year under the Cardinal PPA (the "DCR escalator"). The "Energy B" rate increases each year by the greater of: (i) 0% and (ii) the DCR escalator. Capacity payments are based on the monthly amount of energy delivered during On-peak Hours, to a maximum of the Target Quantities and increase each year by the greater of: (i) 0% and (ii) the DCR escalator.

The amount payable by Ontario's wholesale market participants on account of the Global Adjustment is one of the components used to calculate the DCR, and, as a result, affects the DCR escalator used in the Cardinal PPA as well as the price escalators in the PPAs for the Hydro Power Facilities located in Ontario and the PPAs for certain other NUGs. Effective January 1, 2011, the Ontario government unilaterally amended the regulations governing the mechanism used to allocate the Global Adjustment. As a result of this amendment, it is expected that in future years these escalators will increase at a lower rate and that this will negatively impact the rate of revenue growth in future years under the Cardinal PPA and the PPAs for the Hydro Power Facilities located in Ontario.

The initial 20-year term and the first automatic one-year renewal of the Cardinal PPA ends on December 31, 2014. Thereafter, the term of the Cardinal PPA is automatically extended on a year-by-year basis for further terms of one year each, provided that after the expiry of the original term of 20 years, either party may at any time, with at least one year's written notice to the other, terminate the Cardinal PPA. The Cardinal PPA also contains operating standards and procedures and early termination provisions as are customary for PPAs with NUGs. Upon the expiration or termination of the Cardinal PPA, assuming the current structure of the Ontario power industry, Cardinal LP would generally have four options: (i) bid electricity it produces into the market administered by the Independent Electricity System Operator ("IESO") and receive the market price; (ii) enter into a bilateral power purchase contract with another counterparty to sell electricity at a negotiated price; (iii) a combination of (i) and (ii); or (iv) negotiate a new PPA with the Ontario Power Authority (the "OPA"). The attractiveness of one option over another will depend upon the relationship between short-term and long-term electricity prices and the value of the Cardinal Facility's capacity in Ontario at the time. In the second half of 2011, the Corporation commenced negotiations with the OPA regarding a new PPA for the Cardinal Facility. These discussions are ongoing and have included discussions on reconfiguring the Cardinal Facility into a cycling facility and the possible construction of an adjacent new 15MW baseload expansion facility (with an estimated aggregate cost of approximately $50 million). The Corporation expects that the price that the OPA will be willing to pay for electricity under any new PPA for the Cardinal Facility will be less than the price paid under the current Cardinal PPA, which could negatively affect the financial performance of the Cardinal Facility (see "Narrative Description of the Business – Power Infrastructure Industry – Regulatory Environment – Ontario" and "Dividends – Dividend Policy").

Cogeneration

Up to a maximum of 723 million pounds per year of the steam generated by the Cardinal Facility is sold to Casco for its plant operations under the terms of an energy savings agreement between Cardinal LP and Casco dated to be effective as of September 3, 1992 (the "Cardinal Energy Savings Agreement"). The Cardinal Energy Savings Agreement matures on December 31, 2014, but may be extended by up to two years at the option of Cardinal LP. In fiscal 2011, steam sale revenues represented approximately one percent of the Cardinal Facility's revenues. Cardinal LP is also subject to an ongoing commitment to supply an immaterial amount of steam to meet the circulating hot water heating requirements of an adjacent elementary school.

As is typical with cogeneration plants, the Cardinal Facility has a low heat-to-electricity ratio and produces significantly more electricity than steam for sale. By producing electricity and steam simultaneously, cogeneration converts a higher proportion of the fuel's energy content into useful energy output compared to both electrical and thermal energy that is generated separately, which produces significant fuel savings over non-cogeneration technologies. Natural gas combustion results in virtually no atmospheric emissions of sulphur dioxide or small particulate matter and far lower emissions of carbon monoxide, oxides of nitrogen ("NOx") and other greenhouse gases ("GHGs") such as reactive hydrocarbons and carbon dioxide ("CO2"), than the combustion of other fossil fuels.

Cardinal Gas Purchase Agreement

Cardinal LP purchases the natural gas to operate the Cardinal Facility from Husky Energy Marketing Inc. ("Husky Marketing") under the gas purchase agreement made as of August 8, 1991 between Husky Oil Operations Ltd. and Cardinal LP (as assigned by Husky Oil Operations Ltd. to Husky Marketing by an assignment and novation agreement dated as of December 15, 2001, as amended, the "Cardinal GPA"). The obligations of Husky Marketing under the Cardinal GPA are guaranteed by its parent company, Husky Energy Inc.

The Cardinal GPA requires that Cardinal LP purchase a minimum of 9,289,104 MMBtu of natural gas each year, equivalent to 80% of the contract maximum, subject to financial compensation to Husky Marketing for any shortfall. Cardinal LP is prohibited from purchasing natural gas for the Cardinal Facility from any other party for the term of the Cardinal GPA, which expires on May 1, 2015, unless Husky Marketing 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, the price for natural gas increases each year by the greater of: (i) 2% and (ii) the previous year's DCR escalator.

Amendments to the Cardinal GPA (the "Cardinal Gas Mitigation Agreement") permit Cardinal LP and Husky Marketing to sell certain amounts of natural gas in excess of that required by the Cardinal Facility. The proceeds from sales under the Cardinal Gas Mitigation Agreement are shared based on a formula which provides that Husky Marketing first receives payment for the variable costs of delivery and other adjustments. Husky Marketing receives an additional marketing fee prior to Cardinal LP receiving an amount equal to the total fixed costs of delivery. This amount effectively represents a reimbursement for transportation costs otherwise paid by

Cardinal LP. To the extent that there are any remaining proceeds, such proceeds are apportioned on an approximate 20%/80% basis between Husky Marketing and Cardinal LP. In addition, under the Cardinal PPA, OEFC may, subject to certain limits, in each year during 600 summer off-peak hours, limit its acceptance of electricity to 80% of the average output for the month in which such curtailment takes place. The natural gas that would, if not for this curtailment, be used to generate electricity may be sold under the terms of the Cardinal Gas Mitigation Agreement. As well, Cardinal LP may elect to curtail electricity production and sell gas under the Cardinal Gas Mitigation Agreement.

Husky Marketing provides for the transportation of the natural gas purchased under the Cardinal GPA from Husky Oil Operations Limited's reserves in the Province of Alberta through TransCanada Pipelines Limited's ("TCPL") Mainline pipeline to the interconnection with Union Gas Limited ("Union") near Cardinal, Ontario. Cardinal LP reimburses Husky Marketing for the demand and commodity charges it incurs with respect to such transportation. Cardinal LP and Union are parties to an agreement providing for the transportation of natural gas from Union's interconnect to the Cardinal Facility. On December 8, 2011, the National Energy Board approved TCPL's proposed 2012 interim gas transportation toll of $2.24 per GJ effective January 1, 2012, which is a significant increase from TCPL's original proposal of $1.63 per GJ for final gas transportation tolls for 2012 and 2013. This increase in gas transportation tolls is expected to result in an approximate $6.5 million increase in operating costs at the Cardinal Facility for 2012 compared to TCPL's original proposal. The National Energy Board is scheduled to hold hearings on the final 2012 and 2013 gas transportation tolls during the first half of 2012 through to September 2012, with a final decision expected within four to six months following the final hearing expected in the third quarter of 2012.

Land Tenure

The land underlying the Cardinal Facility is leased from Casco for a nominal amount. The initial term of the premises lease and facilities agreement dated to be effective as of September 3, 1992 (entered into by Cardinal Investors, Inc., the then general partner of Cardinal LP, Casco, and National Trust Company (as trustee for Casco), the "Cardinal Lease") expires on December 31, 2014, but may be extended by up to two years at the option of Cardinal LP and runs concurrently with the Cardinal Energy Savings Agreement. In certain circumstances, Cardinal LP may continue the term of the Cardinal Lease until a date no later than December 31, 2020. In no event can the term of the Cardinal Lease extend beyond December 31, 2030. Prior to the expiration of the term of the Cardinal Lease, Cardinal LP is responsible for dismantling and removing all improvements on the leased land and restoring the leased land to its condition prior to the commencement of the term of the Cardinal Lease, and Cardinal LP is specifically liable for all costs related to remedial action that would need to be taken in order for hazardous substances, if any, to be removed so that the leased land complies with applicable Environmental, Health and Safety Laws (described below at "Narrative Description of the Business – Power Infrastructure – Environmental Matters").

Major Maintenance

The Cardinal Facility operates on a modified six-year cycle as follows:

Year	Type of Maintenance	Typical Duration of Outage
2011	Combustion inspection and one-time maintenance (see below)	160 hours
2012	Hot gas path inspection	288 hours
2013	Combustion inspection	120 hours
2014	Combustion inspection	120 hours
2015	Major inspection	576 hours
2016	Combustion inspection	120 hours
2017	Combustion inspection	120 hours

In the second quarter of 2011, the Cardinal Facility completed its planned 120-hour combustion inspection as well as a 40-hour one-time maintenance project on schedule in seven days, compared to four days of combustion inspection maintenance which was required in the same period during 2010.

Erie Shores Wind Farm

Overview

The Erie Shores Wind Farm is located near Port Burwell, Ontario. The Erie Shores Wind Farm consists of 66 General Electric Company ("GE") 1.5 SLE wind turbines that achieved commercial operation under the Erie Shores PPA in May 2006 (see "– Erie Shores Power Purchase Agreement"). The wind turbines each have a capacity of 1.5 MW and were supplied by GE and General Electric Canada ("GE Canada"). Erie Shores Wind Farm has a total capacity of 99 MW. One of the GE 1.5 SLE wind turbines located at the Erie Shores Wind Farm is owned by a local land owner who hosts a number of the facility's other wind turbines on his land. Erie Shores Wind Farm maintains operational and managerial control of this additional wind turbine and, on an annual basis, the land owner is entitled to receive the revenue generated by his wind turbine less 1/66th of all operating and maintenance expenses of all 66 wind turbines making up the facility as a whole, not including property taxes, land leases and interest expense.

ESWFLP has acquired the right to use, operate, maintain and access the facility site by means of: ownership of the substation land; easements relating to the land on which the wind turbines are located; and other connection line and access easements.

Each wind turbine at the facility contains an on-board microprocessor controller which monitors and controls the operation of the individual wind turbine. The facility also includes a wind farm management system to manage the operation of the 66 wind turbines. The facility is equipped with a Supervisory Control and Data Acquisition system ("SCADA"). The SCADA system collects and stores operational and generation data from the wind turbines and allows remote supervision and operations of the individual wind turbines. The SCADA system is designed to monitor and record the performance of the wind turbines and the facility as a whole and provides detailed operating and performance information for reporting purposes.

The electricity generated by the facility's wind turbines is collected and delivered by above-ground and underground collection lines. The power collection system consists of individual power cables that run from each wind turbine to pad-mounted transformers located adjacent to each wind turbine, which increase the voltage of the electricity to the required level for collection. Underground cables then deliver the electricity from the pad-mounted transformers to the overhead collection system. A system of above-ground 34.5 kV collection lines then delivers the power to the substation where it is stepped up to transmission voltage of 115 kV for delivery by way of a 29 kilometre connection line to the Hydro One transmission system. An additional protection system was installed in 2010 that allows the facility to connect to an alternate transmission line. This enables the Erie Shores Wind Farm to continue delivering its power to the grid during periods of outage on the primary transmission line.

Erie Shores Power Purchase Agreement

ESWFLP 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 energy generated by the Erie Shores Wind Farm. The Erie Shores PPA was assigned by OEFC to the OPA on November 10, 2005 and terminates on May 24, 2026.

Electricity sales by the Erie Shores Wind Farm under the Erie Shores PPA commenced in May, 2006. The Erie Shores PPA contains specific fixed rates for each year of operation from the date of commissioning of the facility. The fixed rates are comprised of two components: (a) 85% of the rate originally awarded under the Erie Shores PPA is fixed for the term of the Erie Shores PPA; and (b) the remaining 15% of the original rate awarded is adjusted annually for inflation every January 1. The Erie Shores PPA contains no minimum or maximum power delivery obligation and has standard *force majeure* and termination provisions.

In addition, production from the Erie Shores Wind Farm is eligible to receive WPPI payments of $10 per MW per hour for the first 10 years of production (see "Narrative Description of the Business – Power Infrastructure Industry – Federal Wind Power Production Incentive and ecoEnergy for Renewable Power Program").

Erie Shores Credit Agreement

The credit agreement dated as of June 28, 2005, as amended as of January 1, 2011 and April 1, 2011, among ESWFLP, Erie Shores Wind Farm General Partner Inc., Sun Life Assurance Company of Canada ("Sun Life"), as agent for the lenders, and certain lenders (the "Erie Shores Credit Agreement") initially provided for up to $120 million of non-recourse project financing for the construction of the Erie Shores Wind Farm. As at December 31, 2011, ESWFLP owed the following amounts under the Erie Shores Credit Agreement: (i) approximately $59.7 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 $4.0 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 $39.2 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. ESWFLP's obligations under the Erie Shores Credit Agreement are secured by the property of ESWFLP. CPC has provided an unsecured guarantee to Sun Life in the amount of $5 million for the debts under the Erie Shores Credit Agreement (the "Erie Shores CPC Guarantee"). In conjunction with the Erie Shores Credit Agreement, CPC also provided a limited recourse guarantee in favour of Sun Life under which CPC provided as collateral and pledged to Sun Life CPC's ownership interest in ESWFLP and Erie Shores Wind Farm General Partner Inc. The Erie Shores Credit Agreement contains standard representations and warranties, covenants (including financial covenants and financial ratios) and events of default.

Prior to April 2, 2011, the tranche C debt only had interest payable thereunder at an interest rate of 5.05% per annum, payable quarterly, with a maturity date of April 1, 2011 and the Erie Shores CPC Guarantee was in the amount of $10 million and only applicable to the tranche C debt.

Hydro Power Facilities

Sechelt Facility

Overview

The Sechelt Facility is a run-of-the-river hydro power facility located on Sechelt Creek, approximately 30 kilometres northeast of Sechelt, British Columbia ("BC"). The Sechelt Facility has an installed capacity of 16 MW and commercial operation began in March 1997. Regional Power Opco Inc. ("Regional Power") operates the Sechelt Facility pursuant to the Hydro Power O&M Agreement (see "Narrative Description of the Business – Power Infrastructure – Hydro Power Facilities – Maintenance of Hydro Power Facilities and Hydro Power O&M Agreement"). All real property rights required for the Sechelt Facility are held by MPT Hydro LP and its general partner, as applicable, and are comprised of leases, water rights and rights of way.

Sechelt Power Purchase Agreement

The sale of power from the Sechelt Facility to BC Hydro is governed by a PPA dated August 31, 1990 (the "Sechelt PPA"). The Sechelt PPA has an initial term of 20 years from the commercial operation date, which was March 1, 1997. Following the initial term, the Sechelt 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 power produced by the Sechelt Facility. Under the Sechelt PPA, the Sechelt Facility is required to make available to BC Hydro not less than 57 GWhs per year. The Sechelt Facility has met this requirement every year since commissioning.

Hluey Lakes Facility

Overview

The Hluey Lakes Facility is a hydro power facility with an installed capacity of three MW located in northwestern BC, approximately 20 kilometres southwest of the town of Dease Lake. Electrical power generated by the Hluey Lakes Facility is sold to BC Hydro for distribution in the community of Dease Lake through a non-integrated distribution system. The Hluey Lakes Facility commenced commercial operations in January 2000. Regional Power operates the Hluey Lakes Facility pursuant to the Hydro Power O&M Agreement (see "Narrative Description of the Business – Power Infrastructure – Hydro Power Facilities – Maintenance of Hydro Power

Facilities and Hydro Power O&M Agreement"). All real property rights required for the Hluey Lakes Facility are held by MPT Hydro LP and its general partner, as applicable, and are comprised of a lease, water rights and rights of way.

The Hluey Lakes Facility must respond immediately to electricity load changes as it is the main source of power generation for the town of Dease Lake. This is accomplished by using a 100 kilowatt load bank, a system designed to provide regulation and load stabilization. As load demand increases, electricity will automatically be diverted from the load bank to the connection line, and *vice versa*. In order to provide power to the load bank, the facility is run to generate slightly more than the expected load with the excess diverted to the load bank.

Hluey Lakes Power Purchase Agreement

Under a PPA dated November 1, 1993, as amended, with BC Hydro (the "Hluey Lakes PPA"), BC Hydro is obligated to purchase all energy required to meet the load demand of Dease Lake from the Hluey Lakes Facility until January 31, 2020. The three MW installed capacity of the Hluey Lakes Facility is expected to meet the requirements of the town of Dease Lake until such time.

Arrangements with the Tahltan First Nation

The Tahltan First Nation (which is comprised of the Tahltan and Iskut Bands) 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 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 Facility in a manner consistent with the present treatment by the Province of BC.

The Tahltan Nation Development Corporation ("TNDC"), has the right to purchase all or a portion of the Hluey Lakes Facility at fair market value within six months following the maturity of the initial 20-year term of the Hluey Lakes PPA. If the Hluey Lakes Facility is offered for sale anytime after the fifth year of the Hluey Lakes PPA, TNDC has the right for a 90-day period to negotiate the purchase of the Hluey Lakes 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 sales of power generated by the Hluey Lakes Facility to industrial customers other than BC Hydro. To date, there have been no sales to industrial customers other than BC Hydro.

Wawatay Facility

Overview

The Wawatay Facility is a run-of-the-river hydro power facility with an installed capacity of 13.5 MW located on the Black River, 30 kilometres east of Marathon, Ontario. Commercial operation of the Wawatay Facility began in 1992. The Wawatay Facility is operated by Regional Power pursuant to the Hydro Power O&M Agreement (see "Narrative Description of the Business – Power Infrastructure – Hydro Power Facilities – Maintenance of Hydro Power Facilities and Hydro Power O&M Agreement"). All real property rights required for the Wawatay Facility are held by MPT Holding LP and its general partner, as applicable, and are comprised of a lease, a freehold interest and several easements.

Wawatay Power Purchase Agreement

Power produced by the Wawatay Facility is sold exclusively to OEFC under a PPA dated April 1, 1992 (the "Wawatay PPA") pursuant to which OEFC has committed to purchase all power produced by the facility. The Wawatay PPA has an initial term of 50 years from the commercial in-service date, which was July 2, 1992. Following the initial term, the Wawatay PPA will automatically continue in force for renewal terms of one year each provided that either party may, with at least one year's prior written notice, terminate the Wawatay PPA upon the expiry of the initial term or any renewal term.

The Wawatay PPA provides that higher rates are paid for electricity sold during the winter or during On-peak Hours than those for electricity sold during the summer or during off-peak hours, based on an escalation mechanism established by OEFC. The Wawatay PPA also contains pricing provisions designed to ensure that payments by OEFC are sufficient to repay the $20 million original aggregate principal amount term loan (the “Wawatay Loan”) by the Corporation to CPC that matures in July 2012 and bears an interest rate of 9.80% calculated and payable monthly over the first 20 years of the Wawatay PPA (the “Wawatay Amortization Period”). Payments made by OEFC during the Wawatay Amortization Period are comprised of: (i) a yearly amount (paid in monthly installments) necessary to fully amortize and pay the Wawatay Loan over the Wawatay Amortization Period (the “Wawatay Guaranteed Payment”); (ii) a monthly payment based upon the actual generation of power up to 120% of target generation multiplied by the performance rate as set out in the Wawatay PPA (the “Wawatay Performance Payment”); and (iii) a monthly payment based on generation in excess of 120% of target generation multiplied by the rate for excess generation as specified from time to time by OEFC.

The Wawatay Guaranteed Payments and the Wawatay Performance Payments under the Wawatay PPA during the Wawatay Amortization Period to date have resulted in aggregate payments from OEFC for power at rates higher than OEFC’s base rate as set out in the Wawatay PPA. Accumulated payments in excess of the base rate are known as “generator debt” (referred to as “levelization amount” in the consolidated financial statements of the Corporation), and are required to be repaid to OEFC by the end of the term of the Wawatay PPA. At the end of the Wawatay Amortization Period, it is expected that OEFC will pay for power delivered up to 120% of the target generation at the performance rate, with an amount each month (determined by multiplying the power delivered, up to 120% of the target generation, by the difference between the base rate and the performance rate) being applied against the outstanding generator debt balance until the generator debt reaches nil or until the end of the Wawatay PPA in 2042. At the time the Wawatay PPA was entered into, it was originally expected that the accumulated generator debt would be fully or partially offset by increases in the DCR, which was the originally contemplated escalation mechanism previously referenced by the Wawatay PPA. However, anticipated increases in the DCR did not occur. In December 2003, a new agreement was reached with OEFC to replace (retroactive to January 1, 2002) the DCR with an escalator based on the year over year change of a number of factors including Ontario energy prices, wholesale market prices, the transmission service charge as well as other components. This agreement established a floor and ceiling range for the escalator and has the effect of increasing the Wawatay Performance Payments received under the Wawatay PPA. Depending on the escalator applied, generator debt could be eliminated before the end of the Wawatay PPA term. As at December 31, 2011, the balance of the generator debt (principal and accrued interest) associated with the Wawatay Facility was $26.3 million. Interest accrues on the generator debt at a variable rate, which currently approximates 6.87%. Effective January 1, 2011, the Ontario government unilaterally amended the regulations governing the mechanism used to allocate the Global Adjustment, which is a component of the price escalator contained in the Wawatay PPA. As a result of this amendment, it is expected that in future years the price escalator will increase at a lower rate and that this will negatively impact the rate of revenue growth in future years under the Wawatay PPA.

OEFC has the right to take a security interest in the Wawatay Facility to secure payment of the outstanding generator debt. Unless the generator debt is paid, or a compromise is negotiated with OEFC, OEFC will have the right to realize upon the Wawatay Facility pursuant to such security upon termination of the Wawatay PPA in 2042.

The Wawatay PPA also contains a number of provisions that apply if the actual amount of power generated by the facility is below the target generation level specified in the agreement (such deficiency is referred to as the deficiency value and accumulated revenue related to this deficiency is tracked in an “Accumulated Deficiency Value account”). Where actual generation exceeds 120% of target generation, then the revenue associated with such excess generation is applied to reduce the balance of the Accumulated Deficiency Value account, if any, or paid to the owner of the Wawatay Facility if the balance of the account is nil. In certain circumstances, upon the target generation levels not being met over a specified period of time, OEFC may reduce the Wawatay Performance Payment by an amount equal to the “profit portion” of such payment. The “profit portion” of the Wawatay Performance Payment is calculated as the amount of such payment less the operating and maintenance costs of the Wawatay Facility. Over the past several years, the Wawatay Facility has periodically produced less than the specified target generation level, which could permit OEFC in certain circumstances to reduce the Wawatay Performance Payment as described above and apply such amount to reduce the balance of the Accumulated Deficiency Value account (which results in the reduction in the levelization amount.). However, OEFC has not reduced the Wawatay Performance Payment. In addition, in other circumstances, OEFC would be entitled to give a notice of default of the Wawatay PPA, terminate the Wawatay PPA and enforce its security, subject to the right of the owner of the Wawatay Facility to cure such default by making a payment to OEFC calculated in accordance with the terms of the Wawatay PPA. As at December 31, 2011 the balance of the Accumulated Deficiency Value account was approximately $4.6 million.

First Nations Net Profits Interest Agreement

Under a net profits interest agreement made in 1990, the Ojibways of the Pic River First Nation (the "Pic River FN") hold a net profits interest in the Wawatay Facility (the "Wawatay Net Profits Interest"). The Wawatay Net Profits Interest entitles the Pic River FN to 10% of the positive balance in the Wawatay Net Profits Interest account, if any, payable monthly, less the cumulative amounts previously paid on account of the Wawatay Net Profits Interest. The Wawatay Net Profits Interest account equals the excess obtained by subtracting from the cumulative revenues of the Wawatay Facility the sum of the cumulative costs and the cumulative deemed interest charges. In accordance with the Wawatay Net Profits Interest agreement, the Pic River FN received payments totalling $292,373 in respect of the year ended December 31, 2011.

Under the terms of the Wawatay Net Profits Interest agreement, the Pic River FN has 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 Facility or any modification or expansion thereof. The agreement requires the Wawatay 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 Facility.

Under the terms of the Wawatay Net Profits Interest agreement, the Pic River FN is entitled to 90 days' notice of any proposed sale of the Wawatay Facility and has the right to purchase all the assets proposed to be sold at the price and upon the terms specified in the notice within said 90-day period.

Dryden Facility

Overview

The Dryden Facility is comprised of three hydro power generating stations with a total installed capacity of 3.25 MW. The Wainwright generating station was built in 1922 on the Wabigoon River in Dryden, Ontario, five kilometres downstream of the outlet of Wabigoon Lake. The Eagle River generating station was built in 1928 at the outlet of Eagle Lake about 30 kilometres west of Dryden. The McKenzie Falls generating station was built in 1938 on the Eagle River two kilometres downstream of the Eagle River generating station. The generating stations were originally built by the Dryden Paper Company Limited to supply electricity to its mill in Dryden. The Dryden Facility is operated by Regional Power pursuant to the Hydro Power O&M Agreement (see "Narrative Description of the Business – Power Infrastructure – Hydro Power Facilities – Maintenance of Hydro Power Facilities and Hydro Power O&M Agreement"). All real property rights required for the Dryden Facility are held by MPT Hydro LP and its general partner, as applicable, and are comprised of leases and freehold interests.

Dryden Power Purchase Agreement

Power produced from the Dryden Facility is sold exclusively to OEFC under a PPA dated October 23, 1990 (the "Dryden PPA"). OEFC has agreed under the Dryden PPA to purchase all power produced by the generating stations that comprise the Dryden Facility. The Dryden PPA has an initial term of 30 years ending on November 1, 2020. Following the initial term, the Dryden PPA will automatically continue in force for renewal terms of one year each, provided that either party may, with at least one year's prior written notice, terminate the Dryden PPA upon the expiry of the initial term or any renewal term thereafter.

The Dryden PPA provides that higher rates are paid for electricity sold to OEFC during the winter or during On-peak Hours than those for electricity sold during the summer or during off-peak hours. Rates under the Dryden PPA were originally expected to escalate in accordance with the DCR. In December 2003, a new agreement was reached with OEFC to replace (retroactive to January 1, 2002) the DCR with an escalator based on the year over year change of a number of factors including Ontario energy prices, wholesale market prices, the transmission service charge as well as other components. This agreement established a floor and ceiling range for the escalator. Effective January 1, 2011, the Ontario government unilaterally amended the regulations governing the mechanism used to allocate the Global Adjustment, which is a component of the price escalator contained in the Dryden PPA. As a result of this amendment, it is expected that in future years the price escalator will increase at a lower rate and this will negatively impact the rate of revenue growth under the Dryden PPA.

Maintenance of Hydro Power Facilities and Hydro Power O&M Agreement

The Hydro Power Facilities have maintenance programs that include regular inspections and overhauls, and repairs and modifications are conducted in accordance with the equipment manufacturers' recommendations and industry standards. There are routine maintenance programs for each turbine and generator. In addition, the turbines and generators require periodic major maintenance, during which time the turbine and generator may not operate for a number of weeks.

The Hydro Power Facilities are operated by Regional Power. Regional Power and its predecessors have operated the Wawatay Facility since its completion in 1992, the Sechelt Facility since its completion in 1997, the Hluey Lakes Facility since its completion in 2000 and the Dryden Facility since 1986. Under the Hydro Power O&M Agreement dated November 14, 2001, 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 (such renewals occur automatically unless Regional Power provides notice at least 180 days prior to the end of the initial term or the first five year renewal, as the case may be). Each such right of renewal is subject to the Hydro Power Facilities having been available to produce for a specified percentage of hours per calendar year (after adjusting for *force majeure* events, insurable events and scheduled major replacement and/or overhauls of major components) on average over the last five years and for any three of the last five years of the previous term of the agreement. MPT Hydro LP has the right to terminate the Hydro Power O&M Agreement if an independent review determines that Regional Power is not operating any Hydro Power Facility in a manner consistent in all material respects with industry practice or that the practices of Regional Power have led to a material deterioration of the economic or physical performance or condition of any Hydro Power Facility. In addition, the Hydro Power O&M Agreement contains other customary termination provisions.

Biomass Power Facilities

Whitecourt Facility

Overview

The Whitecourt Facility is a wood waste-fired electricity generating plant located on land owned by its owner, Whitecourt Power Limited Partnership ("WPLP"), near Whitecourt, Alberta, with a gross installed capacity of 28 MW. The Whitecourt Facility is comprised of one steam turbine and one generator. Other major components of the Whitecourt Facility include: a 236,000 lbs/hr fluidized bubbling bed boiler with combustion air re-injection; wood receiving, hogging, conveying, stockpiling and reclaiming systems; a four compartment "Wheelabrator" ash handling system with supporting ash handling equipment; a cooling tower with a two-pass condenser; and self-unloading trucks for the transport of wood waste materials.

The Whitecourt Facility uses biomass combustion technology to convert the energy content in wood waste into electricity. Biomass is considered carbon neutral as the amount of carbon dioxide arising from combustion is equal to what would be emitted if it were to decompose naturally. As a result, biomass power is regarded as an environmentally-friendly form of electricity generation. In addition, the Whitecourt Facility delivers the ash, or waste product, that results from biomass combustion to the local agricultural community. Ash provides potassium, nitrogen, zinc and sulphur to plants and elevates the pH of soil, allowing plants to absorb more nutrients, which increases crop yields.

The Whitecourt Facility has a maintenance program which includes regular inspections and overhauls, and repairs and modifications conducted in accordance with equipment manufacturers' recommendations. There is a routine maintenance program for the boiler and auxiliaries, which are inspected twice per year, with each boiler inspection typically requiring a five-day outage. In addition, the turbine and generator follow a major maintenance overhaul scheduled approximately every seven years (next in 2016), during which time the facility does not operate for approximately 28 days.

In 2011, the Whitecourt Facility was re-certified under the 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.

Whitecourt Power Purchase Agreement

The first 20.7 MW of power produced at the Whitecourt Facility is sold pursuant to a PPA dated November 6, 1990 (the "Whitecourt PPA") with TransAlta Utilities Corp. ("TransAlta"). The terms of the Whitecourt PPA were specified by the *Small Power Research and Development Act* (Alberta) ("SPRDA"). The Whitecourt PPA requires TransAlta to purchase the first 20.7 MW of power produced by the Whitecourt Facility on a continuous basis. The Whitecourt PPA has a term of 20 years from the date on which the Whitecourt Facility received its final allocation under the SPRDA, which was in 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 have been transferred to the Balancing Pool and TransAlta simply functions as a flow-through entity between the Whitecourt Facility and the Balancing Pool. See "Narrative Description of the Business – Power Infrastructure Industry – Regulatory Environment – Alberta".

The contract price for power under the Whitecourt PPA was set by the SPRDA and escalated annually until 2004 and has remained fixed at the 2004 price as a result of a ruling of the Alberta energy utility regulatory authority.

TransAlta may disconnect the Whitecourt Facility upon 30 days' written notice if the Whitecourt Facility is in violation of any term or condition of the Whitecourt PPA and the violation is not remedied within the notice period. TransAlta may also disconnect the Whitecourt Facility without notice in the event of substandard power delivery or safety risks. All remedial expenses to reconnect are for the account of the Whitecourt Facility.

The balance of the net capacity of the Whitecourt Facility (which historically has averaged approximately 3.5 MW) is not contracted under the Whitecourt PPA. Such power has historically been sold at either the hourly average Power Pool spot price or pursuant to fixed price commodity swap agreements. See "Narrative Description of the Business – Power Infrastructure – Seasonality".

Wood Waste Supply Arrangements

The Whitecourt Facility consumes approximately 300,000 green metric tonnes of wood waste per year. Wood waste fuel is delivered at the Whitecourt Facility's cost by the facility's fleet of three trucks. Millar Western Industries Ltd. and Millar Western Pulp Ltd. (collectively, "Millar Western") operate a sawmill and a pulp mill that are located approximately three kilometres away from the Whitecourt Facility. Millar Western has agreed to supply (or procure at its cost) a minimum of 275,000 green metric tonnes of wood waste per year to the Whitecourt Facility for a term of 20 years that commenced in July 1996. Millar Western pays the Whitecourt Facility a flat fee of $0.50 per metric tonne during the term of the contract. In July, 2011, a new five-year renewable annual supply agreement was entered into with Blue Ridge Lumber Inc., a subsidiary of West Fraser Mills Ltd., for the supply of the remaining maximum of 25,000 green metric tonnes of wood waste required at a price of $2.00/tonne payable by the facility.

Chapais Facility

Overview

The Chapais Facility is a wood waste-fired electricity generating plant located in the town of Chapais, Québec, approximately 600 kilometres northwest of Québec City, with a gross installed capacity of 31 MW. The Chapais 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.

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 (among them an affiliate of Probyn Power Service Inc. ("Probyn Power"), the manager of the facility). Although the CHEL Class B Shares are non-voting, pursuant to a shareholders agreement dated December 6, 1999 between CHEL and its shareholders, the approval of 70% of the holders of the CHEL Class B Shares is required to approve certain matters, including the entering into by CHEL of agreements other than in the ordinary course of business or the entering into by CHEL of any material agreement. The approval of all holders of CHEL Class B Shares is required to approve certain matters, including the issuance of any securities of CHEL, the taking of any action to liquidate, dissolve or wind-up CHEL, the sale of all or substantially all of CHEL's assets or for CHEL to borrow money. The CHEL Class B Shares entitle the holders to a preferential dividend from CHEL on the basis of 95% to the holders of CHEL Class B Shares and 5% to the holders of common shares until a threshold amount of $12,300,000 plus 11.789% interest per annum, compounded semi-annually, has been paid to holders of CHEL Class B Shares by way of preferential dividends. Dividends on the CHEL Class B Shares have never been paid. The Corporation does not record any income on its equity interest in CHEL as the investment has been fully impaired and management does not expect to recover any income from the investment. The Class A shares of CHEL are also non-voting and are only entitled to receive dividends once the holders of the CHEL Class B Shares have received their preferential dividend.

CPOT Holdings Corp. is also a lender to CHESEC. As at December 31, 2011, CHESEC indirectly owed CPOT Holdings Corp.: (i) $4.7 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 with annual principal payments 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.

As a result of certain Québec legislation limiting timber cutting, which was enacted in 2006, the average price of fuel supplied to the Chapais Facility has increased, resulting in the suspension by CHESEC of the semi-annual interest payments on CHESEC's Tranche B Senior Debt. The date on which interest payments are expected to resume is uncertain due to the continued impact of the above-noted legislation and current economic conditions. Interest is accrued on the unpaid interest and is added to the outstanding amount owed under CHESEC's Tranche B Senior Debt during the period of the suspension of interest payments.

Chapais Power Purchase Agreement

Power produced at the Chapais Facility is sold pursuant to a PPA with Hydro-Québec dated March 30, 1992, as amended (the "Chapais PPA"). The Chapais PPA has an initial term ending on November 30, 2015, but the term may be extended to 2020 at the request of CHESEC, subject to certain conditions.

Chapais O&M Agreement

Pursuant to the Chapais O&M Agreement, which was renewed in the fourth quarter of 2011 for an additional term of five years (subject to the right of the CHESEC to terminate upon 90-days notice), Probyn Power operates and manages the Chapais Facility. Probyn Power employs the Chapais Facility's 29 operating and maintenance personnel.

Probyn Power has been retained directly by CHESEC. The ability of the Corporation to control or influence the operations of the Chapais Facility is limited as a result of the Chapais O&M Agreement and the Corporation's indirect minority preferred equity interest in CHEL.

Amherstburg Solar Park

Overview

The Amherstburg Solar Park is a 20 MW crystalline solar photovoltaic ("PV") power project located in the town of Amherstburg, Ontario, approximately 30 kilometres southwest of Windsor, Ontario, designed, built and operated on behalf of the Corporation by SunPower. On June 30, 2011, the Amherstburg Solar Park successfully achieved commercial operations. The Amherstburg Solar Park is expected to produce approximately 37,600 MWh of electricity annually, which is enough to power approximately 4,000 homes.

The Amherstburg Solar Park uses a total of (i) 57,906 of SunPower's solar PV panels, (ii) 6,434 of SunPower's single-axis T20 Trackers (nine panels per tracker), which are engineered to follow the sun during the day, thereby increasing electricity production over fixed-tilt systems, and (iii) 40 inverters.

Solar PV cells convert sunlight directly into electrical energy in proportion to the sunshine intensity and the angle at which solar PV cells are radiated. As a result, solar PV cells are capable of producing electricity even in the winter and during cloudy weather, although at a reduced rate. Electricity production typically varies by season, with peak production occurring in the summer, and over the course of a day, with peak production occurring at midday.

RESOP Contracts

Electricity generated by the Amherstburg Solar Park is sold under the Province of Ontario's Renewable Energy Standard Offer Program ("RESOP"), pursuant to two 20-year 10 MW contracts (the "RESOP Contracts") with the OPA. The RESOP Contracts provide for a guaranteed price of $420 per MWh. The RESOP Contracts do not contain either a minimum or maximum power delivery obligation and include standard *force majeure* and termination provisions.

ASP EPC Agreement

Pursuant to the fixed-price engineering, procurement and construction agreement dated as of June 23, 2010 between ASP Partnership and SunPower (the "ASP EPC Agreement"), SunPower supplied, constructed, installed and commissioned the solar PV systems that make up the Amherstburg Solar Park. The ASP EPC Agreement contains provisions under which SunPower will be obligated to pay liquidated damages on the second anniversary of commercial operation in the event of performance shortfalls. SunPower has also provided ASP Partnership with a two-year parts and labour warranty on the components of the Amherstburg Solar Park. Should a component of the facility fail, SunPower is obligated to correct or replace the faulty component. In addition, certain major components are subject to extended warranties, including warranties of 25 years for the PV panels, 10 years for the inverters and five years for the combiner boxes.

ASP O&M Agreement

Pursuant to the operations and maintenance agreement dated as of June 23, 2010 between ASP Partnership and SunPower (the "ASP O&M Agreement"), SunPower operates and maintains the Amherstburg Solar Park. The ASP O&M Agreement has a term ending on June 30, 2031. The ASP O&M Agreement contains standard representations and warranties and customary conditions for termination by ASP Partnership upon the occurrence of certain events of default, including a failure by SunPower to perform its material obligations under the ASP O&M

Agreement that has not been remedied within a cure period and a *force majeure* event occurring that prevents SunPower from performing for a period of at least 180 continuous days and ASP Partnership reasonably concluding that such inability is not reasonably likely to be remedied within a further 180 days. ASP Partnership also has a right to terminate without cause on at least 120 days' written notice. SunPower may terminate the ASP O&M Agreement if ASP Partnership fails to pay amounts due under the ASP O&M Agreement and has failed to cure within a set period after notice of same or if ASP Partnership breaches any material obligations under the ASP O&M Agreement and has failed to cure that breach within a cure period. The agreement also provides for the indemnification of either party in certain circumstances. Each party's liability arising from the agreement is limited to an aggregate liability cap, except in respect of losses resulting from the fraud, gross negligence or wilful misconduct of the other party.

ASP Performance Guarantee

Under the performance guarantee agreement dated as of June 23, 2010 between ASP Partnership and SunPower (the "ASP Performance Guarantee"), SunPower has guaranteed the weather-adjusted performance of the Amherstburg Solar Park for two years following commercial operation. To the extent that the facility produces less electricity than expected on a weather-adjusted basis, SunPower may owe a payment to reimburse ASP Partnership for lost revenue as a result of such underperformance. To the extent that the facility produces greater than expected amounts of electricity, ASP Partnership may owe a portion of the excess revenue to SunPower. Advances on these payments may be required to be paid by SunPower or ASP Partnership at the end of each quarter if the Amherstburg Solar Park is performing at less than 90% of expected performance or exceeds expected performance by 110%, respectively. If the ASP O&M Agreement is terminated by ASP Partnership without cause or by SunPower for cause, SunPower has the right to terminate the ASP Performance Guarantee. Upon such termination, each party will pay any amounts owing to the other party (as if such termination were the end of a year at which performance of the projects is measured). The ASP Performance Guarantee does not cover lost production attributable to power grid outages.

SunPower Parent Guarantee

SunPower Corporation has unconditionally guaranteed the full and timely performance by its subsidiaries of all their obligations, terms, provisions, conditions, and stipulations under each of the ASP EPC Agreement, the ASP O&M Agreement and the ASP Performance Guarantee (each a "SunPower Obligation"). SunPower Corporation has agreed that if any such subsidiary shall in any respect fail to pay, perform, comply with or otherwise observe any SunPower Obligation at any time or from time to time, SunPower Corporation shall pay or perform or have paid or performed such SunPower Obligation as required by the applicable agreement (without any requirement that ASP Partnership first proceed or seek recourse against any other SunPower entity) promptly, but in no event more than ten business days, following SunPower Corporation's receipt of written demand from ASP Partnership regarding a failure to pay or perform a SunPower Obligation.

ASP Credit Agreement

To fund the development of the Amherstburg Solar Park, ASP Partnership entered into the credit agreement dated as of June 23, 2010 (the "ASP Credit Agreement") with Dexia Crédit Local S.A. (acting though its Canada Branch), WestLB AG (New York Branch) and Caixanova (Miami Branch). Dexia Crédit Local S.A. (New York Branch) acts as administrative agent and CPC acted as sponsor under the ASP Credit Agreement. The ASP Credit Agreement provided for a non-recourse construction loan with a maximum principal amount of $96.2 million which was used to fund ASP Partnership's payments under the ASP EPC Agreement. Pursuant to the terms of the ASP Credit Agreement, the construction loan was converted to a term loan on July 8, 2011 that is repayable in full within five years from the date of such conversion based on a sculpted 17-year amortization schedule. The ASP Credit Agreement contains representations and warranties, covenants, indemnities and events of default that are customary for project finance transactions of this nature. The principal amount drawn down under the ASP Credit Agreement is secured by the pledge of all of the assets of ASP Partnership (including all personal property, real estate rights, material project contracts, permits, insurance) as well as the ownership interests in ASP Partnership and its partners.

Land Tenure

The land rights in respect of the Amherstburg Solar Park are held pursuant to two leases made as of October 29, 2007 (as amended and assigned from time to time) for a term of 25 years commencing on July 23, 2010, with four rights of renewal for five years each, and which provide for certain rental payments thereunder. Together with the land rights granted pursuant to the leases and certain other rights granted pursuant to an ancillary easement, licence and similar agreements, ASP Partnership has all real property rights necessary for the operation of the Amherstburg Solar Park.

Environmental Matters

The Power Infrastructure Facilities and their respective operations are subject to a complex and stringent environmental, health and safety regulatory regime, including: (a) federal, provincial, municipal 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 and discharges into water; (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 prevention, presence and remediation of hazardous materials in soil and ground water, both on and off site; (vi) workers' health and safety issues; and (vii) noise regulation (collectively, "Environmental, Health and Safety Laws"). The Power Infrastructure Facilities are managed in a manner designed to maintain compliance with Environmental, Health and Safety Laws. 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.

The Water Intake Reporting System under the Cardinal Facility's Permit to Take Water 92-P-4076 requires annual reporting of the volume of water taken by the facility to the Ontario Ministry of the Environment. In addition, the intake and discharge of water by the Cardinal Facility from the St. Lawrence River, which is used for cooling purposes and other processes, is subject to regulation under the facility's Certificate of Approval – Industrial Sewage Works. Chemicals that are used in boiler chemical treatment processes are all received and stored in bulk storage tanks provided by the vendors and are used, stored and disposed of in accordance with applicable regulations. All chemical tanks and oil reservoirs are 110% bermed. Each of the transformers located at the Cardinal Facility has a concrete containment pit as part of its foundation in order to hold any potential oil spill in the event of a transformer failure. The Cardinal Facility incurs various annual expenses associated with complying with environmental regulations, including quality assurance and quality control of emissions; continuous emissions monitoring; and annual and monthly reports on its municipal/industrial strategy for abatement.

The Whitecourt Facility is subject to limits regarding water removal and consumptive use in accordance with the facility's Alberta Environment Water Licence 25036-00-00, as amended. Domestic water, groundwater, industrial wastewater and soil monitoring is also mandated at the facility. As well, the handling of ash must comply with standards and guidelines for the use of ash as a liming material for agricultural soils. The Whitecourt Facility incurs various annual expenses associated with complying with environmental regulations, including the monitoring and reporting of wastewater effluent, air pollutants and GHGs, and the purchase of baghouse bags.

The Hydro Power Facilities' operations are governed by water management plans which specify the hydrological conditions during which electricity production may occur. The Erie Shores Wind Farm is subject to regulations and/or approvals related to birds, mammals and other animals, and to sound. The primary environmental regulation of the Amherstburg Solar Park relates to potential sound emission issues. The operation of the Amherstburg Solar Park is not subject to ongoing material environmental regulation. The Corporation believes that the facility causes little disruption to the land and does not add pollutants to the soil or ground water, thereby minimizing its environmental impact.

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 Regime and Permits" and "Risk Factors – Risks Related to the Power Infrastructure Facilities – Environmental, Health and Safety Regime".

Climate Change Initiatives

Certain of the Power Infrastructure Facilities have an impact on the environment, particularly the Cardinal Facility and Whitecourt Facility, which both emit GHGs. The Corporation complies, in all material respects, with current federal and provincial environmental legislation and guidelines on GHG and other emissions. The Erie Shores Wind Farm, the Hydro Power Facilities and the Amherstburg Solar Park do not emit any 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 climate change framework is expected to broadly match any climate change regulation activities that are undertaken in the United States (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. The Corporation's environmental footprint is also mitigated by the renewable profile of its wind, hydro, biomass and solar power facilities, which could create viable GHG offset credits provided that these businesses meet any applicable eligibility requirements and that they have the ownership of these credits under their respective PPAs.

Greenhouse Gases and other Air Pollutants – Federal Requirements

The Cardinal Facility and the Whitecourt Facility are subject to various regulations promulgated under the *Canadian Environmental Protection Act* (Canada) ("CEPA"), in addition to provincial requirements. Pursuant to a notice given under section 46(1) of CEPA, facilities with GHG emissions of 50,000 tonnes CO_2 equivalent or more per year are required to report their 2011 GHG emissions to Environment Canada. Both the Cardinal Facility and the Whitecourt Facility are in compliance with these reporting requirements.

In January 2010, the Canadian federal government announced an updated GHG emissions reduction target of 17% from 2005 emission levels by 2020. This new emissions target was down from the federal government's previously announced target of 20% from 2005 emission levels. Although it announced in December 2011 that it was invoking Canada's legal right to formerly withdraw from the Kyoto Protocol, the federal government has not indicated 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 by 2015, which would come into effect in 2020.

The Canadian federal government is also working with the provincial and territorial governments to develop 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 specific emissions standards and compliance mechanisms have not yet been announced. Implementation is scheduled to begin in 2013. 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 Facility is also subject to various provincial regulations promulgated under the *Environmental Protection Act* (Ontario) and by the Ontario Ministry of the Environment. Under *the Ontario Greenhouse Gas Emissions Reporting Regulation* (OR 452/09Z), facilities with GHG emissions of 25,000 tonnes CO2 equivalent or more per year are required to report their GHG emissions to the Ontario Ministry of the Environment. The Cardinal Facility is in compliance with its various CO2 reporting requirements. The *Ontario Emission Trading Regulation*

(OR 397/01) established the Emissions Trading Registry which provides for the reporting, allocation and retirement of NOx and sulphur dioxide emission allowances. Under this system, applicable facilities receive a maximum yearly emission compliance limit, which may be achieved by source emission control or reduction, or by trading NOx allowances. For 2011, the Cardinal Facility received 1,207 tonnes of NOx allowances based on actual generation in 2009. The Cardinal Facility expects to retire 356 tonnes of NOx allowances for 2011, leaving a cumulative allowance balance of 5,052 tonnes. NOx emissions from the Cardinal Facility's existing generating equipment fall below the levels mandated by legislation.

In July 2008, the Ontario government announced that it had joined the Western Climate Initiative ("WCI"), an organization that also includes BC, Québec, Manitoba and several US states (although several states have recently indicated that they intend to withdraw from the initiative). 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 WCI Program limits the use of offsets as a compliance mechanism to 49% of total emission reductions from 2012 to 2020. 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 offset credits. As a member of the WCI, Ontario intends to implement a cap-and-trade system as part of its strategy to reduce GHG emissions. The Ontario government has indicated that once the WCI cap-and-trade system begins trading, Ontario's trading system will be linked to the WCI system. In December 2009, the *Environmental Protection Amendment Act (Greenhouse Gas Emissions Trading)* (Ontario) was passed, which allows Ontario's program to link to other systems in North America and abroad. Finally, a discussion paper released by the Ontario government in June 2009, entitled *Moving Forward: A Greenhouse Gas Cap-and-Trade System for Ontario*, suggests that the most likely threshold for the electricity sector will be 25,000 tonnes of CO_2 per year. The Cardinal facility may be captured by Ontario's proposed cap-and-trade regime as it emits in excess of 25,000 tonnes of CO_2 per year. However, it remains unclear if or when such a cap-and-trade regime will be implemented in Ontario.

The details of the above noted regulations and the impact on emitting entities have not yet been determined. 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

Alberta regulates GHGs from large industrial emitters through the *Climate Change and Emissions Management Act* (Alberta) and associated regulations, including the Alberta *Specified Gas Emitters Regulation* ("SGER") and the Alberta *Specified Gas Reporting Regulation* ("SGRR"). The Whitecourt Facility is also subject to limits governing the emissions of carbon monoxide, NOx and particulates in accordance with the facility's Alberta Environment Approval 291-01-00, as amended. The facility's Alberta Environmental Approval requires stack emissions monitoring with two relative accuracy test audits per year and compliance testing for particulate readings through the stack. Average annual emission levels at the Whitecourt Facility are approximately 50% below the levels of permitted emissions as set out in the facility's environmental permit. The Whitecourt Facility is also subject to certain reporting requirements under the SGER and the SGRR. However, since emissions from biomass combustion are considered CO2 neutral under the Alberta regulatory regime, the Whitecourt Facility is not required to submit compliance reports to the Alberta Ministry of the Environment under the SGER (due to the facility's low level of GHG emissions once CO2 emissions are excluded). The Whitecourt Facility is required to report total GHG emissions to the Alberta Ministry of the Environment on an annual basis under the SGRR. The Whitecourt Facility is in compliance with its various GHG reporting requirements.

Seasonality

The Power Infrastructure Facilities' operating results may fluctuate due to seasonal factors that affect quarterly production of the individual power generation facilities. The factors contributing to these results include scheduled major maintenance, seasonal electricity and heat demands and environmental factors such as water flows, wind speeds, temperature, solar insolation and humidity.

As both the Cardinal PPA and the Cardinal GPA are long-term contracts with fixed prices, the results of the Cardinal Facility are not significantly affected by fluctuations in the market prices for electricity or natural gas. However, the Cardinal PPA contains lower power rates during the six-month period from April to September (and higher rates from October to March), which is reflected in the variations in the facility's quarterly results. In addition, higher ambient temperatures in the summer months affect Cardinal's efficiency and reduce the facility's output. Further, the major maintenance activities at the Cardinal Facility are generally performed during the April to May period, which affects operating results during that time. Excess natural gas not consumed at the Cardinal Facility is periodically sold under the Cardinal Gas Mitigation Agreement, which can partially offset this seasonality.

Electricity generated by the Erie Shores Wind Farm 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 Facility and the Sechelt Facility. The Dryden Facility, which has lower variability, has historically produced the most electricity during the third quarter. The Wawatay PPA and the Dryden PPA have different pricing provisions for electricity produced, depending on the time of year. OEFC pays higher rates for electricity produced during October to March.

Production at the Whitecourt Facility is fairly consistent throughout the year. Spot prices for power in Alberta can vary significantly at different times of the year depending on energy consumption and supply in the province. Accordingly, the results of the Whitecourt Facility can vary due to a portion of its production not being contracted under the Whitecourt PPA.

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. Electricity production typically varies by season, with peak production occurring in the summer, and over the course of a day, with peak production occurring at midday. The Corporation anticipates the power production at the Amherstburg Solar Park during the second and third quarter each year will comprise approximately 65% of the facility's annual production.

The seasonality of wind speed and density, water flows, solar insolation and pricing provisions within certain of the Power Infrastructure Facilities' PPAs may result in fluctuations in the Corporation's revenue and net income during the year.

<u>Power Infrastructure Industry</u>

Overview

Historically, the Canadian electricity industry was characterized by vertically-integrated monopolies, such as Ontario Hydro. During the late 1980s, several jurisdictions began a process of restructuring by moving away from these monopolies towards more competitive market models. Rapid growth in electricity demand, environmental concerns, increasing electricity rates, technological advances and other concerns prompted government policies to encourage the supply of electricity from independent power producers ("IPPs"). IPPs generate electricity from a number of sources, including water, natural gas, coal, waste products such as biomass and landfill gas, geothermal sources such as heat or steam, the sun and wind.

Provincial governments have legislative authority over the generation, transmission and distribution of electricity within the provinces of Canada. The movement toward restructuring the Canadian electricity industry has been uneven, as each province has determined its policy in this area based on its assessment of its unique regional circumstances and issues. Alberta restructured its electricity market over a five-year period culminating in full retail access on January 1, 2001. In BC, while it appears there are no plans to introduce full retail competition, the transmission systems provide open access, allowing IPPs to move electricity to the export market or to distribution utilities and large industrial customers within the province. In Ontario, full, open competition in electricity markets was introduced in May 2002, but has been modified several times since then. The current Ontario system is a hybrid 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.

Competitive Conditions

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 any PPAs are not renewed upon expiry (or in the case of production at the Whitecourt Facility that is not sold under the Whitecourt PPA) 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.

Federal Wind Power Production Incentive and ecoEnergy for Renewable Power Program

The Wind Power Production Incentive ("WPPI") was 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. The Erie Shores Wind Farm, which was commissioned in May 2006, qualified for WPPI and the ecoEnergy Renewable Power Program and is entitled to receive a payment of $10 per MWh until May 2016.

Regulatory Environment

Ontario

The restructuring of Ontario's regulatory environment governing electricity began in 1998 and resulted in Ontario Hydro's integrated electricity businesses being separated into: (i) Ontario Power Generation ("OPG"), which assumed the electricity generation, wholesale energy and ancillary services businesses; (ii) Hydro One Inc., which assumed the transmission, rural distribution and retail energy services businesses; (iii) the IESO, which was formed to act as an independent electricity system operator responsible for dispatching generation, directing the operations of the Ontario transmission grid and acting as an independent administrator of the energy and ancillary services markets; (iv) the Electrical Safety Authority, which was established to carry out electrical equipment and electrical wiring installation inspection functions; and (v) OEFC, which is responsible for servicing and retiring Ontario Hydro's outstanding debt and other obligations (including administering the PPAs previously entered into by Ontario Hydro with IPPs, such as the Cardinal PPA, the Dryden PPA and the Wawatay PPA).

OPG is the dominant generator of electricity in the Province of Ontario, controlling approximately 60% of in-service generating capacity in 2011. Of particular note, the Ontario government previously announced the intention to close OPG's coal-fired plants by 2014. In its 18-Month Outlook published in November 2011, the IESO estimated that coal use up to that point in 2011 had totalled just 3% of Ontario's overall generating output. The Ontario government has also announced that it is studying the feasibility of converting some of these coal-fired units to burn other forms of fuel such as natural gas and/or biomass.

In 2004, the Ontario government established the OPA. The OPA is governed by an independent board of directors that is appointed by Ontario's Minister of Energy, and it reports to the Ontario Legislature through the Minister of Energy. The OPA's responsibilities include: (a) assessing the long-term adequacy of electricity resources; (b) forecasting future demand, planning for electricity conservation and facilitating the diversification of electricity supply including promoting renewable energy; (c) preparing and updating an integrated power system plan for conservation, generation and transmission; (d) procuring, when necessary, electricity supply or capacity, including through generation or measures to manage electricity demand; and (e) achieving the targets set by government for conservation and renewable energy. The Erie Shores PPA resulted from one of the electricity capacity initiatives solicited by the Ontario Ministry of Energy and it is now administered by the OPA. Electricity generated by the Amherstburg Solar Park is sold pursuant to two RESOP contracts which are administered by the OPA.

Ontario's wholesale and retail electricity markets were opened to competition on May 1, 2002 and the obligation of transmitters and distributors to provide non-discriminatory open access to their systems came into force. With open access, generators can sell power to counterparties under bilateral contracts or bid their power into the IESO administered markets and receive the market-clearing price. Pursuant to the rules made and enforced by the IESO that govern the IESO-controlled grid and that establish and govern the IESO-administered markets relating to electricity and ancillary services in Ontario, the IESO schedules and dispatches dispatchable generators and settles the purchase and sale of energy and ancillary services made through the IESO-administered markets. Following the opening of Ontario's wholesale and retail markets, Ontario experienced high levels of demand for electricity during July, August and September 2002, with resulting increases in the wholesale price of electricity and the incurring of significant costs for imported power. Reacting to public concerns over electricity prices, the Ontario government instituted retail price controls for electricity charged to consumers which, through December 31, 2011, have continued in a modified form. The Ontario Energy Board oversees a Regulated Price Plan which sets the retail electricity price for residential and small business consumers every six months to reflect the costs of supply for that period. However, all consumers are entitled to enter into unregulated retail price contracts, and large consumers are entitled to purchase at the unregulated IESO market price.

In addition to paying the IESO market price for electricity, electricity consumers in Ontario are also subject to a Global Adjustment amount which adjusts for differences between the market price and the rates paid to regulated and contracted generators (such as generators with PPAs or feed-in tariff ("FIT") contracts) and for conservation and demand management programs. For customers who are paying an unregulated price for electricity, the Global Adjustment varies each month, and its value may be positive (a charge to the customer) or negative (a rebate to the customer) in any given month, depending on the fluctuation of prices in the IESO spot market. The Global Adjustment was a positive charge to electricity customers in every month of 2011, and the average Global Adjustment charge over the year was approximately $40/MWh. The price set by the Ontario Energy Board in the Regulated Price Plan includes an amount for the projected Global Adjustment for the period. Effective January 1, 2011, the Ontario government unilaterally amended the regulations governing the mechanism used to allocate the Global Adjustment. The amount paid on account of the Global Adjustment is one of the components used to calculate the price escalators under the Cardinal PPA and the PPAs for the Hydro Power Facilities located in Ontario. As a result of this amendment, it is expected that in future years the price escalators will increase at a lower rate (see "Narrative Description of the Business – Power Infrastructure – Cardinal Facility – Cardinal Power Purchase Agreement", "Narrative Description of the Business – Power Infrastructure – Hydro Power Facilities – Wawatay Facility – Wawatay Power Purchase Agreement" and "Narrative Description of the Business – Power Infrastructure – Hydro Power Facilities – Dryden Facility – Dryden Power Purchase Agreement".

In May 2009, the Ontario legislature passed the *Green Energy and Green Economy Act, 2009* (Ontario). This legislation provides the framework to significantly expand Ontario's use of clean and renewable generation, streamlines the approval processes for such projects, and establishes a FIT program with standardized rules, contracts and pricing for the procurement of electricity from renewable sources such as wind, water and solar. The FIT program is expected to create investment opportunities for the development of new renewable generation in Ontario. By the end of 2011, the OPA had signed approximately 2,000 FIT contracts for the development of approximately 4,600 MW of generation from renewable sources.

As of December 31, 2011, the Ontario government was in the midst of undertaking its scheduled two-year review of the FIT program. In March 2012, the Ontario government released a report containing several recommendations for changes to the FIT program, including recommendations that: (i) the FIT prices for future wind and solar contracts should be reduced; (ii) the FIT program should prioritize projects through a new system that is designed to award points based on the participation of local or Aboriginal communities; (iii) project-siting rules should be clarified; and (iv) the regulatory approvals process should be streamlined to reduce the time needed for regulatory approval of a new project.

Prior to the introduction of the FIT program, Ontario had a number of other programs for promoting the development of renewable energy in the province, including the RESOP (under which the Amherstburg Solar Park was awarded its RESOP Contracts with the OPA), *ad hoc* PPAs issued based on competitive requests for proposals (such as the Erie Shores PPA) and other bilateral contracts as a result of directives issued by the Ontario government to the OPA. All of the previous programs for new renewable energy supply in Ontario ended with the introduction of the FIT program, and all new renewable generation projects are now being developed under the FIT program.

In November 2010, the Ontario government issued a Long-Term Energy Plan that set out the government's view of Ontario's expected electricity needs until 2030. The plan estimates that Ontario's demand for electricity will grow by about 15% between 2010 and 2030, and that capital investments in the electricity sector in Ontario (including for new and refurbished energy supply, transmission and distribution infrastructure and conservation investments) will total $87 billion between 2010 and 2030. Currently, Ontario's electricity system has a capacity of approximately 35,000 MW of power. According to the Long-Term Energy Plan, the OPA forecasts that more than 15,000 MW will need to be renewed, replaced or added by 2030. The plan states that the government's target for clean, renewable energy from wind, solar and bioenergy (but excluding hydroelectric) is 10,700 MW by 2018, with wind, solar and bioenergy representing almost 13% of Ontario's generating capacity by 2030.

In addition, on November 23, 2010, the Minister of Energy issued a directive to the OPA to seek to negotiate new PPAs with the owners or operators of certain specific NUG facilities, including the Cardinal Facility, where the new PPAs would deliver cost and reliability benefits to electricity customers in Ontario as well as other economic benefits to local communities. Under the directive, the new PPAs are expected to be structured such that the NUGs will operate in a manner that optimizes operation when power is valued highly and will have no incentive to operate when the output is not required or when the value of the power is low. The OPA may also seek to negotiate other matters with the NUG that would provide other economic benefits to Ontario. In the second half of 2011, the Corporation commenced negotiations with the OPA regarding a new PPA for the Cardinal Facility (see "Narrative Description of the Business – Power Infrastructure – Cardinal Facility – Cardinal Power Purchase Agreement").

British Columbia

BC Hydro, a BC Crown corporation regulated by the British Columbia Utilities Commission, is the main generator and distributor of electricity in BC. Approximately 80% of the province's electricity is produced by major hydroelectric stations operated by BC Hydro on the Peace and Columbia Rivers. The remaining capacity is provided mainly by large and small industrial self-generators, FortisBC Inc. (which provides utility service in the southwestern part of the province) and IPPs.

In 2003, the transmission operations of BC Hydro's business were moved to a new BC Crown corporation, the British Columbia Transmission Corporation. Until July 2010, the British Columbia Transmission Corporation was responsible for the planning, management and operation of BC Hydro's transmission assets, including the management of an open access transmission tariff (effective on March 1, 2006) aimed at improving access to the transmission system for all generators and marketers. However, as of July 5, 2010, the *Clean Energy Act* (British Columbia) (discussed below) re-consolidated BC Hydro and the British Columbia Transmission Corporation, creating a single entity to plan and deliver the energy required to meet the province's growing electricity needs in a cost-effective way.

Although private sector development of new electricity generation was, until recently, one of the most significant developments in BC's regulatory environment and is a goal of the BC government's current energy plan (introduced in 2007), the government's current position on private sector development is unclear.

Under the current energy plan, the BC government continues its commitment to "clean" energy sources, including a target of 90% of all electricity generation from clean or renewable sources and a target of electricity self-sufficiency for the province by 2016. Among other things, this plan provides that all new electricity projects developed in BC are to achieve zero net GHG emissions and existing thermal generation power plants are to achieve zero net GHG emissions by 2016. In addition, the plan sets a goal of satisfying 50% of all of BC Hydro's incremental resource needs through conservation by 2020. During 2008, a variety of legislative amendments were made to the *Utilities Commission Act* (British Columbia) to enable the achievement of some of the energy plan goals.

In June 2010, the BC government passed the *Clean Energy Act* (British Columbia), which provides a new regulatory regime for long-term electricity planning, streamlined regulatory processes, commitments to renewable energy, and measures to promote electricity efficiency and conservation. This act also prohibits certain projects from proceeding (e.g., the development or proposal of energy projects in parks, protected areas or conservancies), ensures that the benefits of the heritage assets are preserved and establishes the First Nation's Clean Energy Business Fund.

As noted above, this act also directed the integration of the British Columbia Transmission Corporation with BC Hydro into a single entity.

BC Hydro's generation division, which operates as a separate line of business from BC Hydro's distribution division, is required to supply electricity from its existing hydro power and thermal generating stations to the distribution division at embedded cost under a "heritage contract" between the generation and distribution divisions. The distribution division acquires new power on a least cost basis from all potential sources (including IPPs, customer-owned generation, power imports and conservation and energy efficiency), subject to regulatory oversight by the British Columbia Utilities Commission. BC Hydro's existing electricity purchase contracts with IPPs include natural gas, biomass, small hydro power, and wind projects that are both in service and under development, based on historical contracts from the 1990s and more recent ones initiated by the BC government's 2003 direction to BC Hydro to establish a competitive bidding process to acquire electricity from IPPs. BC Hydro held an "Open Call for Power" in 2003 and 2006. In 2008, BC Hydro also developed a standing offer program for generators of 10 MW or less (now, 15 MW or less) to sell to BC Hydro and a separate request for proposals for biomass generators. In late 2008, BC Hydro closed bidding on a "Clean Power Call" seeking to secure up to 5,000 GWhs of clean electricity. Under the Clean Power Call, a total of 27 projects were selected and 25 electricity purchase agreements were awarded, amounting to a total generation of 3,266 GWhs. The 27 projects include 19 run-of-river projects, six wind projects, one storage hydro project and one waste heat project. It is expected that any future calls for power issued by BC Hydro will be based on the Integrated Resource Plan that is expected to be submitted by BC Hydro to the BC government by December 2012.

Alberta

The Alberta government passed the Alberta EU Act in 1996 and amended the act in 1998 and 2000 to separate generation, transmission and distribution of electrical power in Alberta for regulatory purposes. The purpose of the Alberta EU Act is to permit the development of a competitive marketplace for electricity in Alberta. The Alberta EU Act created the Power Pool, through which all electrical power must be traded in Alberta except for electricity within exempted industrial systems, electricity from generators in remote locations not connected to the grid and certain direct sales. Under the Alberta EU Act, owners of existing electricity generation facilities in Alberta and importers of electrical power into Alberta offer power into the Power Pool at such prices as they determine.

The amendments to the Alberta EU Act and corresponding regulations in 1999 also created the Balancing Pool that commenced operation on January 1, 2001. The amended legislation provides for the purchase of power from small producers at the prices set out in the PPAs entered into pursuant to the SPRDA. All revenues associated with the sale of such power into the Power Pool are to be paid into the Balancing Pool and all costs associated with such PPAs are to be paid out of the Balancing Pool. The effect of the amendments is to render a utility that is party to such a PPA a flow-through entity for the rights and obligations under that PPA. The Balancing Pool is intended to net out to zero with respect to all payments received and made in respect of those PPAs. Any net amount greater than zero in the Balancing Pool is to be allocated to consumers of electricity of Alberta and to the Alberta Electric System Operator ("AESO") (formerly the Transmission Administrator) under the Alberta EU Act. The Balancing Pool prepares an annual budget and provides that budget to the AESO for review. The AESO then considers that budget when setting tariff rates. If the Balancing Pool forecasts a budget deficit, the AESO may increase tariff rates to enable the Balancing Pool to meet its obligations.

The government of Alberta proclaimed in force in June 2003 the *Electric Utilities Act (2003)* (Alberta).This act effected alterations to the governance of institutional entities such as the Power Pool, and the related regulations addressed payments to be made to and by the Balancing Pool, but neither served to alter the SPRDA-related arrangements described above.

On January 1, 2008, the Alberta Energy Utilities Board was separated into two regulatory entities pursuant to the *Alberta Utilities Commission Act* (Alberta), the Energy Resources Conservation Board and the Alberta Utilities Commission. The Energy Resources Conservation Board regulates the development of energy resources and the Alberta Utilities Commission regulates the utilities industry in Alberta. The Alberta Utilities Commission's responsibilities also include approving infrastructure and tariffs for electricity transmission through electric transmission and distribution lines.

In December 2008, the Alberta government issued its Provincial Energy Strategy, a long-term action plan for Alberta to achieve its stated objectives of clean energy production, wise energy use and sustained economic prosperity. With respect to electricity, the Provincial Energy Strategy focuses on steps to strengthen the provincial transmission system, including the development of a plan for a comprehensive upgrade to Alberta's transmission system and streamlining the regulatory process for transmission siting. The provincial government has indicated that it is developing an implementation plan that will incorporate benchmarks and outcomes over short-term, medium-term and long-term horizons.

In the fall of 2009, the government of Alberta enacted the *Alberta Land Stewardship Act* (Alberta) (the "LSA") pursuant to the province's Land Use Framework. The LSA provides a statutory framework in which development decisions are to be considered in the context of overall cumulative effects, including, among other things, air emissions. The LSA divides Alberta into seven regions, including the Upper Athabasca Region within which the Whitecourt Facility is located. At this point in time, no land use plan for the Upper Athabasca Region has been proposed.

Utilities

District Heating Business: Värmevärden

Overview

On March 31, 2011, the Corporation, through MPT District Heating Luxembourg S.à.r.l. ("MPT DH"), an indirect wholly-owned subsidiary of the Corporation, acquired a 33.3% ownership interest in a portfolio of district heating operations located in Sweden, which have subsequently been branded as Värmevärden. The remaining 66.7% ownership interest was acquired by an indirect wholly-owned subsidiary ("MEIF II Sub") of MEIF II, which is managed by an indirect wholly-owned subsidiary of MGL. See "General Development of the Business". The vendors of the district heating businesses were subsidiaries of Fortum Corporation (collectively with it subsidiaries, "Fortum"), whose shares are quoted on NASDAQ OMX Helsinki. MPT DH and MEIF II Sub are the 33.3% and 67.7%, 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 89 employees (approximately 80% 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 786 megawatt thermal, and distribution. During the period of the Corporation's ownership in 2011, Värmevärden's heat sales were approximately 780 GWh hours and its revenue was approximately SEK 432 million (or approximately CDN$65.8 million). The following table lists the name, ownership interest and service area in Sweden of Värmevärden's 10 district heating operations as at March 21, 2012:

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 317 kilometres in aggregate with approximately 4,000 supply points in aggregate (the majority of which are connections to multi-unit residential buildings). Approximately two-thirds of Värmevärden's revenue is derived from residential customers, primarily the residents of multi-unit residential buildings. Rates under residential contracts are set annually, which provides Värmevärden with some flexibility to manage any increases in the price of fuel. Approximately one-third of Värmevärden's 2011 revenue was derived from seven large industrial customers with long-term contracts. These long-term contracts contain price escalators linked to a combination of inflation and fuel price indices. These contracts are scheduled to expire on a staggered basis over the next seven years, but are 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". During 2011, one industrial off-take arrangement was terminated in accordance with its terms and was not renewed. The termination of this arrangement had been expected and was reflected in the purchase price paid to Fortum. 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, comprises approximately 65% of the fuel used by Värmevärden, with approximately 10% 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 waste heat contributes approximately 15% of Värmevärden's fuel mix. Oil comprises less than 10% of Värmevärden's fuel mix.

Governance Term Sheet

Pursuant to an equity investment term sheet (the "DH Governance Term Sheet") that is a schedule to the subscription agreement dated December 12, 2010 (as amended on January 12, 2012, the "DH Subscription Agreement"), among MEIF II, the Corporation, DH HoldCo and DH OpCo, the parties agreed to certain governance arrangements in respect of the entities comprising the Värmevärden Group. A general description of the key terms of the DH Governance Term Sheet applicable to DH HoldCo is set out below. The provisions of the DH Governance Term Sheet in respect of the other Värmevärden Group entities are substantially similar to those of DH HoldCo, subject to such changes required to reflect applicable law in the jurisdictions of incorporation of such Värmevärden Group entities. See "Risk Factors – Risks Related to Värmevärden – Minority Interest".

Board Composition:	For each complete 32% holding of DH HoldCo ordinary shares, a DH HoldCo shareholder has the right to appoint one manager to the DH HoldCo board of managers (the "DH HoldCo Board"), which is analogous to the board of directors of a Canadian corporation. In addition, an additional DH HoldCo manager that is

	independent from all shareholders may be appointed (see "Investor Reserved Matters" below). In accordance with the foregoing, the DH HoldCo Board 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 OpCo shareholder.
Board Voting:	Except for "Board Reserved Matters" noted below, decisions by the board require the approval of a majority of the managers voting on the matter.
Board Reserved Matters:	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. Certain other board matters require the approval of at least 66% of the managers appointed by the DH HoldCo shareholders, including (subject to specified monetary thresholds, as applicable): material employment contracts and the termination thereof, as well as certain litigation, acquisitions and dispositions, indebtedness and capital expenditures within certain parameters.
Investor Reserved Matters:	Certain 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, the initial business plan and budget, amendments to constating documents, the admission of new shareholders other than with respect to a transfer in accordance with the terms of the DH Governance Term Sheet, an initial public offering or stock exchange listing, the grant of security interests over assets other than in the ordinary course of business, the appointment or removal of the auditor, voluntary dissolution or liquidation, raising new equity capital and a change in the "Dividend Policy" noted below or "Financing Policy" noted below. Certain other matters require the approval of at least 66% of the votes cast by DH HoldCo shareholders, including: the appointment and removal of any Chairman, the independent manager and remuneration of members of the board.
Dividend Policy:	Distribute 100% of available cash each year at semi-annual intervals, subject to certain exceptions.
Financing Policy:	MEIF II is entitled to require that DH Holdco be recapitalized through bank or other debt facilities an amount equal to up to 50% of the aggregate value of DH HoldCo's total equity (including the aggregate stated capital of DH HoldCo's ordinary shares and shareholder loans, if any). The amount of any such recapitalization would need to be agreed to by the Corporation and MEIF II, failing which it shall be determined by an independent expert. All of the proceeds from such recapitalization are required to be distributed *pro rata* to DH HoldCo's shareholders.
First Offer Right:	If either the Corporation or MEIF II proposes to directly or indirectly transfer any portion of their respective interests in DH HoldCo ordinary shares to a third party, other than to an affiliate or certain other specified parties, in accordance with the provisions of the DH Governance Term Sheet, such interests are required to be first offered *pro rata* to the other non-transferring shareholder. To the extent any such offered interests are not acquired by the non-transferring shareholder, the transferring shareholder may elect to sell the offered interests to a third party, subject to certain conditions (including the sale to the third party not being at a price of less than 95% of the price offered to the non-transferring shareholder and such sale not being on terms more favourable than those offered to the non-

	transferring shareholder).
Tag Along Right:	In the event that a proposed transfer of DH HoldCo shares would result in a third party acquiring greater than 66% of DH HoldCo's ordinary shares, the other non-transferring shareholder will have a tag along right that will allow it to require such third party acquire all, but not less than all, of the non-transferring shareholder's DH HoldCo ordinary shares at the same time on the same terms.

DH OpCo Bond Financing

During February and March 2012, DH OpCo completed the issuance of senior secured bonds (the "Värmevärden Bonds") to select 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. The proceeds of the Värmevärden Bonds are to be distributed on a *pro rata* basis to MPT DH and MEIF II Sub. On March 7 and 8, 2012, the Corporation used approximately $46 million of its share of the proceeds to repay a portion of the outstanding balance of the Senior Credit Facility (see "Material Contracts – Senior Credit Agreement").

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 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 utilized by 20%, reduce carbon dioxide emissions by 20% (from 1990 levels) 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 carbon dioxide reduction commitments. See "Risk Factors – Risks Related to Värmevärden – Environmental, Health and Safety".

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.

District Heating Industry: Sweden

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 April 2011, a Swedish parliamentary committee released a report regarding a proposed regulatory framework regarding third party access ("TPA") to district heating systems. In March 2012, the Swedish government announced that it had determined that the district heating industry is not conducive to TPA as a result of the generally small size of the systems and concentration of production as well as the limited residual heat available. In place of TPA, the Swedish government announced that it is considering implementing additional regulations on the district heating industry related to, among other things, a mandatory price change regime for disputes under consumer contracts (in place of the current mediation procedure) and the usage of residual heat from industrial hosts. The implementation of any such regulations may impact Värmevärden's operations. However, given the preliminary nature of such considerations, the Corporation cannot at this time estimate such impact, if any, on Värmevärden.

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

Water Utility Business: Bristol Water

Overview

On October 5, 2011, the Corporation, through CSE Water UK Limited ("CSE Water"), an indirect-wholly owned subsidiary of the Corporation, acquired a 70% interest in Bristol Water Holdings UK Limited ("Bristol Water Holdings"), the indirect owner of Bristol Water. See "General Development of the Business".

Founded in 1846, Bristol Water is the licenced monopoly provider of water services to an area of approximately 2,400 square kilometres centered on the City of Bristol, England and stretching from Tetbury in the north to Street and Glastonbury in the south and Weston-super-Mare in the west to Frome in the east. As one of 11 regulated Water-Only Companies ("WoCs") in England and Wales, Bristol Water is responsible for the abstraction, treatment, storage and distribution of approximately 278 million litres ("Ml/d") of water every day to over 1.1 million people. Bristol Water's system encompasses 26 water sources (including reservoirs, rivers, springs and wells), approximately 6,670 kilometres of water mains, 164 pumping stations and 140 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 fixed income. 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. See "The Corporation – Structure".

Shareholders' Agreement

The Corporation, CSE Water, Agbar and Bristol Water Holdings entered into a shareholders' agreement dated October 5, 2011 (the "Bristol Water Shareholders' Agreement") to govern the relations between CSE Water and Agbar, as shareholders of Bristol Water Holdings, and to set 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 Corporation has guaranteed the obligations of CSE Water and any of its other subsidiaries who hold Bristol Water Holdings shares, directly or indirectly, from time to time under the Bristol Water Shareholders' Agreement.

The Bristol Water Shareholders' Agreement provides that, unless otherwise agreed by CSE Water and Agbar, the business of the Bristol Water Group will be in all material respects the operation of a regulated water-only supply business in the Bristol, UK area and the participation in Bristol Wessex Billing Services Limited ("BWBSL"), the billing services joint venture with Wessex Water Limited.

According to the Bristol Water Shareholders' Agreement, so long as CSE Water and Agbar (or their affiliates) remain holders of at least 51% and 30% of the shares of Bristol Water Holdings, respectively, (the "Relevant Proportion") the board of directors of: (i) Bristol Water Holdings and its subsidiaries other than Bristol Water will consist of two appointees of Agbar and four appointees of CSE Water; and (ii) Bristol Water will consist of the chief executive, the finance director, the incumbent regulatory director, two Agbar-appointed non-executive directors, four CSE Water-appointed non-executive directors and three independent non-executive directors. CSE Water has the right to remove the incumbent regulatory director as a member of the Bristol Water board at any time upon two months' written notice to Agbar. Unless otherwise agreed by Agbar and CSE Water, one of the independent non-executive directors will be appointed as chairman of the Bristol Water board, with the board of each other Bristol Water Group company appointing its respective chairman from amongst its members. Quorum for meetings of directors of Bristol Water Holdings and its subsidiaries (other than Bristol Water) is set as at least one Agbar-appointed director and one CSE Water-appointed director. For Bristol Water, the quorum for directors meetings is set as at least one Agbar-appointed director, one CSE Water-appointed director and one independent director. Currently, the Bristol Water board of directors is comprised of 13 directors: the chief executive, the finance director, the regulatory director, two Agbar-appointed non-executive directors, four CSE Water appointed non-executive directors, three independent non-executive directors and the chairman (who is also a non-executive director).

The removal and appointment of certain senior officers of Bristol Water is also governed by the Bristol Water Shareholders' Agreement. Subject to CSE Water and Agbar remaining holders of Bristol Water Holdings shares in the Relevant Proportion and until the Bristol Water O&M Agreement (see description below at "– Bristol Water O&M Agreement") expires or is terminated, on or after October 5, 2012 (i) Agbar will be entitled to remove the chief executive and the incumbent finance director without notice to any other party and (ii) CSE Water will be entitled to remove any finance director without notice to any other party, with the exception of the incumbent finance director, for whose removal CSE Water must provide at least six months' written notice to Agbar. Should the Bristol Water chief executive be removed or resign while the Bristol Water O&M Agreement is in force, Agbar will be entitled to nominate a replacement for confirmation by CSE Water and approval by the board of Bristol Water. If such nominee is not both confirmed by CSE Water and approved by the Bristol Water board, Agbar will nominate alternative candidates until an acceptable candidate is confirmed and approved. After the Bristol Water O&M Agreement is no longer in force, the nomination of the chief executive will be done by the Bristol Water board, with confirmation from CSE Water being required. CSE Water has a similarly structured nomination right with respect to the finance director of Bristol Water, with confirmation required from Agbar and approval required from the Bristol Water board while the Bristol Water O&M Agreement is in force and approval from only the board being required once the Bristol Water O&M Agreement is no longer in force. If a new finance director is appointed during the term of the Bristol Water O&M Agreement, Agbar has a right to nominate a deputy finance director subject to the approval by the chief executive of Bristol Water. A majority of the board of directors of Bristol Water may also remove such senior officers at any time.

Pursuant to the Bristol Water Shareholders' Agreement, CSE Water and Agbar have agreed to use their respective powers to ensure that no actions or decisions relating to certain matters, such as an alteration of the constitutional documents, share issuances/redemptions/repurchases, a change in the nature or scope of the Bristol Water Group's business, certain new borrowings or indebtedness, a change in the dividend policy (which is to pay the maximum amount of dividends subject to certain restrictions) or entry into material contracts, are taken by any company in the Bristol Water Group unless both CSE Water and Agbar give their prior approval. Similarly, CSE Water and Agbar have agreed to use their respective powers to ensure that no action or decision relating to certain other matters, such as the termination of the Bristol Water O&M Agreement, approval of any business plan/budget, any material submission to the UK Water Services Regulation Authority ("Ofwat") or the incurring of certain capital expenditures, are taken by any company in the Bristol Water Group unless the board of directors of Bristol Water Holdings gives its prior approval by simple majority to proceed.

Upon the occurrence of certain events relating to a shareholder of Bristol Water Holdings, such as a person (other than another Bristol Water Holdings shareholder or its affiliate) taking steps to appoint a liquidator/manager/receiver in respect of the assets of the shareholder, the shareholder convening a meeting of its creditors or proposing an arrangement with its creditors, or the shareholder committing a material or persistent breach of the Bristol Water Shareholders' Agreement, the affected Bristol Water Holdings shareholder (the "Affected Shareholder") must notify the other shareholders (the "Non-Affected Shareholders") of the occurrence of the event in question and the Non-Affected Shareholder with the greatest number of Bristol Water Holdings shares may make an offer to purchase all of the shares held by the Affected Shareholder, within a specified time period depending on the type of event, on bona fide arm's length terms at a "fair price" (as determined in accordance with the Bristol Water Shareholders' Agreement). If such an offer is made, the Affected Shareholder is bound to sell the shares to the Non-Affected Shareholder making the offer, subject only to any necessary regulatory approvals.

Pursuant to the Bristol Water Shareholders' Agreement, a put option has been granted in favour of Agbar, whereby Agbar can require CSE Water to purchase Agbar's entire interest in Bristol Water Holdings in certain circumstances (the "Bristol Water Put Option"). The Bristol Water Put Option may be exercised by Agbar (i) any time during the six months following termination of the Bristol Water O&M Agreement by Bristol Water Holdings for a material unremediated breach by Agbar; (ii) any time during the twelve months following termination of the Bristol Water O&M Agreement by Bristol Water Holdings for a reason other than a material unremediated breach by Agbar; or (iii) any time during the three years following termination of the Bristol Water O&M Agreement by Agbar for a material unremediated breach by Bristol Water Holdings. The shares will be acquired under the Bristol Water Put Option for a "fair price" (as determined in accordance with the Bristol Water Shareholders' Agreement), except in the case of (i), in which case the price will be the determined "fair price" less a specified discount.

The Bristol Water Shareholders' Agreement provides that the transfer or encumbrance of Bristol Water Holdings shares, or any interest in such shares, is restricted. On or prior to March 31, 2014, any transfer of Bristol Water Holdings shares must be approved in writing by both CSE Water and Agbar unless (i) it is a transfer to an affiliate of the shareholder and the ultimate parent of such entity (either the Corporation or Agbar, as applicable) guarantees the transferee's performance under the Bristol Water Shareholders' Agreement or (ii) the transfer is completed in accordance with the provisions of the Bristol Water Shareholders' Agreement (such as in accordance with the Bristol Water Put Option). After March 31, 2014, a shareholder will also be able transfer its Bristol Water Holdings shares to a third party if it gives the other shareholder who holds the most Bristol Water Holdings shares notice of the proposed transfer; provided however, such other shareholder has a right of first refusal to buy such shares at the price specified in the transfer notice within 20 business days of receiving such notice. Irrespective of this right, if CSE Water proposes a sale of more than 50% of the Bristol Water Holdings shares to a third party, Agbar has the right to require CSE Water not to complete the sale unless the third party purchaser offers to purchase all of the Bristol Water Holdings shares held by Agbar and its subsidiaries on the same terms (including price per share, which must be in cash). Similar transfer restrictions have also been placed on the shares of any subsidiary of the Corporation that directly or indirectly holds Bristol Water Holdings shares, with Agbar having the right to purchase all of the corresponding Bristol Water Holdings shares held by the subsidiary whose shares are directly or indirectly proposed to be transferred to a third party.

Pursuant to the Bristol Water Shareholders' Agreement, Agbar has also been granted a right of first refusal on the shares of BWBSL, should the companies in the Bristol Water Group that hold such shares seek to sell them to a party that is not a company in the Bristol Water Group.

The Bristol Water Shareholders' Agreement will continue in force until either (i) it is terminated by written agreement of the parties or (ii) all shares of Bristol Water Holdings are held by one party (or by two or more parties that are affiliates).

Financing Structure

Bristol Water has long- and short-term structured debt financing in place, primarily comprised of Artesian loans, bonds, a credit facility, debentures and preference shares. Bristol Water's policy is to maintain a balanced debt portfolio with mainly long-term maturities reflecting the long-term nature of its asset base.

Artesian Loans

As at December 31, 2011, Bristol Water had outstanding an aggregate amount of £144.2 million of UK Retail Prices Index ("RPI")-linked Artesian loans due 2032 (with a real interest rate of 3.635%) and an aggregate amount of £63.5 million of 6.01% fixed-rate Artesian loans due 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. Under the Artesian structure, funds were raised through credit-wrapped bonds issued by the Artesian finance issuers (Artesian Finance I plc and Artesian Finance II plc), which bonds were guaranteed by Financial Security Assurance (U.K.) Limited (now known as Assured Guaranty Limited). Funds raised by the Artesian finance issuers were then loaned, through an intermediary UK-based financial institution, to Bristol Water and other water companies. Principal and interest payments on the loan to Bristol Water are made to the Artesian finance issuers. The advantage of the Artesian financing structure was that it enabled Bristol Water to borrow relatively smaller amounts with longer maturities and with lower upfront costs than through the capital markets, which was the most readily available source of such debt financing previously available to such smaller water companies. Bristol Water's Artesian loans are secured (see below) and include a number of covenants, including an obligation to maintain a debt service reserve of one years' debt service cash costs (approximately £5.5 million). Bristol Water's other senior debt providers (bank loans, finance leases and new bonds) have acceded to the Artesian loan covenant package.

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"), 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, 2011, Bristol Water had outstanding £44.5 million of RPI-linked secured bonds due 2041 (with a real interest rate of 2.701%). The bonds acceded to the same covenant package as provided for the Artesian loans described above. In addition, under the terms of the bonds, no more than 20% of Bristol Water's total debt/regulated capital value ("RCV") may fall due during any two year period and no more than 40% of Bristol Water's total debt/RCV may fall due during any five year regulatory period.

Credit Facility

Bristol Water has an undrawn £30 million committed credit facility with a UK-based financial institution, which expires in May 2013 and a fully-drawn £15 million credit facility with another UK- based financial institution which expires in October 2012.

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 £1.1 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.

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 WoC holds an Instrument of Appointment and is regulated through the conditions of that licence and the WIA.

Pursuant to its Instrument of Appointment dated August 1, 1989 (as subsequently modified), Bristol Water (then known as Bristol Waterworks Company) was appointed as a water undertaker (a "Regulated Company") by the UK Secretary of State for the Environment, Food and Rural Affairs (the "UK Secretary of State"). The fundamental statutory duty of a Regulated Company in respect of its water business is to develop and maintain an efficient and economical system of water supply within its supply area. Regulation pursuant to the Instrument of Appointment is the responsibility of Ofwat (see "Narrative Description of the Business – Utilities – Water Distribution Industry: UK – Regulated Industry – Ofwat"), the economic and customer service regulator for the water industry in England and Wales. The independent Consumer Council for Water represents the interests of the customers of Regulated Companies.

Bristol Water's Instrument of Appointment is subject to a number of conditions including:

- provisions relating to the operation of price control (see "Narrative Description of the Business – Utilities – Water Distribution Industry: UK – Regulated Industry – Economic Regulation – K Factor");
- a prohibition on undue discrimination or undue preference in setting charges for water supply;
- provisions to ensure that the financial affairs of Bristol Water can be separately assessed and reported on;
- maintaining at least three independent non-executive directors on the board of directors of Bristol Water and complying with the UK Listing Authority Listing Rules regarding reporting and good corporate governance;
- obligations on Bristol Water to ensure that it 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, failing to do so will restrict Bristol Water's ability to pay dividends;
- restrictions on the disposal of certain land and restrictions on the granting of security over certain assets;
- an obligation on Bristol Water to conduct its regulated business as if it was substantially Bristol Water's sole business and Bristol Water was a separate public limited company;
- provisions on the payment of fees and the supply of information to Ofwat;
- a provision allowing the Instrument of Appointment to be terminated on 25 years' notice;
- obtaining an undertaking from its ultimate controlling entity to protect the downward regulatory ring fence (as discussed below);
- provisions relating to water supply licensing competition; and
- restrictions on dealings with associated companies (the consent of Ofwat is required for certain transactions including transferring certain rights or assets, guaranteeing any liability, or lending any funds to an associated company and all transactions with associated companies must be on an arm's length basis without cross subsidy).

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.

Instrument of Appointment conditions can be modified by Ofwat, either with the Regulated Company's agreement or following reference to the UK Competition Commission (the "UK CC") for a decision on public interest grounds. Instrument of Appointment modifications can also result, in certain circumstances, from a merger or market investigation reference to the UK CC.

Failure to comply with the Instrument of Appointment conditions can result in penalties. See "Risk Factors – Risks Relating to Bristol Water – Legal and Regulatory Risks."

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. In general, water abstracted from underground sources is of a better quality and requires less treatment than water abstracted from rivers, canals and reservoirs which normally undergoes a complex sequence of advanced treatment processes. Water from underground sources normally only needs chlorination as it starts out with the best original raw water quality. Water from Bristol Water's surface water reservoirs is generally of a good original quality, typically requiring only microstrainers, slow sand filtration and chlorination. To deal with the more complex characteristics of surface river water sources, Bristol Water utilizes sophisticated treatment methods like clarification and ozone disinfection, coupled with granular activated carbon filtration.

Distribution

Treated water is distributed to domestic, household and non-domestic commercial customers through Bristol Water's distribution system of approximately 6,670 kilometres of networked potable water mains and approximately 478,000 communication pipes connecting mains in the street to customer properties. These mains vary in size from 50 millimetres to 1,200 millimetres in diameter.

Treated water is initially stored at strategic points in a network of 140 storage reservoirs to allow Bristol Water's treatment works to run at an optimum level and to provide buffer stock in the event of outages. At any particular time, the amount of water resources available depends upon the cumulative effect of weather and consumption over the previous two to three years, and Bristol Water actively monitors reservoir levels. Due to the varied landscape across its region, Bristol Water utilizes a number of different routes and techniques to move over 100 million tonnes of water around its network each year. This mixture of hills, valleys and plateaus and soil types has resulted in water mains either taking indirect routes to avoid hill ranges, or in additional pumping stations and booster stations being required in order to maintain water pressure and keep the water flowing into service reservoirs. Pressure reduction systems are then needed to reduce pressure at customers' taps. Flow is maintained by gravity in areas where the service reservoirs are higher than the area they serve or by 164 remote controlled pumping stations. The distribution system is highly automated and is centrally monitored at all times.

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, 2012, Bristol Water treated an average of 268 Ml/d of water for use by approximately 513,000 premises. Approximately 73% of water delivered was used by domestic customers and approximately 77% of Bristol Water's customers are located in urban areas, which constitute approximately 11% of the supply area. Bristol Water serves approximately 477,000 domestic premises, a figure which has grown at approximately 1% per annum over the last 10 years. Bristol Water has approximately 35,000 non-domestic customers, of which 44 customers are defined by Ofwat as large users (consumption in excess of 50 million litres per annum) and who therefore fall outside of the price control regime (see "Narrative Description of the Business – Utilities – Water Distribution Industry: UK – Regulated Industry – K Factor"). 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 37% 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 leakage, comply with regulatory objectives and reduce operating expenses. Bristol Water's total allowed/regulated revenue and return allowance is determined without regard to the water consumption by individuals, and hence meter penetration does not impact its profitability. All new connections are metered, and existing customers can opt to be charged by meter at no extra cost. Together, these two factors have historically led to domestic meter penetration increasing by approximately 2% per annum. Non-domestic customers are predominantly charged by metered volumes.

BWBSL, 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. See "The Corporation – Structure".

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.

Capital Investment

The water industry invests heavily in maintenance and new assets in order to meet its obligations for service delivery and regulatory requirements. Bristol Water's level of capital investment in five-year periods has been or is anticipated to be (all figures are stated in 2010 values to aid comparison):

Asset Management Plan	Period	Capital Investment
AMP1	5 years to March 31, 1995	£136 million
AMP2	5 years to March 31, 2000	£134 million
AMP3	5 years to March 31, 2005	£124 million
AMP4	5 years to March 31, 2010	£159 million
AMP5	5 years to March 31, 2015	£244 million

Bristol Water has a 25-year strategy to meet expected growth in demand by investment in the necessary supply infrastructure. Its overall objective is to maintain an adequate supply/demand balance, while maintaining exceptionally high levels of service. A key part of Bristol Water's strategic planning therefore focuses on the long-term capital investment in its network, and its capital investment program in AMP5 is significantly greater than the equivalent program in the five-year AMP period that ended on March 31, 2010. Bristol Water's strategy is further driven by the expected population growth in its service area over the next 25 years. Ofwat takes account of these investment programs when setting price limits (see "Narrative Description of the Business – Utilities – Water Distribution Industry: UK – Regulated Industry – K Factor").

Property

Bristol Water occupies approximately 350 sites, of which approximately 340 are owned and the remainder leased. There are approximately 40 sites which Bristol Water considers material due to their strategic importance and/or value to its business. These comprise Bristol Water's head office, key depots, key pumping stations, treatment works, lakes, and key reservoirs.

Employees and Management

As at March 21, 2012, Bristol Water had approximately 510 employees. Bristol Water has a highly skilled management team of professionals 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 trade unions UNISON and GMB. Bristol Water estimates that, as at March 1, 2012, UNISON represented approximately 70 employees and GMB represented approximately 100 employees. Bristol Water enjoys a good relationship with the unions representing its employees (see "Risk Factors – Risks Relating 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 (the "Bristol Water O&M Agreement") dated October 5, 2011 with Agbar pursuant to which Agbar provides strategic advice and certain limited management services to the Bristol Water

Group; including the nomination of the chief executive of Bristol Water, in accordance with the terms of the Bristol Water Shareholders' Agreement.

The fee paid to Agbar under the Bristol Water O&M Agreement has three components: (i) an annual £1 million fixed fee; (ii) an additional fee based on the amount by which Bristol Water outperforms operating cost targets; and (iii) a further additional fee (the "SIM Outperformance Fee") based on any additional revenue Bristol Water is entitled to receive as a result of Bristol Water outperforming its targets contained in Ofwat's Service Incentive Mechanism ("SIM"). Beginning in 2012, the fixed fee will be adjusted for inflation in the UK RPI.

The initial term of the Bristol Water O&M Agreement ends March 31, 2015, after which it will be extended automatically and indefinitely unless and until terminated in accordance with its terms.

Either Agbar or Bristol Water Holdings may terminate the Bristol Water O&M Agreement on three months' written notice if the other party commits a material breach of the agreement and fails to rectify the breach within 30 business days of receiving written notice of the breach. Either party may also terminate without cause on 12 months' written notice. If Agbar terminates the Bristol Water O&M Agreement due to breach by Bristol Water Holdings or Bristol Water Holdings terminates without cause, Bristol Water Holdings will be required to pay Agbar an amount equal to five times the average of the fees paid (excluding the SIM Outperformance Fee) in the prior five years (or, if fewer than five years has elapsed from the date of the Bristol Water O&M Agreement, five times the average of such fees during the shorter period). On termination, Bristol Water Holdings will also pay to Agbar any amounts that would become due in respect of the SIM Outperformance Fee, but for the termination.

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 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.

Water Distribution Industry: UK

Overview

The water industry in England and Wales is divided into 10 regional Water and Sewerage Companies ("WaSCs"), which provide both water and sewage services, and 11 WoCs, including Bristol Water, which only provide water services. The current regulatory system was put in place in conjunction with the privatization of the UK water industry in 1989 and the WaSCs and WoCs are now a mix of publicly-listed and privately-owned entities.

Regulated Industry

Bristol Water operates within a highly regulated industry in England and Wales, subject to a range of UK and European Union ("EU") legislation, as well as the terms of its Instrument of Appointment (see "Narrative Description of the Business – Utilities –Water Utility Business: Bristol Water – Instrument of Appointment"), and its operations are strongly influenced by economic, drinking water quality and environmental regulation.

Economic Regulation

Ofwat regulates water charges by capping the average increase in charges to most customers that a company can impose in any year. Ofwat conducts a periodic review and sets the applicable price caps every five years. Following a consultation process in 2006, Ofwat announced that it intended to maintain this five-year review period of price controls but that it would also seek to place price limits within a longer-term framework. The current regulatory price review period, AMP5, runs from April 2010 to March 2015.

Ofwat

Ofwat must comply with its statutory duties as primarily laid out in the WIA and must exercise its powers and duties in the manner that it considers is best in order to:

- protect the interests of consumers wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the provision of water and sewerage services;
- secure that the functions of water and sewerage undertakers are properly carried out in respect of every area of England and Wales;
- secure that water and sewerage undertakers are able to finance the proper carrying out of their functions (in particular, by securing reasonable returns on their capital); and
- secure that the activities authorized by the licence of a licenced water supplier and any statutory functions imposed on it in consequence of the licence, are properly carried out.

Ofwat also has secondary duties that include an obligation to promote efficiency and economy on the part of Regulated Companies in the carrying out of their functions as such and to contribute to the achievement of sustainable development. It also has duties in exercising its powers to have regard to the effect on the environment and to the desirability of preserving any rights of recreational access. Further information regarding Ofwat and the regulation of the UK water distributor industry is available at Ofwat's website at www.ofwat.gov.uk.

K Factor

The price cap on amounts that Bristol Water 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 Company and which can vary for each year of the review period. The size of a Regulated 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. For AMP5, the average K factor for Bristol Water is 3.2% per annum, with the following profile:

	2010/11	**2011/12**	**2012/13**	**2013/14**	**2014/15**
K factor	0.6	3.9	3.9	3.9	3.8

Based on Ofwat RCV publications, the average annual domestic customer bill is expected to rise from £157 in 2010 to £180 by 2015 (in 2010 values), an increase in real terms of 15% over the five-year review period. Bristol Water's RCV is expected to increase by approximately 26% in real terms to £372 million (based on 2010 values).

Under the current framework, K must be reviewed every five years (the "periodic review"), with price limits next scheduled to be reset in 2014 for the following five year regulatory period. Ofwat has published a high level discussion paper on its proposals for how it intends to undertake the 2014 review. These proposals included separate price caps for retail and non-retail activities, a proposal to retain all of the RCV within the wholesale business, and a move to outcome regulation rather than detailed output regulations. Companies have responded to these proposals and Ofwat has announced its intention to bring forward more detailed proposals in response in October 2012.

Capital Expenditures

Regulated Companies are incentivized to be efficient, both in terms of their operating costs and in the implementation of their capital expenditure program. It is intended that the benefit of any efficiency savings achieved through effective management should be retained by a Regulated Company for a period of up to five years, after which time the benefit should be passed to customers via the subsequent price setting process. The cost of any under-performance is similarly borne by the Regulated Company in a symmetrical fashion until the next periodic review when it is passed on to customers.

Customer Service

Ofwat measures a broad range of performance metrics to ensure customer service is maintained at high levels by water companies. The “Overall Performance Assessment” was a method used by Ofwat in previous five-year periodic reviews to measure and incentivize water company performance across the broad range of services provided to consumers and the environment. Overall Performance Assessment scores in the period 2004/2005 to 2008/2009 were taken into account in Ofwat’s 2009 price review, and Regulated Companies were penalized if they provided a poor quality of service by means of adjustments to the K factor at the price review.

Effective April 1, 2010, Ofwat introduced a new mechanism for assessing customer service, the 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 will be 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 next reset in 2014 for the following five year regulatory period. The current proposed price adjustments range from a 0.5% reward to a 1.0% penalty, and, as with the Overall Performance Assessment, adjustments will apply in the first period of the next AMP of which Ofwat will set prices.

Adjustments

Unexpected capital costs or savings arising from changes in certain regulatory assumptions during a review period are recorded and reported by Bristol Water to Ofwat. This process, known as “logging up and down”, allows prices to be adjusted up or down at the next periodic review to compensate a Regulated Company or its customers, respectively, for unexpected costs or savings, to the extent agreed by Ofwat. In addition, Bristol Water can request, and Ofwat can instigate, a re-setting of its price limit during the five-year period, known as an “Interim Determination of K”, in certain other circumstances where additional costs to the business reach a materiality threshold in defined areas known as “Notified Items”. Bristol Water has several specific Notified Items which cover cost changes due to items such as household bad debt and debt management costs and as a result of new legislation that requires Bristol Water to pay road rental fees related to the creation of roadworks.

Substantial Effects Clause

All Regulated Companies’ Instruments of Appointment also include a “shipwreck” or substantial effect clause, which allows a Regulated Company’s price limit to be revised by Ofwat when events beyond its control have a significant effect (equivalent over five years to more than 20% of annual revenue).

Drinking Water Quality and Environmental Regulation

Overview

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 and the effects of Bristol Water’s activities on the environment, biodiversity and human health and safety. All water companies have general duties to conserve and enhance biodiversity and natural beauty and to promote efficient use of water. Environmental regulation is primarily the responsibility of the UK Secretary of State together with:

- the UK Environment Agency, which is responsible for conserving and redistributing water resources and securing their proper use, including the licensing of water abstraction from, and the consenting of discharges to, controlled waters, as well as the preservation and improvement of the quality of rivers, estuaries, coastal waters and groundwaters, through pollution control powers;

- the UK Drinking Water Inspectorate, which enforces drinking water quality standards and is involved in ensuring that water companies are fulfilling their statutory duty as regards the supply of wholesome drinking water, and in prosecuting any Regulated Company that commits the offence of supplying water unfit for human consumption; and

- Natural England, an independent public body responsible for the protection of designated sites for nature conservation. There is a statutory requirement to manage these sites to conserve or improve biodiversity.

Numerous EU directives relating to water have been implemented in the UK, including the EU Water Framework Directive and the EU Drinking Water Directive. Among other things, the EU Water Framework Directive imposes a requirement on EU member states to ensure that their waters achieve at least "good status" by 2015, which may result in increased limitations on abstraction licences and restrictions on discharge consents granted to UK water companies. 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, including under the EU Environmental Liability Directive. The EU Drinking Water Directive sets quality standards for drinking water quality at the tap (microbiological, chemical and organoleptic parameters) and the general obligation that drinking water must be wholesome and clean.

Energy use 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 (which is estimated will result in an annual cost to Bristol Water of approximately £20,000) and the UK CRC Energy Efficiency Scheme, a mandatory UK emissions trading scheme for significant consumers of energy (which is estimated will result in an annual cost to Bristol Water of approximately £500,000).

Company Permits and Initiatives

Bristol Water manages a range of environmental issues in the course of its business, including the protection and security of water resources, the prevention and remediation of pollution, waste management, energy efficiency and carbon reduction. Addressing each of these areas requires the involvement of a variety of stakeholders, including the UK government, industry regulators and local groups. Bristol Water has systems and procedures in place which are designed to assess and monitor environmental performance across every aspect of its business with a view to ensuring compliance with environmental laws and regulations and that the highest environmental standards are maintained at all times.

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.

Bristol Water continually maintains and invests in its assets to ensure that a high standard of drinking water quality is maintained. To assess compliance with drinking water standards prescribed in the *UK Water Supply (Water Quality) Regulations 2000*, Bristol Water monitors water quality through an extensive program of plant and telemetry controls, regular sampling and analysis.

Bristol Water is actively engaged in waste reduction and recycling programs and it is pursuing strategies aimed at reducing its energy usage and overall carbon footprint. Certain of Bristol Water's water resources are important biodiversity sites, and it routinely works in cooperation with various stakeholders aimed at securing the most effective management of such sites.

Protected Land

Under the WIA, there is a prohibition on Regulated Companies disposing of any of their Protected Land (as defined in the WIA) except with the specific consent of, or in accordance with a general authorization given by, the UK Secretary of State. Land used for water supply purposes is generally classified as Protected Land under the WIA and a substantial majority of Bristol Water's landholdings are classified as being used for such purposes. A consent or authorization relating to the disposal of Protected Land may be given on such conditions as the UK Secretary of State considers appropriate. For the purpose of these provisions, disposal includes the creation of any interest (including leases, licences, mortgages, easements and wayleaves) in or any right over land, and includes the creation of a charge.

Enforcement and Special Administration

In practice, many regulatory issues arising between Regulated Companies and Ofwat are settled without the need to resort to formal enforcement proceedings. However, where Ofwat has determined that a Regulated Company is in breach of the conditions of its Instrument of Appointment or certain of its statutory obligations, it has powers to secure compliance by means of an enforcement order, and to impose financial penalties.

Regulated Companies may face a penalty of up to 10% of relevant regulated revenue for breaching Instrument of Appointment conditions, prescribed standards of performance or certain other statutory obligations. Ofwat has published a statement of the policy that it intends to apply to the imposition of any penalty and the determination of its amount. Such penalties can be appealed to the UK High Court on the grounds that their imposition is not within Ofwat's power, that Ofwat has failed to follow the procedure for imposing such penalties or that the dates required for payment of such penalties are unreasonable.

Failure to comply with an enforcement order can lead to court action by Ofwat for an injunction and claims for compensation by any person who suffers loss or damage as a result of the breach. Alternatively, where actual or likely contravention of an enforcement order (or of one of a Regulated Company's principal statutory duties under the WIA) is so serious so as to make it inappropriate for the Regulated Company to continue to hold its Instruments of Appointment, the UK Secretary of State or, with his or her consent, Ofwat, may apply to the UK High Court for an order appointing a Special Administrator, who has powers generally analogous to those of an administrator under the *UK Insolvency Act 1986* to transfer the water supply function of the Regulated Company or, in certain circumstances, to oversee the Regulated Company as a going concern. A Special Administrator may also be appointed in other circumstances such as where the Regulated Company is, or is likely to be, unable to pay its debts.

Competitive Conditions

The water industry in England and Wales is essentially a series 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 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 Regulated Companies 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 licencee of water purchased from a Regulated Company's supply system to an eligible customer) or (b) combined supply (i.e. the introduction of water into a Regulated Company's existing network for retail by the licencee to an eligible customer, plus retail supply). A Regulated 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.

Bristol Water is a licenced monopoly provider of water services to an area of approximately 2,400 square kilometres. To date, the above forms of competition have had no significant impact on Bristol Water. Furthermore, Ofwat has advised that the current regulatory regime, particularly the price review process, may in some areas place an excessive burden on water companies in England and Wales. As a result of these challenges, a number of reviews have been, and are being, undertaken to help guide future regulatory developments in the sector.

A white paper that reviewed competition and innovation in UK water markets was released by the UK government in December 2011 (the "Water for Life Paper"). 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. There are government proposals to reduce the threshold for competition for non-household users but there is currently no indication of when this lower threshold will be brought into effect. Ofwat is reviewing the way it regulates the water industry in the future and Bristol Water continues to monitor future developments. Proposed legislation and guidelines required to implement and regulate the reforms introduced in the Water for Life Paper have not been released, making the final form and scope of any such legislation and guidelines, and how they may apply to Bristol Water's business, difficult to predict. However, based upon its review of the Water for Life Paper, Bristol Water's management does not expect that the implementation of the reforms contained in the paper 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 21, 2012, there were issued and outstanding 71,465,955 Common Shares and 3,000,000 Series A Preferred Shares. There are no cumulative floating rate preferred shares, series B ("Series B Preferred Shares") issued and outstanding.

As at March 21, 2012, an aggregate principal amount of approximately $42.7 million 2016 Debentures were outstanding at such date. See "– 2016 Debentures".

As at March 21, 2012, 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") issued and outstanding. See "– Class B Exchangeable Units and Exchange Agreement".

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.

Class B Exchangeable Units and Exchange Agreement

On October 18, 2005, the Fund acquired an approximate 45% indirect ownership interest in the Leisureworld Entities concurrently with LSCLP's acquisition of 19 long term care homes and certain related businesses from Markham Suites Hotel Limited (formerly Leisureworld Inc., "MSHL"), LECR Inc. (formerly Leisureworld Creemore Inc., "LWC") and OLTCPI Inc. (formerly, Ontario Long Term Care Providers Inc.) (collectively, the "LSCLP Vendors"). The LSCLP Vendors indirectly acquired the Class B Exchangeable Units of LTC Holding LP, a limited partnership established under the laws of the Province of Ontario, as partial consideration in connection with the foregoing. On March 23, 2010, the Fund sold its indirect ownership interest in the Leisureworld Entities to LSCC (see "General Development of the Business"). Pursuant to the terms of the agreements governing the Class B Exchangeable Units, the Class B Exchangeable Units have remained outstanding following completion of the Arrangement.

LTC Holding LP, a limited partnership established under the laws of the Province of Ontario, has issued (i) general partnership units to MPT LTC Holding Ltd., its general partner; (ii) Class A limited partnership units to the Corporation; and (iii) Class B Exchangeable Units to the LSCLP Vendors. The LSCLP Vendors own all of the Class B Exchangeable Units which have economic rights equivalent in all material respects to those of the Common Shares.

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 (see "Material Contracts"). Pursuant to the Exchange Agreement, the Corporation is required to subscribe for additional equity of LTC Holding LP in the event that LTC Holding LP does not have sufficient funds to pay distributions on the Class B Exchangeable Units.

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. Assuming the exchange, as at March 21, 2012, of all of the Class B Exchangeable Units for Common Shares in accordance with the Exchange Agreement, the LSCLP Vendors would own, in aggregate on a pro forma basis, approximately 4.4% of the total number of Common Shares outstanding following such exchange.

MSHL and LWC have agreed that they will not acquire any additional Common Shares (other than pursuant to the exchange of the Class B Exchangeable Units or pursuant to a dividend reinvestment plan of the Corporation) without the consent of the Corporation before October 18, 2020. MSHL and LWC have also agreed not to sell more than 5% of the aggregate outstanding Common Shares in any four-month period and to not vote any Common Shares each receives on exchange of their Class B Exchangeable Units until they, together, hold one percent or less of the aggregate outstanding Common Shares. In addition, the LSCLP Vendors have agreed not to transfer any of the Class B Exchangeable Units held by them, other than to an affiliate or spouse or child of the holder of such Class B Exchangeable Units or otherwise for estate planning purposes.

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.

2016 Debentures

The following is a summary of the material attributes of the 2016 Debentures and certain provisions of the indenture dated as of December 22, 2009 (the "Debenture Indenture") and the First Supplemental Debenture Indenture (the Debenture Indenture, as supplemented by the First Supplemental Debenture Indenture, the "Supplemented Debenture Indenture"). See "Material Contracts".

General

An aggregate principal amount of $57.5 million 2016 Debentures were issued pursuant to the Supplemented Debenture Indenture. The outstanding 2016 Debentures have a maturity date of December 31, 2016 (the "2016 Debenture Maturity Date") and are listed on the TSX and trade under the symbol "CSE.DB.A".

Interest Payments

The 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 2016 Debentures, but, in any event, the holders of 2016 Debentures shall be entitled to receive cash payments equal to the interest otherwise payable on the 2016 Debentures.

Conversion Privilege

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 2016 Debenture Maturity Date and the business day immediately preceding the date specified by the Corporation for redemption of the 2016 Debentures, at a conversion price of $7.00 per Common Share (the "2016 Debenture Conversion Price"), being a ratio of 142.8571 Common Shares per $1,000 principal amount of 2016 Debentures, all subject to certain terms and conditions and in the manner set forth in the Supplemented Debenture Indenture. No adjustment to the 2016 Debenture Conversion Price will be made for dividends on Common Shares issuable upon conversion or for interest accrued on 2016 Debentures surrendered for conversion; however, holders converting their 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 2016 Debenture Interest Payment Date up to, but excluding, the date of conversion. Notwithstanding the foregoing, no 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 2016 Debenture Interest Payment Date, as the registers of the Debenture Trustee will be closed during such periods.

Subject to the provisions of the Supplemented Debenture Indenture, the 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 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 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 2016 Debentures are allowed to participate as though they had converted their 2016 Debentures prior to the applicable record date or effective date. The Corporation will not be required to make adjustments in the 2016 Debenture Conversion Price unless the cumulative effect of such adjustments would change the 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 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 2016 Debenture was convertible prior to the effective date of such event.

No fractional Common Shares will be issued on any conversion of the 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 may not redeem the 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 "– Put Right upon a Change of Control". On and after December 31, 2012, but prior to December 31, 2014, the 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 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 2016 Debenture Conversion Price. On and after December 31, 2014, and prior to the 2016 Debenture Maturity Date, the Corporation may redeem the 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 2016 Debenture Interest Payment Date up to, but excluding, the date of redemption.

The Corporation may purchase 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 2016 Debentures has occurred and is continuing, the Corporation will not have the right to purchase the 2016 Debentures by private contract.

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

Payment upon Redemption or Maturity

On redemption or the 2016 Debenture Maturity Date, the Corporation will repay the indebtedness represented by the 2016 Debentures by paying to the Debenture Trustee an amount equal to the principal amount of the outstanding 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 2016 Debentures has occurred and is continuing, elect to satisfy its obligation to repay, in whole or in part, the principal amount of the 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 2016 Debentures. The number of Common Shares to be issued will be determined by dividing the principal amount of the 2016 Debentures by 95% of the Current Market Price on the date fixed for redemption or the 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 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 2016 Debentures converted, redeemed or purchased will be cancelled and may not be reissued or resold.

Subordination

The 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 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 2016 Debentures. The Corporation and its subsidiaries are not restricted from incurring additional indebtedness for borrowed money, including indebtedness that ranks senior to the 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 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 Debenture Indenture provides holders of 2016 Debentures with a right, in the event of a change of control of the Corporation, to require the Corporation to purchase the 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 2016 Debentures through the issuance of Common Shares. If, in the event of a change of control, 90% or more of the then outstanding 2016 Debentures are put to the Corporation, the Corporation has the right, but not the obligation, to redeem all of the remaining outstanding 2016 Debentures at the same price paid for the put 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 2016 Debentures has occurred and is continuing, the 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 2016 Debentures, declare the principal of (and premium, if any) and interest on all outstanding

2016 Debentures to be immediately due and payable. Certain events of default in respect of the 2016 Debentures may be waived by the holders of 2016 Debentures or by the Debenture Trustee, in accordance with the terms of the Supplemented Debenture Indenture.

Offers for 2016 Debentures

If an offer is made for the 2016 Debentures which is a take-over bid for 2016 Debentures within the meaning of the *Securities Act* (Ontario) and not less than 90% of the outstanding principal amount of the 2016 Debentures (other than 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 2016 Debentures held by holders of 2016 Debentures who did not accept the offer on the terms offered by the offeror.

MANAGEMENT OF THE CORPORATION

Directors

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

In connection with the Internalization Transaction, MIRACL agreed, for a period of 12 months following completion of the Internalization Transaction, to make one of its (or its affiliate's) senior executives in Canada available to sit on the Board of Directors at no cost to the Corporation (other than the reimbursement of reasonable expenses). Such person was required to be reasonably acceptable to the Corporation. In connection with this agreement, Mr. James Cowan, a Managing Director of the Macquarie group in Canada, was appointed to the Board of Directors on April 18, 2011. At the annual general meeting of Shareholders held on June 10, 2011, the Shareholders elected five Directors of the Corporation, including Mr. Cowan.

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.

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, a Governance Committee and a Compensation Committee, each of which has a minimum of three Directors 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 21, 2012 are as follows:

Name, Jurisdiction of Residence and Date elected Director	Principal Occupation and Employment
Derek Brown (3)(5)(7) Ontario, Canada Director since March 15, 2004	Derek Brown is a corporate director and currently sits on the boards of SNP Split Corp. and Sixty Split Corp. Mr. Brown is also a member of the finance committee of the Canadian Opera Foundation. From 1996 to 2005, Mr. Brown was Professor of Finance (adjunct) at the University of Toronto, prior to which he was a Vice President and Director of RBC Dominion Securities Inc. From 1997 to 2003, Mr. Brown was a Commissioner of the Ontario Securities Commission. Mr. Brown earned a Bachelor of Commerce and Bachelor of Laws degree from Dalhousie University as well as a Doctor of Laws. He is also a Chartered Business Valuator and was a Governor of the Canadian Institute of Chartered Business Valuators from 1998 to 2003. Mr. Brown was a director of

Name, Jurisdiction of Residence and Date elected Director	Principal Occupation and Employment
	DALSA Corporation from 2005 to 2010.
James Cowan (3)(5)(7) Ontario, Canada Director since April 18, 2011	James Cowan is a managing director and president of the Canadian operations of MIRACL, a division of MGL. Since joining MGL in 2000, Mr. Cowan has advised clients and MGL-managed funds on a number of Canadian, US and U.K. transactions, including investments, financings and divestments in the transportation and utility sectors. Prior to joining MGL, Mr. Cowan worked for TD Securities and Hambros Bank in the areas of government and infrastructure finance. He also worked for a number of years in a leading insolvency and restructuring practice, where he managed various assets and operating companies. Mr. Cowan is a Chartered Accountant.
Patrick J. Lavelle (3)(4)(7) Ontario, Canada Director since April 15, 2004	Patrick J. Lavelle is the Chairman and Chief Executive Officer of Patrick J. Lavelle and Associates, a strategic management consulting firm which he established in 1991. Mr. Lavelle is also the Chairman and a director/trustee, as applicable, of each of Catalyst Capital Group Inc. and Retrocom Mid-Market Real Estate Investment Trust. Mr. Lavelle was the Chairman and Chief Executive Officer of Unique Broadband Systems Inc. (until 2002) and the Chairman of Specialty Foods Group Income Fund (until 2009). He previously held the position of Chairman of Export Development Canada from 1998 to 2001 and he served a three-year term as Chairman of the Board of the Business Development Bank of Canada commencing in 1994.
François R. Roy (2)(5)(7) Québec, Canada Director since March 15, 2004	François R. Roy is a director or trustee (as applicable) and a member of the audit committees of Fibrek Inc., Transcontinental Inc., the Caisse de dépôt et placement du Québec and Noranda Operating Trust. He was the Vice-Principal (Administration and Finance) of McGill University from June 2007 to June 2010 and, in that capacity, he was McGill's Chief Financial Officer and Chief Administration Officer. Mr. Roy earned his Bachelor of Arts and Master of Business Administration degrees from the University of Toronto. Mr. Roy was the Chief Financial Officer of Telemedia Corporation between 2000 and 2003.
V. James Sardo (1)(3)(5)(6) Ontario, Canada Director since November 4, 2009	V. James Sardo is a corporate director with significant operational and corporate governance expertise. He is currently a director of New Flyer Industries Inc. (since 2005). 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 was a director of Consolidated Thompson Iron Mines Limited from 2010 to 2011, Hydrogenics Corporation from 2003 to 2009, SonnenEnergy Corp from 2008 to 2009, Royal Group Technologies Limited from 2003 to 2006 (serving as its interim Chief Executive Officer from 2004 to 2005) and Northstar Healthcare Inc. from 2008 to 2010. Mr. Sardo was also a trustee of Countryside Power Income Fund and its Chairman (from 2004 to 2007), UE Waterheater Income Fund (from 2003 to 2007), and Custom Direct Income Fund (from 2003 to 2007). Prior to these appointments, Mr. Sardo 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

Name, Jurisdiction of Residence and Date elected Director	Principal Occupation and Employment
	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 is a member of the Institute of Corporate Directors and holds the ICD.D designation.

The term of office for each Director expires at the close of the next annual Shareholders' meeting.

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 Governance Committee of the Board.
(5) Member of the Governance Committee of the Board.
(6) Chairman of the Compensation Committee of the Board.
(7) Member of the Compensation Committee of the Board.

Executive Officers

On April 15, 2011, the Corporation terminated the Management Agreements with MPML, thereby internalizing its management. Effective upon the termination of the Management Agreements, the senior management team of the Corporation, all of whom were employees of MIRACL, an affiliate of MPML, became employees of the Corporation and continued in their previous roles, and certain employees of other affiliates of MPML who had provided services to the Corporation also became employees of the Corporation.

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 21, 2012 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)
Roberto 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)

Notes:

(1) Mr. Bernstein was appointed President and Chief Executive Officer effective July 6, 2009, after serving as President and Chief Executive Officer on an interim basis since April 15, 2009. Prior to April 15, 2011, Mr. Bernstein's principal occupation was as Senior Managing Director of the Macquarie group and President of MIRACL. 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, where he worked for nine years.

(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. Prior to April 15, 2011, Mr. Smerdon's principal occupation was as Managing Director of the Macquarie group and MIRACL. Mr. Smerdon joined MGL in 1998. From 1998 to 2002, he served with Macquarie's infrastructure advisory group and from 2002 – 2011 he was a member of the infrastructure funds management group.

(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 appointed Corporate Secretary. Prior to April 15, 2011, 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 the Executive Director, Corporate Services and Compliance and Corporate Secretary of Fairmont Hotels & Resorts Inc. and Senior Legal Counsel and Secretary of Legacy Hotels Real Estate Investment Trust from June 2005 to August 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 April 15, 2011, Mr. Bittan was employed by the Macquarie group as Associate Director of MIRACL and Chief Financial Officer of MEAP.

(5) Mr. Roberti was appointed Senior Vice President, Power Generation effective April 15, 2011. Prior to April 15, 2011, Mr. Roberti's principal occupation was as Associate Director of the Macquarie group and Senior Vice President of MIRACL. Prior to June 2007, Mr. Roberti was the Chief Financial Officer of Clean Power Income Fund.

(6) Mr. Ehlers was appointed Senior Vice President, Finance effective April 15, 2011. Prior to April 15, 2011, Mr. Ehlers' principal occupation was as Associate Director of the Macquarie group and Senior Vice President of MIRACL. From September 2007 to April 2010, Mr. Ehlers was the Vice President, Planning and Performance Measurement with Home Trust Company. Prior to September 2007, Mr. Ehlers was the President of JHE Consulting Ltd., a management consulting firm.

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

As at March 21, 2012, the Directors and the executive officers of the Corporation as a group own, directly or indirectly, or exercise control or direction over 160,975 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) (the "CCAA") 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).
>
> Mr. Lavelle was a director of Slater Steel Inc. when it filed for protection on June 2, 2003 under the CCAA in Canada and under Chapter 11 of the US Bankruptcy Code and Mr. Lavelle was also a director of SR Telecom Inc., when it filed for protection under the CCAA on November 19, 2007, and Tahera Diamond Corporation, which filed for protection under the CCAA on January 16, 2008.
>
> 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 five Directors, namely Derek Brown, James Cowan, Patrick Lavelle, V. James Sardo and François R. Roy (Chairman). 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 responsibilities as an member of the Audit Committee are set forth in their respective biographies above under the heading "– 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, 2010 - December 31, 2010	January 1, 2011 - December 31, 2011
Audit Fees	$121,781	$216,517
Audit-Related Fees	$280,188	$318,102
Tax Fees	$241,407	$390,621
All Other Fees	$196,106	$183,538
Total	$839,482	$1,108,778

Notes:

(1) The Corporation's audit-related fees include fees paid to the Corporation's auditors for statutory audits, attestation services assistance with and review of documents filed with regulators, services provided in connection with the Corporation's offering of preferred and common shares and quarterly reviews.

(2) Tax fees are 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) Other fees include accounting related fees regarding conversion to IFRS and the Arrangement and related internal reorganization of the Corporation, as well as fees for French translation of financial statements and management's discussion and analysis in connection with the Corporation's securities regulatory filings**.**

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 also be specifically pre-approved by the Audit Committee Chairman 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, 2011 was compatible with maintaining its independence.

Environmental and Social (including Occupational Health and Safety) Responsibility Management Policy

The Corporation's environmental and social responsibility management policy (the "ESRM Policy") incorporates its occupational health and safety ("OH&S") policy. In general, the ESRM Policy aims to ensure compliance by the Corporation with applicable laws and regulations relating to environmental and social responsibility matters. The Corporation's ongoing environmental and social responsibilities are managed as follows:

- *Asset acquisition due diligence* – Where such information is available, environmental and social responsibilities are considered by the Corporation during the due diligence process in its review and evaluation of possible acquisitions. The asset's environmental and OH&S risk management frameworks are reviewed as part of the broader risk management framework assessment. Where regulatory obligations exist, the Corporation views such obligations as minimum standards for environmental and social responsibility management post-acquisition. The ESRM Policy outlines the key steps to be taken during the due diligence phase, including engaging an appropriate expert to identify issues and obligations relating to any investment.

- *Ongoing management* – Each asset owned by the Corporation maintains its own environmental and OH&S risk management framework and support infrastructure to manage its obligations and risks. The Corporation’s ability to control or influence such a framework and infrastructure differs based on its level of ownership/control and the regulatory framework that governs environmental and OH&S risks. In general, the regulatory/governing framework and the minimum standards under which an asset operates is not controlled by the Corporation or its assets. It is the Corporation’s policy to confirm compliance by its assets with such minimum standards. For each asset, Board reporting enables compliance with environmental and OH&S requirements to be monitored and issues to be identified and resolved on a timely basis.

- *Stakeholder reporting* – The ESRM Policy recognizes the importance of environmental and social responsibility management by requiring the Corporation to report annually to Shareholders regarding environmental and social responsibility management, including a summary of the ESRM Policy and key responsibilities, and a statement on the regulatory compliance of the applicable assets during the reporting period.

RISK FACTORS

The Corporation, its subsidiaries and the facilities in which they have invested face a number of risks and uncertainties, including the risk factors set out below that could have an adverse impact on their businesses, operating results and financial condition, which could, in turn, adversely affect the Corporation’s ability to pay distributions to its securityholders. The Corporation attempts to mitigate the risks and uncertainties that may affect its performance through a process of identifying, assessing, reporting and managing significant risks. The following information is a summary only of certain risk factors 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 Canadian securities regulators from time to time, including the Corporation’s management’s discussion and analysis for the year ended December 31, 2011.

Risks Related to the Corporation

Variability and Payments of Dividends on Common Shares, which are not Guaranteed

Although the Board of Directors of the Corporation has adopted a policy of paying a monthly 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 Board of Directors, payable quarterly each year, at an annual rate equal to $1.25 per share, the declaration of dividends is at the discretion of the Board of Directors. Further, the Corporation’s dividend policies 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.

On December 6, 2011, the Corporation 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 and noted that it was unlikely that the Corporation would maintain its dividend at the then-current level through 2014. See “Dividends”.

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 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. In periods of increased levels of volatility and market turmoil, the Corporation’s operations could be adversely impacted and the trading price of the Corporation’s securities may be adversely affected.

Availability of Debt and Equity Financing

In recent years, global financial market events have experienced volatility which has negatively impacted the liquidity of those 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 so the inability to raise debt or equity financing could have a material adverse effect on its business. As well, the Issuer Credit Facility matures on June 29, 2012 and the Senior Credit Facility matures on October 3, 2012. The inability of the Corporation to access sufficient capital on acceptable terms to refinance or repay the Issuer Credit Facility and/or the Senior Credit Facility or meet its other objectives or requirements could have a material adverse effect on the Corporation’s business, prospects, dividend paying capability and financial condition and ability to pursue further enhancement opportunities or acquisitions.

Default under Credit Agreements

The Corporation and its wholly-owned subsidiaries have the following credit agreements in place: the Issuer Credit Agreement, the Senior Credit Facility, the Erie Shores Credit Agreement and the ASP Credit Agreement. Bristol Water has Artesian loans, RPI-linked secured bonds, a committed credit facility and various tranches of debentures outstanding and DH OpCo has issued the Värmevärden Bonds. These credit agreements and debt instruments 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. 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. There can be no assurance that any of the applicable subsidiaries of the Corporation will generate sufficient cash flow from operations or that future distributions will be available in amounts sufficient to pay outstanding indebtedness or to fund any other liquidity needs.

There can also be no assurance that the Corporation or its subsidiaries could refinance these credit agreements or debt instruments or obtain additional financing on commercially reasonable terms, if at all. Borrowings under the Issuer Credit Agreement, the Senior Credit Agreement, the ASP Credit Agreement and certain of Bristol Water’s debt instruments may be at variable rates of interest, which, in the absence of effective hedges, would expose the Corporation to the risk of increased interest rates. This factor may increase the sensitivity of the Corporation’s cash flow to interest rate variations.

2016 Debentures Credit Risk, Prior Ranking Indebtedness and Absence of Covenant Protection

The likelihood that holders of the 2016 Debentures will receive payments owing to them under the terms of the 2016 Debentures will depend on the financial health of the Corporation and its creditworthiness. In addition, the 2016 Debentures are unsecured obligations of the Corporation and are subordinate in right of payment to all the Corporation’s existing and future senior indebtedness, including indebtedness under the Senior Credit Facility. If the Corporation becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the

Corporation's assets will be available to pay its obligations with respect to the 2016 Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the 2016 Debentures then outstanding. The 2016 Debentures are also effectively and structurally subordinate to claims of creditors (including trade creditors) of the Corporation's subsidiaries and investees except to the extent the Corporation is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Debenture Indenture does not prohibit or limit the ability of the Corporation or its subsidiaries or investees to incur additional debt or liabilities (including senior indebtedness) or to make distributions, except, in respect of distributions, where an event of default has occurred and such default has not been cured or waived. The Debenture Indenture does not contain any provision specifically intended to protect holders of 2016 Debentures in the event of a future leveraged transaction involving the Corporation.

Dependence on Subsidiaries and Investees

As the Corporation operates as a holding company, its ability to pay interest and other operating expenses and dividends, to meet its obligations and to complete current or desirable future enhancement opportunities or acquisitions generally depends upon receipt of sufficient dividends from its subsidiaries and other investments, the amount of intercompany debt between the Corporation and its subsidiaries, its ability to raise additional capital and the value of its underlying business and assets. The likelihood that holders of securities of the Corporation will receive payments, whether as interest or dividends or upon redemption or maturity, will be dependent upon the operating performance, profitability, financial position and creditworthiness of the subsidiaries and investees of the Corporation and on their ability to pay amounts to the Corporation. The payment of interest and dividends by certain of these subsidiaries and investees to the Corporation is also subject to restrictions set forth in constating documents, corporate, tax and other laws, and applicable regulatory regimes, which require that solvency and capital standards be maintained by such companies, and may be subject to the terms of other securities of the subsidiaries and investees. Investors in the Corporation are subject to the risks attributable to its subsidiaries and investees.

Acquisitions

The Corporation's strategy includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions and effectively operating (or contracting for the operation of) such businesses. If the Corporation is unable to manage an acquisition, it could adversely impact the Corporation's financial condition and results of operations and decrease the amount of cash available for distribution. Acquisitions by the Corporation are subject to the normal commercial risks and satisfaction of closing conditions that may include, among other things, lender and various regulatory approvals. Such acquisitions may not be completed or, if completed, may not be on terms that are exactly the same as initially negotiated. In the event that the Corporation does not complete an acquisition, it may have an adverse effect on the operations and results of the Corporation in the future.

In connection with acquisitions (including Värmevärden and Bristol Water), there may be liabilities that the Corporation did not discover, or did not appropriately quantify, during the due diligence process which occurred prior to the closing of the transaction. As a result, the Corporation may not be fully indemnified for some or all of these liabilities. The Corporation may assume unknown liabilities that could be significant and that could materially and adversely affect the acquired business' financial performance and future prospects.

Geographic Concentration and Non-Diversification

The Corporation's power infrastructure operating segment derives approximately 81% of its Adjusted EBITDA from facilities that are located in Ontario, namely the Cardinal Facility, the Erie Shores Wind Farm, the Wawatay Facility, the Dryden Facility and the Amherstburg Solar Park. This concentration means that the Corporation is exposed to local and regional economic conditions and changes in the regulatory environment in Ontario. This risk is partially mitigated by the Corporation's Power Infrastructure Facilities located in Alberta and BC along with Värmevärden and Bristol Water, which are located in Sweden and the UK, respectively.

Foreign Exchange Risk

Through its investments in Bristol Water and Värmevärden, the Corporation is exposed to foreign exchange risk through exchange rate movements attributable to future cash flows (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. As a result, fluctuations in the Canadian dollar and the UK pound sterling or Swedish krona exchange rates could materially affect the financial performance of Bristol Water or Värmevärden, as applicable. The Corporation's foreign exchange hedging policy focuses on reducing foreign exchange risk primarily in relation to expected future dividends from and interest paid by Bristol Water and Värmevärden, as applicable. The Corporation selects a hedging strategy which takes into consideration the then current hedging costs and tax implications. However, the Corporation could be exposed to losses by undertaking hedging activities.

Reliance on Key Personnel

The Corporation's success will depend heavily on its ability to attract, retain and motivate key employees, including its senior management and the management of Bristol Water and Värmevärden. If the Corporation loses the services of any of these key executives and cannot replace them 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.

Insurance

The Corporation maintains insurance coverage in respect of potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers and on such terms as the Directors consider appropriate, taking into account all relevant factors including the practices of owners of similar assets and operations. However, not all risk factors are covered by such insurance and no assurance can be given that insurance will be consistently available or available on an economic basis or that the amounts of insurance will be sufficient to cover each and every loss or claim that may occur involving the assets or operations of the Corporation.

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 2016 Debentures in accordance with their terms and the Corporation may, in certain circumstances, determine to redeem outstanding 2016 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 (see "Dividends – Dividend Reinvestment Plan"). Accordingly, holders of Common Shares may suffer dilution. Shareholders have no pre-emptive rights in connection with such further issues of Common Shares.

Derivatives Risks

The Corporation, its subsidiaries and its investees may invest in and use derivative instruments, including futures, forwards, options and swaps, to manage its interest rate, currency exchange and other risks inherent in its operations and investments. There can be no assurance that such hedging activities will be effective. Further, these activities, although intended to mitigate price volatility, expose the Corporation to other risks. The Corporation is subject to the credit risk that its counterparty (whether a clearing corporation in the case of exchange traded instruments or another third party in the case of over-the-counter instruments) may be unable to meet its obligations. In addition, there is a risk of loss by the Corporation of margin deposits in the event of the bankruptcy of the dealer with whom the Corporation has an open position in an option or futures or forward contract. In the absence of actively quoted market prices and pricing information from external sources, the valuation of these contracts involves judgement and use of estimates. As a result, changes in the underlying assumptions or use of alternative valuation methods could affect the reported fair value of these contracts. The ability of the Corporation to close out its positions may also be affected by exchange-imposed daily trading limits on options and futures contracts. If the Corporation is unable to close out a position, it will be unable to realize its profit or limit its losses until such time as the option becomes exercisable or expires or the futures or forward contract terminates, as the case may be. The inability to close out options, futures and forward positions could also have an adverse impact on the Corporation's ability to use derivative instruments to effectively hedge its utility and interest rate risks.

Changes in Legislation and Administrative Policy

There can be no assurance that certain laws applicable to the Corporation and its subsidiaries, including income tax laws, will not be changed in a manner which could adversely affect the value of 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.

The operations of certain of the Corporation's businesses are dependent upon certain regulations and rules of governments or administrative bodies (such as the IESO). Changes to such regulations or rules could adversely affect the Corporation's business and financial results.

Competition

The Corporation competes for projects and acquisitions with individuals, corporations and institutions (both Canadian and foreign) which are seeking or may seek investments similar to those desired by the Corporation. Availability of investment funds and an increase in interest in these investments may increase competition for them, thereby increasing purchase prices or development costs. Many of these investors have greater financial resources than those of the Corporation and/or operate according to more flexible conditions.

Private Companies and Illiquid Securities

The Corporation invests in securities of private companies, such as Bristol Water and DH HoldCo. In some cases, the Corporation may be restricted by contract or by applicable laws from selling such securities for a period of time. Such securities may not have a ready market and the inability to sell such securities or to sell such securities on a timely basis may impair the Corporation's ability to sell such investments at a reasonable price when the Corporation considers it appropriate.

Risks Related to the Power Infrastructure Facilities

Operational Performance

The Corporation's revenue is largely proportional to the amount of electrical energy generated by the Power Infrastructure Facilities. The Power Infrastructure Facilities are subject to risks related to premature wear or failure, defects in design, material or workmanship and longer than anticipated down times for maintenance and repair, including 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.

The operational performance of the Erie Shores Wind Farm and the Hydro Power Facilities are dependent upon wind speed and density and water flows, respectively. This risk is partially offset by the geographic diversification of the Hydro Power Facilities in the three different watersheds. The operational performance of the Amherstburg Solar Park relies on the availability and constancy of solar insolation, which could vary due to abnormal weather conditions.

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 (see "Narrative Description of the Business – Power Infrastructure –

Overview”), which provide a specified rate, but carry expiration dates and termination rights. In particular, the initial 20-year term and the first automatic one-year renewal of the Cardinal PPA ends on December 31, 2014. Thereafter, the term of the Cardinal PPA is automatically extended on a year-by-year basis for further terms of one year each, provided that after the expiry of the original term of 20 years, either party may at any time, with at least one year’s written notice to the other, terminate the Cardinal PPA. As PPAs expire or are terminated, there can be no assurance that the applicable Power Infrastructure Facilities will be able to renegotiate or enter into power supply contracts 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. If this occurs, the affected facility may temporarily or permanently cease operations, which could have an adverse impact upon the business, operating results and financial condition of the facility, which could, in turn, adversely affect the Corporation’s results and the Corporation’s ability to pay dividends to its securityholders. With respect to the Cardinal Facility, the Corporation expects that the price that the OPA will be willing to pay for electricity under any new PPA for the Cardinal Facility will be less than the price paid under the current Cardinal PPA, which could negatively affect the financial performance of the Cardinal Facility.

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.

Fuel Costs and Supply

The supply of natural gas required by the Cardinal Facility is contracted under the Cardinal GPA, which expires on May 1, 2015. The Whitecourt Facility has a contract with a substantial forest products company to supply a majority of its wood waste fuel requirements (see “Narrative Description of the Business – Power Infrastructure – Biomass Power Facilities – Whitecourt Facility – Wood Waste Supply Arrangements”. Upon the expiry of each of these supply agreements, the Corporation will have to renegotiate the agreement or enter into a new supply agreement. There can be no assurance that such agreements will be able to be renegotiated, or new supply agreements be entered into, on terms that are similar to the existing agreements, if at all. Furthermore, there can be no assurance as to the supply or price of natural gas or wood waste available on the open market or at the time of the expiry of the supply agreements. If, 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 is in excess of the price available under the current supply arrangements or such fuel is not available in the quantities required, this could have an adverse impact upon the business, operating results and financial condition of such facilities.

Furthermore, each of these facilities is also dependent on the supply of fuel to it. Any interruption in the supply of fuel (as a result of transportation or otherwise) or increases in fuel transportation costs, which is regulated by the Natural Energy Board in the case of natural gas, may result in a significant reduction in the Corporation’s cash flow. On December 8, 2011, the National Energy Board approved TCPL’s proposed 2012 interim gas transportation toll of $2.24 per GJ effective January 1, 2012, which is a significant increase from TCPL’s original proposal of $1.63 per GJ for final gas transportation tolls for 2012 and 2013. This increase in gas transportation tolls is expected to result in an approximate $6.5 million increase in operating costs at the Cardinal Facility for 2012 compared to TCPL’s original proposal.

Contract Performance

The amount of the Corporation’s cash flow available for distribution to holders of the Corporation’s securities is highly dependent upon the parties to the various agreements relating to the Power Infrastructure Facilities fulfilling their contractual obligations, particularly OEFC and OPA under various PPAs, Husky Marketing under the Cardinal GPA, Millar Western under its wood waste supply agreement for the Whitecourt Facility, Regional Power with respect to the Hydro Power Facilities and SunPower with respect to the Amherstburg Solar Park. An inability or failure by any such party to meet its contractual commitments could have an adverse impact upon the business, operating results and financial condition of one or more of the Power Infrastructure Facilities.

Amherstburg Solar Park Technology Risk

While much of the technology utilized at the Power Infrastructure Facilities has a history of reliable performance at similar facilities throughout Canada, some of the components of the Amherstburg Solar Park have not previously been used in operations in Canada. In addition, the Corporation does not have previous operational expertise with solar PV power projects. The performance of the Amherstburg Solar Park could be affected by a failure of the solar modules and other components to perform as expected, by premature wear or failure due to defects in design, material or workmanship, or by failure to maintain the facility. The Corporation has attempted to mitigate some of these risks by obtaining manufacturers' warranties for the principal components that will be utilized at the facility. In addition, for the first two years of commercial operations, SunPower will provide a weather-adjusted performance guarantee for electricity production and SunPower will be providing all operations and maintenance services required for the facility. Notwithstanding the foregoing, it is possible that the Amherstburg Solar Park 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. Such performance issues could have an adverse impact on the business, operating results or financial condition of ASP Partnership.

Land Tenure and Related Rights

The Power Infrastructure Facilities have various land tenure and resource access rights upon which they depend for their operation. 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, Health and Safety Regime

The Power Infrastructure Facilities are 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 facilities 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 facilities being involved from time to time in administrative and judicial proceedings related to such matters, which could have a material adverse effect on the Power Infrastructure Facilities' business, financial condition and results of operations. 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 facilities' activities, the extent of which cannot be predicted.

The primary environmental risks associated with the operation of the Cardinal Facility and the Whitecourt 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 Facility, storage of wood waste fuel on site. The Corporation has procedures in place to prevent and minimize any impact of the foregoing, which procedures meet generally acceptable industry practices.

The primary environmental risks associated with the operation of the Hydro Power Facilities include possible dam failure which results in upstream or downstream flooding, and equipment failure which results 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 around a dam facility. In order to monitor and mitigate these risks, the Corporation completes facility inspections and ensures each of its facilities are in compliance with the appropriate regulatory requirements.

The primary environmental risks associated with the operation of the Erie Shores Wind Farm include potential harm to the local migratory bird population, harm to the local bat population as well as concerns over noise 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.

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.

Regulatory Regime and Permits

The Corporation’s Power Infrastructure Facilities are highly regulated and must abide by the relevant market rules as administered by the system operators in each local jurisdiction. The performance of these facilities 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.

The Corporation attempts to mitigate these risks by developing and adhering to compliance plans and by participating in industry groups to remain abreast of evolving issues or requirements. In addition, each facility completes an annual operational risk self-assessment, which applies a formal process to identifying, ranking, mitigating and monitoring risks.

Force Majeure

The occurrence of a significant event which disrupts the ability of the Power Infrastructure Facilities to produce or sell power for an extended period, including events which preclude existing customers from purchasing power, could have a material negative impact on the Corporation’s cash flow. A significant portion of the events giving rise to *force majeure* are mitigated by the Corporation’s contractual arrangements, diversified operations and applicable insurance programs.

Risks Related to Bristol Water

Influence of Ofwat Price Determinations

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 its delivery against these measures.

The price determinations periodically made by Ofwat limit the prices Bristol Water can charge its customers. 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. The price limits were last reviewed and reset by Ofwat in 2009 for the five-year period from April 2010 and, following the rejection by Bristol Water, were subsequently amended by the UK CC. The conditions of Bristol Water’s Instrument of Appointment, including any condition relating to the prices Bristol Water can charge its customers, can be modified by Ofwat either with Bristol Water’s agreement or, following reference to the UK CC, on public interest grounds.

Implicit within the most recent price limits set by Ofwat (as amended by the UK CC) are 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.

Failure to Deliver Capital Investment Programs

The regulated business requires significant capital expenditures, 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 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 fines imposed by Bristol Water's regulators of an amount of up to 10% of its revenue for each infringement or other sanctions.

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 a fine or a reduced revenue allowance at the next price setting review. In addition, if performance were to decline, Bristol Water may incur additional operating or capital expenditure to restore performance.

Ofwat's Introduction of the SIM and the Serviceability Assessment

For the 2010-2015 period, Ofwat introduced a new comparative incentive mechanism to reward or penalize water companies' service performance, replacing the Overall Performance Assessment. The SIM compares 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 next reset in 2014.

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 the next price-setting review. In addition, if performance were to decline, Bristol Water may incur additional operating or capital expenditure to restore performance.

Economic Environment, Inflation and Capital Market Conditions

Bristol Water's RCV is adjusted annually for inflation so, if RPI decreases, the RCV would be adjusted downward to reflect this. 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 influence the calculation of RCV at the next price 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 is set to undertake over the remainder of AMP5, it will have to be mindful of any such movement relative to RPI in the determination of dividends.

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. Bristol Water's section was closed to new employees in 2002. Since that closure, all new employees are offered membership in a stakeholder 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, to the extent they are not recoverable under the regulatory price determination process, could materially adversely affect Bristol Water's results of operations and financial condition.

Legal and Regulatory Risks

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. The Water for Life Paper stated the UK government's intention to introduce new legislation, including in relation to water charging, Ofwat and increased competition.

If Bristol Water fails to comply with applicable law or regulations, in particular in relation to its Instrument of Appointment, or 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 expenditure 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.

Operational Risks

Bristol Water controls and operates a water network and maintains the associated assets with the objective of providing a continuous service. 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. Such circumstances might arise, for example, from energy shortages; the failure of an asset or an element of a network or supporting plant and equipment; human error; unavailability of access to critical sites or key staff; malicious intervention; failure by a supplier; labour disputes; pollution or contamination; or naturally occurring events.

Bristol Water could be fined for breaches of statutory obligations or held liable to third parties or be required to provide an alternative water supply of equivalent quality, which could increase costs. Insurance coverage may be inadequate or unobtainable.

Bristol Water is also dependent upon the ability to access, utilize and communicate remotely via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. The ownership, maintenance and recovery of such applications, hardware and networks are not wholly under Bristol Water's control.

Management 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.

Since 2000, domestic customers cannot be disconnected from their 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.

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.

Competition

If the reforms proposed in the Water for Life Paper are implemented, they could eventually expand the competitive market allowing retail competition for all non-household customers as an initial step in opening markets to competition. The Water for Life Paper also indicated the UK government's desire for reform in respect of abstraction and discharge as well as upstream activities, but rejected earlier recommendations to require legal separation of the retail divisions of Regulated Companies from the remainder of their regulated businesses. 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 recently commenced consultations on future price limits.

Ofwat has taken steps to introduce competition into the water supply market through inset appointments and the water supply licensing regime, none of which have affected Bristol Water's water supply area to date. Further inset appointments may be made in the future, resulting in increased competition.

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 the financial position of Bristol Water.

Default Under Bristol Water's Artesian Loans, Bonds, Debentures and Credit Facility

A portion of Bristol Water's cash flow is devoted to servicing its debt and there can be no assurance that Bristol Water will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on its Artesian loans, bonds, debentures or drawings under its credit facility. If Bristol Water 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. If this were to occur, it could have an impact upon the business, operating results and financial condition of Bristol Water which could adversely affect the Corporation's results and its ability to pay dividends on its shares. As well, the Artesian loans, bonds, debentures and Bristol Water's credit facility contain a number of customary financial and other covenants and a failure by Bristol Water to comply with its obligations under these instruments could result in a default, which, if not cured or waived, could result in the termination of dividends by Bristol Water and permit acceleration of the relevant indebtedness and a possible sale of Bristol Water by its lenders pursuant to their security rights in relation to the Artesian loans and/or bonds. Such a default could have an impact upon the business, operating results and financial condition of Bristol Water, which could adversely affect the Corporation's results and its ability to pay dividends to its securityholders.

Geographic Concentration

Bristol Water's operations are all located in the Bristol area of the UK. If the Bristol market was to generally experience a severe decline in financial performance as a result of changes in local or regional economic conditions or an adverse change to the regulatory environment, the market value of Bristol Water, the income generated from its operations and the overall financial performance of the Corporation could be negatively affected.

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.

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 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 in the future which could materially and adversely affect Bristol Water's business, operating results, financial condition and cash flow.

Special Administration

The WIA contains provisions enabling the UK Secretary of State or Ofwat (with the permission of the UK Secretary of State) to secure the general continuity of water supply by petitioning the UK High Court for the appointment of a Special Administrator in certain circumstances (for example, where Bristol Water is in breach of its principal duties under its Instrument of Appointment). Such action could impact the business, operating results and financial condition of Bristol Water, which could adversely affect the Corporation's results and its ability to pay dividends to its securityholders.

Risks Related to Värmevärden

General Risks Inherent in the District Heating Sector

The financial performance of Värmevärden depends on, among other things, its ability to successfully operate the district heating facilities. The cost of operations and maintenance and the operating performance of a district heating facility may be adversely affected by a number of factors, including but not limited to:

- regular and unexpected maintenance and replacement expenditures;
- shutdowns due to the breakdown or failure of the facility's equipment or the equipment of the distribution system;
- operator error;
- labour disputes;
- catastrophic events such as fires, explosions, earthquakes, landslides, floods, releases of hazardous materials, severe storms, or similar occurrence affecting a district heating facility, the heating distribution system, any district heating customers or third parties providing services or waste heating to a district heating facility; and
- the aging of district heating facilities, which may reduce their operating performance and increase their cost of maintenance.

Any of these events could significantly increase the expenses incurred by a district heating facility or reduce the overall generating capacity of a district heating facility and could significantly reduce or entirely eliminate the revenues generated by a district heating facility, which in turn could materially and adversely affect Värmevärden's business, operating results, financial condition and cash flow.

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. In addition, 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, significant increases in fuel costs or unavailability of fuel could materially and adversely affect Värmevärden's business, operating results, financial condition and cash flow.

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. 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 which, in some cases, could materially and adversely affect Värmevärden's business, operating results, financial condition and cash flow.

Geographic Concentration

Värmevärden's heat production facilities and distribution networks are located in Sweden. This concentration means that Värmevärden could be exposed to local or regional economic conditions or an adverse change in the regulatory environment in Sweden. Additionally, since many of the district heating facilities primarily service specific municipalities, a decline in the populations of such municipalities could materially and adversely affect Värmevärden's business, operating results, financial condition and cash flow.

Regulatory Environment

Värmevärden is subject to regulation under the DH Act as well as under consumer protection and other legislation and regulations of general application. Värmevärden's business is presently not subject to price regulation or TPA. However, the imposition of one or both of price regulation and TPA could materially and adversely affect Värmevärden's business, operating results, financial condition and cash flow.

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, occupation health, waste disposal, toxic substances, land use, environmental protection, project 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 which could materially and adversely affect its business, operating results, financial condition and cash flow.

Default Under Värmevärden Bonds

A portion of Värmevärden's cash flow is devoted to servicing its debt and there can be no assurance that Värmevärden will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on the Värmevärden Bonds. If Värmevärden 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. If this were to occur, it could have an impact upon the business, operating results and financial condition of Värmevärden which could adversely affect the Corporation's results and its ability to pay dividends on its shares. As well, the Värmevärden Bonds contain a number of customary financial and other covenants and a failure by Värmevärden to comply with its obligations under these instruments could result in a default, which, if not cured or waived, could result in the termination of dividends by Värmevärden and permit acceleration of the relevant indebtedness and a possible sale of Värmevärden by its lenders pursuant to their security rights. Such a default could have an impact upon the business, operating results and financial condition of Värmevärden.

Environmental, Health and Safety

Värmevärden is subject to a complex and stringent environmental, health and safety regulatory regime. As such, its operations carry an inherent risk of environmental, health and safety liabilities (including potential civil actions, compliance or remediation orders, fines and other penalties) that may result in its facilities being involved from time to time in administrative and judicial proceedings related to such matters, which could materially and adversely affect Värmevärden's business, financial condition and results of operations. Värmevärden 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 facilities' activities, the extent of which cannot be predicted. 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.

Labour Relations

Approximately 80% of Värmevärden's employees are represented by unions. While Värmevärden has traditionally maintained positive labour relations, there can be no assurance that it will not in the future, whether in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees which could materially and adversely affect Värmevärden's business, operating results, financial condition and cash flow. Such risks may be mitigated by Swedish legislation that prohibits labour disruptions in the provision of essential services such as district heating.

Minority Interest

The Corporation owns an approximate 33.3% indirect minority interest in DH HoldCo. As such, subject to the DH Governance Term Sheet, the Corporation has restricted legal rights to influence the management of Värmevärden. The current and any future holders of the remaining 66.7% interest could have different objectives than those of the Corporation with respect to Värmevärden. As a result, the ability of Värmevärden to generate cash and to pay distributions to the Corporation could be affected by certain actions of the indirect majority owner or owners, which could materially and adversely affect Värmevärden's business, operating results, financial condition and cash flow.

DIVIDENDS

Dividend Policies

The Corporation's current dividend policy for the Common Shares is to pay a monthly dividend of $0.055 per Common Share (equivalent to $0.66 per year). On December 6, 2011, the Corporation 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 and noted that it was unlikely that the Corporation would maintain its dividend at the then-current level through 2014.

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 Board of 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 Board of 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 Board of Directors of the Corporation 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. See “Risk Factors”.

Under the Senior Credit Facility, there are limitations on the payment of distributions by the Corporation, however, distributions to the following securityholders of the Corporation, among others, are generally permitted: (i) to holders of the Common Shares, provided that such amount is not to exceed, on a per share basis, the regular dividends that have been previously paid over the 12 months prior to the entry into the Senior Credit Facility; and (ii) to holders of its preferred shares, provided they are in accordance with the terms of such preferred shares.

Distributions

For each of the months ended January 31, 2009 through to and including December 31, 2009, the Fund distributed $0.08750 per Unit. For each of the months ended January 31, 2010 through to and including December 31, 2010, the Fund distributed $0.0550 per Unit. For each of the months ended January 31, 2011 through to and including February 29, 2012, the Corporation distributed dividends of $0.0550 per Common Share. Holders of Class B Exchangeable Units have received distributions from LTC Holding LP equivalent to amounts paid in respect of Units or Common Shares, as applicable. See “Capital Structure of the Corporation – Class B Exchangeable Units and Exchange Agreement”.

For the period from June 30, 2011 to October 31, 2011 and quarter ended January 31, 2012, the Corporation distributed dividends of $0.4212 and $0.3125, respectively, per Series A Preferred Share.

The Corporation is currently dependent on the operations of the Power Infrastructure Facilities, Värmevärden and Bristol Water to generate cash flow 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”).

Dividend Reinvestment Plan

In August 2011, the Corporation amended its dividend reinvestment plan (“DRIP”) for eligible holders of Common Shares. Participants 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

Until January 11, 2011, the Units were listed on the TSX under the symbol “MPT.UN”. From January 11, 2011 to April 21, 2011, the Common Shares were listed on the TSX under the symbol “MPT”. Since April 21, 2011, the Common Shares have been listed on the TSX under the symbol “CSE”. The following table sets forth the high and low sales prices per outstanding Unit/Common Share and trading volumes for the outstanding Units/Common Shares on the TSX for the periods indicated:

	Price Per Unit / Common Share		Trading Volume
	High ($)	Low ($)	
2011			
January	8.80	8.07	2,233,371
February	8.67	7.93	2,574,505
March	8.20	7.50	2,995,501
April	8.29	7.60	2,883,645
May	8.23	7.76	2,352,724
June	8.20	7.73	2,727,267
July	7.85	7.30	1,960,002
August	7.48	6.12	2,859,578
September	6.95	6.21	1,618,493
October	6.69	5.68	3,594,562
November	6.25	5.64	4,157,131
December	5.91	3.11	23,337,920
2012			
January	4.36	3.75	5,016,992
February	4.12	3.81	7,007,179
March (to March 21)	4.36	3.80	3,214,925

Series A Preferred Shares

The Corporation issued the Series A Preferred Shares on June 30, 2011. 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 ($)	Low ($)	
2011			
June 30th	24.75	24.00	13.150
July	24.20	22.80	213,843
August	23.20	21.00	127,121
September	21.50	18.76	62,683
October	21.39	18.60	121,466
November	21.40	19.61	75,356
December	20.00	15.23	392,084
2012			
January	18.90	17	98,241
February	18.84	17.52	86,244
March (to March 21)	18.93	17.50	58,799

2016 Debentures

Prior to January 1, 2011, the Corporation's 2016 Debentures were obligations of the Fund and were listed on the TSX under the symbol "MPT.DB.A". The 2016 Debentures became obligations of the Corporation on January 1, 2011, but remained listed on the TSX under the same symbol. Since April 21, 2011, the outstanding 2016 Debentures have been listed on the TSX under the symbol "CSE.DB.A". The following table sets forth the high and low sales prices per outstanding 2016 Debenture and trading volumes for the outstanding 2016 Debentures on the TSX for the periods indicated:

	Price Per Debenture		Trading Volume
	High ($)	**Low ($)**	
2011			
January	120.50	115.60	60,250
February	123.00	113.56	52,110
March	116.50	108.50	9,130
April	117.40	110.00	7,480
May	116.54	111.76	5,970
June	116.10	111.00	29,250
July	112.00	107.00	7,110
August	108.00	99.05	6,730
September	103.00	100.50	4,420
October	102.50	98.00	28,150
November	101.50	99.50	65,610
December	102.00	89.00	64,680
2012			
January	102.86	49.00	17,460
February	104.00	101.00	5,740
March (to March 21)	102.02	101.50	1,260

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 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. A 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.

The Corporation's Series A Preferred Shares are rated P-3 on S&P's Canadian national preferred share rating scale. A P-3 rating is the third highest of eight major rating categories used by S&P in its Canadian national preferred share rating scale. 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-3 on S&P's Canadian national preferred share rating scale corresponds to BB on S&P's global preferred share rating scale. A BB rating is the fifth highest of ten major rating categories used by S&P in its global preferred share rating scale. These major rating categories may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the category, while the absence of either a plus (+) or minus (-) sign 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 BB is less vulnerable to non-payment than other speculative issues, however, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

The Series A Preferred Shares' 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.

Each credit rating accorded to the Series A Preferred Shares by S&P is not a recommendation to buy, sell or hold the Series A Preferred Shares inasmuch as such rating does not comment as to market price, value or merit of an investment or suitability for a particular investor. 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 credit rating on the Series A Preferred Shares may not reflect the potential impact of all risks related to the value of the Series A Preferred Shares. In addition, real or anticipated changes in the credit rating assigned to the Series A Preferred Shares may affect the market value of the Series A Preferred Shares.

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 2016 Debentures is Computershare Trust Company of Canada and the register for the 2016 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, 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 2012 (up to March 21, 2012) that has materially affected or is reasonably expected to materially affect the Corporation.

INTEREST OF EXPERTS

The Corporation's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors' report dated March 7, 2012, in respect of the Corporation's consolidated financial statements with accompanying notes as at and for the year ended December 31, 2011. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Corporation 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 and 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, 2011 (or prior to January 1, 2011 if still in effect) that are material to the Corporation:

(a) the ASP Credit Agreement (described under "Narrative Description of the Business – Power Infrastructure – Amherstburg Solar Park – ASP Credit Agreement");

(b) the ASP Performance Guarantee (described under "Narrative Description of the Business – Power Infrastructure – Amherstburg Solar Park – ASP Performance Guarantee");

(c) the Bristol Water Shareholders' Agreement (described under "Narrative Description of the Business – Utilities – Water Utility Business: Bristol Water – Shareholders' Agreement");
(d) the Debenture Indenture (described under "Capital Structure of the Corporation – 2016 Debentures");
(e) the DH Governance Term Sheet appended to the DH Subscription Agreement as a schedule (described under "Narrative Description of the Business – Utilities – District Heating Business: Värmevärden – Governance Term Sheet");
(f) the Erie Shores Credit Agreement and Erie Shores CPC Guarantee (described under "Narrative Description of the Business – Power Infrastructure – Erie Shores Wind Farm – Erie Shores Credit Agreement");
(g) the Exchange Agreement (described under "Capital Structure of the Corporation – Class B Exchangeable Units and Exchange Agreement");
(h) the First Supplemental Debenture Indenture (described under "Capital Structure of the Corporation – 2016 Debentures);
(i) the Internalization Agreement (described below); and
(j) the Issuer Credit Agreement (described below);
(k) the Senior Credit Agreement (described below).

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 obtained on the Internet by accessing SEDAR at www.sedar.com.

Issuer Credit Agreement

CPC and Cardinal LP, as borrowers (collectively, the "Issuer Credit Facility Borrowers"), CPC, CPOT Title Corp., MPT Hydro LP, Cardinal GP, Whitecourt Power Limited Partnership, and Whitecourt Power Ltd., as guarantors (collectively, the "Issuer Credit Facility Guarantors", and together with the Issuer Credit Facility Borrowers, the "Restricted Group Members"), the lenders that are parties thereto from time to time, TD Securities Inc., as sole lead arranger and sole bookrunner, and a Canadian chartered bank, as administration agent (the "Issuer Credit Facility Agent"), are parties to the Issuer Credit Agreement. All of the equity interests of each of the Restricted Group Members are owned directly or indirectly by the Corporation.

The maturity date of the Issuer Credit Facility is June 29, 2012. The Issuer Credit Facility consists of (i) a revolving facility in the amount of $40,625,000, which includes a swing line facility in the amount of $5,000,000 (the "Issuer Revolving Facility") and (ii) a non-revolving term facility in the amount of $125,625,000 (the "Issuer Term Facility"). The available amount of the Issuer Revolving Facility is reduced by the maximum contingent amount of CPC's exposure under the Erie Shores CPC Guarantee. As at December 31, 2011, an aggregate amount of $119 million had been advanced and was outstanding under the Issuer Credit Facility.

Borrowings under the Issuer Credit Facility are available by way of floating rate loans and/or bankers' acceptances bearing interest as calculated under the Issuer Credit Agreement. Borrowings under the Issuer Revolving Facility may also be made by way of the issuance of standby instruments. The Issuer Credit Facility Borrowers are required to pay a standby instrument fee and 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 Issuer Credit Facility may also be used to (i) finance the working capital requirements of the Issuer Credit Facility Borrowers and the other Restricted Group Members arising in the ordinary course of their operations, (ii) repay the "generator debt" in connection with the Wawatay PPA, (iii) finance certain permitted acquisitions, and (iv) finance other general corporate purposes of the Restricted Group Members, including certain permitted distributions (up to $10 million).

The Issuer Credit Facility is secured by, among other things, (i) unconditional and unlimited guarantees from each of the Issuer Credit Facility Guarantors, (ii) a first ranking security interest over all present and future business, operations, undertaking, property and assets (including both real and personal property) of each Restricted

Group Member, (iii) first ranking specific assignments of certain material agreements by Cardinal LP, Cardinal GP and CPC, (iv) first ranking securities pledge agreements made by each Restricted Group Member in favour of the Issuer Credit Facility Agent of all equity and debt of each Restricted Group Member and other direct subsidiaries owned by them, (v) various subordination agreements, including from the Corporation, (vi) first ranking assignments by each Restricted Group Member in favour of the Issuer Credit Facility Agent of all policies of insurance of the Restricted Group Members and all proceeds thereunder, and (vii) first ranking securities pledge agreement (and limited recourse guarantee) made by the Corporation in favour of the Issuer Credit Facility Agent of all equity and debt of each Restricted Group Member owned by it.

Pursuant to the Issuer Credit Agreement, the Restricted Group Members are subject to certain affirmative covenants, negative covenants, financial covenants, and reporting obligations. Affirmative covenants include, without limitation, maintenance of corporate structure and existence, compliance with laws, compliance with contracts, prompt notice of the occurrence of certain events, maintenance of the business, operations, undertaking, property and assets (both real and personal) of each Restricted Group Member, maintenance of liens, maintenance of insurance, maintenance of bank accounts, payment of taxes and claims, payment of money and taxes due and payable, and proper use of the proceeds of the Issuer Credit Facility. Negative covenants include, without limitation, restrictions (subject in each case to exceptions) on the incurrence of indebtedness, the sale of assets, the disposal of subsidiaries, the creation of liens or the granting of negative pledges, the entering into of any merger or similar transaction with any person, the making of distributions, corporate changes, amendments to material agreements, the acquisition of subsidiaries and the entering into of transactions with affiliates. Financial covenants include a ratio of consolidated total debt to consolidated EBITDA no greater than 3.50:1 for each Test Period (defined below) ending on or after June 30, 2011. In addition, the ratio of consolidated EBITDA to consolidated interest expense may not be less than 3.50:1 for each Test Period ending on or after June 30, 2011. The foregoing ratios 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”).

The Issuer Credit Facility is subject to certain events of default (including without limitation a change of control of the Corporation).

Senior Credit Agreement

To obtain partial funding of the purchase price for its interest in Bristol Water, the Corporation entered into the bridge loan agreement dated October 3, 2011 (the “Senior Credit Agreement”) with MIHI LLC, a subsidiary of MGL, as the initial lender. Cortland Capital Market Services LLC acts as administrative agent and collateral agent under the Senior Credit Facility.

The Senior Credit Facility provides for a senior secured credit facility with a maximum principal amount of $150 million to be used solely to fund the purchase of Bristol Water and related transaction costs by way of a single drawdown on the closing date. The principal outstanding under the Senior Credit Facility becomes due and payable 364 days from the date of the drawdown. The Senior Credit Facility can be prepaid at any time in whole or in part, subject to customary restrictions and payment of customary breakage costs. The full $150 million available under the Senior Credit Facility was drawn concurrently with the closing of the acquisition of Bristol Water on October 5, 2011. On November 10, 2011, the Corporation repaid approximately $71.6 million of the outstanding indebtedness under the Senior Credit Facility from the net proceeds of its offering of 12,000,000 Common Shares which was completed on that date. On March 7 and 8, 2012, the Corporation repaid approximately $46 million of the outstanding indebtedness under the Senior Credit Facility from its *pro rata* share of the net proceeds of the Värmevärden Bonds.

To secure amounts owing under the Senior Credit Facility, the following security has been provided: (i) the Corporation has provided a pledge of the shares of MPT Utilities Corp (“MPTU”), its wholly owned subsidiary; (ii) MPTU has provided a guarantee and security agreement over all of its present and after acquired property, including the shares of MPT Utilities Europe Ltd. (“MPT Europe”), its wholly owned subsidiary; (iii) MPT Europe has provided a guarantee and security agreement over all of its present and after acquired property, including pledges of the shares it owns in each of MPT DH and CSE Water; and (iv) CSE Water has provided a guarantee and debenture providing for a charge over certain of its present and after acquired property. The Corporation, MPTU, MPT Europe, MPT DH and CSE Water are referred to as the “Obligors”.

Under the Senior Credit Facility, there are limitations on the payment of distributions by the Corporation; however, distributions to the following securityholders of the Corporation are generally permitted: (i) holders of the Common Shares, provided that such amount is not to exceed, on a per share basis, the regular dividends that have been previously paid over the 12 months prior to the entry into the Senior Credit Facility; (ii) holders of the Corporation's preferred shares, provided they are in accordance with the terms of such preferred shares; and (iii) holders of the 2016 Convertible Debentures if such payments are interest payments paid in cash as provided under the terms of such debentures or if payments of principal or interest are made through the issuance of Common Shares in accordance with the terms of such debentures.

The Senior Credit Facility requires that mandatory prepayments be made in the event that any of the Obligors disposes of certain property or assets, receives certain amounts due under policies of insurance, receives proceeds in respect of debt permitted under the Senior Credit Facility (which would include the issuance of further convertible debentures), receives proceeds in respect of the issuance of equity or receives claims under indemnities in respect of the share purchase agreement pursuant to which the Corporation acquired an indirect 70% interest in Bristol Water Holdings or the purchase agreements entered into in connection with the indirect purchase by the Corporation of an interest in Värmevärden.

The Senior Credit Facility contains representations and warranties, covenants, indemnities and events of default that are customary for financing transactions of this nature. An event of default is also triggered if (i) the Bristol Water Put Option under the Bristol Water Shareholders' Agreement is exercised; (ii) a "material contract", including the Bristol Water Shareholders' Agreement or the Bristol Water O&M Agreement, is terminated (other than termination of the Bristol Water O&M Agreement by Agbar in circumstances other than for non-performance by Bristol Water Holdings); (iii) the Corporation's common shares are delisted from the TSX; or (iv) a cease trade order (other than a temporary order issued pending a hearing and determination by the applicable securities regulatory body) is made in respect of the outstanding Common Shares.

Internalization Agreement

On April 15, 2011, the Corporation terminated the Management Agreements with MPML for aggregate consideration equal to approximately $14 million (plus applicable tax), thereby internalizing its management. In connection with the completion of the Internalization Transaction, an affiliate of MPML subscribed for 855,746 Common Shares, then-valued at approximately $7 million ($8.18 per share), which it covenanted to hold for at least 12 months from the date of issuance, subject to certain permitted transfers to affiliates (which would be bound by that same hold period).

Pursuant to the agreement governing the Internalization Transaction, the Macquarie group agreed not to solicit, without consent, any former employee of MPML who became an employee of the Corporation upon completion of the Internalization Transaction until April 15, 2012. Similarly, the Corporation, CPC, ASP Partnership and Cardinal LP agreed not to solicit, without consent, any employees of the Macquarie group until April 15, 2012. In each case, these restrictions do not apply to general public advertisements for employment or employees who are terminated or resign for "good reason". In addition, the restrictions will cease to apply to the Macquarie group if there is a change of control event with respect to the Corporation. A change of control event is defined to include a person other than Macquarie group acquiring, directly or indirectly, an interest in the Corporation such that the person has (a) 50% or more of the voting interest in the Corporation or (b) the power to control the appointment or dismissal of the majority of the Board of Directors of the Corporation.

Until April 15, 2012, Macquarie Infrastructure and Real Assets, a division of the Macquarie group has agreed to present to the Corporation certain investment opportunities related to operating power generation assets in Canada that are presented to MIRA. In addition, until April 15, 2012, MIRACL has agreed to make one of its (or its affiliate's) senior executives in Canada available to sit on the Board of Directors of the Corporation at no cost to the Corporation (other than the reimbursement of reasonable expenses) (see "Management of the Corporation – Directors").

ADDITIONAL INFORMATION

Additional information, including Directors' and officers' remuneration and indebtedness, will be contained in the Corporation's management information circular. Additional financial information is provided in the

Corporation's 2011 Annual Report, which contains the Corporation's audited annual consolidated financial statements and management's discussion and analysis as at and for the year ended December 31, 2011. Such documentation, along with the information incorporated herein by reference as well as additional information relating to the Corporation may be found on SEDAR at www.sedar.com.

GLOSSARY

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

"**2016 Debenture**" means the 6.50% convertible unsecured subordinated debentures of the Corporation, due December 31, 2016, as described under the heading "Capital Structure of the Corporation – 2016 Debentures".

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

"**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).

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

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

"Adjusted EBITDA" means revenue less operating and administrative expenses plus interest income and dividends/distributions received from equity accounted investments. Amounts attributed to any non-controlling interest are deducted.

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

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

"**AMP5**" means AMP period 5.

"**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.

"**ASP Credit Agreement**" means the credit agreement dated as of June 23, 2010 between, among others, ASP Partnership and Dexia Crédit Local S.A. (acting though its Canada Branch), WestLB AG (New York Branch) and Caixanova (Miami Branch), pursuant to which the Amherstburg Solar Park was primarily funded.

"**ASP EPC Agreement**" means the engineering, procurement and construction agreement dated as of June 23, 2010 between ASP Partnership and SunPower in respect of the Amherstburg Solar Park.

"**ASP O&M Agreement**" means operations and maintenance agreement dated as of June 23, 2010 between ASP Partnership and SunPower in respect of the Amherstburg Solar Park.

"**ASP Partnership**" means Helios Solar Star A-1 Partnership (previously named Helios Solar Star A-1, L.P. prior to amending its partnership agreement as at January 1, 2011 such that it became a general partnership).

"**ASP Performance Guarantee**" means a performance guarantee agreement pursuant to which SunPower has provided a two-year weather-adjusted performance guarantee for the Amherstburg Solar Park.

"**ASP**" or "**Amherstburg Solar Park**" means a 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, the licenced monopoly provider of water services to an area of approximately 2,400 square kilometres centred on the City of Bristol, England.

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

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

"**Bristol Water O&M Agreement**" means the operational and management agreement dated October 5, 2011 made between Agbar and Bristol Water Holdings**.**

“**Bristol Water Put Option**” means the put option granted in favour of Agbar pursuant to the Bristol Water Shareholders’ Agreement, whereby Agbar can require CSE Water to purchase Agbar’s entire interest in Bristol Water Holdings in certain circumstances.

“**Bristol Water Shareholders’ Agreement**” means the shareholders’ agreement dated October 5, 2011 made among the Corporation, CSE Water, Agbar and Bristol Water Holdings to govern the relations between CSE Water and Agbar, as shareholders of Bristol Water Holdings, and to set the parameters for how the business of the Bristol Water Group, including Bristol Water, will be conducted.

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

“**BWBSL**” means Bristol Wessex Billing Services Limited.

“**Cardinal Energy Savings Agreement**” means the energy savings agreement dated to be effective as of September 3, 1992 between Casco and Cardinal LP.

“**Cardinal Facility**” means the 156 MW combined cogeneration plant fuelled by natural gas located in Cardinal, Ontario as well as the approximately 6.5 km long, 115 kV connection line owned by Cardinal LP, which connects the Cardinal Facility with the Hydro One transmission system.

“**Cardinal Gas Mitigation Agreement**” means the November 1, 1994 amendment to the Cardinal GPA, as amended January 31, 2009.

“**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 Husky Oil Operations Ltd. and Cardinal LP and assigned by Husky Oil Operations Ltd. to Husky Marketing by an assignment and novation agreement dated as of December 15, 2001, as amended.

“**Cardinal LP**” means Cardinal Power of Canada, L.P., a limited partnership established under the laws of Delaware.

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

“**Casco**” means Casco Inc.

“**Chapais Facility**” means the 31 MW wood waste fired electricity-generating station located northwest of Québec City, Québec.

“**Chapais O&M Agreement**” means the agreement between Probyn Power and CHESEC dated March 1, 2001, pursuant to which the Chapais Facility is operated and managed.

“**Chapais PPA**” means the PPA dated March 30, 1992 between CHESEC (as successor owner of the Chapais Facility) and Hydro-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 $4.7 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., a subsidiary of the Corporation.

“**CSE Water**” means CSE Water UK Limited.

“**Current Market Price**” means the current market price of the Common Shares as calculated pursuant to the terms of the Supplemented Debenture Indenture.

“**DCR**” means the direct customer rate calculated by OEFC from time to time that is used as an index rate to calculate the rate payable by OEFC under PPAs with various NUGs, and which is designed to represent the fully-delivered cost of uninterruptible power at 100% load factor to Ontario’s wholesale market participant industrial customers.

“**DCR escalator**” means the cumulative percentage increase in the DCR since a specified point in time.

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

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

“**DH Act**” means Swedish District Heating Act.

“**DH Governance Term Sheet**” means the equity investment term sheet that is a schedule to the DH Subscription Agreement pursuant to which term sheet the parties agreed to certain governance arrangements in respect of the entities comprising the Värmevärden Group.

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

“**DH OpCo**” means Sefyr Värme AB.

“**DH Subscription Agreement**” means the subscription agreement dated December 12, 2010 and amended as of January 12, 2012, among MEIF II, the Corporation, DH HoldCo and DH OpCo.

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

“**Dryden 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.

“**Dryden PPA**” means the PPA dated October 23, 1990 between CPC (as successor owner) and OEFC (as successor power purchaser to Ontario Hydro), as amended.

“**EBITDA**” means earnings before interest, taxes, depreciation, and amortization and certain other adjustments as described in the Issuer Credit Facility Agreement.

“**Environmental, Health and Safety Laws**” means: (a) federal, provincial, municipal, 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 and discharges into water; (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 prevention, presence, and remediation of hazardous materials in soil and ground water, both on and off site; (vi) workers’ health and safety issues and (vii) noise regulation.

“**Erie Shores Credit Agreement**” means the credit agreement dated as of June 28, 2005, as amended as of January 1, 2011 and April 1, 2011 among ESWFLP, Erie Shores Wind Farm General Partner Inc. (as successor to Erie Shores Wind Farm General Partner Trust), Sun Life, as agent for the lenders named therein, and the lenders named therein.

“**Erie Shores CPC Guarantee**” means the unsecured guarantee CPC has provided to Sun Life in the amount of $5 million for the debts under the Erie Shores Credit Agreement.

“**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 windpower 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, the owner of the Erie Shores Wind Farm.

"**Exchange Agreement**" means the exchange agreement dated October 18, 2005, as amended and restated as of January 1, 2011, among the Corporation, LTC Holding LP and the LSCLP Vendors.

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

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

"**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.

"**GJ**" is equivalent to the amount of energy available from 26.1 m^3 of natural gas.

"**Global Adjustment**" means the global adjustment amount calculated by IESO each month pursuant to the requirements of Ontario Regulation 429/04 which adjusts for differences between market revenues and the amounts paid to regulated and contracted generators (such as generators with PPAs or FIT contracts) and for conservation and demand management programs.

"**GWh**" is a unit of electrical energy equal to 1,000 MWh.

"**Hluey Lakes Facility**" means the three MW hydro power generating station located in the Dease Lake area in northwestern BC

"**Hluey Lakes PPA**" means the PPA between MPT Hydro LP (as successor owner of the Hluey Lakes Facility) and BC Hydro dated November 1, 1993, as amended, pursuant to which BC Hydro is obligated to purchase all energy required to meet the load demand of Dease Lake from the Hluey Lakes Facility until January 31, 2020, subject to other terms of the agreement.

"**Husky Marketing**" means Husky Energy Marketing Inc.

"**Hydro One**" means Hydro One Networks Inc.

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

"**Hydro Power O&M Agreement**" means the agreement between Regional Power and MPT Hydro LP dated November 14, 2001, pursuant to which Regional Power provides operations, maintenance and management services in respect of the Hydro Power Facilities.

"**IESO**" means the Independent Electricity System Operator in Ontario.

"**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.

"**Instruments of Appointment**" means an instrument of appointment issued under the WIA.

"**Internalization Agreement**" means the agreement dated March 14, 2011 between the Corporation, CPC, ASP Partnership and Cardinal LP and MPML regarding internalization of all management and administrative functions currently provided to the Corporation and certain of its subsidiaries by MPML.

"**Internalization Transaction**" means the internalization of all management and administrative functions that were provided to the Corporation and certain of its subsidiaries by MPML, pursuant to, among other agreements, the Internalization Agreement.

"**IPP**" means an Independent Power Producer.

"**Issuer Credit Agreement**" means the amended and restated credit agreement dated January 1, 2011 (amending and restating the credit agreement dated May 19, 2009, as amended as of June 16, 2009, September 30, 2009 and June 23, 2010) between the Issuer Credit Facility Borrowers, as borrowers, the Issuer Credit Facility Guarantors, as guarantors, the lenders from time to time parties thereto, TD Securities Inc., as sole lead arranger and sole bookrunner, and the Issuer Credit Facility Agent, as administration agent.

"**Issuer Credit Facility Agent**" means a Canadian chartered bank, as administration agent under the Issuer Credit Agreement.

"**Issuer Credit Facility Borrowers**" means CPC and Cardinal LP, as borrowers under the Issuer Credit Agreement.

"**Issuer Credit Facility Guarantors**" means CPOT Title Corp., MPT Hydro LP, Cardinal GP, Whitecourt Power Limited Partnership and Whitecourt Power Ltd., as guarantors under the Issuer Credit Agreement.

"**Issuer Credit Facility**" means collectively the revolving facility under the Issuer Credit Agreement in the amount of $40,625,000, which includes a swing line facility in the amount of $5,000,000, and the non-revolving term facility under the Issuer Credit Agreement in the initial amount of $141,875,000.

"**Leisureworld Entities**" means, collectively, LSCLP and its general partner.

"**LSCC**" means Leisureworld Senior Care Corporation.

"**LSCLP Vendors**" means MSHL, LWC, and OLTCPI Inc.

"**LSCLP**" means Leisureworld Senior Care LP.

"**LTC Holding LP**" means MPT LTC Holding LP.

"**LWC**" means LECR Inc.

"**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, whose principal business is the creation and management of specialist funds which focus on infrastructure, real estate and adjacent sectors.

"**Ml/d**" means million litres a day.

"**MMBtu**" means one million British thermal units, a standard unit of measurement used to calculate the energy content of natural gas.

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

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

"**MSHL**" means Markham Suites Hotel Limited.

"**MW**" means 1,000 kilowatts.

"**MWh**" means an hour during which one MW of electrical power has been continuously produced.

"**NI 52-110**" means Canadian Securities Administrators' National Instrument 52-110 – *Audit Committees*.

"**NOx**" means oxides of nitrogen.

"**NUG**" means non-utility generators of electricity.

"**OEFC**" means Ontario Electricity Financial Corporation.

"**Ofwat**" means the UK Water Services Regulatory Authority.

"**OH&S**" means occupational health and safety.

"**On-peak Hours**" means 7:00 a.m. to 11:00 p.m. local time at the Cardinal Facility, the Dryden Facility and the Wawatay Facility on weekdays, excluding public holidays.

"**OPA**" means the Ontario Power Authority.

"**OPG**" means Ontario Power Generation.

"**Pic River FN**" means the Ojibways of the Pic River First Nation.

"**Power Infrastructure Facilities**" means collectively, the Cardinal Facility, the Erie Shores Wind Farm, the Hydro Power Facilities, the Whitecourt 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.

"**Probyn Power**" means Probyn Power Services Inc.

"**PV**" means photovoltaic.

"**RCV**" means regulated capital value.

"**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.

"**Regulated Company**" means a water undertaker appointed by the UK Secretary of State.

"**RESOP Contracts**" means two 20-year contracts pursuant to which electricity generated by the Amherstburg Solar Park is sold to the OPA under the RESOP.

"**RESOP**" means the Province of Ontario's Renewable Energy Standard Offer Program.

"**Restricted Group Members**" means with respect to the Issuer Credit Agreement, collectively, the Issuer Credit Facility Guarantors and the Issuer Credit Facility Borrowers.

"**RPI**" means the UK Retail Prices Index.

"**SCADA**" means Supervisory Control and Data Acquisition.

"**Sechelt Facility**" means the 16 MW hydro power generating station located near Sechelt, BC, approximately 70 kilometres northwest of Vancouver.

"**Sechelt PPA**" means the PPA dated August 31, 1990 in respect of the sale of power from the Sechelt Facility to BC Hydro, as amended.

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

"**SEK**" means Swedish krona.

"**Senior Credit Agreement**" means the bridge loan agreement dated October 3, 2011 entered into by the Corporation with MIHI LLC, a subsidiary of MGL.

"**Senior Credit Facility**" means the credit facility with MIHI LLC, an indirect wholly-owned subsidiary of MGL, as the initial lender under which the Corporation drew down $150 million to finance in part the acquisition of its interest in Bristol Water.

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

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

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

"**SPRDA**" means the *Small Power Research and Development Act* (Alberta).

"**Sun Life**" means Sun Life Assurance Company of Canada.

"**SunPower**" means, collectively, SunPower Corporation and its subsidiaries.

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

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

"**TPA**" means Third Party Access.

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

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

"**UK CC**" means the UK Competition Commission.

"**UK Secretary of State**" means the UK Secretary of State for the Environment, Food and Rural Affairs.

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

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

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

"**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.

"**WaSCs**" means Water and Sewerage Companies.

"**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 Amortization Period**" means the first 20 years of the Wawatay PPA.

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

"**Wawatay Guaranteed Payment**" means with respect to the Wawatay Facility, a yearly amount (paid in monthly installments) necessary to fully amortize and pay the Wawatay Loan over the Wawatay Amortization Period.

"**Wawatay Loan**" means the $20 million original aggregate principal amount term loan by the Corporation (as successor lender) to CPC (as successor borrower) which matures in July 2012 and bears an interest rate of 9.80% calculated and payable monthly.

"**Wawatay Performance Payment**" means with respect to the Wawatay Facility, a monthly payment based upon the actual generation of power up to 120% of target generation, multiplied by the performance rate as set out in the Wawatay PPA.

"**Wawatay PPA**" means the PPA dated April 1, 1992 between MPT Hydro LP (as successor owner of the Wawatay Facility) and OEFC (as successor power purchaser to Ontario Hydro), as amended.

"**Wessex Water**" means Wessex Water Services Limited.

"**Whitecourt Facility**" means the 28 MW (gross capacity) 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 Facility) and TransAlta.

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

"**WoCs**" means Water-Only Companies.

"**WPPI**" means the Wind Power Production Incentive, a Canadian federal government program providing incentive payments to producers of wind energy.

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 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; and

v) 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 (i) to plan or conduct audits, (ii) to 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) to 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:

2. 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 the fact that a director is also a director of one or more Subsidiaries 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 full 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 24 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

Selection and Oversight of the External Auditors and Independence Requirements

3. 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.

4. 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.

5. 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.

6. 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. 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.

7. 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) taxation planning and consulting services;

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

(e) internal audit outsourcing services;

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

(g) legal or litigation support services;

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

(i) actuarial services.

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

8. The Committee shall establish and monitor clear policies for the hiring by Capstone Infrastructure Group of partners, employees and former partners and employees of the external auditors.

9. 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.

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

Oversight of Internal Audit Function

11. 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.

Oversight and Monitoring of Audits

12. 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.

13. 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.

14. 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.

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

16. 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.

Oversight and Review of Accounting Principles and Practices

17. 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 judgements 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.

18. 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.

Oversight and Monitoring of Internal Controls

19. 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; and

(c) Management’s compliance with the Corporation’s processes, procedures and internal controls.

Communications with Others

20. 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.

Oversight and Monitoring of the Corporation’s Financial Disclosures

21. 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.

22. 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.

23. 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.

24. 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.

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

Oversight of Finance Matters

26. 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 therefor 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; and

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

27. 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.

28. 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.

29. The Committee shall receive and review the financial statements and other financial information of members of Capstone Infrastructure Group and any auditor recommendations concerning such entities as they relate to the assets of the Corporation.

Committee Reporting

30. 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.

Board, Committee and Breach Reporting

31. 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 Operational Risk Self Assessment ("ORSA") process via the ORSA matrix, including a summary of improvement actions completed and actions to be completed

(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

As necessary:

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

(f) Results of internal audit reviews or other independent reviews

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

Additional Responsibilities

32. 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.

33. 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.

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

35. 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.