



**CAPSTONE INFRASTRUCTURE CORPORATION**

**ANNUAL INFORMATION FORM**

*For the Financial Year Ended December 31, 2017*

**March 21, 2018**

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## EXPLANATORY NOTES

Except where otherwise indicated, all references to dollar amounts and “\$” are to Canadian dollars. In this Annual Information Form, unless the context otherwise requires, “**Capstone**” or the “**Corporation**” refers to Capstone Infrastructure Corporation and its subsidiary entities on a consolidated basis. **Please refer to the “Glossary” in this Annual Information Form for the definitions of certain defined terms.**

Certain of the statements contained within this document are forward-looking and reflect management’s expectations regarding the future growth, results of operations, performance and business of the Corporation based on information currently available to the Corporation. Forward-looking statements are provided for the purpose of presenting information about management’s current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as “anticipate”, “continue”, “could”, “expect”, “may”, “will”, “intend”, “estimate”, “plan”, “believe” or other similar words, and include, among other things, statements concerning: the Corporation’s strategy; the supply and transportation of natural gas to the Cardinal Facility; the conversion by Concord of the Concord Debenture into a 50% equity interest in the Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing wind facilities; that the agreement entered into with the shishálh Nation with respect to the Sechelt Creek Hydro Facility will result in minority equity ownership by the shishálh Nation and profit sharing for the project; the expected completion and resulting production capacity of the wind development projects; the income expected to be earned from the sale of electricity produced by the Whitecourt Biomass Facility; any scheduled major maintenance projects; any refinancing of indebtedness; changes to Environmental, Health and Safety Laws, regulations, and guidelines; the regulatory environment affecting the power facilities; the Corporation’s dividends and dividend policy; and the application to and effect on the Corporation’s business of federal and provincial climate change initiatives and legislation. 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, 2017, as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation’s SEDAR profile at [www.sedar.com](http://www.sedar.com)).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements contained herein include or relate to the following: that the business and economic conditions affecting the Corporation’s operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that the preferred shares will remain outstanding and that dividends will continue to be paid on the preferred shares; that there will be no material delays in the Corporation’s wind development projects achieving commercial operation; that the Corporation’s power facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no further material changes to the Corporation’s facilities, equipment or contractual arrangements; that there will be no material changes in the legislative, regulatory and operating framework for the Corporation’s businesses; that there will be no material delays in obtaining required approvals for the Corporation’s power facilities; that there will be no material changes in environmental regulations for the power facilities; that there will be no significant event occurring outside the ordinary course of the Corporation’s businesses; the refinancing on similar terms of the Corporation’s and its subsidiaries’ various outstanding credit facilities and debt instruments which mature during the period in which the forward-looking statements relate; that the conversion rights pursuant to the convertible debenture issued in connection with the Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing wind facilities are exercised; market prices for electricity in Ontario and the amount of hours that the Cardinal Facility is dispatched; and the price that the Whitecourt Biomass Facility will receive for its electricity production considering the market price for electricity in Alberta, and the Whitecourt Biomass Facility’s agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by the facility.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation’s securities (controlling shareholder; dividends on common shares and

preferred shares are not guaranteed; volatile market price for the Corporation's securities); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; acquisitions, development and integration; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); and risks related to the Corporation's power facilities (power purchase agreements; operational performance; market price for electricity; contract performance and reliance on suppliers; completion of the Corporation's wind development projects; land tenure and related rights; environmental; and regulatory environment). For more details regarding these risk factors, see "*Risk Factors*".

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

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

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

## THE CORPORATION

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

### Mission and Strategy

The Corporation's mission is to provide investors with an attractive total return from responsibly managed long-term investments in power generation in North America. Capstone's strategy is to develop, acquire and manage a portfolio of high quality power assets. As at March 21, 2018, Capstone owns and operates an approximate net installed capacity of 541 MW across 23 facilities in Canada, including wind, solar, hydro, natural gas and biomass power plants.

### Structure

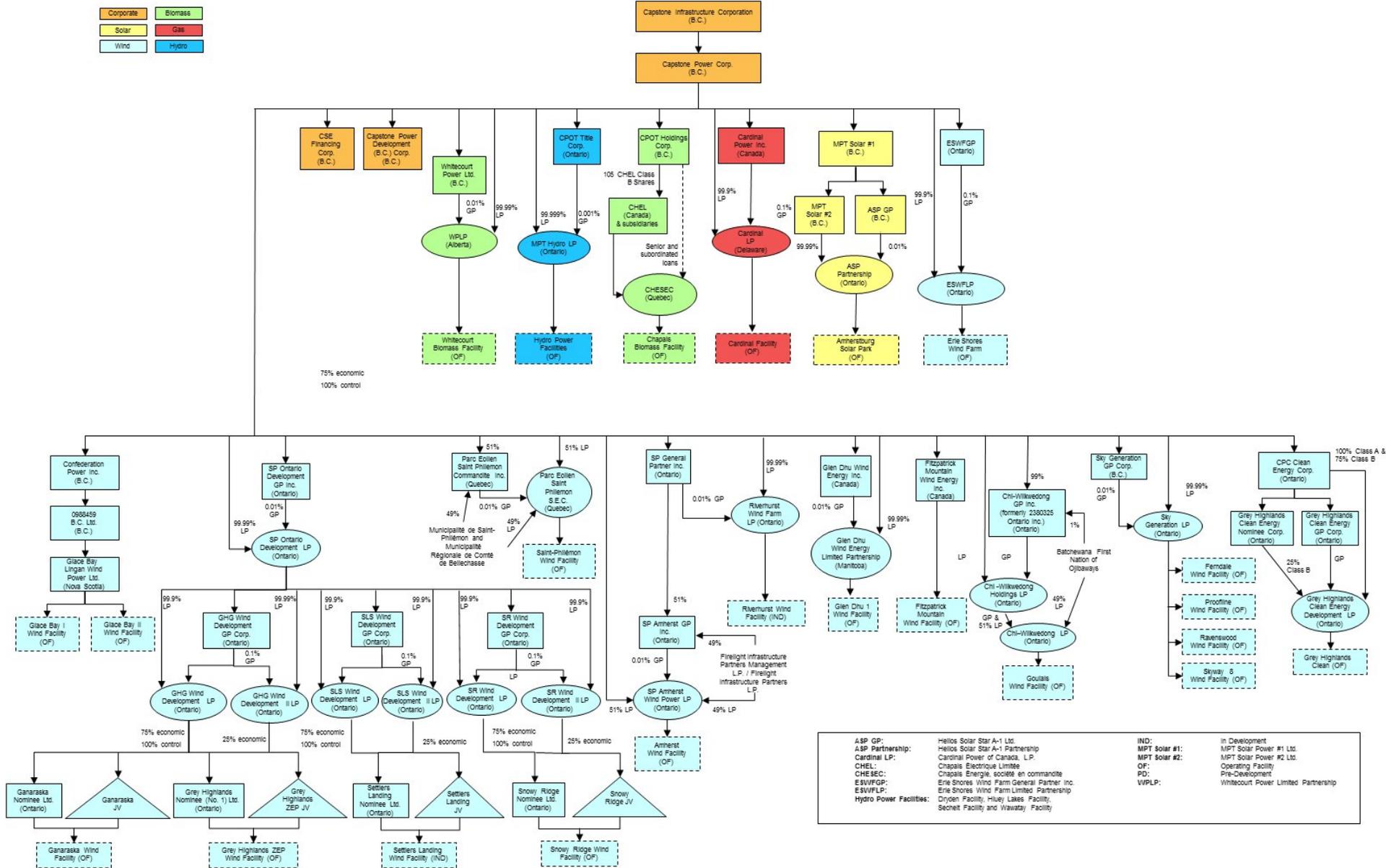
The Corporation was incorporated on May 20, 2010 as 0881592 B. C. Ltd. pursuant to the provisions of the *Business Corporations Act* (British Columbia) (the "**BCBCA**"). The Corporation's articles were amended on October 12, 2010 to change its name to "Macquarie Power and Infrastructure Corporation". The Corporation's articles were further amended on December 31, 2010 to create a class of preferred shares, issuable in series. The Corporation's articles were further amended on April 15, 2011 to change the Corporation's name to "Capstone Infrastructure Corporation". In connection with the Arrangement (described under "*General Development of the Business - Fiscal Year 2016*"), on April 29, 2016 the Corporation amalgamated with its wholly-owned subsidiary MPT Utilities Corp. and the Corporation's articles were amended to create a class of Class A common shares (the "**Class A Shares**").

The Corporation is the successor to Macquarie Power & Infrastructure Income Fund pursuant to a plan of arrangement completed on January 1, 2011 under the BCBCA whereby, (i) all of the issued and outstanding trust units of the Fund were automatically exchanged for common shares in the capital of the Corporation ("**Common Shares**") and (ii) the Corporation became the indirect owner of all of the businesses owned by the Fund.

As at December 31, 2017, the Corporation and its subsidiaries had an aggregate of 97 employees.

The chart on the following page presents a summary of the ownership and organizational structure of the Corporation, its material subsidiaries and certain other entities as at March 21, 2018. In the chart below, "**GP**" denotes a general partnership interest, "**LP**" denotes a limited partnership interest, the governing jurisdiction of each entity is noted in parentheses and, unless otherwise specified, all ownership interests denoted are 100%.

CAPSTONE INFRASTRUCTURE CORPORATION



ASP GP: Helios Solar Star A-1 Ltd.  
 ASP Partnership: Helios Solar Star A-1 Partnership  
 Cardinal LP: Cardinal Power of Canada, L.P.  
 CHEL: Chapais Electrique Limitee  
 CHESEC: Chapais Energie, societe en commandite  
 ESW/FGP: Erie Shores Wind Farm General Partner Inc.  
 ESW/FLP: Erie Shores Wind Farm Limited Partnership  
 Hydro Power Facilities: Dryden Facility, Huley Lakes Facility, Sechart Facility and Wawatay Facility  
 IND: In Development  
 MPT Solar #1: MPT Solar Power #1 Ltd.  
 MPT Solar #2: MPT Solar Power #2 Ltd.  
 OF: Operating Facility  
 PD: Pre-Development  
 WVPLP: Whitecourt Power Limited Partnership

## GENERAL DEVELOPMENT OF THE BUSINESS

### Fiscal Year 2015

Effective January 1, 2015, Millar Western Forest Products Ltd. (“**Millar Western**”) and Whitecourt Power Limited Partnership (“**WPLP**”), an indirect wholly-owned subsidiary of the Corporation, entered into a new wood waste supply agreement for the Whitecourt Biomass Facility. This new agreement has a term of 15 years (extendable to 20 years) and also includes sharing mechanisms regarding the price received for electricity sold by the Whitecourt Biomass Facility. See “*Narrative Description of the Business - Biomass - Whitecourt Biomass Facility - Wood Waste Supply Arrangements*”.

On March 12, 2015, the Ontario Superior Court of Justice ruled that the Ontario Electricity Financial Corporation (the “**OEFC**”) had not properly calculated the price paid for electricity produced under the Cardinal PPA and the power purchase agreements (“**PPAs**”) for the Wawatay Hydro Facility and the Dryden Hydro Facility, along with a number of other independent power producers, since January 1, 2011 (the “**OEFC Superior Court Decision**”). On April 10, 2015, the OEFC served a Notice of Appeal in respect of this decision.

On May 19, 2015, Confederation Power Inc., an indirect wholly-owned subsidiary of the Corporation, sold the 0.9 MW Digby Neck Wind Facility, the 3.6 MW Higgins Mountain Wind Facility and the 2.1 MW Springhill Wind Facility to 3285926 Nova Scotia Limited for aggregate net proceeds of approximately \$1.0 million.

On July 9, 2015, the Corporation announced the closing of a \$95 million refinancing from The Canada Life Assurance Company and The Great-West Life Assurance Company for the 20 MW Amherstburg Solar Park. See “*Narrative Description of the Business - Solar - Amherstburg Solar Park*”.

During 2015, further progress was made on the development of the additional wind projects. The Saint-Philémon Wind Facility achieved commercial operation on January 16, 2015, and the Goulais Wind Facility achieved commercial operation on May 22, 2015. On June 22, 2015, the Corporation announced that it had secured a Renewable Energy Approval (“**REA**”) from the Ontario Ministry of the Environment and Climate Change for the Snowy Ridge Wind Facility. The Corporation also received REAs for the Grey Highlands ZEP Wind Facility, the Grey Highlands Clean Wind Facility, the Ganaraska Wind Facility and the Settlers Landing Wind Facility. The Snowy Ridge Wind Facility, Grey Highlands Clean Wind Facility, Ganaraska Wind Facility and the Grey Highlands ZEP Wind Facility proceeded to the construction phase. On December 7, 2015, the Ontario Environmental Review Tribunal (“**ERT**”) for the Settlers Landing project issued its findings that the construction and decommissioning of two turbines will cause serious and irreversible harm to a woodland identified as “Woodlot 11”, and invited the parties to make submission on remedy. See “*Narrative Description of the Business - Wind*”.

On November 16, 2015, a subsidiary of Concord Green Energy Inc. (“**Concord**”) provided financing for the Grey Highlands ZEP Wind Facility, the Ganaraska Wind Facility, the Snowy Ridge Wind Facility and the Settlers Landing Wind Facility via the Concord Debenture in the amount of approximately \$31 million maturing on the last maturity date under the projects’ individual credit facilities. Subject to the fulfillment of certain conditions, Concord has a right to convert all of the debt outstanding under the Concord Debenture into a 50% equity interest in these wind projects after the earliest to occur of: (a) the occurrence of an event of default under the Concord Debenture, (b) the date on which the last of the projects’ individual credit facilities has converted from a construction loan facility to a term loan facility, and (c) all of the lenders under the projects’ individual credit facilities agreeing to such conversion. As of March 21, 2018, the amount outstanding under the Concord Debenture was \$26 million. In December 2015, approximately \$82 million in additional project level funding was obtained for the Grey Highlands ZEP Wind Facility and the Ganaraska Wind Facility from Bank of Tokyo-Mitsubishi UFJ (Canada) and Bayerische Landesbank, New York. See “*Narrative Description of the Business - Wind - Ontario - Ganaraska Wind Facility*”, “*Narrative Description of the Business - Wind - Ontario - Grey Highlands ZEP Wind Facility*”, “*Narrative Description of the Business - Wind - Ontario - Settlers Landing Wind Facility*” and “*Narrative Description of the Business - Wind - Ontario - Snowy Ridge Wind Facility*”.

In December 2013, Bristol Water plc (“**Bristol Water**”) submitted its initial business plan as part of its 2014 periodic review by Ofwat in connection with setting Bristol Water’s price limit for the upcoming five-year period. Ofwat then requested further information pertaining to the business plan and a revised plan was submitted in June 2014. Ofwat published its draft determination on Bristol Water’s pricing model and business plan for AMP6 in August 2014, and provided Bristol Water with a further opportunity to submit revisions to its business plan in October 2014. In December 2014, Ofwat issued a final determination for Bristol Water. This final determination fell short of Bristol Water’s proposed plan, which had undergone rigorous analysis and review by third-party experts. Bristol Water’s Board of Directors formally rejected Ofwat’s final determination in February 2015. The matter was submitted to a binding review by the CMA. On October 6, 2015, the Corporation announced that it had received the final binding determination from the CMA with respect to the challenge by Bristol Water of the 2015 to 2020 AMP6 final determination issued by Ofwat in December 2014. Although the CMA’s final decision with respect to customer pricing was not in line with the Corporation’s expectations, the CMA review process did produce several positive changes to Ofwat’s final determination.

### **Fiscal Year 2016**

On January 20, 2016, the Corporation announced that it had entered into an arrangement agreement (the “**Arrangement Agreement**”) with Irving Infrastructure Corp. (“**Irving**”), a subsidiary of iCON Infrastructure Partners III, L.P. (“**iCON III**”), a fund advised by London, UK-based iCON Infrastructure LLP (“**iCON**”) that provided for, among other things, the acquisition by Irving of all the issued and outstanding Common Shares and Class B Exchangeable Units, to be effected by way of a plan of arrangement under the BCBCA (the “**Arrangement**”).

In March 2016, the Corporation completed a project-level financing of \$70 million for the Corporation’s 156 MW Cardinal combined-cycle natural gas fired facility (the “**Cardinal Facility**”), and concurrently with the Cardinal Facility financing, the Corporation reduced the maximum amount available under revolving credit facility under the CIC Revolving Credit Facility from \$90 million to \$60 million. The proceeds from the Cardinal Facility financing were used to repay the principal amount outstanding under the CIC Revolving Credit Facility.

The Arrangement was completed on April 29, 2016. Under the Arrangement, (1) each outstanding Common Share and Class B Exchangeable Unit was transferred to Irving in exchange for a cash payment of \$4.90 to each Shareholder or holder of Class B Exchangeable Units, as applicable, (2) the Capstone 2016 Debentures were redeemed for 101% of their principal amount plus accrued and unpaid interest thereon; and (3) the CPC 2017 Debentures were converted into common shares of Capstone in accordance with the cash change of control provisions of the debenture indenture governing such debentures and then such Common Shares were immediately acquired by Irving at a price of \$4.90 per share, and holders of CPC 2017 Debentures also received accrued and unpaid interest on the debenture until the effective date of the Arrangement. Under the Arrangement, any outstanding RSUs, PSUs or DSUs of the Corporation vested and the holders of such outstanding RSUs, PSUs or DSUs received \$4.90 in cash for each RSU, PSU or DSU held. Each outstanding Option of the Corporation was transferred by the holder thereof to the Corporation and was cancelled in exchange for the payment by the Corporation to the holder thereof of \$0.86, being the amount by which the \$4.90 Common Share acquisition price exceeded the \$4.04 exercise price of the Option.

In conjunction with the Arrangement, Capstone Power Corp. (“**CPC**”) entered into credit facilities for an aggregate amount of \$125 million, consisting of an \$85 million non-revolving facility, a \$5 million revolving facility, and a \$35 million revolving letter of credit facility (collectively, the “**Original CPC Credit Facilities**”). The non-revolving facility proceeds of \$85 million were used to: (i) repay intercompany debt owing by CPC to the Corporation (which funds were then used by the Corporation to, among other things, redeem the Capstone 2016 Debentures pursuant to the Arrangement); (ii) make a return of capital to the Corporation (which funds were then used by the Corporation to repay a promissory note issued by the Corporation to Irving pursuant to the Arrangement); and (iii) replace the CIC Revolving Credit Facility. For more details see “*Capital Structure of the Corporation - CPC Credit Facility*”.

As a step in the Arrangement, Irving exchanged all of the Corporation’s Common Shares for the same number of Class A Shares, a demand promissory note from the Corporation with an aggregate principal amount of approximately \$30 million (which was subsequently repaid as part of the Arrangement) and a demand promissory note from the Corporation with an aggregate principal amount equivalent to approximately \$316 million (as subsequently amended,

the “**Irving Promissory Note**”), portions of which were subsequently repaid in connection with a refinancing at Värmevärden and converted into Class A Shares in connection with the sale of the Corporation’s interest in Bristol Water. For more details on the Irving Promissory Note see “*Capital Structure of the Corporation - Irving Promissory Note*”.

On April 29, 2016, in connection with the completion of the Arrangement, V. James Sardo, François R. Roy, Goran Mornhed and Jerry Patava resigned from the Board, and Adèle Malo, Paul Malan, Gary Eade and Enis Moran were appointed to the Board.

On June 1, 2016, Michael Smerdon, the Corporation’s Executive Vice President & Chief Financial Officer, was appointed to the Board.

Effective June 24, 2016, Michael Bernstein resigned as President & Chief Executive Officer and as a Director of the Corporation and Paul Malan was appointed Executive Chair of the Corporation.

On July 4, 2016, the Corporation announced the dividend rates on its Series A Preferred Shares and its Series B Preferred Shares for the five-year period from and including July 31, 2016, each such rate having been determined in accordance with the terms of the applicable class of shares. The dividend rate for the Series A Preferred Shares for the five-year period from and including July 31, 2016 is 3.271% per annum. No Series B Preferred Shares were issued.

On September 19, 2016, after assessing further evidence and submissions, the ERT for the Settlers Landing Wind Facility issued its decision accepting the Settlers Landing Wind Facility’s modification proposal, which included removal of one of the turbines (reducing the project nameplate capacity from 10 MW to 8 MW) and enhancing the site restoration plan. Following that decision, the Settlers Landing Wind Facility began construction. See “*Narrative Description of the Business - Wind - Ontario - Settlers Landing Wind Facility*”.

On April 19, 2016, the Court of Appeal for Ontario released its judgment (the “**Court of Appeal Decision**”) dismissing an appeal by the OEFC from the OEFC Superior Court Decision. On June 23, 2016, the OEFC filed an application with the Supreme Court of Canada seeking leave to appeal the Court of Appeal Decision. Following the denial by the Court of Appeal for Ontario of certain motions brought by the OEFC to defer making payments, in October 2016, the Corporation received the award of approximately \$23.5 million in net OEFC retroactive payments for its Cardinal, Wawatay and Dryden facilities.

On December 15, 2016, pursuant to the terms of a share purchase agreement dated December 15, 2016 (the “**Bristol Water Share Purchase Agreement**”), the Corporation sold its 71.4% interest in CSE Water UK Limited, which represented a 50% indirect interest in Bristol Water, to a subsidiary of iCON III for £115.6 million. Following the challenging price review for the AMP6 period, dividends from Bristol Water were expected to be materially lower than originally anticipated, and as a result Bristol Water’s cash flow profile was no longer consistent with the Corporation’s investment objectives. The sale of Bristol Water allows the Corporation’s management to focus its efforts on the operations of the Corporation’s core power business as well as growth in the power sector across Canada to deliver long-term value creation. The purchase price represented an attractive valuation at approximately 1.2x March 2016 rate base of £441 million, which was consistent with other recent transactions in the sector and equivalent, on a pro rata basis, to the price iCON III agreed to pay to a third party for its 30% indirect interest in Bristol Water in an arm’s-length transaction announced shortly before entering into the Bristol Water Share Purchase Agreement. The transaction was reviewed and approved by a special committee of independent directors of the Corporation (the “**Special Committee**”). In the course of its deliberations, the Special Committee retained Fasken Martineau DuMoulin LLP as its independent legal counsel and engaged the UK firm of Ernst & Young LLP (“**EY**”) as its valuation advisor. EY delivered a fairness opinion to the Special Committee to the effect that the price received by the Corporation in the transaction is fair, from a financial point of view, to the Corporation. Proceeds from the sale have been used to eliminate \$195 million of the outstanding \$291 million balance of the Irving Promissory Note. Accordingly, following the transaction, debt of the Corporation was substantially reduced, with the outstanding balance of the Irving Promissory Note falling to approximately \$97 million.

In 2016, four of the Corporation's near-term wind development projects entered commercial operation. On February 26, 2016, the Grey Highlands ZEP Wind Facility achieved commercial operation; on May 6, 2016, the Ganaraska Wind Facility achieved commercial operation; on September 21, 2016, the Grey Highlands Clean Wind Facility achieved commercial operation; and on October 5, 2016, the Snowy Ridge Wind Facility achieved commercial operation.

The Corporation also completed project financings for the Grey Highlands Clean Wind Facility, the Snowy Ridge Wind Facility and the Settlers Landing Wind Facility for \$55.1 million, \$35.8 million and \$25.5 million, respectively. For more details see "*Narrative Description of the Business - Wind - Ontario - Grey Highlands Clean Wind Facility*", "*Narrative Description of the Business - Wind - Ontario - Snowy Ridge Wind Facility*", and "*Narrative Description of the Business - Wind - Ontario - Settlers Landing Wind Facility*".

On December 6, 2016, CPC Clean Energy Corp., a subsidiary of CPC, completed the purchase of the remaining 25% interest in the Grey Highlands Clean Wind Facility from Natenco, LLC, resulting in 100% ownership of the facility. Concurrently with the purchase of the remaining 25% interest, the Corporation provided a guarantee to subsidiaries of Natenco, LLC in respect of certain contractual payments to be made based on operational performance. See "*Narrative Description of the Business - Wind - Ontario - Grey Highlands Clean Wind Facility*".

### **Fiscal Year 2017**

On January 1, 2017, David Eva was appointed Chief Executive Officer and a Director of the Corporation. At the same time, Paul Malan stepped down as Executive Chair of the Corporation, but he remained a Director and the Chair of the Board of Directors of the Corporation.

On January 19, 2017, the Supreme Court of Canada dismissed OEFC's application for leave to appeal the Court of Appeal Decision.

On January 27, 2017, GHG Wind Development LP, an indirect subsidiary of CPC, exercised its right to purchase the remaining 25% interests in the Ganaraska Wind Facility and Grey Highlands ZEP Wind Facility indirectly held by Zero Emissions People Wind Fund Inc. ("**Zero Emissions People**"), resulting in CPC owning 100% of the Ganaraska Wind Facility and Grey Highlands ZEP Wind Facility. See "*Narrative Description of the Business - Wind - Ontario - Ganaraska Wind Facility*" and "*Narrative Description of the Business - Wind - Ontario - Grey Highlands ZEP Wind Facility*".

On February 8, 2017, the Whitecourt Biomass Facility was notified that the Government of Alberta approved its application to the Bioenergy Producer Program ("**BPP**"). The BPP is intended to support bioenergy production capacity projects in Alberta with reduced greenhouse gas emissions in comparison to conventional alternatives, and create value-added opportunities with economic benefits. The Whitecourt Biomass Facility was successfully awarded funding of \$4.8 million for the 18 months ending September 30, 2017. In 2017, Capstone produced enough eligible power to receive the full grant funding, and received \$4.7 million in payments. See "*Narrative Description of the Business - Biomass - Whitecourt Biomass Facility - Bioenergy Producer Program*".

On February 28, 2017, the Sechelt Creek Hydro Facility's Electric Purchase Agreement ("**EPA**") was extended from its original expiry at a price per megawatt hour that is lower than the 2016 price. The interim arrangement provided a lower price for power than was paid under the expiring contract which expired February 28, 2017 and would generate lower revenues than in 2016. On March 1, 2017, the Corporation entered into an agreement with the shishálh Nation with respect to the Sechelt Creek Hydro Facility which recognizes and gives effect to the shishálh Nation's indigenous rights and title in view of the Sechelt Creek Hydro Facility's ongoing operation in the shishálh Nation's territory, and will result in minority equity ownership by the shishálh Nation and profit sharing for the project. See "*Narrative Description of the Business - Hydro - Sechelt Creek Hydro Facility*".

On March 3, 2017, the Corporation, through a wholly owned subsidiary, sold its 33.3% indirect interest in Sefyr Heat Luxembourg S.à.r.l., which indirectly owns 10 district heating operations comprising the district heating

business branded as Värmevärden, to institutional investors advised by J.P. Morgan Asset Management. Capstone received proceeds of \$142 million, net of transaction costs of \$2 million, for its 33.3% indirect interest in Värmevärden and the related outstanding loans receivable. Following the sale, on March 31, 2017, Capstone eliminated the remaining balance of the Irving Promissory Note due to Irving Infrastructure Corp. For more details on the Irving Promissory Note, see *“Capital Structure of the Corporation - Irving Promissory Note”*.

The Riverhurst wind development project, a 10 MW facility located near Riverhurst, Saskatchewan, entered into a 20-year PPA and interconnection agreement dated March 22, 2017 with Saskatchewan Power Corporation (**“SaskPower”**). See *“Narrative Description of the Business - Wind - Wind Development Projects”*.

On April 1, 2017, Andrew Kennedy was appointed Chief Financial Officer and a member of the Board of Directors.

On April 5, 2017, the Settlers Landing Wind Facility achieved commercial operation. For more details see *“Narrative Description of the Business - Wind - Ontario - Settlers Landing Wind Facility”*.

On May 10, 2017, Paul Smith was appointed as a member of Capstone's Board of Directors and on August 11, 2017, was appointed Chair of the Board. Paul Malan, Capstone's outgoing Chair, remains on the Board of Directors. On September 13, 2017, Enis Moran resigned from the Board of Directors.

On May 12, 2017, SR Wind Development LP, an indirect subsidiary of CPC, exercised its right to purchase the remaining 25% interests in the Snowy Ridge Wind Facility indirectly held by Zero Emissions People, resulting in CPC owning 100% of the Snowy Ridge Wind Facility. See *“Narrative Description of the Business - Wind - Ontario - Snowy Ridge Wind Facility”*.

On November 16, 2017, SLS Wind Development LP, an indirect subsidiary of CPC, exercised its right to purchase the remaining 25% interests in the Settlers Landing Wind Facility indirectly held by Zero Emissions People, resulting in CPC owning 100% of the Settlers Landing Wind Facility. See *“Narrative Description of the Business - Wind - Ontario - Settlers Landing Wind Facility”*.

In 2017, Ingredion Canada Corporation (**“Ingredion”**) completed the construction of a 15 MW cogeneration plant and reached commercial operation on November 24, 2017. Cardinal LP receives a fixed amount (subject to escalation) to provide operational and maintenance services to Ingredion's plant. See *“Narrative Description of the Business - Gas - Cardinal Facility - Arrangements with Ingredion and Gas Purchase Arrangements”*.

On December 3, 2017, the Whitecourt Biomass Facility successfully completed a major refurbishment of the steam turbine and boiler. See *“Narrative Description of the Business - Biomass - Whitecourt Biomass Facility - Refurbishment”*.

On December 15, 2017, CPC completed a \$145 million refinancing of the Original CPC Credit Facilities, entering into a revolving loan facility (the **“CPC Revolving Loan Facility”**) with a maximum outstanding principal amount of \$95 million, and a term facility (the **“CPC Term Facility”**) with a maximum outstanding principal amount of \$50 million (collectively, the **“CPC Credit Facilities”**). The proceeds drawn on the facilities were used to repay the Original CPC Credit Facilities. See *“Capital Structure of the Corporation - CPC Credit Facility”*.

On December 19, 2017, a subsidiary of iCON III acquired the remaining 51% ownership interest in Glen Dhu Wind Energy Limited Partnership, a 62.1 MW wind facility located near Merigomish, Nova Scotia, and the remaining 50% ownership interest in Fitzpatrick Mountain Wind Energy Inc., a 1.6 MW wind facility located near Pictou, Nova Scotia. The ownership interests were subsequently transferred to CPC on December 31, 2017, increasing the Corporation's interests in both wind facilities to 100%. For more details see *“Narrative Description of the Business - Wind - Nova Scotia - Fitzpatrick Mountain Wind Facility”* and *“Narrative Description of the Business - Wind - Nova Scotia - Glen Dhu I Wind Facility”*.

## Recent Developments

Effective March 1, 2018, the Corporation completed a 40 year EPA renewal with BC Hydro for the Sechelt Creek Hydro Facility, which remains subject to regulatory approval. The EPA provides revenue at a price lower than the original EPA, which expired on February 28, 2017.

## NARRATIVE DESCRIPTION OF THE BUSINESS

### Operating Segments

As at March 21, 2018, the only operating segment of the Corporation is power. For the financial years ended December 31, 2015 and 2016, the Corporation also had a utilities-water operating segment, consisting of its interest in Bristol Water, which was sold on December 15, 2016. For the financial years ended December 31, 2015, 2016 and 2017, the Corporation had a utilities-district heating segment, consisting of its interest in Värmevärden, which was sold on March 3, 2017 (for more information on the sale of the Corporation's sale of its interest in Bristol Water and Värmevärden, (see "*General Development of the Business - Fiscal Year 2016*" and "*General Development of the Business - Fiscal Year 2017*"). Revenue earned by the Corporation for each segment is reported in the following table:

Revenue (in millions)	Power <sup>(2)</sup>	Utilities <sup>(1)</sup>		Total
		Water <sup>(3)</sup>	District Heating <sup>(4)</sup>	
Year ended December 31, 2017	\$154.2	—	—	\$154.2
Year ended December 31, 2016	\$172.9	\$191.3	—	\$364.2
Year ended December 31, 2015	\$118.0	\$227.0	—	\$345.0

Notes:

- (1) The utilities segments are classified as discontinued operations.
- (2) In 2017, the Corporation earned interest income of \$0.9 million relating to the CHESEC Tranche A Senior Debt which had fully amortized in 2015 (the Corporation earned an aggregate of nil in 2016 and approximately \$0.1 million in 2015).
- (3) Reflects fully consolidated revenue of Bristol Water, despite 50% non-controlling interest held by third parties, because of applicable accounting requirements due to corporate holding structure.
- (4) The Corporation's investment in Värmevärden follows the equity accounting method. As a result, the consolidated revenue does not include contributions from Värmevärden. In 2017, the Corporation earned interest income and received dividends relating to its utilities-district heating segment in the aggregate amount of approximately \$0.68 million (interest and dividends in the aggregate amount of approximately \$7.98 million in 2016 and approximately \$6.17 million in 2015).

## Overview

The Corporation, through its wholly-owned subsidiary CPC, currently holds investments, directly or indirectly, in the following operating power facilities:

Facility	Capstone's Ownership Interest			Location	Power Purchaser	Expiry of PPA <sup>(1)</sup>
	Net Capacity of Facility (MW)	%	Net Capacity Ownership Interest ( MW)			
<b>Wind</b>						
Erie Shores	99.0	100%	97.5	Ontario	IESO	2026
Ferndale	5.1	100%	5.1	Ontario	IESO	2026
Ganaraska	17.6	50% <sup>(2)</sup>	9.0	Ontario	IESO	2036
Goulais	25.0	51%	12.8	Ontario	IESO	2035
Grey Highlands Clean	18.5	100%	18.5	Ontario	IESO	2036
Grey Highlands ZEP	10.0	50% <sup>(2)</sup>	5.0	Ontario	IESO	2036
Proof Line I	6.6	100%	6.6	Ontario	IESO	2029
Ravenswood	9.9	100%	9.9	Ontario	IESO	2027
Skyway 8	9.5	100%	9.5	Ontario	IESO	2034
Snowy Ridge	10.0	50% <sup>(2)</sup>	5.0	Ontario	IESO	2036
Settlers Landing <sup>(3)</sup>	8.0	50% <sup>(2)</sup>	4.0	Ontario	IESO	2037
Amherst	31.5	51%	16.1	Nova Scotia	NSPI	2037
Fitzpatrick Mountain	1.6	100% <sup>(4)</sup>	1.6	Nova Scotia	NSPI	2022
Glace Bay I and II	17.5 and 2.3	100%	19.8	Nova Scotia	NSPI	2020/2022 and 2032
Glen Dhu I	62.1	100% <sup>(4)</sup>	62.1	Nova Scotia	NSPI	2031
Saint-Philémon	24.0	51%	12.2	Québec	Hydro-Québec	2035
<b>Solar</b>						
Amherstburg	20.0	100%	20.0	Ontario	IESO	2031
<b>Hydro Power</b>						
Hluey Lakes	3.0	100%	3.0	BC	BC Hydro	2020
Sechelt	16.0	100% <sup>(5)</sup>	16.0	BC	BC Hydro	2058 <sup>(6)</sup>
Dryden	3.2	100%	3.2	Ontario	OEFC	2020
Wawatay	13.5	100%	13.5	Ontario	OEFC	2042
<b>Gas</b>						
Cardinal	156.0	100%	156.0	Ontario	IESO	2034
<b>Biomass</b>						
Whitecourt	25.0	100%	25.0	Alberta	Millar Western <sup>(7)</sup>	2029
Chapais	28.0	0% <sup>(8)</sup>	8.9 <sup>(9)</sup>	Québec	Hydro-Québec	2019
<b>Total</b>	Approximately 541 MW					

Notes:

- (1) See "Risk Factors - Risks Related to the Power Facilities - Power Purchase Agreements".
- (2) Subject to the fulfillment of certain conditions under a debenture held by a subsidiary of Concord, Concord has a right to convert its debt into a 50% equity interest. The Corporation expects that such right will be exercised, so the Corporation's ownership interest assumes such conversion has occurred (see "General Development of Business - Fiscal Year 2015").
- (3) The Settlers Landing Wind Facility commenced commercial operation in April 2017.
- (4) Capstone now holds 100% of the ownership interests in Glen Dhu I and Fitzpatrick Mountain as of December 31, 2017 (see "General Development of Business - Fiscal Year 2017").
- (5) The Corporation has entered into an agreement with the shishálh Nation with respect to the Sechelt Creek Hydro Facility that will result in minority equity ownership by the shishálh Nation and profit sharing for the project.
- (6) Effective March 1, 2018, the Corporation completed a 40 year EPA renewal with BC Hydro for the Sechelt Creek Hydro Facility.
- (7) Refers to price support and revenue sharing mechanisms pursuant to fuel supply arrangements with Millar Western.

- (8) The Corporation's investment in the Chapais Biomass Facility consists of a 31.3% interest in one of the two outstanding classes of preferred shares of CHEL. The CHESEC Tranche A debt was fully repaid by its maturity date on December 1, 2015 (see "Narrative Description of the Business - Biomass - Chapais Biomass Facility - Corporation's Investment").
- (9) The Corporation's net capacity ownership interest reflects its indirect economic investment in the Chapais Biomass Facility.

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

The following table sets out the outstanding amounts of project finance debt by generation type for the operating power facilities as at December 31, 2017. Additional details about the individual credit facilities are included in the MD&A and Annual Financial Statements of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com). All project debt is secured by the individual operating power facilities' assets and the ownership interests in the facilities, and except for certain limited recourse guarantees, is non-recourse to the Corporation's other assets.

<b>December 31, 2017</b>	<b>Interest Rates</b>	<b>Maturity Dates</b>	<b>Drawn (in millions)</b>
Wind - Operating	2.75% - 6.36%	Aug 2018 - Sep 2034	\$ 544.4
Hydro	4.56% - 7.00%	Jun 2040 - Jun 2041	\$ 77.5
Solar	3.49%	Dec 31, 2030	\$ 81.6
Gas	2.866%	Mar 18, 2023	\$ 64.3

## **Wind**

### ***Ontario***

#### **Erie Shores Wind Farm**

The 99 MW Erie Shores Wind Farm located near Port Burwell, Ontario commenced commercial operation in May 2006 and consists of 66 General Electric Company SLE 1.5 MW wind turbines. One of the wind turbines is owned by a local landowner.

ESWFLP, a wholly-owned subsidiary of CPC and the owner of the Erie Shores Wind Farm, is a party to the Erie Shores PPA with the Ontario Power Authority (the "**OPA**") (now the Independent Electricity System Operator (the "**IESO**")) which provides for the sale of all of the electricity generated by the Erie Shores Wind Farm until 2026. As a result of certain changes to the IESO's market rules regarding the Dispatch of certain renewable generators, the Erie Shores PPA was amended effective as of March 1, 2013 to provide compensation to ESWFLP for any foregone production due to economic curtailment above both an annual cap and a total cap over the remaining term of the Erie Shores PPA. These caps are based on MWh per MW of capacity of the facility.

#### **Ferndale Wind Facility**

The 5.1 MW Ferndale Wind Facility located near Lion's Head, Ontario commenced commercial operation in 2002. The facility consists of one Vestas V80 1.8 MW wind turbine and two Vestas V82 1.65 MW wind turbines which began commercial operation in 2006. The electrical output from the facility is contracted to the IESO under a RESOP Contract that was made under the Province of Ontario's Renewable Energy Standard Offer Program ("**RESOP**") and expires in 2026. Sky Generation LP, a wholly-owned subsidiary of CPC, owns the Ferndale Wind Facility.

#### **Ganaraska Wind Facility**

The 17.6 MW Ganaraska Wind Facility located in Orono, Ontario commenced commercial operation on May 6, 2016. The facility consists of nine Senvion MM92 2.0 MW wind turbines and the electrical output from the facility is sold to the IESO under a FIT Contract made under the Province of Ontario's Feed-In Tariff Program ("**FIT Program**") with a 20-year term expiring in 2036.

CPC indirectly owns a 100% interest in a joint venture that beneficially owns the Ganaraska Wind Facility. On January 27, 2017, GHG Wind Development LP, a subsidiary of CPC, completed its purchase of the remaining 25% interest in the Ganaraska Wind Facility and Grey Highlands ZEP Wind Facility indirectly held by Zero Emissions People. Subject to the fulfillment of certain conditions under the Concord Debenture held by a subsidiary of Concord, Concord has a right to convert its debt into a 50% equity interest in the Ganaraska Wind Facility. The Concord Debenture is described under “*General Development of the Business - Fiscal Year 2015*”. See also “*General Development of the Business - Fiscal Year 2017*”.

### **Goulais Wind Facility**

The 25 MW Goulais Wind Facility located near Sault Ste. Marie, Ontario commenced commercial operation in May 2015. The facility consists of 11 Siemens SWT-2.3-113 Direct Drive 2.3 MW wind turbines and the electrical output from the facility is sold to the IESO under a FIT Contract made under the FIT Program with a 20-year term expiring in 2035.

CPC indirectly owns a 51% interest in Chi-Wiikwedong LP, the owner of the Goulais Wind Facility, and the remaining 49% ownership interest in Chi-Wiikwedong LP is held by a subsidiary of the Batchewana First Nation of Ojibways.

### **Grey Highlands Clean Wind Facility**

The 18.5 MW Grey Highlands Clean Wind Facility located near the communities of McIntyre, Maxwell and Hatherton, Ontario commenced commercial operation on September 21, 2016. The facility consists of nine Senvion MM92 2.0 MW wind turbines and the electrical output from the facility is sold to the IESO under a FIT Contract made under the FIT Program with a 20-year term expiring in 2036.

CPC indirectly owns 100% of Grey Highlands Clean Energy Development LP, which owns the Grey Highlands Clean Wind Facility. On December 6, 2016, CPC Clean Energy Corp., a subsidiary of CPC, completed its purchase of a remaining 25% interest in the Grey Highlands Clean Wind Facility from Natenco, LLC and in connection therewith the Corporation provided a guarantee to subsidiaries of Natenco, LLC in respect of certain contractual payments to be paid based on operational performance. The guarantee terminates with the final payment, which is expected to be made in March 2021.

### **Grey Highlands ZEP Wind Facility**

The 10 MW Grey Highlands ZEP Wind Facility located in the community of McIntyre, Ontario commenced commercial operation on February 26, 2016. The facility consists of five Senvion MM92 2.0 MW wind turbines and the electrical output from the facility is sold to the IESO under a FIT Contract made under the FIT Program with a 20-year term expiring in 2036.

CPC indirectly owns a 100% interest in a joint venture that beneficially owns the Grey Highlands ZEP Wind Facility. On January 27, 2017, GHG Wind Development LP, a subsidiary of CPC, completed its purchase of the remaining 25% interest in the Ganaraska Wind Facility and Grey Highlands ZEP Wind Facility indirectly held by Zero Emissions People. Subject to the fulfillment of certain conditions under the Concord Debenture held by a subsidiary of Concord, Concord has a right to convert its debt into a 50% equity interest in the Grey Highlands ZEP Wind Facility. The Concord Debenture is described under “*General Development of the Business - Fiscal Year 2015*”. See also “*General Development of the Business - Fiscal Year 2017*”.

### **Proof Line I Wind Facility**

The 6.6 MW Proof Line I Wind Facility located near Forest, Ontario commenced commercial operation in 2008. The facility consists of four Vestas V82 1.65 MW wind turbines and the electrical output from the facility is contracted to the IESO under a RESOP Contract which expires in 2029. Sky Generation LP, a wholly-owned subsidiary of CPC, owns the Proof Line I Wind Facility.

### **Ravenswood Wind Facility**

The 9.9 MW Ravenswood Wind Facility located near Forest, Ontario commenced commercial operation in 2008. The facility consists of six Vestas V82 1.65 MW wind turbines and the electrical output from the facility is sold to the IESO under a RESOP Contract that expires in 2027. Sky Generation LP, a wholly-owned subsidiary of CPC, owns the Ravenswood Wind Facility.

### **Settlers Landing Wind Facility**

The 8 MW Settlers Landing Wind Facility located in Pontypool, Ontario commenced commercial operation on April 5, 2017. The facility consists of four Senvion MM92 2.0 MW wind turbines and the electrical output from the facility is sold to the IESO under a FIT Contract made under the FIT Program with a 20-year term expiring in 2037.

CPC indirectly owns a 100% interest in a joint venture which beneficially owns the Settlers Landing Wind Facility. On November 16, 2017, SLS Wind Development LP, a subsidiary of CPC, completed its purchase of the remaining 25% interest in the Settlers Landing Wind Facility from Zero Emissions People. Subject to the fulfillment of certain conditions under the Concord Debenture held by a subsidiary of Concord, Concord has a right to convert its debt into a 50% equity interest in the Settlers Landing Wind Facility. The Concord Debenture is described under “*General Development of the Business - Fiscal Year 2015*”. See also “*General Development of the Business - Fiscal Year 2017*”.

### **Skyway 8 Wind Facility**

The 9.5 MW Skyway 8 Wind Facility located near Dundalk, Ontario commenced commercial operation in 2014. The facility consists of two Vestas V100 1.8 MW wind turbines and three Vestas V100 1.95 MW wind turbines and the electrical output from the facility is sold to the IESO under a RESOP Contract that expires in 2034. Sky Generation LP, a wholly-owned subsidiary of CPC, owns the Skyway 8 Wind Facility.

### **Snowy Ridge Wind Facility**

The 10 MW Snowy Ridge Wind Facility located near Bethany, Ontario commenced commercial operation on October 5, 2016. The facility consists of five Senvion MM92 2.0 MW wind turbines and the electrical output from the facility is sold to the IESO under a FIT Contract made under the FIT Program with a 20-year term expiring in 2036.

CPC indirectly owns a 100% interest in a joint venture that beneficially owns the Snowy Ridge Wind Facility. On May 12, 2017, SR Wind Development LP, a subsidiary of CPC, completed its purchase of the remaining 25% interest in the Snowy Ridge Wind Facility indirectly held by Zero Emissions People. Subject to the fulfillment of certain conditions under the Concord Debenture held by a subsidiary of Concord, Concord has a right to convert its debt into a 50% equity interest in the Snowy Ridge Wind Facility. The Concord Debenture is described under “*General Development of the Business - Fiscal Year 2015*”. See also “*General Development of the Business - Fiscal Year 2017*”.

### **Nova Scotia**

#### **Amherst Wind Facility**

The 31.5 MW Amherst Wind Facility located near Amherst, Nova Scotia commenced commercial operation in April 2012. The facility consists of 15 Suzlon S97 2.1 MW wind turbines and the electrical output from the facility is contracted to Nova Scotia Power Inc. (“NSPI”) under a 25-year PPA which expires in 2037.

CPC owns a 51% interest in SP Amherst Wind Power LP, the owner of the Amherst Wind Facility and the remaining 49% ownership interest in SP Amherst Wind Power LP is held by Firelight Infrastructure Partners L.P. and its affiliates, which are not affiliated with the Corporation.

### **Fitzpatrick Mountain Wind Facility**

The 1.6 MW Fitzpatrick Mountain Wind Facility located near Pictou, Nova Scotia commenced commercial operation in 2007. The facility consists of two Enercon E48 0.8 MW wind turbines and the electrical output from the facility is contracted to NSPI under a PPA expiring in 2022.

CPC owns a 100% interest in Fitzpatrick Mountain Wind Energy Inc., the owner of the Fitzpatrick Mountain Wind Facility. On December 19, 2017, a subsidiary of iCON III completed its acquisition of the remaining 50% ownership interests in the Fitzpatrick Mountain Wind Facility. The interests were subsequently transferred to CPC on December 31, 2017, increasing CPC's ownership to 100%.

Under an equipment sale and lease-back transaction, the facility sold its turbines to a commercial bank in June 2008 and entered into a five-year equipment lease. In 2013, at the end of the original lease term, a lease extension was entered into for a further five-year term. This extension also contains an option to purchase the equipment for a nominal amount at the end of the term.

### **Glance Bay I Wind Facility and Glance Bay II Wind Facility**

The 17.5MW Glance Bay I Wind Facility and the 2.3MW Glance Bay II Wind Facility are both located near Glance Bay, Nova Scotia. Glance Bay I Wind Facility commenced commercial operation in 2005 and 2007 and Glance Bay II Wind Facility commenced commercial operation in 2012. The facilities consist of a total of six Enercon E70 2.31 MW wind turbines, two Enercon E48 0.8 MW wind turbines, one Enercon E82 2.3 MW wind turbine and one Enercon E70 2.05 MW wind turbine. The electrical output from the Glance Bay I Wind Facility is contracted to NSPI under two 15-year PPAs which expire in 2020 and 2022 and the electrical output from the Glance Bay II Wind Facility is contracted to NSPI under a 20-year PPA which expires in 2032.

CPC indirectly owns a 100% interest in Glance Bay Lingan Wind Power Ltd. which owns the Glance Bay I Wind Facility and the Glance Bay II Wind Facility.

### **Glen Dhu I Wind Facility**

The 62.1 MW Glen Dhu I Wind Facility located near Merigomish, Nova Scotia commenced commercial operation in 2011. The facility consists of 27 Enercon E82 2.3 MW wind turbines and the electrical output from the facility is contracted to NSPI under a 20-year PPA which expires in 2031.

CPC owns a 100% interest in Glen Dhu Wind Energy Limited Partnership, the owner of the Glen Dhu I Wind Facility. On December 19, 2017, a subsidiary of iCON III completed its acquisition of the remaining 51% ownership interests in the Glen Dhu I Wind Facility. The interests were subsequently transferred to CPC on December 31, 2017, increasing CPC's ownership to 100%.

## ***Québec***

### **Saint-Philémon Wind Facility**

The 24 MW Saint-Philémon Wind Facility located near Saint-Philémon, Québec commenced commercial operation in 2015. The facility consists of eight Enercon E82 3 MW wind turbines and the electrical output from the facility is contracted to Hydro-Québec under a 20-year PPA which expires in 2035.

CPC owns a 51% interest in Parc Eolien Saint-Philémon S.E.C., the owner of the Saint-Philémon Wind Facility. The remaining 49% ownership interest in Parc Eolien Saint-Philémon S.E.C. is held by the Municipalité de Saint-Philémon and the Municipalité Régionale de Comté de Bellechasse, which are not affiliated with the Corporation.

### ***Wind Power Facilities' O&M Arrangements***

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

<b>Wind Power Facility</b>	<b>O&amp;M Provider</b>	<b>Expiry of O&amp;M Agreement</b>
Erie Shores <sup>(1)</sup>	—	—
Ferndale	Vestas	2019
Ganaraska	Senvion	2021
Goulais	Siemens	2020
Grey Highlands Clean	Senvion	2021
Grey Highlands ZEP	Senvion	2021
Proof Line I	Vestas	2019
Ravenswood	Vestas	2019
Settlers Landing	Senvion	2022
Skyway 8	Vestas	2019
Snowy Ridge	Senvion	2021
Amherst	Suzlon	2022
Fitzpatrick Mountain	Enercon	2019
Glace Bay I and II	Enercon	2020, 2021 and 2024
Glen Dhu I <sup>(2)</sup>	Enercon	2023
Saint-Philémon	Enercon	2029

Notes:

- (1) O&M activities at the Erie Shores Wind Farm are provided by employees of ESWFLP, an indirect, wholly-owned subsidiary of the Corporation and the owner of the Erie Shores Wind Farm.
- (2) O&M activities at the Glen Dhu I Wind Facility exclude costs related to cranes and transportation of parts.

### ***Wind Development Projects***

The Corporation's contracted development pipeline comprises the Riverhurst wind development project, a 10 MW facility proposed near Riverhurst, Saskatchewan, which executed a 20-year PPA with SaskPower dated March 22, 2017. The project is targeted to commence commercial operation in 2020.

### **Solar**

#### **Amherstburg Solar Park**

The 20 MW Amherstburg Solar Park located in Amherstburg, Ontario commenced commercial operation in 2011. The facility consists of SunPower crystalline solar photovoltaic (“PV”) panels and single-axis T20 Trackers and the electrical output from the facility is sold under two 20-year RESOP Contracts with the IESO at contracted prices, both of which expire in 2031.

CPC indirectly owns 100% of ASP Partnership, the owner of the Amherstburg Solar Park. On October 15, 2016, the Corporation renegotiated its O&M agreement with SunPower, which resulted in internalizing most of the operations and maintenance functions at Amherstburg Solar Park. The renegotiated O&M agreement with SunPower expires October 15, 2018 and will be automatically renewed for an additional one-year term unless notice of termination is provided by one of the parties at least 60 days prior to the expiry date.

### **Hydro**

The Hluey Lakes Hydro Facility, the Sechelt Creek Hydro Facility, the Dryden Hydro Facility and the Wawatay Hydro Facility (collectively, the “**Hydro Power Facilities**”) are owned by MPT Hydro LP, a wholly-owned subsidiary of CPC.

## ***British Columbia***

### **Hluey Lakes Hydro Facility**

The 3.0 MW Hluey Lakes Hydro Facility located near Dease Lake, British Columbia (“BC”) commenced commercial operation in 2000. The electrical power generated by the facility is sold to BC Hydro for distribution in the community of Dease Lake through a non-integrated distribution system. Under a PPA dated November 1, 1993 with BC Hydro, as amended, BC Hydro is obligated (subject to the terms of the PPA) to purchase all energy required to meet the load demand of the Town of Dease Lake from the Hluey Lakes Hydro Facility until January 31, 2020.

Regional Power Opco Inc., a subsidiary of Regional Power Inc. (“**Regional Power**”) which is in turn a wholly-owned subsidiary of Manulife Financial Corporation, operates the Hluey Lakes Hydro Facility pursuant to the Hydro Power O&M Agreement (see “*Narrative Description of the Business - Hydro - Hydro Power O&M Agreement*”).

The Tahltan First Nation entered into a non-disturbance agreement dated February 27, 1999 regarding any potential acquisition of jurisdiction through the treaty process to the lands on which the Hluey Lakes Hydro Facility is located or to the rights to impose taxes, fees, levies or other monetary charges. Pursuant to this agreement, the Tahltan First Nation has agreed that if it obtains any such jurisdiction, it will treat all leases, permits, licences and renewals with respect to the Hluey Lakes Hydro Facility in a manner consistent with the present treatment by the Province of BC.

### **Sechelt Creek Hydro Facility**

The 16 MW Sechelt Creek Hydro Facility located near Sechelt, BC commenced commercial operation in 1997. The electrical power generated by the facility is sold to BC Hydro under a new 40 year EPA, which is subject to regulatory approval and is effective March 1, 2018.

Regional Power operates the Sechelt Creek Hydro Facility pursuant to the Hydro Power O&M Agreement (see “*Narrative Description of the Business - Hydro - Hydro Power O&M Agreement*”).

On March 1, 2017, the Corporation entered into an agreement with the shíshálh Nation with respect to the Sechelt Creek Hydro Facility which recognizes and gives effect to the shíshálh Nation’s indigenous rights and title in view of the Sechelt Creek Hydro Facility’s ongoing operation in the shíshálh Nation’s territory, and will result in minority equity ownership by the shíshálh Nation and profit sharing for the project.

## ***Ontario***

### **Dryden Hydro Facility**

The 3.25 MW Dryden Hydro Facility consists of three hydro generating stations.. The Wainwright hydro generating station was built in 1922 on the Wabigoon River in Dryden, Ontario. The Eagle River hydro generating station was built in 1928 at the outlet of Eagle Lake about 30 kilometres west of Dryden. The McKenzie Falls hydro generating station was built in 1938 on the Eagle River two kilometres downstream of the Eagle River generating station. Power produced from the Dryden Hydro Facility is sold to the OEFC under a 30-year PPA dated October 23, 1990 pursuant to which the OEFC has committed to purchase all electricity produced by the Dryden Hydro Facility at contracted rates (subject to certain escalation provisions).

The Dryden Hydro Facility is operated by Regional Power pursuant to the Hydro Power O&M Agreement (see “*Narrative Description of the Business - Hydro - Hydro Power O&M Agreement*”).

### **Wawatay Hydro Facility**

The 13.5 MW Wawatay Hydro Facility located near Marathon, Ontario commenced commercial operation in 1992. The power produced by the facility is sold to the OEFC under a 50-year PPA dated April 1, 1992 pursuant to which the OEFC has committed to purchase all electricity produced by the facility at contracted rates (subject to certain escalation provisions).

The Wawatay Hydro Facility is operated by Regional Power pursuant to the Hydro Power O&M Agreement (see “*Narrative Description of the Business - Hydro - Hydro Power O&M Agreement*”).

The Ojibways of the Pic River First Nation (the “**Pic River FN**”) are entitled to receive a net profit interest in the revenue earned by the Wawatay Hydro Facility equal to 10% of any positive amount obtained by subtracting the sum of the facility’s cumulative costs, the cumulative deemed interest charges and certain project financing charges from the cumulative revenues of the Wawatay Hydro Facility. The Pic River FN received payments totalling approximately \$0.4 million in respect of the year ended December 31, 2017. The Pic River FN has also agreed that if its claim to any aboriginal interest in or rights to any lands or waters or activities carried on in, on or over any lands or waters shall at any time be upheld by a court, the Pic River FN will not exercise any such interest or rights so as to in any manner interfere with the operation of the Wawatay Hydro Facility or any modification or expansion thereof. The Pic River FN is also entitled to 90 days’ notice of any proposed sale of the Wawatay Hydro Facility and has the right to purchase all of the assets proposed to be sold at the price and upon the terms specified in the notice within such 90-day period.

### ***Hydro Power O&M Agreement***

The Hydro Power Facilities are operated by Regional Power. Regional Power and its predecessors have operated the Sechelt Creek Hydro Facility since its completion in 1997, the Hluey Lakes Hydro Facility since its completion in 2000, the Wawatay Hydro Facility since its completion in 1992 and the Dryden Hydro Facility since 1986. Under the Hydro Power O&M Agreement, Regional Power operates, maintains and manages the Hydro Power Facilities in accordance with prudent industry practice and an annual operating plan developed by Regional Power and approved by MPT Hydro LP. The Hydro Power O&M Agreement had an initial term of 10 years, which expired on November 30, 2011. The Hydro Power O&M Agreement was automatically renewed for both of its two additional five-year terms, the second of which will expire on November 30, 2021.

## **Gas**

### **Cardinal Facility**

#### ***Overview***

The Cardinal Facility located in Cardinal, Ontario is a combined-cycle facility fueled by natural gas with a net rated capacity of 156 MW of electrical power. The facility commenced commercial operation in November 1994 and consists of a 110 MW (gross) Siemens combustion turbine generator and a 50 MW (gross) Siemens steam turbine.

#### ***Cardinal NUG Contract***

Pursuant to the 20-year non-utility generator contract dated March 26, 2014 between Cardinal LP and the OPA (now the IESO) (the “**Cardinal NUG Contract**”), the Cardinal Facility operates as a dispatchable facility and capacity from the Cardinal Facility is sold to the IESO. Under the Cardinal NUG Contract, Cardinal LP is entitled to receive a monthly fixed facility participation payment (the “**FFPP**”) (subject to certain escalation provisions) from the IESO, which is intended to cover the fixed operating costs and return on capital for the Cardinal Facility. During the term of the Cardinal NUG Contract, Cardinal LP supplies electricity to the Ontario grid generally when the market revenue from doing so exceeds the costs of production. When it does so, Cardinal LP receives market-based revenue. The Corporation invested an aggregate of approximately \$34 million during 2014 and 2015 to complete the cycling conversion of the Cardinal Facility (prior to 2015 it was a baseload generator with a PPA), including the purchase of a new rotor and related equipment to extend and enhance the facility’s capabilities (see “*Risk Factors - Risks Related to the Power Facilities - Power Purchase Agreements*”).

#### ***Arrangements with Ingredion and Gas Purchase Arrangements***

During 2017, the Cardinal Facility generated steam for Ingredion for its corn wet milling plant located adjacent to the Cardinal Facility under the terms of an energy savings agreement (the “**Energy Savings Agreement**”) between Cardinal LP and Ingredion dated as of December 15, 2014. Under the Energy Savings Agreement, the Cardinal Facility

generates steam for Ingredion and Ingredion is required to pay for gas used to generate such steam. The Cardinal Facility also provides all of Ingredion's compressed air requirements, with related electricity costs being at Ingredion's expense.

In 2017, Ingredion completed the construction of a 15 MW cogeneration plant and reached commercial operation on November 24, 2017. Cardinal LP receives a fixed amount (subject to escalation) to provide operational and maintenance services to Ingredion's plant. The plant supplies Ingredion with steam and electricity required for its corn wet milling plant. The Energy Savings Agreement also provides for Ingredion to receive a royalty payment based upon a portion of the market revenue earned by the Cardinal Facility from any electricity sales. In the event that Ingredion terminates the Energy Savings Agreement prior to the end of its term under certain prescribed circumstances, Cardinal LP would have the option to purchase the land underlying the Cardinal Facility for a nominal amount. If Cardinal LP exercises such option, Cardinal LP would be required to pay an early termination fee that declines over time. Cardinal LP has the option to extend the term of the Energy Savings Agreement for up to two years, on substantially the same terms.

The land underlying the Cardinal Facility is leased from Ingredion under a premises lease and facilities agreement. The term of the lease runs concurrently with the Energy Savings Agreement. Under the lease, Cardinal LP is required to make fixed monthly lease payments to Ingredion.

Since 2014, Cardinal LP has purchased the natural gas to operate the Cardinal Facility on the spot market.

### ***Cardinal O&M Arrangements***

On November 20, 2016, Cardinal LP entered into a services agreement with Siemens Canada Limited, pursuant to which Siemens Canada Limited will provide maintenance services in respect of the gas turbine at Ingredion's 15 MW cogeneration plant for a term of 6 years.

### **Biomass**

#### **Whitecourt Biomass Facility**

##### ***Overview***

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

##### ***Whitecourt Power Sale Arrangements***

During 2017, the electricity produced at the Whitecourt Biomass Facility was sold at the hourly average Power Pool spot price, with the revenue received by the Whitecourt Biomass Facility subject to a sharing mechanism with Millar Western when the spot price for electricity differs from a contractually-agreed upon amount (see "*Narrative Description of the Business - Biomass - Whitecourt Biomass Facility - Wood Waste Supply Arrangements*").

##### ***Bioenergy Producer Program***

On February 8, 2017, the Whitecourt Biomass Facility was notified that the Government of Alberta approved its application to the BPP. The BPP is intended to support bioenergy production capacity projects in Alberta with reduced greenhouse gas emissions in comparison to conventional alternatives, and create value-added opportunities with economic benefits. The Whitecourt Biomass Facility was successfully awarded funding of \$4.8 million for the 18 months ending September 30, 2017. In 2017, Capstone produced enough eligible power to receive the full grant funding and has received \$4.7 million in payments to date.

##### ***Wood Waste Supply Arrangements***

Operating at full capacity, the Whitecourt Biomass Facility consumes approximately 300,000 green metric tonnes of wood waste per year. Wood waste fuel is delivered by a third party transport company at the Whitecourt

Biomass Facility's cost. Millar Western operates a sawmill and a pulp mill that are located approximately three kilometres away from the Whitecourt Biomass Facility and the Fox Creek sawmill which is located approximately 65 kilometres away.

Pursuant to a fuel supply agreement between Millar Western and WPLP dated as of March 2, 2015, Millar Western supplies wood waste to the Whitecourt Biomass Facility. The fuel supply agreement has a term of 15 years (extendable to 20 years upon mutual agreement between Millar Western and WPLP), and includes sharing mechanisms with Millar Western when the spot price for electricity differs from a contractually-agreed upon amount.

### ***Refurbishment***

On December 3, 2017, the Whitecourt Biomass Facility successfully completed a major refurbishment of the steam turbine and boiler. Capstone's investment is expected to extend the facility's useful life.

## **Chapais Biomass Facility**

### ***Overview***

The Chapais Biomass Facility is a wood waste-fired electricity generating facility located in Chapais, Québec with a net installed capacity of 28 MW that began commercial operation in 1995. The Chapais Biomass Facility is owned by Chapais Énergie, société en commandite ("**CHESEC**"), a limited partnership whose sole general partner is Chapais Électrique Limitée ("**CHEL**") and whose limited partners are CHEL and a wholly-owned subsidiary of CHEL. Chapais Power Services Inc. provides O&M services to the facility. Electricity produced at the Chapais Biomass Facility is sold pursuant to a PPA dated December 1, 2015 between CHESEC and Hydro-Québec (the "**Chapais PPA**") at contracted rates which expires on June 30, 2019.

### ***Corporation's Investment***

CPOT Holdings Corp., an indirect wholly-owned 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 preferred shares, all of which are owned by third parties. Dividends on the CHEL Class B Shares have never been paid and the Corporation previously determined that its investment in CHEL Class B Shares was fully impaired and has written down its value to nil. CPOT Holdings Corp. is also a lender to CHESEC. Any future cash flows to the lenders from Chapais will be made from 50% of the net cash flows via payments on the CHESEC Tranche B Senior Debt, of which CPOT Holdings Corp. holds 24.8%. The other 50% of the net cash flows will be paid to the third party manager.

## **Environmental, Health and Safety Matters**

The Power Facilities and their respective operations hold all material permits and approvals required for their construction and operation, depending on project phase and operational status, and are subject to complex and stringent environmental, health and safety regulatory regimes, including Environmental, Health and Safety Laws. The Power Facilities are managed to comply with such Environmental, Health and Safety Laws in addition to Capstone's corporate and facility-specific health, safety and environment policies. See "*Risk Factors - Risks Related to the Power Facilities - Environmental*" and "*Risk Factors - Risks Related to the Power Facilities - Regulatory Environment*".

### ***Climate Change Initiatives***

In December of 2015, Canada along with 194 other countries reached an historic agreement to accelerate actions and investments needed to limit global average temperature increases to below 2 degrees Celsius above pre-industrial levels and to pursue efforts to further limit the increase to 1.5 degrees Celsius ("**Paris Agreement**"). As part of its commitment Canada agreed to reduce its greenhouse gas ("**GHG**") emissions by 30% below 2005 levels by 2030.

In 2016, not only did the federal government ratify the Paris Agreement but it jointly issued together with most of the Provinces, with the exception of Saskatchewan and Manitoba, the Pan-Canadian Framework on Clean

Growth and Climate Change (the “**Framework**”). The Framework is the blueprint by which the federal government and the provinces will attempt to meet Canada’s target of a 30% reduction in GHG emissions from 2005 levels by 2030. Pursuant to the Framework, provincial jurisdictions have the flexibility to implement a variety of carbon regimes ranging from price-based regimes such as a carbon tax, to performance-based emissions regimes to cap and trade. Because of this flexibility, provincial legislation is expected to play a significant role with respect to the Corporation’s facilities.

In early 2018 the federal government released its legislative proposal for the federal carbon pricing system. The system, as described in the proposed Greenhouse Gas Pollution Pricing Act includes two primary elements: (i) a charge on fossil fuels; and (ii) a cap and trade system for large industrial emitters. The federal regime is intended to serve as a regulatory back-up and only apply to those provinces that have not otherwise implemented adequate provincial GHG regimes. All of Capstone’s existing renewable facilities are located in provinces that either have or are expected to have adequate GHG regimes. As such the federal regime is not expected to have any impact on its operations.

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 the implementation of stringent policies and procedures to prevent the improper discharge of emissions or other pollutants from its facilities.

### ***Greenhouse Gases and Other Air Pollutants - Federal Requirements***

Pursuant to the Framework, in the event that a Province does not implement an adequate GHG regime, the federal requirements involve the imposition of a carbon levy of \$10/tonne in 2018, which price will rise by \$10/tonne/year to a maximum of \$50/tonne by 2022.

Each of the Cardinal Facility, the Whitecourt Biomass Facility and the Chapais Biomass Facility emits GHGs and each facility complies, in all material respects, with current federal and provincial environmental legislation and guidelines on GHG and other emissions. The following discussion primarily focuses on the Cardinal Facility and the Whitecourt Biomass Facility, as the Wind Power Facilities, the Hydro Power Facilities and the Amherstburg Solar Park do not emit any material amounts of GHGs or other pollutants and the Corporation only has minority preferred equity and debt investments in the Chapais Biomass Facility.

The Cardinal Facility and the Whitecourt Biomass Facility are subject to various regulations promulgated under the *Canadian Environmental Protection Act, 1999* (Canada) (“**CEPA**”), in addition to provincial requirements. Pursuant to CEPA, facilities with GHG emissions of 50,000 tonnes CO<sub>2</sub>-equivalent or more per year are required to report their annual emissions of CO<sub>2</sub> and certain other GHGs to Environment Canada. Both the Cardinal Facility and the Whitecourt Biomass Facility are subject to, and in compliance with, these reporting requirements.

The Canadian federal government, along with the provincial and territorial governments, has developed a national framework for managing and regulating air pollutant emissions such as NO<sub>x</sub>, sulphur oxides, volatile organic compounds and particulate matter, including specific caps on pollutants for each sector, including electricity generation. The framework, known as the Air Quality Management System, involves the establishment of specific air quality standards. These standards are used by the provinces and territories to implement air quality improvements. To date, standards have been adopted for ozone, particulate matter and SO<sub>2</sub>. 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 subject to various provincial regulations promulgated by the Ontario Ministry of the Environment and Climate Change. Facilities with GHG emissions of 10,000 tonnes CO<sub>2</sub>-equivalent or more per year are required to report their GHG emissions to the Ontario Ministry of the Environment and Climate Change. The Cardinal Facility emitted approximately 53,852 tonnes CO<sub>2</sub>-equivalent in 2017 and was in compliance with its various CO<sub>2</sub> reporting requirements. Ontario also regulates the reporting, allocation and retirement of NO<sub>x</sub> and SO<sub>2</sub> emissions. The Cardinal Facility has no reportable SO<sub>2</sub> emissions and NO<sub>x</sub> emissions fall below the levels mandated by legislation.

Ontario is a member of the Western Climate Initiative (“WCI”), which is an organization that also includes British Columbia, Québec, Manitoba and California. 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. On August 31, 2016, the Ontario government signed a Joint Declaration with Mexico and Québec. These parties have agreed to deepen their collaboration by conducting cooperation activities on carbon markets with the objective of reducing GHG emissions and jointly promoting the expansion of carbon market instruments for GHG emissions reduction in North America.

The Ontario cap-and-trade program began on January 1, 2017 under the *Climate Change Mitigation and Low Carbon Economy Act*. This regime is the primary tool for Ontario to achieve its GHG reduction targets and encompass the electricity generation sector. Declining caps are set each year that limit the amount of allowable GHG emissions, measured in tonnes of CO<sub>2e</sub>. The first compliance period runs until December 31, 2020 and the second compliance period will end December 31, 2030. The regime was updated in 2017 to link Ontario's program to the joint Québec-California program. This allows all three jurisdictions to hold joint auctions of GHG emission allowances and to harmonize regulations and reporting. The first joint auction took place in February 2018.

### **Alberta**

In Alberta, as of January 1, 2018, regulated facilities with GHG emissions greater than 10,000 tonnes CO<sub>2</sub>-equivalent per year are required to report their GHG emissions and those with GHG emissions greater than 100,000 tonnes per year are subject to emissions intensity reduction requirements. The Whitecourt Biomass Facility has not been subject to emissions intensity reduction requirements. The Alberta government also regulates other air emissions such as carbon monoxide, NO<sub>x</sub> and particulates. The Whitecourt Biomass Facility is in compliance with all of its GHG and air emissions compliance and reporting requirements.

The Alberta *Climate Leadership Act* was proclaimed in force as of January 1, 2017. It applies to facilities and persons who are not subject to the emissions intensity reduction requirements and imposes a carbon levy on certain fuels, such as natural gas and oil, imported into the Province or sold in the Province. As of January 1, 2018, the carbon levy was increased to \$30/tonne, which will increase the costs payable by consumers of the fuels that are subject to the levy.

### **Nova Scotia**

Nova Scotia has already met the Paris Agreement target of reducing its GHG emissions by 30% below 2005 levels by 2030. The Province intends to implement a cap and trade system. Despite the system effectively only being applicable to the coal-fired electricity generation sector, it has resulted in a marked shift from coal-fired electrical generation towards renewable electrical energy production and an associated decrease in GHG emissions.

### **Seasonality**

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

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

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

Production at the Whitecourt Biomass Facility will fluctuate as a result of its semi-annual maintenance activities generally scheduled for April and October of each year.

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 PV cells are capable of producing electricity even in the winter and during cloudy weather, although at a reduced rate. In the case of the Amherstburg Solar Park, electricity production typically varies over the course of a day, with peak production occurring at midday, and by season, with peak production occurring in the summer (in 2017, approximately two-thirds of the Amherstburg Solar Park's annual production occurred during the second and third quarter).

Spot prices for electricity vary at different times of the year as a result of increased or decreased energy consumption or supply constraints or surpluses, often as a result of weather conditions. During 2017, each of the Cardinal Facility and the Whitecourt Biomass Facility bid all of the electricity that such facility produced into the Ontario and Alberta electricity markets, respectively, and received revenue related to the applicable market price. Accordingly, the financial results of the Cardinal Facility and the Whitecourt Biomass Facility could fluctuate in accordance with such seasonal variations (see also "*Narrative Description of the Business - Biomass - Whitecourt Biomass Facility - Whitecourt Power Sale Arrangements*").

### **Power Industry**

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

What follows is a brief discussion of some of the renewable energy initiatives that have been undertaken in various Provinces. Although it is difficult to predict the financial impact of these initiatives on the Corporation, they are certainly indicative of increased renewable energy installed capacity and requirements throughout Canada.

Renewable energy now comprises approximately 36% of Ontario's installed capacity. These renewable energy projects have been procured through various programs, the most recent being the Ontario Large Renewable Procurement Program (the "LRP") which was created in 2014. On September 27, 2016, Ontario announced that it was suspending all new procurements under the LRP. In 2013, Ontario stated that by 2025, 50% of Ontario's installed capacity would be renewable energy, however, it is currently unclear how the growth of this element of Ontario's installed power capacity will develop in the future.

In 2016 Alberta announced its Renewable Electricity Program ("REP"), which sets a goal of adding 5000 megawatts of electrical generation capacity by 2030. If accomplished, by 2030 Alberta's renewable electricity generation capacity will increase from 11% to 30%. Through the first REP procurement, in the fall of 2017 Alberta awarded long-term electricity purchase contracts for four wind projects, totalling approximately 600 megawatts. In early 2018, Alberta announced second and third REP procurements for 300 megawatts and 400 megawatts of renewable electricity generation, respectively.

Nova Scotia's Renewable Electricity Plan sets out renewable electricity generation targets of 25% by 2015 (which target was met) and 40% by 2020.

### **Competitive Conditions in the Power Industry**

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

### **Regulatory Environment**

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

## **CAPITAL STRUCTURE OF THE CORPORATION**

### **Overview**

The authorized capital of the Corporation consists of an unlimited number of Common Shares, an unlimited number of Class A 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, 2018, there were no Common Shares, 304,609,155 Class A Shares and 3,000,000 Series A Preferred Shares issued and outstanding. There are no cumulative floating rate preferred shares, Series B Preferred Shares issued and outstanding. All of the Class A Shares are owned by Irving, an indirect subsidiary of iCON III.

As at March 21, 2018, an aggregate principal amount of \$50.0 million is outstanding under the CPC Term Facility. Capstone has utilized \$21.0 million of letters of credit under the CPC Revolving Loan Facility.

### **Common Shares**

Holders of Common Shares are entitled to one vote per share at meetings of shareholders of the Corporation (except for meetings at which only holders of another specified class or series of shares of the Corporation are entitled to vote separately as a class or series), to receive (subject to the rights of the holders of any other class of shares) dividends if, as and when declared by the Board of Directors, on an equal basis with the holders of Class A Shares and to receive *pro rata* the remaining property and assets of the Corporation upon its dissolution or winding-up on an equal basis with the holders of Class A Shares (subject to the rights of any other class of shares).

### **Class A Shares**

Holders of Class A Shares are entitled to 1.01 vote per share at meetings of shareholders of the Corporation (except for meetings at which only holders of another specified class or series of shares of the Corporation are entitled to vote separately as a class or series), to receive (subject to the rights of the holders of any other class of shares) dividends if, as and when declared by the Board of Directors, on an equal basis with the holders of Common Shares and to receive *pro rata* the remaining property and assets of the Corporation upon its dissolution or winding-up on an equal basis with the holders of Common Shares (subject to the rights of any other class of 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 to, but excluding, July 31, 2016 (the "**Initial Fixed Rate Period**"), holders of Series A Preferred Shares were 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 (or 5.000%) per share. During the current Subsequent

Fixed Rate Period, which began on July 31, 2016 and will end on July 30, 2021, 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, at an annual rate equal to approximately \$0.8177 (or 3.271%) per share, payable quarterly each year. Thereafter, during Subsequent Fixed Rate Periods, 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, 2021 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 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, 2021 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 Period 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 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 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.

### **CPC Credit Facilities**

CPC, as borrower, certain of its subsidiaries, as full recourse guarantors, the Corporation, as a limited recourse guarantor, the lenders that are parties thereto from time to time, and an administrative agent entered into a credit agreement dated as of April 29, 2016 providing for a revolving credit facility with a maximum outstanding

principal amount of \$5 million, a letter of credit facility with a maximum outstanding principal or face amount of \$35 million and a term credit facility with a maximum outstanding principal amount of \$85 million (collectively, the “**Original CPC Credit Facilities**”) in favour of CPC.

On December 15, 2017, CPC completed a \$145 million refinancing of the Original CPC Credit Facilities. CPC, as borrower, certain of its subsidiaries as full recourse guarantors, the Corporation, as a limited recourse guarantor, the lenders that are parties thereto from time to time, and the administrative agent are parties to the credit agreement dated December 15, 2017 (as amended and supplemented from time to time, the “**CPC Credit Agreement**”) providing for the \$95 million CPC Revolving Loan Facility and the \$50 million CPC Term Facility. The CPC Revolving Loan Facility also includes a sub-limit of a \$5 million swing line facility and an accordion feature, which allows for an increase of a revolving credit facility of up to \$30 million, subject to lenders’ approval.

As at March 21, 2018, an aggregate principal amount of \$50.0 million is outstanding under the CPC Term Facility. Capstone has utilized \$21.0 million of letters of credit under the CPC Revolving Loan Facility. The CPC Credit Facilities bear interest at a variable rate plus an applicable margin. The debt matures on December 15, 2021 and includes rolling one-year term extension options, subject to lenders’ approval.

The collateral for the CPC Credit Facilities is provided by the Corporation, CPC, and its material subsidiaries. CPC and its material subsidiaries (with exception of certain subsidiaries, including previously encumbered project financed subsidiaries) provided demand debentures granting a first ranking security interest in all present and future property and a floating charge over real property and first ranking securities pledge agreements (subject to certain liens). Capstone provided a limited recourse guarantee, a securities pledge agreement and an assignment of indebtedness owed to Capstone by CPC.

The CPC Credit Agreement contains terms, representations and warranties, positive and negative covenants (including, without limitation, covenants that restrict certain types of debt incurrence, liens, distributions, dispositions, sale and leaseback transactions, acquisitions, investments, hedging arrangements and non-arm’s length transactions), indemnities, and events of default (including, without limitation, the change of control of CPC) that are customary for credit agreements of this nature. Financial covenants include a maximum total leverage ratio and a minimum debt service coverage ratio each calculated in accordance with the terms of the CPC Credit Agreement.

### **Irving Promissory Note**

As a part of the completion of the Arrangement on April 29, 2016, the multi-currency Irving Promissory Note was issued to Irving by the Corporation as partial consideration for the exchange of all of the Common Shares. Upon its original issuance, the Irving Promissory Note had three tranches of outstanding principal amounts: (i) £106 million (the “**GBP Tranche**”); (ii) SEK 712.7 million (the “**SEK Tranche**”); and (iii) approximately \$10.4 million (the “**CAD Tranche**”).

On September 7, 2016, in connection with a refinancing at Värmevärdén, the Corporation repaid 160.0 million SEK of the SEK Tranche of the Irving Promissory Note and a first amended and restated demand promissory note was entered into reflecting an updated outstanding principal amount for the SEK Tranche of SEK 552.7 million.

On December 15, 2016, Irving exercised its right under the terms of the Irving Promissory Note to convert the outstanding principal amount of the GBP Tranche into Class A Shares, resulting in the issuance of 123,905,223 Class A Shares to Irving at a price of \$1.57 per share and the elimination of the GBP Tranche. To reflect this change, a second amended and restated demand promissory note was entered into.

On March 31, 2017, Irving exercised its right under the terms of the Irving Promissory Note to convert the remaining SEK tranche of the promissory note payable into 76,875,993 newly issued Class A shares, which increased share capital by \$86.3 million. Additionally, Capstone used the proceeds from the sale of Värmevärdén to repay the \$10.4 million CAD Tranche of the promissory note payable and to distribute \$132.0 million to Irving as a return of capital, which included reductions of \$45.6 million to retained earnings and \$86.3 million to the Class A shares. The transaction did not have a net impact on the value of Capstone's Class A shares.

As of December 31, 2017, there is no outstanding principal amount on the Irving Promissory Note.

## MANAGEMENT OF THE CORPORATION

### Directors

The Board of Directors of the Corporation currently consists of nine Directors. The Corporation must have a minimum of three Directors. The Corporation currently has an Audit Committee (the “**Audit Committee**”) and a Corporate Governance & Compensation Committee (the “**CG&C Committee**”), each of which has a minimum of three Directors as members. The members of such committees are indicated below.

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.

The Directors of the Corporation are:



Gary Eade  
Surrey, United Kingdom  
Director since: April 29, 2016  
Not Independent

Mr. Eade, currently a partner at iCON, joined iCON in 2013 and focuses on investments in the energy sector. He has two decades of experience working in the conventional and renewable power generation sectors. He started his career in General Electric and spent a total of 15 years working in the GE Energy division in multiple management roles, and GE Energy Financial Services as technical director for European Union, India and the Middle East. Following General Electric, Mr. Eade worked for Deutsche Bank as a technical director in the principal investment team and as Head of Energy for EEA Fund management from 2010 to 2013. Mr. Eade holds a Bachelor of Engineering in Electrical / Mechanical Power and a Higher National Certificate in Electronic Engineering.

Capstone Committee Memberships

- None

Other Current Public Entity Directorships

- None



David Eva  
Ontario, Canada  
Director since: January 1, 2017  
Not Independent

Mr. Eva joined the Corporation in October 2013 as Vice President, Development, and progressed to Senior Vice President and later to Chief Executive Officer of CPC, the power subsidiary of the Corporation. On January 1, 2017, Mr. Eva was appointed to the position of Chief Executive Officer of the Corporation and became a member of the Board. Prior to joining the Corporation, Mr. Eva was the Vice President, Development at Renewable Energy Developers Inc. (“**ReD**”), and Project Management Director at Sprott Power Corp. (the predecessor to ReD) from February 2011 until it was acquired by the Corporation in October 2013. Mr. Eva is a registered professional engineer in the province of Ontario, holds the Chartered Financial Analyst designation, received a Masters of Engineering (M.Eng) in Mechanical Engineering from the University of Waterloo, and a Bachelor of Science (BSc.Hons) in Mechanical Engineering from Queen’s University.

Capstone Committee Memberships

- None

Other Current Public Entity Directorships

- None



Richard Knowles

Ontario, Canada

Director since: June 18, 2013

Independent

Mr. Knowles is currently on the Investment Advisory Committee of the Canada Post Pension Fund and is a member of the Davis Rea Wealth Management Investment Review Committee. From 2000 to 2008, Mr. Knowles served as President and Chief Executive Officer and as a board director of Sceptre Investment Counsel Ltd. Mr. Knowles was previously President and Chief Executive Officer of Jones Heward Investment Management and Executive Vice President of Nesbitt Burns Inc. He is also past Chairman of the Portfolio Management Association of Canada and former Treasurer of North York General Hospital. Mr. Knowles is a Chartered Financial Analyst and holds an Honours Bachelor of Business degree from the Richard Ivey School of Business and an Honorary Doctorate of Laws from Assumption University (Windsor).

Capstone Committee Memberships

- CG&C Committee
- Audit Committee

Other Current Public Entity Directorships

- None



Paul Malan

London, United Kingdom

Director since: April 29, 2016

Not Independent

Mr. Malan is Senior Partner of iCON, an independent infrastructure investment firm that he founded in 2011. Mr. Malan has over 20 years of experience in infrastructure advisory and investment, including at iCON, Deutsche Bank and Macquarie Bank. Mr. Malan holds a Bachelor of Commerce degree and a Bachelor of Laws degree from the University of Melbourne (Australia).

Capstone Committee Memberships

- CG&C Committee

Other Current Public Entity Directorships

- Bristol Water plc



Andrew Kennedy

Ontario, Canada

Director since: April 1, 2017

Not Independent

Mr. Kennedy has been with the Corporation since 2010 as Vice President, Finance from 2010 to 2016 and as Chief Financial Officer of CPC since April 2016. On April 1, 2017, Mr. Kennedy was appointed to the position of Chief Financial Officer of the Corporation and became a member of the Board. Prior to joining Capstone's predecessor in 2010, Macquarie Power and Infrastructure Corporation, Mr. Kennedy held progressively senior roles at Ernst & Young, where he specialized in public company financial reporting. In addition, Mr. Kennedy is a Chartered Professional Accountant (CPA) and is a member of both CPA Ontario and the American Institute of CPAs in Illinois.

Capstone Committee Memberships

- None

Other Current Public Entity Directorships

- None



Adèle Malo

Ontario, Canada

Director since: April 29, 2016

Independent

Ms. Malo holds a B.A., LL.B. and LL.M. as well as the ICD.D designation and has extensive corporate and governance experience in the energy, foodservice, services and utility sectors. She currently serves on the Board of Directors of Ontario's Electrical Safety Authority (ESA) and Plug'n'Drive. From 2006 to 2016 she served on the Board of Scientists in School. She was previously Executive Vice President of Government & Regulatory Affairs, Real Estate and External Communications and General Counsel for Direct Energy until her retirement in December 2012. Direct Energy is the North American subsidiary of Centrica PLC, delivering energy and services to millions of North American commercial and residential consumers. Prior to that she held senior positions with Ontario Power Generation, Union Gas, Oshawa Group Ltd. and Tim Hortons. Ms. Malo began her career as an associate lawyer in the tax department of Osler, Hoskin & Harcourt.

Capstone Committee Memberships

- CG&C Committee (Chair)
- Audit Committee

Other Current Public Entity Directorships

- None



Michael Smerdon  
 Ontario, Canada  
 Director since: June 1, 2016  
 Not Independent

Mr. Smerdon is the Chief Executive Officer of iCON Canada Inc., an affiliate of iCON. He served as Executive Vice President and Chief Financial Officer of the Corporation, a role he held from 2009 to March 2017. Mr. Smerdon was also a former Managing Director of Macquarie Group Limited and Macquarie Infrastructure and Real Assets Canada Ltd. Mr. Smerdon holds a Bachelor of Commerce degree from the University of British Columbia and a Master of Business Administration degree from the Richard Ivey School of Business at the University of Western Ontario. He also holds the Chartered Financial Analyst designation, and is a member of the Institute of Corporate Directors, holding the ICD.D designation.

Capstone Committee Memberships

- None

Other Current Public Entity Directorships

- None



Paul Smith  
 Edinburgh, United Kingdom  
 Director since: May 10, 2017  
 Not Independent

An experienced Chartered Engineer with over 30 years of business, infrastructure and industrial experience, Mr. Smith was the former Managing Director of Generation at SSE Plc from 2005 to 2016, where he was responsible for the company's generation and gas storage portfolio in the UK and Ireland. A member of the SSE management board from 2010 to 2015, he also chaired the SSE HSE committee. Prior to joining SSE, Mr. Smith worked in the chemicals sector for both ICI Plc and DuPont in the UK and overseas. He was also a Public Member of Network Rail with a secondary governance role from 2013 to 2015. Mr. Smith is currently a non-executive board member of Scottish Water, a member of the Edinburgh University Business School International Advisory Board, an Energy Institute Council Member, a Global IChemE Energy Board member and an advisor to the Energy, Infrastructure and Asset Management industries. He is a graduate of Edinburgh University, holds an MBA from Henley Management College and is a Fellow of both the Institute of Chemical Engineers and the Energy Institute.

Capstone Committee Memberships

- None

Other Current Public Entity Directorships

- None



Janet Woodruff  
 British Columbia, Canada  
 Director Since: June 18, 2013  
 Independent

Ms. Woodruff is a corporate director and former executive with over 30 years of experience in the energy, transportation and health sectors. Ms. Woodruff was a consultant to the Transportation Investment Corporation from 2012 to 2015, during which time she served as acting Chief Executive Officer (2014-2015) and interim Chief Financial Officer (2012-2013). Prior thereto, she served as an executive with BC Hydro, BC Transmission Corporation, Vancouver Coastal Health Authority and the Westcoast Energy group of companies. Ms. Woodruff is a Fellow Chartered Accountant of British Columbia (FCPA, FCA), and a member of the Institute of Corporate Directors, holding the ICD.D designation. She earned her Master of Business Administration degree from York University and an Honours Bachelor of Science degree from the University of Western Ontario.

Capstone Committee Memberships

- Audit Committee (Chair)

Other Current Public Entity Directorships

- Ballard Power Systems, Director and member of the Audit Committee and Corporate Governance & Compensation Committee
- FortisBC Inc. and FortisBC Energy Inc. (each a wholly-owned subsidiary of Fortis Inc., but which have public debt securities outstanding), Director and member of the Audit Committee
- Altus Group Limited, Director and member of the Audit Committee and member of the Human Resource and Compensation Committee
- Keyera Corp., Director and member of the Audit Committee

Each of Richard Knowles, Adèle Malo and Janet Woodruff is “independent” in accordance with the provisions of National Instrument 52-110 *Audit Committees* (“NI 52-110”). Mr. Malan and Mr. Eade are not independent because of their positions with iCON, Irving and their affiliates. Mr. Smerdon is not independent because of his position with an affiliate of iCON and his former position as an executive officer of the Corporation within the last three years. Mr. Smerdon resigned his position as an executive officer of the Corporation effective March 31, 2017. Mr. Smith is not

independent because he received compensatory fees from iCON for consulting services over a twelve month period within the last three years. Mr. Eva and Mr. Kennedy are not independent because they are executive officers of the Corporation.

***Attendance at Board and Committee Meetings***

The Board, the Audit Committee and the CG&C Committee each meet at least once each quarter to review the Corporation’s business operations, financial results and other matters, as applicable, with additional Board and committee meetings scheduled as necessary. These meetings include the participation of senior management of the Corporation to review and discuss specific aspects of the Corporation’s operations. Directors are expected to attend a minimum of 75% of all regularly scheduled meetings of the Board and the committees on which they serve.

The following table summarizes the attendance of each Director at the Board and committee meetings held between January 1, 2017 and December 31, 2017:

Director	Board		Audit Committee		CG&C Committee		Attendance
	Attended	Held	Attended	Held	Attended	Held	
Gary Eade	12	14	—	—	—	—	85.7%
David Eva	14	14	—	—	—	—	100%
Andrew Kennedy <sup>(1)</sup>	10	10	—	—	—	—	100%
Richard Knowles	14	14	5	5	8	8	100%
Paul Malan	13	14	—	—	8	8	95.5%
Adèle Malo	14	14	5	5	8	8	100%
Enis Moran <sup>(2)</sup>	8	10	—	—	—	—	80%
Michael Smerdon	13	14	—	—	—	—	92.9%
Paul Smith <sup>(3)</sup>	10	10	—	—	—	—	100%
Janet Woodruff	14	14	5	5	—	—	100%

Notes:

- (1) Mr. Kennedy was appointed to the Board on April 1, 2017 and, accordingly, his attendance figures reflect only those meetings that occurred following his election.
- (2) Mr. Moran resigned as a Director on September 13, 2017 and, accordingly, his attendance figures reflect only those meetings that occurred prior to his resignation.
- (3) Mr. Smith was appointed to the Board on May 10, 2017 and, accordingly, his attendance figures reflect only those meetings that occurred following his election.

**Executive Officers**

The name, province 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, 2018 are as follows:

<b><u>Name and Jurisdiction of Residence</u></b>	<b><u>Office with the Corporation</u></b>
<b>David Eva</b> <sup>(1)</sup> Ontario, Canada	Chief Executive Officer
<b>Andrew Kennedy</b> <sup>(1)</sup> Ontario, Canada	Chief Financial Officer
<b>Aileen Gien</b> <sup>(2)</sup> Ontario, Canada	General Counsel & Corporate Secretary
<b>Patrick Leitch</b> <sup>(3)</sup> Ontario, Canada	Vice President, Operations

Notes:

- (1) Biographical information for each of Messrs. Eva, and Kennedy is contained under “*Management of the Corporation - Directors*”.
- (2) Ms. Gien was appointed General Counsel & Corporate Secretary of the Corporation on April 1, 2016, having served in those roles on an interim basis since November 9, 2015. Prior to her appointment as Interim General Counsel and Corporate Secretary, Ms. Gien had been Associate General Counsel of the Corporation since February 2014. She has been the General Counsel of Capstone Power Development (B.C.) Corp. since December 2014. From 2012 to 2014, Ms. Gien was legal counsel to Infrastructure Ontario.
- (3) Mr. Leitch was appointed Vice President, Operations of CPC on January 1, 2017. Prior to his appointment as Vice President, Operations, Mr. Leitch had been a Project Manager with CPC since December 2013. From 2010 to 2013, Mr. Leitch was a project manager with Graham Infrastructure.

As at March 21, 2018, the Directors and the executive officers of the Corporation as a group do not own or exercise control or direction over, directly or indirectly, any Class A Shares or the Corporation’s preferred shares.

### **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) or, in the case of (C), (D) or (E) only, iCON III or any of its subsidiaries: (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 (including the Corporation) 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.

### **Audit Committee Information**

#### ***Charter of the Audit Committee***

The text of the Charter of the Audit Committee is set out in Schedule “C” to this Annual Information Form.

#### ***Composition of the Audit Committee***

The Audit Committee is composed of three Directors, namely Janet Woodruff (chair), Richard Knowles and Adèle Malo. Each member of the Audit Committee is “independent” and “financially literate”, in accordance with the applicable provisions of NI 52-110.

#### ***Relevant Education and Experience of the Audit Committee Members***

The education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as a member of the Audit Committee are set forth in their respective biographies above under “*Management of the Corporation - Directors*”.

**External Audit Fees**

The following table outlines the fees billed to the Corporation by PricewaterhouseCoopers LLP (“PwC”), 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:

<i>In dollars</i>	<u>2016</u>	<u>2017</u>
Audit Fees.....	\$ 293,239	\$ 271,215
Audit-Related Fees <sup>(1)</sup> .....	\$ 394,823	\$ 226,219
Tax Fees.....	\$ 7,875	\$ —
All Other Fees.....	\$ —	\$ —
Total.....	<u>\$ 695,937</u>	<u>\$ 497,434</u>

Note:

(1) The Corporation’s audit-related fees include fees paid to the Corporation’s auditors for statutory audits, attestation services, quarterly reviews and French translation services.

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

The Audit Committee reviewed PwC’s provision of non-audit services during the financial year ending December 31, 2017 in the context of maintaining PwC’s independence.

**Corporate Social Responsibility**

Capstone’s Corporate Social Responsibility Policy (the “**CSR Policy**”) requires the Corporation to recognize and manage its impact on society and to see that its business activities and, where practical, those of supplier organizations, are conducted in a socially responsible manner. The CSR Policy identifies five corporate social responsibility (“**CSR**”) principles, which are rooted in Capstone’s business objectives, guides management and employee decision-making, and ensures the Corporation respects the needs and rights of its employees, the public, and neighbours and protecting them from harm.

Capstone’s CSR approach is directed by the following five CSR principles:

- 1) act with integrity in meeting corporate governance, legal and other standards of behavior;
- 2) respect human rights and dignity;
- 3) be accountable for actions and transparent in reporting;
- 4) engage with stakeholders to strive for mutually beneficial outcomes; and
- 5) invest in the Corporation’s employees.

Capstone has developed and formulated a robust health, safety and environmental (“HSE”) process under which it revised its HSE Policy and implemented a new HSE governance framework in 2017. Pursuant to the HSE Policy and governance framework, in 2017 a new program has been formulated to perform risk evaluation and mitigation throughout Capstone’s operating sites. Capstone has hired a professional HSE manager to drive this process and ensure compliance in the various jurisdictions it operates.

## **RISK FACTORS**

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

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

The Corporation recognizes the importance and benefits of timely identification, assessment and management of risks that may impact the Corporation’s ability to achieve its objectives. In this respect, the Corporation is committed to prudent risk management practices within the context of an enterprise risk management (“ERM”) framework. Further information regarding the Corporation’s risk management practices and its ERM framework is contained under “*Risks and Uncertainties*” in the MD&A for the year ended December 31, 2017, which is available under the Corporation’s SEDAR profile at [www.sedar.com](http://www.sedar.com) and on the Corporation’s website at [www.capstoneinfrastructure.com](http://www.capstoneinfrastructure.com). There is, however, no assurance that the risk management practices employed by the Corporation will avoid future loss due to the occurrence of the matters set out in risks described below or other unforeseen risks.

### **Risks Related to the Corporation’s Securities**

#### ***Controlling Shareholder Risk***

The Corporation’s business and affairs are controlled by iCON III, which indirectly owns 100% of the Class A Shares, which are the only outstanding voting shares in the capital of the Corporation. As a result, iCON III is entitled to exercise control over all matters requiring shareholder approval, including the election of directors of the Corporation and the approval of significant corporate transactions. It is possible that situations may arise where the respective interests of iCON III and other securityholders or stakeholders of the Corporation could differ and iCON III makes decisions regarding the Corporation and its business that are opposed to other securityholders’ or stakeholders’ interests or with which other securityholders or stakeholders may disagree.

#### ***Dividends on Class A Shares and Preferred Shares are not Guaranteed***

Although the holders of Series A Preferred Shares are entitled to receive fixed, cumulative, preferential cash dividends, if, as and when declared by the Directors, payable quarterly each year, at an annual rate equal to approximately \$0.8177 per share, the declaration of Class A Share and preferred share dividends is at the discretion of the Directors. Further, the Corporation’s dividend policies may vary in the future depending upon, among other things, the Corporation’s cash flows, earnings, financial requirements, the satisfaction of solvency tests imposed by the BCBCA for the declaration of dividends and other relevant factors.

### ***Volatile Market Price for the Corporation's Preferred Shares***

A publicly-traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Corporation's securities will trade cannot be predicted. The market price for the Corporation's securities may be subject to significant fluctuations in response to numerous factors, many of which are beyond the Corporation's control, including, without limitation, the following: changes to interest rates or foreign currency; real or anticipated changes in the Corporation's credit ratings; 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 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; 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 anticipated 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.

### **Risks Related to the Corporation and Its Businesses**

#### ***Availability of Debt and Equity Financing***

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, certain of the Corporation's subsidiaries may require access to the private debt markets to finance the construction of a Wind Development Project, so the inability to raise debt or equity financing could have a material adverse effect on their respective businesses. In addition, the inability of the Corporation to access sufficient capital on acceptable terms could have a material adverse effect on the Corporation's ability to meet its objectives or requirements, including, without limitation, repayment obligations under its various debt instruments or credit facilities.

#### ***Default under Credit Agreements and Debt Instruments***

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

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

interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing.

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

### ***Geographic Concentration***

Approximately 76.7%, 8.5%, 5.6%, 5.1%, and 4.1% of the Corporation's 2017 revenue is derived from Power Facilities that are located in Ontario, Nova Scotia, Alberta, Québec, and BC, respectively. Accordingly, the Corporation, its subsidiaries and investees, as applicable, are subject to risks associated with adverse changes in local or regional economic conditions or adverse changes to the regulatory environment in Ontario, Nova Scotia, Alberta, Québec or BC, as applicable.

### ***Acquisitions, Development and Integration***

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

### ***Environmental, Health and Safety***

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

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

### ***Changes in Legislation and Administrative Policy***

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

### ***Reliance on Key Personnel***

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

### **Risks Related to the Power Facilities**

#### ***Power Purchase Agreements***

Most of the electricity that is generated or capacity that is provided by the Power Facilities is sold to large utilities or creditworthy customers under PPAs that provide a specified rate but carry expiration dates and termination provisions. As PPAs expire or are terminated, there can be no assurance that the applicable Power Facility will be able to renegotiate or enter into a power supply contract on terms that are commercially reasonable, if at all, and it is possible that the price received by a Power Facility for power under subsequent arrangements may be reduced significantly. It is also possible that subsequent PPAs may not be available at prices that permit the operation of a facility on a profitable basis and the affected facility may temporarily or permanently cease operations.

Further, if a Power 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.

#### ***Operational Performance***

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

The performance of the Power Facilities are also subject to risks related to the failure of a component to perform as expected, premature wear or failure, defects in design, material or workmanship, the failure to maintain the facility, longer than anticipated down times for maintenance and repair, and grid outages and curtailment. These risks are partially mitigated by the proven nature of the technologies employed at each facility, regular maintenance and the design of each facility. The Corporation has attempted to mitigate some of these risks at some of the Power Facilities by obtaining manufacturers' warranties for principal components and having manufacturers or other reputable third parties provide O&M services. Notwithstanding the foregoing, it is possible that a Power Facility may not operate as planned and that design or manufacturing flaws may occur, which could conceivably not be covered by warranty, or

mechanical breakdown could occur in equipment after the warranty period has expired, resulting in loss of production as well as the cost of repair.

### ***Market Price for Electricity***

A portion of the revenues generated by the Cardinal Facility and the Whitecourt Biomass Facility are tied, either directly or indirectly, to the wholesale market price for electricity in Ontario and Alberta, respectively. Wholesale market electricity prices are impacted by a number of factors including: the price of fuel; the management of generation and the amount of excess generating capacity relative to load in a particular market; the cost of controlling emissions of pollution; the structure of the market; weather and economic conditions that impact electrical load; electricity demand growth; weather conditions that affect the amount of energy production by intermittent generation facilities such as wind, hydro and solar; conservation and demand-side management; and government regulations or policies (including environmental regulations or policies). The volatility and uncertainty in the energy market and market prices for electricity could have a material adverse effect on the Corporation's financial performance.

### ***Contract Performance and Reliance on Suppliers***

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

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

### ***Completion of Wind Development Projects***

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

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

### ***Land Tenure and Related Rights***

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

### ***Environmental***

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

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

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

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

### ***Regulatory Environment***

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

## **DIVIDENDS**

### **Dividend Policies**

The Corporation’s current dividend policy for the Class A Shares is to pay dividends if, as and when declared by the Board of Directors.

During the current Subsequent 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 at an annual rate of approximately \$0.8177 (or 3.271%) per share (see “*Capital Structure of the Corporation - Preferred Shares - Series A Preferred Shares*”). The holders of the Series B Preferred Shares will be entitled to receive floating rate cumulative, preferential cash dividends, if, as and when declared by the Directors, payable quarterly each year, in the amount per share determined by multiplying the applicable Floating Quarterly Dividend Rate by \$25.00 (see “*Capital Structure of the Corporation - Preferred Shares - Series B Preferred Shares*”). The Corporation’s current policy is to pay a quarterly dividend of \$0.2044 on its Series A Preferred Shares.

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

### **Payment of Dividends**

For each of the quarters ended March 31, 2015 through December 31, 2015, the Corporation declared and distributed, as applicable, dividends of \$0.075 per Common Share. Holders of Class B Exchangeable Units received distributions from LTC Holding LP equivalent to amounts paid in respect of Common Shares. Pursuant to the terms of the Arrangement Agreement, no dividends were declared on the Common Shares in 2016.

No dividends or distributions have been declared or paid on the Class A Shares for the years ended December 31, 2016 and December 31, 2017.

For each of the quarters ended January 31, 2015 through July 31, 2016, the Corporation declared and distributed, as applicable, quarterly dividends of \$0.3125 per Series A Preferred Share. For each of the quarters ended October 31, 2016 through January 31, 2018, the Corporation declared and distributed, as applicable, quarterly dividends of \$0.2044 per Series A Preferred Share.

## **MARKET FOR SECURITIES**

### **Common Shares**

On May 4, 2016, following completion of the Arrangement, the Common Shares were delisted from the TSX, where they had been listed under the symbol “CSE”, and are currently not listed or quoted on any stock exchange or other marketplace.

### **Class A Shares**

The Class A Shares are not currently listed or quoted on any stock exchange or other marketplace.

The only issuances of Class A Shares by the Corporation in 2017 were in connection with Irving’s conversion of the SEK Tranche of the Irving Promissory Note into Class A Shares on March 31, 2017. In accordance with the terms of the Irving Promissory Note, 76,875,993 Class A Shares were issued to Irving.

### **Series A Preferred Shares**

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

	<b><u>Price Per Series A Preferred Share</u></b>		<b><u>Trading Volume</u></b>
	<b><u>High (\$)</u></b>	<b><u>Low (\$)</u></b>	
<b><u>2017</u></b>			
January	11.94	11.55	112,019
February	12.00	11.63	50,569
March	12.84	11.76	107,533
April	13.28	12.20	30,937
May	13.48	12.78	10,820
June	13.01	12.64	18,817
July	13.30	12.78	50,994
August	13.10	12.85	10,681
September	13.95	12.94	34,970
October	13.78	13.19	34,182
November	13.73	13.34	32,201
December	13.65	13.25	41,678
<b><u>2018</u></b>			
January	13.75	13.30	40,398
February	13.56	13.16	89,435
March (to March 21, 2018)	13.49	13.08	15,858

### **TRANSFER AGENT AND REGISTRAR**

The registries for the Common Shares and Class A Shares are maintained in the Corporation’s minute book, which is located at the Corporation’s registered office in Vancouver, BC.

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

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

To the knowledge of the Corporation, except as set forth below or otherwise disclosed elsewhere in this Annual Information Form, no director or executive officer of the Corporation, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, directly or indirectly, more than 10% of the outstanding Common Shares or the Class A 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 2018 (up to March 21, 2018) that has materially affected or is reasonably expected to materially affect the Corporation.

The interests of the Directors and executive officers of the Corporation prior to completion of the Arrangement in the Arrangement are disclosed in the Arrangement Circular under the heading “*The Arrangement - Interests of Certain Persons in the Arrangement*”.

On December 15, 2016, pursuant to the terms of the Bristol Water Share Purchase Agreement, the Corporation sold its 71.4% interest in CSE Water UK Limited, which represented a 50% indirect interest in Bristol Water, to a subsidiary of iCON III for £115.6 million. The Corporation’s net investment for its 50% interest in Bristol Water was approximately £90 million. iCON III is the parent of the Corporation and is managed by a subsidiary of iCON

Infrastructure LLP, in which directors of the Corporation Paul Malan, Gary Eade and Enis Moran are all partners. For a description of how this conflict of interest was addressed, see “*Conflicts of Interest*”.

### **CONFLICTS OF INTEREST**

Since a number of the Corporation’s directors have a relationship with the Corporation’s parent, iCON III, the potential for a conflict of interest, or the appearance of a conflict of interest, exists in connection with any transaction between the Corporation and iCON III or any affiliate of iCON III (other than subsidiaries of the Corporation).

The Corporation’s Code of Conduct specifies that directors must seek to avoid situations in which their personal interests conflict or might conflict with their duties to the Corporation, and in the event a conflict of interest arises, disclose such conflict of interest and abide by his or her conflict of law obligations in accordance with applicable law. If a declaration of a disclosable interest in a matter is made by a director, the declaring director will not be permitted to vote on the matter if put to a vote of the Board. In addition, the declaring director may be requested to recuse himself or herself from any meeting when such matter is being discussed. If circumstances warrant, the Board may appoint a special committee of independent directors to assess transactions between the Corporation and iCON III or any affiliate of iCON III (other than subsidiaries of the Corporation).

Such conflict of interest procedure was followed with respect to the Corporation’s approval of the Bristol Water Share Purchase Agreement which provided that the Corporation would sell its interest in Bristol Water to a subsidiary of iCON III. The transaction was reviewed and approved by the Special Committee, which was composed of independent directors of the Corporation. In the course of its deliberations, the Special Committee retained Fasken Martineau DuMoulin LLP as its independent legal counsel and engaged the UK firm of Ernst & Young LLP as its valuation advisor. Ernst & Young LLP delivered a fairness opinion to the Special Committee to the effect that the price received by the Corporation in the transaction is fair, from a financial point of view, to the Corporation. Paul Malan, Gary Eade, Enis Moran and Michael Smerdon all declared that they had, or may have had, a disclosable interest in connection with the transaction and therefore none of such Directors voted on the approval of the transaction.

### **INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS**

No current or former Directors, executive officers or employees of the Corporation or any of its subsidiaries, or their associates, had any indebtedness to the Corporation or any of its subsidiaries or had any indebtedness which is the subject of a guarantee, support agreement, letter of credit or other similar arrangement or understanding provided by the Corporation or any of its subsidiaries at any time in 2017.

### **INTEREST OF EXPERTS**

The following persons have prepared or certified a report, valuation, statement or opinion described or included in a filing, or referred to in a filing, made by the Corporation under National Instrument 51-102 *Continuous Disclosure Obligations* (“**NI 51-102**”) during 2017.

The Corporation’s auditor is PricewaterhouseCoopers LLP, Chartered Professional Accountants, Licensed Public Accountants, and it has prepared an independent auditor’s report dated March 6, 2018, in respect of the Corporation’s consolidated financial statements with accompanying notes as at December 31, 2017 and December 31, 2016 and for the years ended December 31, 2017, and 2016. PricewaterhouseCoopers LLP has advised the Corporation that it is independent of the Corporation within the meaning of the CPA Code of Professional Conduct of the Chartered Professional Accountants of Ontario.

### **LEGAL PROCEEDINGS**

To the knowledge of the Corporation, except as may be described elsewhere in this Annual Information Form, there are no material legal proceedings to which the Corporation is a party or to which its property is subject, nor were there any such proceedings during 2017, and, to the Corporation’s knowledge, no such proceedings are contemplated.

### **MATERIAL CONTRACTS**

Except for certain contracts entered into in the ordinary course business of the Corporation and its subsidiaries, there are no contracts entered into by the Corporation or its subsidiaries on or after January 1, 2017 (or prior to January 1, 2017 if still in effect) that are material to the Corporation.

### **ADDITIONAL INFORMATION**

Additional financial information is provided in the Corporation's audited annual consolidated financial statements as at and for the years ended December 31, 2016 and 2017 and the management's discussion and analysis thereon. Such documentation, as well as additional information relating to the Corporation, may be found under the Corporation's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## GLOSSARY

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

“\$” means Canadian dollars.

“**Adjusted EBITDA**” means adjusted earnings before interest expense, taxes, depreciation and amortization. Adjusted EBITDA is calculated as revenue less operating and administrative expenses and project development costs plus interest income, contractual settlements included in other gains and (losses) and dividends or distributions received from equity accounted investments. Adjusted EBITDA for investments in subsidiaries with non-controlling interests is included in Capstone’s proportionate ownership interest by deducting amounts attributed to any non-controlling interest. Adjusted EBITDA from discontinued operations are added or subtracted as a single line consistent with the net result following the definition for continuing operations, up to the date of Capstone’s disposal.

“**affiliate**” has the meaning ascribed thereto in National Instrument 45-106 *Prospectus Exemptions*.

“**AFFO**” means Adjusted Funds from Operations. AFFO measures cash generated by Capstone’s infrastructure business investments that is available for future growth capital investments, acquisitions and dividends. For wholly owned businesses, AFFO is equal to Adjusted EBITDA less interest paid, incomes taxes paid, dividends paid on the preferred shares included in shareholders’ equity, repayments of principal on debt, and maintenance capital expenditure payments. For businesses that are not wholly owned, the cash generated by the business is only available to Capstone through periodic dividends. For these businesses, AFFO is equal to distributions received. AFFO from discontinued operations are added or subtracted as a single line consistent with the net result following the definition for continuing operations, up to the date of Capstone’s disposal.

“**Alberta EU Act**” means the *Electric Utilities Act* (Alberta).

“**Amherst Wind Facility**” means the 31.5 MW wind power facility located near Amherst, Nova Scotia.

“**Amherstburg Solar Park**” means the 20 MW solar photovoltaic power facility located in Amherstburg, Ontario.

“**AMP6**” means asset management plan period 6, commencing April 1, 2015 through to March 31, 2020.

“**Annual Financial Statements**” means the annual audit financial statements of the Corporation.

“**Arrangement**” means the arrangement under Division 5 of Part 9 of the BCBCA on the terms and subject to the conditions set out in the Plan of Arrangement, subject to any amendments or variations to the Plan of Arrangement made in accordance with the terms of the Arrangement Agreement or made at the direction of the Supreme Court of British Columbia in the Final Order with the consent of the Corporation and Irving, each acting reasonably.

“**Arrangement Agreement**” means the arrangement agreement dated January 20, 2016 between the Corporation and Irving.

“**Arrangement Circular**” means the management information circular of the Corporation dated February 9, 2016.

“**ASP Partnership**” means Helios Solar Star A-1 Partnership.

“**associate**” has the meaning ascribed thereto in the *Securities Act* (Ontario).

“**Audit Committee**” means the Audit Committee of the Board of Directors of the Corporation.

“**BC**” means the Province of British Columbia.

“**BC Hydro**” means British Columbia Hydro and Power Authority.

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

“**Board**” or “**Board of Directors**” means the board of directors of the Corporation, as constituted from time to time.

“**BPP**” means the Bioenergy Producer Program.

“**Bristol Water**” means Bristol Water plc.

“**Bristol Water Share Purchase Agreement**” means the share purchase agreement dated December 15, 2016 between the Corporation and iCON III Bristol Limited, a subsidiary of iCON III, pursuant to which the Corporation sold its

71.4% interest in CSE Water UK Limited, which represented a 50% indirect interest in Bristol Water, to iCON III Bristol Limited for £115.6 million.

“**CAD Tranche**” means the Canadian dollar-denominated tranche of the Irving Promissory Note.

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

“**Cardinal Facility**” means the 156 MW combined-cycle facility fuelled by natural gas located in Cardinal, Ontario.

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

“**Cardinal LP**” means Cardinal Power of Canada, L. P.

“**Cardinal NUG Contract**” means the 20-year non-utility generator contract dated March 26, 2014 between Cardinal LP and the OPA (now the IESO) under which the Cardinal Facility operates as a dispatchable facility and capacity from the Cardinal Facility is sold to the IESO.

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

“**CDOR**” means the Canadian Dollar Offered Rate.

“**CEPA**” means the *Canadian Environmental Protection Act, 1999*.

“**CG&C Committee**” means the Corporate Governance & Compensation Committee of the Board of Directors of the Corporation.

“**Chapais Biomass Facility**” means the 28 MW wood waste fired electricity-generating facility in Chapais, Québec.

“**Chapais PPA**” means the PPA dated December 1, 2015 between CHESEC and Hydro-Québec that expires on June 30, 2019.

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

“**CHEL Class B Shares**” means the Class B preferred shares in the capital of CHEL.

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

“**CHESEC Tranche A Senior Debt**” means the indebtedness owed by CHESEC to CPOT Holdings Corp., which bore interest at a rate of 10.789% per annum.

“**CHESEC Tranche B Senior Debt**” means the Tranche B Senior Debt owed by CHESEC to CPOT Holdings Corp.

“**CIC Revolving Credit Facility**” means the revolving credit facility under the credit agreement dated November 12, 2013 between the Corporation, as borrower, CPC, MPT Utilities Corp., MPT Utilities Europe, Cardinal GP, Cardinal LP, Whitecourt Power Limited Partnership, Whitecourt Power Ltd. and CSE Financing Corp., as guarantors, the lenders from time to time parties thereto, and an administrative agent, as amended.

“**Class A Shares**” means Class A common shares in the capital of the Corporation.

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

“**CMA**” means the UK Competition and Markets Authority.

“**CO<sub>2</sub>**” means carbon dioxide.

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

“**Concord**” means Concord Green Energy Inc.

“**Concord Debenture**” means the convertible debenture issued by SP Ontario Development LP dated November 16, 2015 pursuant to which a subsidiary of Concord provided financing for the Grey Highlands ZEP Wind Facility, the Ganaraska Wind Facility, the Snowy Ridge Wind Facility and the Settlers Landing Wind Facility.

“**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 prior to January 1, 2011, refers to the Corporation's predecessor, Macquarie Power & Infrastructure Income Fund, and its subsidiary entities on a consolidated basis.

“**Court of Appeal Decision**” means the judgment of the Court of Appeal for Ontario rendered April 19, 2016 dismissing an appeal by the OEFC from the Superior Court Decision.

“**CPC**” means Capstone Power Corp., a wholly-owned subsidiary of the Corporation.

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

“**CPC Credit Agreement**” means the credit agreement dated as of December 15, 2017, as amended and supplemented from time to time, between CPC as borrower, certain subsidiaries of CPC as full recourse guarantors, the Corporation as a limited recourse guarantor, the lenders that are parties thereto from time to time and the administrative agent.

“**CPC Credit Facilities**” means the CPC Revolving Loan Facility and the CPC Term Facility.

“**CPC Revolving Loan Facility**” means the \$95 million maximum outstanding principal amount revolving credit facility provided for by the CPC Credit Facilities.

“**CPC Term Facility**” means the \$50 million maximum outstanding principal amount term facility provided for by the CPC Credit Facilities.

“**Digby Neck Wind Facility**” means the 0.9 MW wind power facility located near Digby, Nova Scotia, which was sold by a subsidiary of the Corporation on May 19, 2015.

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

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

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

“**DSUs**” means, collectively, (i) the deferred share units of the Corporation issued to the directors of the Corporation under the Corporation's director DSU plan, (ii) the deferred share units of the Corporation issued under the LTIP in lieu of cash awards under the Corporation's short-term incentive plan or CPC's long-term incentive plan, (iii) the performance-based vesting deferred share units of the Corporation issued under the LTIP in lieu of PSUs and (iv) the time-based vesting deferred share units of the Corporation issued under the LTIP in lieu of RSUs.

“**Enercon**” means Enercon Canada Inc.

“**Energy Savings Agreement**” means the second energy savings agreement between Cardinal LP and Ingredion dated December 15, 2014 and effective January 1, 2015.

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

“**EPA**” means Electric Purchase Agreement.

“**Erie Shores PPA**” means the renewable energy supply contract dated as of November 24, 2004 between ESWFLP and OEFC, as assigned by OEFC to the OPA (now the IESO) on November 10, 2005.

“**Erie Shores Wind Farm**” means the 99 MW wind power facility, located near Port Burwell, Ontario.

“**ERT**” means the Ontario Environmental Review Tribunal.

“**ESWFLP**” means Erie Shores Wind Farm Limited Partnership.

“**EY**” means the UK firm of Ernst & Young LLP.

“**Ferndale Wind Facility**” means the 5.1 MW wind power facility located near Lion’s Head, Ontario.

“**FFPP**” means the fixed facility participation payment from the IESO which Cardinal LP is entitled to receive under the Cardinal NUG Contract.

“**FIT**” means feed-in tariff.

“**FIT Contract**” means a contract with the IESO under the Province of Ontario’s renewable energy FIT Program.

“**FIT Program**” means the Province of Ontario’s Feed-In Tariff Program.

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

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

“**Framework**” means the Pan-Canadian Framework on Clean Growth and Climate Change.

“**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.

“**Ganaraska Wind Facility**” means the 17.6 MW wind power facility located in Orono, Ontario.

“**GBP Tranche**” means the GBP-denominated tranche of the Irving Promissory Note.

“**GHG**” means greenhouse gas.

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

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

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

“**Goulais Wind Facility**” means the 25 MW wind power facility located near Sault Ste. Marie, Ontario.

“**GP**” means general partnership.

“**Grey Highlands Clean Wind Facility**” means the 18.5 MW wind power facility located near McIntyre, Maxwell and Hatherton, Ontario.

“**Grey Highlands ZEP Wind Facility**” means the 10 MW wind power facility located near McIntyre, Ontario.

“**Higgins Mountain Wind Facility**” means the 3.6 MW wind power facility located near Westchester Station, Nova Scotia, which was sold by a subsidiary of the Corporation on May 19, 2015.

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

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

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

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

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

“**iCON**” means iCON Infrastructure LLP.

“**iCON III**” means iCON Infrastructure Partners III, L.P.

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

“**Ingredient**” means Ingredient Canada Corporation.

“**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.

“**LP**” means limited partnership.

“**Irving**” means Irving Infrastructure Corp.

“**Irving Promissory Note**” means the demand promissory note issued by the Corporation to Irving on April 29, 2016, as amended from time to time, with an initial aggregate principal amount equivalent to approximately \$316 million.

“**LRP**” means the Ontario Large Renewable Procurement Program.

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

“**LTIP**” means the Corporation’s long-term incentive plan.

“**MD&A**” means Management's Discussion and Analysis.

“**Millar Western**” means Millar Western Forest Products Ltd.

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

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

“**Named executive officer**” or “**NEO**” has the meaning given to such terms in Form 51-102F6 *Statement of Executive Compensation*.

“**NI 51-102**” means National Instrument 51-102 *Continuous Disclosure Obligations*.

“**NI 52-110**” means National Instrument 52-110 *Audit Committees*.

“**NOx**” means nitrogen oxide.

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

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

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

“**OEFC Superior Court Decision**” means the judgment of the Ontario Superior Court of Justice rendered March 12, 2015 in litigation between the OEFC and a number of power producers in Ontario (including the Corporation) relating to the calculation by the OEFC of the price paid for electricity under certain PPAs, including the PPAs for the Cardinal Facility, the Wawatay Hydro Facility and the Dryden Hydro facility.

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

“**OPA**” means the Ontario Power Authority, now amalgamated with and known as the IESO.

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

“**Original CPC Credit Facilities**” means the credit facilities for an aggregate amount of \$125 million, consisting of a \$8 million term credit facility, a \$5 million revolving credit facility, and a \$35 million revolving letter of credit facility provided under a credit agreement dated as of April 29, 2016, which was subsequently repaid on December 15, 2017.

“**Pic River FN**” means the Ojibways of the Pic River First Nation.

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

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

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

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

“**PSUs**” means performance share units of the Corporation issued under the LTIP.

“**PV**” means photovoltaic.

“**PwC**” means PricewaterhouseCoopers LLP, the Corporation’s external auditors.

“**Quarterly Floating Rate Period**” means, means, 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 Period Commencement Date.

“**Quarterly Period Commencement Date**” means the last calendar day of each of January, April, July and October in each year.

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

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

“**Regional Power**” means Regional Power Inc., a wholly-owned subsidiary of Manulife Financial Corporation, and, unless the context otherwise requires, includes its predecessor corporations and certain of the predecessors in title to the Hydro Power Facilities and Regional Power Opco Inc.

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

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

“**RSUs**” means restricted share units of the Corporation issued under the LTIP.

“**Saint-Philémon Wind Facility**” means the 24 MW wind power facility located near Saint-Philémon, Québec.

“**SaskPower**” means Saskatchewan Power Corporation.

“**Sechelt Creek Hydro Facility**” means the 16 MW hydro power generating facility located near Sechelt, BC.

“**SEDAR**” means the Canadian Securities Administrators’ System for Electronic Document Analysis and Review.

“**SEK**” means Swedish krona.

“**SEK Tranche**” means the SEK-denominated tranche of the Irving Promissory Note.

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

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

“**Settlers Landing Wind Facility**” means the 8 MW wind power facility located in Pontypool, Ontario.

“**Shareholder**” means, on or prior to April 29, 2016, a holder of Common Shares and, following April 29, 2016, a holder of Class A Shares.

“**Siemens**” means Siemens Canada Limited.

“**Skyway 8 Wind Facility**” means the 9.5 MW wind power facility located near Dundalk, Ontario.

“**Snowy Ridge Wind Facility**” means the 10 MW wind power facility located near Bethany, Ontario.

“**SO<sub>2</sub>**” means sulphur dioxide.

“**Springhill Wind Facility**” means the 2.1 MW wind power facility located near Springhill, Nova Scotia, which was sold by a subsidiary of the Corporation on May 19, 2015.

“**subsidiary**” has the meaning ascribed thereto in National Instrument 45-106 *Prospectus Exemptions*.

“**Subsequent Fixed Rate Period**” means 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 Subsequent Fixed Rate Period, the period from and including the date immediately following the end of the immediately preceding Subsequent Fixed Rate Period up to, but excluding, July 31 in the fifth year thereafter.

“**Suzlon**” means Suzlon Wind Energy Corporation.

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

“**TNDC**” means the Tahltan Nation Development Corporation.

“**TSX**” means the Toronto Stock Exchange.

“**Vestas**” means Vestas-American Wind Technology, Inc.

“**Värmevärden**” means the Corporation’s Swedish district heating business.

“**Wawatay Hydro Facility**” means the 13.5 MW hydro power generating facility located near Marathon, Ontario.

“**WCI**” means the Western Climate Initiative.

“**Whitecourt Biomass Facility**” means the 25 MW wood waste fired electricity generating facility located near Whitecourt, Alberta.

“**Wind Development Project**” means the Riverhurst wind project under development, as described under “*Narrative Description of the Business - Wind - Wind Development Projects*”.

“**Wind Power Facilities**” means the Erie Shores Wind Farm, Skyway 8 Wind Facility, the Saint-Philémon Wind Facility, the Ganaraska Wind Facility, the Goulais Wind Facility, the Grey Highlands Clean Wind Facility, the Grey Highlands ZEP Wind Facility, the Settlers Landing Wind Facility, the Snowy Ridge Wind Facility, the Glen Dhu I Wind Facility, the Amherst Wind Facility, the Glace Bay I Wind Facility, the Glace Bay II Wind Facility, the Fitzpatrick Mountain Wind Facility, the Ravenswood Wind Facility, the Proof Line I Wind Facility and the Ferndale Wind Facility.

“**WPLP**” means Whitecourt Power Limited Partnership.

“**WPPI**” means the Canadian federal government’s Wind Power Production Incentive.

“**Zero Emissions People**” means Zero Emissions People Wind Fund Inc.

## SCHEDULE “A”

### COMPENSATION DISCLOSURE

Any capitalized term used but not defined herein has the meaning ascribed thereto in the Corporation’s annual information form.

#### DIRECTOR COMPENSATION

##### COMPONENTS OF DIRECTOR COMPENSATION

The Board has determined that the Directors should be compensated commensurate with comparable organizations, having regard for such matters as time commitment, responsibility and trends in director compensation. Accordingly, on an annual basis, the CG&C Committee reviews, and if applicable, recommends to the Board changes to the terms for the compensation of Directors. The CG&C Committee may retain the services of a compensation consultant to evaluate and make recommendations with respect to Director compensation.

The standard compensation arrangement for independent Directors has been in the form of a flat-fee structure since the completion of the Arrangement. Each of the Chairs of the Board, Audit Committee and CG&C Committee receive additional compensation for their additional responsibilities, as described below. The Board believes that the Directors’ compensation adequately reflects a Director’s duty to be available to assist and represent the Corporation, including attendance at meetings, providing advice outside of meetings, identifying opportunities for the Corporation and generally being attentive to the best interests of the Corporation at all times.

Any member of management who serves as a Director (the “**Management Directors**”) or any Director who is employed by an affiliate of iCON III is not entitled to receive compensation from the Corporation (the “**Shareholder Directors**”). Compensation for each Director who is not a Management Director or a Shareholder Director is comprised of the following components:

- **Cash Retainers:**
  - An annual cash retainer equal to \$45,000 per year.
  - The Chair of the Board is entitled to receive an additional cash retainer equal to \$30,000 per year, and should his responsibilities require a commitment of more than 25 days per annum, he is entitled to an additional fee of \$3,000 per day for days he is engaged in excess of 12.5 days within a six month period as well as a \$2,500 per day living allowance per additional day (“Additional Retainer Fees”).
  - The Chair of the Audit Committee and the Chair of the CG&C Committee are each entitled to receive additional annual cash retainers equal to \$10,000 and \$5,000 per year, respectively. Directors that are members of the Audit Committee and/or the CG&C Committee are entitled to receive an additional annual cash retainer equal to \$5,000 and \$2,500 per year, respectively.
  - No amounts are payable for attendance by any Director at any Board or committee meetings except as provided above.
- **Expense Reimbursement:** Directors are entitled to be reimbursed for expenses incurred in attending Board and committee meetings.

##### 2017 DIRECTOR COMPENSATION

During 2017, the Corporation paid the Directors a total of \$307,625 on account of retainer fees and approximately \$30,327 on account of expenses incurred in connection with their position on the Board.

The following table outlines all compensation earned by the Directors during the Corporation’s fiscal year ended December 31, 2017. Since Mr. Eva, and for a portion of the year, Mr. Kennedy and Mr. Smerdon were Management Directors, they were not entitled to receive any compensation from the Corporation for serving as a Director while in

such a position. Since Mr. Eade, Mr. Malan, and for a portion of the year, Mr. Moran and Mr. Smerdon were Shareholder Directors, they were not entitled to receive any compensation from the Corporation for serving as a Director while in such a position.

Name	Annual Retainer	Board/Committee Chair Retainer	Committee Membership Retainer	Additional Retainer Fees	Total <sup>(1)</sup>
Gary Eade	-	-	-	-	-
David Eva	-	-	-	-	-
Andrew Kennedy	-	-	-	-	-
Richard Knowles	\$45,000	-	\$7,500	-	\$52,500
Paul Malan	-	-	-	-	-
Adèle Malo	\$45,000	\$5,000	\$5,000	-	\$55,000
Enis Moran <sup>(2)</sup>	-	-	-	-	-
Michael Smerdon	-	-	-	-	-
Paul Smith	\$45,000	\$30,000	-	\$70,125	\$145,125
Janet Woodruff	\$45,000	\$10,000	-	-	\$55,000

Notes:

- (1) Table does not include any amounts received by Directors as reimbursement for expenses.
- (2) Mr. Moran resigned as a Director on September 13, 2017.

## **EXECUTIVE COMPENSATION COMPENSATION DISCUSSION AND ANALYSIS**

### **Compensation Governance**

#### **Overview**

The Board has delegated to the CG&C Committee the responsibility to oversee corporate governance and compensation governance matters. The current members of the CG&C Committee are Adèle Malo (chair), Richard Knowles and Paul Malan. Ms. Malo and Mr. Knowles are independent directors (as defined in NI 52-110). Mr. Malan is not independent of the Corporation because of his positions with iCON, Irving and their affiliates, but the Board is comfortable that he does not have any direct or indirect relationship with the issuer or management which could, in the view of the Board, be reasonably expected to interfere with the exercise of his independent judgment. A description of the expertise of each member of the CG&C Committee can be found under the heading “*Management of the Corporation – Directors*” in the annual information form.

Under the CG&C Committee’s Charter, the CG&C Committee is required to, among other things:

- Review corporate goals and objectives relevant to the Chief Executive Officer’s (the “CEO”) compensation;
- Evaluate the CEO’s performance against those goals and objectives;
- Make recommendations to the Board with respect to the CEO’s compensation;
- Approve the compensation of the Corporation’s senior management team (other than the CEO);
- Periodically review the terms of and experience with the Corporation’s compensation programs to evaluate and determine if they are properly coordinated and achieving the purpose for which they were designed; and

- Make recommendations to the Board with respect to Director compensation.

Further information regarding the duties and responsibilities of the CG&C Committee, including those related to corporate governance matters, is set out under “*CG&C Committee*” in Schedule “B” to the annual information form.

### **Risk Management**

As part of its annual review of the Corporation’s compensation policies and practices, the CG&C Committee considers the risks associated with these compensation policies and practices. The CG&C Committee is satisfied that the Corporation’s current compensation policies and practices, combined with the Corporation’s enterprise risk management practices and protocols, offer a balanced combination that promotes adequate risk-taking with appropriate and reasonable compensation incentives.

### **Named Executive Officers**

The following executive and senior officers are the “Named Executive Officers” or “NEOs” of the Corporation, as such terms are defined in applicable securities regulations, for the purposes of the discussion set out below.

Name	Title
David Eva	Chief Executive Officer <sup>(1)</sup>
Michael Smerdon	Former Executive Vice President and Chief Financial Officer <sup>(2)</sup>
Andrew Kennedy	Chief Financial Officer <sup>(3)</sup>
Aileen Gien	General Counsel and Corporate Secretary
Patrick Leitch	Vice President, Operations <sup>(4)</sup>

Notes:

- (1) Mr. Eva was appointed Chief Executive Officer of the Corporation effective on January 1, 2017.
- (2) Mr. Smerdon resigned as an officer of the Corporation effective March 31, 2017. He remains a Director of the Corporation.
- (3) Mr. Kennedy was appointed Chief Financial Officer of the Corporation effective on April 1, 2017.
- (4) Mr. Leitch was appointed Vice President, Operations of CPC, effective on January 1, 2017.

### **Executive Compensation Objectives**

The Corporation’s executive compensation program for the NEOs focuses on pay for performance and seeks to accomplish the following objectives:

- attract and retain highly qualified employees with a history of proven success;
- align the interests of the employees with Shareholder interests and with the execution of the Corporation’s business strategy;
- establish performance goals that, if met by the senior management team, are expected to improve long-term Shareholder value; and
- tie compensation to those performance goals and provide meaningful rewards for achieving them.

The executive compensation program strives to reflect a blend of short- and long-term incentive awards to support the pay-for-performance approach. Financial performance targets are set each year to provide an incentive to improve yearly budgeted financial results and are therefore aligned with Shareholder interests.

Specifically, our approach to executive compensation includes the following:

- establishing and maintaining an appropriate balance between short- and long-term (i.e., deferred) incentives with significant weight given to long-term incentives;
- ensuring that a significant proportion of variable compensation is “at risk” by aligning the value of such compensation based on performance and achievement of target metrics aligned with the Corporation’s interests which is, accordingly, not guaranteed;
- ensuring that the performance measures under our short-term incentive plan (“STIP”) are primarily focused on cash flow generation (such as Adjusted EBITDA and AFFO);
- imposing limits on the maximum payouts available under the STIP (maximum 150% in respect of business performance measures and 200% in respect of individual performance measures); and
- an LTIP that rewards NEOs for long-term performance, aligns the interests of NEOs with Shareholder interests and encourages long-term service and loyalty.

### **Categories and Components of Executive Compensation**

The Corporation’s executive compensation program for NEOs in 2017 comprised the following:

Category	Component	Key Features	Purpose
Guaranteed Compensation	Salary, Benefits and Perquisites	<ul style="list-style-type: none"> <li>• Initial amount or item specified in employment agreements</li> <li>• Assessed annually, with consideration to the scope and responsibilities of the position and the competitive market</li> </ul>	<ul style="list-style-type: none"> <li>• Attract and retain NEOs</li> <li>• Provide guaranteed minimum level of compensation to NEOs for meeting the responsibilities of their positions</li> </ul>
At Risk Compensation	STIP	<ul style="list-style-type: none"> <li>• Annual cash award based on assessment of performance against a set of pre-determined business and individual performance measures</li> <li>• Business performance measures and threshold, target and maximum values are established, having regard to the Corporation’s expected performance for the fiscal year</li> <li>• Individual performance measures and targets are agreed to with each NEO</li> </ul>	<ul style="list-style-type: none"> <li>• Motivate, attract and retain NEOs</li> <li>• Encourage and reward achievement of annual business objectives and individual targets</li> </ul>
	LTIP Share Appreciation Rights Units	<ul style="list-style-type: none"> <li>• Awards of share appreciation right units that vest upon the closing of a Sale Transaction (as defined below)</li> <li>• Upon vesting, value of award is the positive difference between the per share fair market value of the Sale Transaction and the grant price</li> </ul>	<ul style="list-style-type: none"> <li>• Reward long-term appreciation in value of the business</li> <li>• Align interests of NEOs with Shareholders by participation</li> <li>• Encourage long-term service and loyalty</li> </ul>
2017 Discretionary LTIP		<ul style="list-style-type: none"> <li>• A one-time discretionary award granted to certain NEOs on April 1, 2017 equal to a percentage amount of such participant’s 2017 base compensation</li> <li>• Vesting to occur on December 31, 2019 and paid in cash provided the participant is in the</li> </ul>	<ul style="list-style-type: none"> <li>• Interim LTIP to reward multi-year efforts prior to the implementation of a replacement LTIP</li> <li>• Encourage long-term</li> </ul>

Category	Component	Key Features	Purpose
		employment of the Corporation on the vesting date	service and loyalty
	CPD LTIP	<ul style="list-style-type: none"> <li>A separate bonus plan for employees (including certain NEOs) who worked on power development projects for the Capstone Power Development division (“CPD”), which provides for awards of cash based on CPD achieving certain milestones for its power development projects (the “CPD LTIP”)</li> <li>CPD LTIP was discontinued on March 6, 2018</li> </ul>	<ul style="list-style-type: none"> <li>Reward for long-term performance</li> <li>Align interests of CPD team with Shareholders</li> <li>Encourage long-term service and loyalty</li> </ul>

### **Salary, Benefits and Perquisites**

The base salary of each of the NEOs offers fixed compensation for the performance of the officer’s day-to-day responsibilities. Salaries for the NEOs are reviewed annually by the CG&C Committee to ensure that each salary reflects each officer’s expertise and performance, as well as to ensure that the salary is competitive with market practices.

The Corporation offers standard benefit programs to all of its employees, including the NEOs. These programs include medical, dental, life, short- and long-term disability insurance coverage. The Corporation does not offer a pension plan or any other post-employment benefit program for employees. The Corporation does not provide the NEOs with any additional benefits or perquisites that are not provided to all employees and the benefits provided to all employees reflect competitive practices.

### **Short-Term Incentive Plan**

The STIP is an annual bonus plan that is paid in cash. The STIP is designed to motivate the NEOs to achieve planned corporate performance and defined individual objectives that are tied to the execution of the Corporation’s strategy and that increase Shareholder value. The STIP is intended to reward NEOs according to their achievements for the year.

The target STIP award (the “**Target STIP Award**”) for a NEO in a given year is expressed as a percentage of annual salary and is adjusted by the STIP payout ratio (the “**STIP Payout Ratio**”), which can range from 0% up to a maximum of 175% of the Target STIP Award based upon actual performance compared to target business performance measures (“**BPMs**”) and individual performance measures (“**IPMs**”).

The Board and the CG&C Committee have the right to adjust the targets for the BPMs and IPMs to address major corporate transactions or other extraordinary events.

### **Business Performance Measures**

The STIP presently comprises two BPMs: Adjusted EBITDA and AFFO. Adjusted EBITDA and AFFO are useful measures for short-term compensation as these metrics capture the financial performance of the Corporation for the period.

For the NEOs, 50% is weighted to the BPMs. This is 30% to Adjusted EBITDA and 20% to AFFO. For each of the BPMs, a target value is set for the relevant year by the Board (upon recommendation by the CG&C Committee). Actual business performance relative to the target values for each of these BPMs has a corresponding payout multiplier as described in the table below:

	Adjusted EBITDA		AFFO	
	Actual Performance as % of Target BPM	BPM Payout Multiplier	Actual Performance as % of Target BPM	BPM Payout Multiplier
Below Threshold	less than 90%	0%	less than 80%	0%
Threshold	90%	50%	80%	50%
Target	100%	100%	100%	100%
Maximum	110%	150%	120%	150%

If the measure of actual business performance falls between the target value and either the threshold value or the maximum value, the payout multiplier value is determined by linear interpolation.

### **Individual Performance Measures**

For the NEOs, 50% is weighted to the IPMs. IPMs account for a specified portion of each NEO's STIP Payout Ratio. IPMs for NEOs other than the CEO are agreed to between each NEO and the CEO and reviewed by the CG&C Committee, with the IPMs of the CEO being agreed upon by the CEO and the CG&C Committee, subject to approval of the Board.

Actual performance relative to these measures is subject to a payout multiplier ranging from 0% to 200%, based on the assessment of the achievement of the IPMs as determined by the CG&C Committee and the Board, as applicable.

### **Long-Term Incentive Plans**

#### **Share Appreciation Rights Plan Awards**

The Corporation implemented a new share appreciation rights LTIP on April 1, 2017. Under the share appreciation rights plan ("**SAR Plan**"), participants are granted share appreciation rights ("**SAR Units**"), which will entitle participants to receive cash payments reflecting the increase in value of the Corporation's Class A Shares between the grant date and vesting date of the SAR Units.

The SAR Units vest upon a sale of the Corporation, an initial public offering of more than 50% of the equity securities of the Corporation or related entity, resulting in the listing of such securities on the TSX or other recognized stock exchange, or any other transaction deemed by the Board to be a sale transaction (each a "**Sale Transaction**"). Upon vesting, each SAR Unit holder is entitled to receive the positive difference between the fair market value of the consideration received pursuant to the Sale Transaction and the SAR Unit grant price.

The Board, or a delegated committee thereof, has the sole discretion to determine the participants in the SAR Plan, the date of such grants, amount of SAR Units granted, and the grant price on the date of grant. The grant price per SAR Unit cannot be less than the fair market value per Class A Share on the date of grant. The maximum number of SAR Units which may be issued is 5% of the number of Class A Shares in issue on April 1, 2017 (15,230,457 SAR Units), and each SAR Unit has a maximum term of 13 years.

The Board, or delegated committee, also has the sole discretion to accelerate the exercise or waive termination of any SAR Unit in good faith, cancel, amend, adjust or otherwise change any SAR Unit under such circumstances as the Board may consider appropriate in accordance with the SAR Plan, acting in good faith, to interpret the SAR Plan, adopt and amend administrative guidelines relating to the SAR Plan, and take all other actions necessary or advisable for the implementation of the SAR Plan, including, correcting any defect or supplying any omission or reconciling any inconsistency in the SAR Plan.

A SAR Plan participant forfeits his or her SAR Units if the participant is terminated for cause or voluntarily resigns. If the SAR Plan participant is terminated for any other reason (including death or disability) or resigns for good reason, the SAR Plan participant forfeits a percentage of SAR Units held based on years of service, and the

remainder of SAR Units held remain subject to vesting and payment to the SAR Plan participant upon a Sale Transaction. The Company may, at its option, accelerate vesting of the SAR Units and make payment based on a fair market value per Class A Share on the date of termination or resignation.

### **2017 Discretionary Long-Term Incentive Plan Awards**

On March 30, 2017 the Board implemented a discretionary long-term incentive plan (the “2017 Discretionary LTIP”) to reward NEOs a one-time cash payment after consideration of factors including value accreted since the completion of the Arrangement, the absence of a replacement long term incentive plan since the completion of the Arrangement and a retention incentive for NEOs. The 2017 Discretionary LTIP award was granted to participants on April 1, 2017 in an amount equal to a percentage amount of each participant’s base compensation.

The 2017 Discretionary LTIP will vest on December 31, 2019 and be paid in cash, provided the participant is in the employment of the Corporation on that date. A 2017 Discretionary LTIP participant forfeits payment on the vesting date should the participant be terminated for cause or resign. In the event of termination for any other reason, including death or disability, the participant receives an amount prorated to the date of leaving or termination.

### **CPD LTIP Awards**

During 2013, the Corporation implemented the CPD LTIP, a specific LTIP scheme for employees of its power development subsidiary, CPD, and certain other employees of the Corporation involved in power project development activities, in an effort to tie compensation of those individuals to the achievement of certain milestones in the project development process and the projected value created by the applicable power development project. Prior to December 2015, awards were granted as a mix of cash and restricted stock units of the Corporation (“RSUs (CPD)”). The CPD LTIP was amended in December 2015 to provide that all awards would be in the form of cash payments, and there are currently no outstanding RSUs (CPD).

For each power project under development, the Corporation calculated the project’s expected net value created (“PNVC”) by discounting anticipated post-commercial operation date (“COD”) cash flows by a risk-adjusted discount rate and adjusting for all costs incurred or allocated in developing the project. The Corporation then created an awards pool equal to a maximum of 10% of the PNVC to be granted to plan participants, in allocations determined by management of the Corporation, upon the achievement of set milestones for that project.

The CPD LTIP was discontinued on March 6, 2018 and all final payments have been made.

### **2015 and 2016 Incentive Plans**

Prior to the completion of the Arrangement, certain NEOs participated in incentive plans under which a NEO received restricted stock units (“RSUs”) and performance stock units (“PSUs”). RSUs were subject to time-based vesting at the end of the second full year after the year of grant and PSUs were subject to both time-based vesting at the end of the second full year after the year of grant and performance-related vesting criteria. Upon vesting, RSUs and PSUs were settled and paid in cash.

Prior to December 2015, participants in the CPD LTIP were granted awards as a mix of cash and RSUs (CPD), and in 2016, participants in the CPD LTIP were granted awards in cash only.

Prior to the grant of any particular RSU or PSU award, an NEO could choose to have up to 100% of such award granted in the form of deferred share units (“DSUs (RSU)”) if granted in lieu of RSUs. “DSUs (PSU)” if granted in lieu of PSUs). An NEO could also elect, prior to the year in which a particular STIP award related, to elect to have up to 100% of a STIP award for that year paid in DSUs instead of cash (“DSUs (STIP)”, and together with DSUs (RSU) and DSUs (PSU), “DSUs”).

In December 2015 the Board recognized that PSUs and DSUs (PSU) granted in 2013 (“the “2013 Performance Incentives”) would vest on December 31, 2015, which if no transaction resulting from the sale process was announced by that time, would not reflect the substantial work by management during the vesting period to create

value for Shareholders through the sale process. The Board determined in December 2015 that if a sale transaction was announced on or prior to February 29, 2016 and subsequently completed, officers holding 2013 Performance Incentives would receive cash payments from the Corporation (“**Timing Adjustment Payments**”) representing the settlement value of the incremental value of 2013 Performance Incentives that would have vested if the transaction had been announced prior to December 31, 2015 above the number of 2013 Performance Incentives that actually vested on December 31, 2015.

All RSUs, PSUs and DSUs outstanding as of April 29, 2016 were vested and settled in cash based on the offer price of \$4.90 per Common Share upon completion of the Arrangement. As of April 29, 2016, the Corporation had no outstanding RSUs, PSUs or DSUs.

## **2017 EXECUTIVE COMPENSATION**

### **SUMMARY COMPENSATION TABLE**

The following table presents the compensation earned by each NEO during the fiscal years ended December 31, 2017, 2016 and 2015:

Name and Principal Position	Year	Salary	Share-based awards <sup>(1)(2)</sup>	Option-based awards <sup>(3)</sup>	Non-equity incentive plan compensation (annual incentive plan)		All Other Compensation <sup>(6)(7)(8)</sup>	Total Compensation
					Annual Incentive Plan <sup>(4)</sup>	Long-term Incentive Plan <sup>(5)</sup>		
<b>David Eva</b>	2017	\$250,000	-	-	\$311,871	\$125,000	-	\$686,871
<i>Chief Executive Officer</i>	2016	\$229,944	-	-	\$277,673	-	\$1,225	\$508,842
	2015	\$178,500	-	-	\$287,877	<sup>(9)</sup> -	\$3,000	\$469,377
<b>Michael Smerdon</b> <sup>(10)</sup>	2017	\$82,500	-	-	-	-	\$1,258,131	<sup>(11)</sup> \$1,340,631
<i>Former Executive Vice President &amp; Chief Financial Officer</i>	2016	\$330,000	\$247,500	-	\$301,389	-	\$200,668	\$1,079,557
	2015	\$330,000	\$247,500	-	\$171,300	-	\$3,000	\$751,800
<b>Andrew Kennedy</b>	2017	\$205,000	-	-	\$114,800	\$82,000	-	\$401,800
<i>Chief Financial Officer</i>	2016	\$196,167	\$35,700	-	\$88,942	-	\$917	\$321,726
	2015	\$176,000	\$35,200	-	\$40,450	-	\$3,000	\$254,650
<b>Aileen Gien</b>	2017	\$200,000	-	-	\$121,840	\$60,000	-	\$381,840
<i>General Counsel &amp; Corporate Secretary</i>	2016	\$193,931	-	-	\$103,254	-	\$50,875	\$348,060
	2015	\$163,500	-	-	\$108,262	-	\$3,000	\$274,762
<b>Patrick Leitch</b> <sup>(12)</sup>	2017	\$140,000	-	-	\$131,053	\$35,000	-	\$306,053
<i>Vice President, Operations</i>	2016	\$123,500	-	-	\$89,316	-	\$875	\$213,691
	2015	\$122,500	-	-	\$127,112	-	\$3,000	\$252,612

Notes:

- (1) The grant-date fair value of the RSUs, PSUs, DSUs (RSU), DSUs (PSU) and RSUs (CPD) issued in respect of 2016 and 2015, as applicable, is determined by multiplying the number of securities granted by the volume-weighted average price (“**VWAP**”) for the Common Shares on the TSX for the five-trading-day period prior to the date of their issuance on January 27, 2016 (for RSUs, PSUs, DSUs (RSU) and DSUs (PSU) in respect of 2016 and RSUs (CPD) in respect of power development project milestones met by CPD in 2015), January 2, 2015 (for RSUs, PSUs, DSUs (RSU) and DSUs (PSU) in respect of 2015, being \$4.7392 per Common Share. The plan was discontinued on April 18, 2016.
- (2) Includes all LTIP awards and any RSUs (CPD) made in 2016 and 2015. The plan was discontinued on April 18, 2016.
- (3) On April 1, 2017, each of Mr. Eva, Mr. Kennedy, Ms. Gien and Mr. Leitch were granted 3,807,614, 1,903,807, 1,218,436 and 1,066,131 SAR Units, respectively. On the grant date, there was no difference between the fair market value of the Class A Shares (determined by reference to a valuation of the Corporation completed by an independent valuator dated December 31, 2016 (the “**2016 Independent Valuation**”)) and the SAR Unit grant price. As a result, the fair value of the SAR Plan awards on the grant date was nil. See *Compensation Discussion and Analysis – Share Appreciation Rights Awards and Incentive Plan Awards – Outstanding Option-Based Awards*.
- (4) Includes all STIP awards paid in cash, any CPD LTIP awards paid in cash, any RSUs granted in lieu of STIP awards, any DSUs (STIP) and any DSUs granted in lieu of cash CPD LTIP awards.
- (5) Consists of the 2017 Discretionary LTIP awards granted April 1, 2017 to each of Mr. Eva, Mr. Kennedy, Ms. Gien and Mr. Leitch at 50%, 40%, 30% and 25% of their base salaries totaling \$125,000, \$82,000, \$60,000 and \$35,000, respectively. These grants will vest and be paid in cash on December 31, 2019. See “*Long Term Incentive Plans – 2017 Discretionary Long Term Incentive Plan Awards*”.
- (6) Includes contribution matching paid by the Corporation under the Corporation’s employee share purchase plan, which was discontinued on April 18, 2016, as well as discretionary cash bonuses paid.

- (7) No incremental amount has been included in respect of the accelerated vesting of RSUs, PSUs (using a 1.0 multiplier), DSUs (RSU), DSUs (PSU) (using a 1.0 multiplier), DSUs (STIP) and RSUs (CPD) in connection with the Arrangement, on the assumptions that (i) the discount rate applied to calculate the net present value of the accelerated entitlements would not be greater than the rate at which the entitlements would otherwise be expected to appreciate over the period of acceleration and (ii) the PSUs and DSUs (PSU) would have vested at a 1.0 multiplier had they vested on their normal vesting schedules.
- (8) 2016 amounts include cash Timing Adjustment Payments to Mr. Smerdon of \$199,268. See “– 2015 and 2016 Incentive Plans”.
- (9) On June 30, 2015, Mr. Eva was granted 64,807 DSUs in lieu of 100% of a cash entitlement under the CPD LTIP relating to project milestones achieved in 2015, based on the VWAP of the Common Shares on the TSX for the five-trading-day period prior to the date of the DSU issuance, being \$3.1464. On January 27, 2016, Mr. Eva was granted 4,246 DSUs in lieu of 100% of a cash entitlement under the CPD LTIP relating to project milestones achieved in 2015, based on the VWAP of the Common Shares on the TSX for the five-trading-day period prior to the date of the DSU issuance, being \$4.7392. See “*Compensation Discussion and Analysis – CPD LTIP Awards*”.
- (10) Mr. Smerdon resigned as Executive Vice President and Chief Financial Officer of the Corporation on March 31, 2017. He remains a Director of the Corporation.
- (11) Includes lump sum payment made to Mr. Smerdon in payment of his retiring allowance pursuant to his employment agreement, unused but accrued vacation, an amount in lieu of accrued 2017 STIP, an amount accrued for the 2017 Discretionary LTIP (if he remains an employee of any subsidiary of iCON on the vesting date) and the change of control payment required under his employment agreement.
- (12) Mr. Leitch was appointed Vice President, Operations of CPC on January 1, 2017.

### **Components of Compensation as a Percentage of 2017 Target Total Compensation**

The CG&C Committee determination of the relative proportion of each component of compensation to 2017 target total compensation for each NEO, based upon the NEO’s role and responsibilities and the compensation objectives discussed above, is as follows<sup>(1)</sup>:

Name	Salary (%)	Target STIP (%)	LTIP (%)
David Eva	36	25	39
Michael Smerdon	-	-	-
Andrew Kennedy	51	29	20
Aileen Gien	52	20	28
Patrick Leitch	46	22	32

Note:

- (1) May not total 100% due to rounding.

### **Non-Equity Incentive Plan Compensation – Annual Incentive Plan**

#### **2017 Short-Term Incentive Plan Awards**

STIP awards are based on performance against a combination of BPMs and IPMs for 2017 that were established and approved by the CG&C Committee and the Board prior to the commencement of the 2017 fiscal year. For 2017, the Target STIP Awards for Mr. Eva, Mr. Kennedy, Ms. Gien and Mr. Leitch were 50%, 40%, 30% and 35% of their salaries, respectively. Mr. Smerdon resigned on March 31, 2017 and did not receive an STIP award for 2017. To determine the actual 2017 STIP awards for the NEOs who remained employed by the Corporation as of the date of the STIP payout these target amounts were adjusted by the STIP Payout Ratio particular to each individual.

The calculations of the payout multiplier for each of the BPMs, which are applicable to each NEO, are as follows:

BPM	Threshold	Target	Maximum	Actual 2017 Performance	BPM Payout Multiplier
Adjusted EBITDA	\$74,689	\$82,988	\$91,287	\$92,306	150%
AFFO	\$15,163	\$18,954	\$22,745	\$31,655	150%

In addition to personal and career development objectives, three primary categories are assessed as part of the annual individual performance objectives of each NEO: financial, strategy and operations. The CEO’s annual individual performance objectives also include leadership, reputation, and community and industry involvement.

Each performance objective category for the NEOs has several specific objectives that are reviewed and agreed with the CEO (in the case of all non-CEO NEOs) and the Board (in the case of the CEO) and then evaluated at year-end to determine whether the NEO has achieved those objectives. The following table provides an overview of the key individual performance measures for the year for each NEO who remained an employee of the Corporation as of the STIP payout date in respect of 2017 and the overall assessment of performance and the individual performance measure payout multiplier for such NEOs:

<b>David Eva – IPM Payout Multiplier: 60%</b>		
Financial	• Achieve budgets as per business plan	• Complete
	• Improve overall liquidity and oversee cost reduction initiative	• Progressing
Strategic	• Transition the Corporation to a stand-alone independent power producer	• Progressing
	• Drive improvement on Health, Safety & Environment Policies and behaviours	• Progressing
	• Develop and identify major strategic initiatives for 2018	• Complete
Operational	• Deliver on major operational initiatives	• Progressing
	• Complete existing development projects and position Corporation for further growth	• Complete
<b>Andrew Kennedy – IPM Payout Multiplier: 65%</b>		
Financial	• Restructure Capstone’s risk management and insurance program	• Complete
	• Refinance Capstone’s corporate credit facility	• Complete
	• Achieve administrative budget as per 2017 business plan	• Complete
Strategic	• Develop and lead company-wide cost control program	• Progressing
	• Capture corporate efficiencies by streamlining and automating processes	• Progressing
	• Provide finance, tax, information systems and risk management support for M&A transactions, development projects and asset management functions.	• Complete
Operational	• Maintain quality of financial reporting and internal controls	• Complete
	• Continuous improvement on board reporting	• Complete
	• Additional responsibility for corporate governance on transition to CFO	• Complete
<b>Aileen Gien – IPM Payout Multiplier: 50%</b>		
Financial	• Control legal spend on major projects within budget and scope	• Complete
	• Identify and capture opportunities to reduce overall corporate legal spend	• Ongoing
Strategic	• Provide legal support to for M&A transactions, development projects, and asset management functions.	• Complete
	• Manage governance requirements related to sale of CIC interest in Värmevärdan	• Complete
Operational	• Support management team and board with corporate governance and corporate secretarial services	• Complete
	• Manage and oversee compliance with securities laws and regulations	• Complete
	• Lead and direct approaches and strategies to litigation and disputes	• Complete
<b>Patrick Leitch – IPM Payout Multiplier: 65%</b>		
Financial	• Achieve operational budgets as per 2017 business plan	• Complete
	• Deliver 2017 capital expenditure projects as per plan	• Complete
	• Complete Whitecourt refurbishment project	• Complete
Strategic	• Establish managerial accounting systems	• Complete
	• Complete first phase of wind performance optimization project	• Complete
	• Lead renewed Health, Safety & Environmental initiative as per plan	• Progressing
Operational	• Achieve successful outcomes for Health, Safety & Environmental performance	• Complete
	• Standardize and realize efficiencies in business planning and reporting	• Progressing

The following table presents the STIP awards for each NEO earned in respect of 2017:

Name	Weighted BPM Payout Multipliers <sup>(1)</sup>			Weighted IPM Payout Multiplier	=	STIP Payout Ratio (% of Target)	x	Target STIP Award (% of Salary)	=	Actual 2017 STIP Award		
	Adjusted EBITDA	+	AFFO							+	% of Salary	\$
David Eva	45.0%		30.0%			60.0%		135.0%		50%	67.5%	168,750
Michael Smerdon <sup>(2)</sup>	-		-			-		-		-	-	-
Andrew Kennedy	45.0%		30.0%			65.0%		140.0%		40%	56.0%	114,800
Aileen Gien	45.0%		30.0%			50.0%		125.0%		30%	37.5%	75,000
Patrick Leitch	45.0%		30.0%			65.0%		140.0%		35%	49.0%	68,600

Notes:

- (1) Adjusted EBITDA and AFFO BPM payout multipliers were 150%, and were each weighted, 30% and 20% respectively.
- (2) Mr. Smerdon resigned effective March 31, 2017 and received no STIP award in respect of 2017. His severance payment included compensation in lieu of a 2017 STIP award. See “*Summary Compensation Table*” above.

## INCENTIVE PLAN AWARDS

### Outstanding Option-based Awards

The following table sets forth all option-based awards outstanding for each NEO as of December 31, 2017.

Name	Number of securities underlying unexercised SARs (#)	SARs base price (\$) <sup>(1)</sup>	SAR expiration date	Value of unexercised SARs <sup>(2)</sup> (\$)
David Eva	3,807,614	0.68	April 1, 2030	247,845
Michael Smerdon	-	-	-	-
Andrew Kennedy	1,903,807	0.68	April 1, 2030	123,845
Aileen Gien	1,218,436	0.68	April 1, 2030	79,261
Patrick Leitch	1,066,131	0.68	April 1, 2030	69,353

Notes:

- (1) The Board, as plan administrator, determined the grant base price by reference to the 2016 Independent Valuation. The grant base price was calculated by dividing the fair market value of the Corporation as per the 2016 Independent Valuation by the number of Class A Shares outstanding on April 1, 2017.
- (2) The value of the unexercised SARs, as of December 31, 2017, is determined by calculating the difference between the grant base price and the fair value of the issued SARs on December 31, 2017 determined by reference to an independent valuation completed on December 31, 2017.

### Incentive Plan Awards – Value Vested or Earned During the Year

The following is a summary of all option-based awards that vested during 2017 and all non-equity incentive plan compensation earned during the year for each NEO:

Name	Option-Based Awards Value Vested During 2017 <sup>(1)</sup>	Non-Equity Incentive Plan Compensation Value Earned During 2017 <sup>(2)</sup>
David Eva	Nil	\$311,871
Michael Smerdon <sup>(3)</sup>	-	-
Andrew Kennedy	Nil	\$114,800
Aileen Gien	Nil	\$121,840
Patrick Leitch	Nil	\$131,053

Note:

- (1) April 1, 2017 grants will have vested one tenth on the one year anniversary of grant. As of the date of this disclosure no grants have vested.
- (2) Includes 2017 STIP payments paid in March 2018 and 2016 and 2017 CPD LTIP awards vested and paid in March 2018.
- (3) Mr. Smerdon resigned on March 31, 2017. Mr. Smerdon received no STIP award in 2017. His severance payment included compensation in lieu of a 2017 award. See ``Summary Compensation Table``.

### EXECUTIVE EMPLOYMENT AGREEMENTS

Each of the NEOs employed by the Corporation as of the date hereof, being David Eva, Andrew Kennedy, Aileen Gien and Patrick Leitch, has entered into an employment agreement with the Corporation that includes provisions relating to the NEO's salary, benefits and incentive compensation. In addition, each NEO's employment agreement contains provisions relating to the termination of the NEO's employment: (a) for cause and (b) without cause. Mr. Eva's and Mr. Kennedy's employment agreements contain provisions relating to the termination of the NEO's employment in relation to a change of control. These provisions are summarized below.

#### Termination of Employment for Cause

NEO employment agreements provide that the Corporation may terminate the employment of the NEOs at any time for just cause by written notice to the NEO, which termination will be effective on the date such notice is delivered. In the event of a termination for cause, the Corporation shall not be obligated to make any further payments under the employment agreement except certain amounts due and owing to the NEO at the time of the termination for salary, STIP compensation, long-term incentive compensation, benefits, certain prerequisites, vacation, and expenses incidental to employment. All unvested long-term incentive grants will be cancelled.

#### Termination of Employment without Cause

##### **Mr. Eva**

Mr. Eva's employment agreement provides that the Corporation may terminate the NEO's employment without cause at any time by providing him with the greater of: (a) \$187,000; or (b) notice of termination calculated as follows (the "**Notice Formula**"): six months' notice or pay in lieu of notice for the first year of continuous employment; plus three weeks' notice or pay in lieu of notice of each continuous year of employment (completed or partial) beyond the first year of employment, to a total maximum of 52 weeks' notice or pay in lieu of notice. Pay in lieu of notice will be calculated with reference to base salary and STIP amounts. Any long-term incentive awards will be addressed in accordance with the terms of the applicable plan and award agreements. Participation in all benefit plans will cease immediately upon termination of employment unless the Corporation is required by the applicable employment standards legislation to continue benefits for the statutory notice period. The treatment of any equity awards will be governed by the applicable equity plan. Any payments in lieu of notice in excess of the statutory minimums are conditional on the NEO's ongoing compliance with his post-employment obligations.

**Mr. Kennedy, Ms. Gien and Mr. Leitch**

The Corporation may terminate his or her employment without cause by providing notice of termination calculated as follows: four weeks' notice for the first year of continuous employment; plus three weeks' notice for each additional continuous year of employment (completed or partial) beyond the first year, provided that the total notice does not exceed 52 weeks, which entitlement is subject to a 50% mitigation clawback. Participation in all benefit plans will cease immediately on termination of employment unless the Corporation is required by applicable employment standards legislation to continue benefits for the statutory notice period. The treatment of any equity awards will be governed by the applicable equity plan. Any payments in lieu of notice in excess of the statutory minimums are conditional on his or her ongoing compliance with post-employment obligations.

**Termination of Employment Following/in Connection with a Change of Control****Mr. Eva**

Pursuant to Mr. Eva's employment agreement, if his employment is terminated by the Corporation without cause in the three-month period prior to a Change of Control (as defined below) or in the 12 month period following a Change of Control, he will be entitled to the greater of: (a) \$187,000 multiplied by one and a half (1.5x); or (b) the notice period calculated pursuant to the Notice Formula (as defined above in relation to a termination of Mr. Eva's employment without cause) multiplied by one and a half (1.5x). Participation in all benefit plans will cease immediately upon termination of employment unless the Corporation is required by applicable employment standards legislation to continue benefits for the statutory notice period. Any payments in lieu of notice in excess of the statutory minimums are conditional on his ongoing compliance with his post-employment obligations.

**Mr. Kennedy**

Pursuant to Mr. Kennedy's employment agreement, if his employment is terminated without cause in the six-month period prior to the public announcement of a Change of Control (as defined below) (applicable only if the Corporation had knowledge of the potential Change of Control) or in the 12-month period following a Change of Control, Mr. Kennedy is entitled to receive an amount equal to Accrued Compensation plus 1.5 times the amount of total compensation (subject to a maximum of 18 months Total Compensation).

In both agreements "**Change of Control**" means (a) the acquisition of control in law (whether by sale, transfer, merger, consolidation or otherwise) of the Corporation by a third party (that is, the acquisition of control over 50.1% of the issued and outstanding voting shares of the Corporation), or (b) the sale, transfer or other disposition of all or substantially all of the assets of the Corporation to a third party.

**Payments Upon Termination**

Assuming that each of the events listed below occurred on December 31, 2017, it is estimated that each NEO would have been entitled to receive the following incremental payments from the Corporation in each specified scenario (not including amounts due and owing at the time of termination)<sup>(1)(2)</sup>:

Name	Termination for Cause (\$)	Termination without Cause (\$)	Termination due to Change of Control (\$)
David Eva	-	346,154	519,231
Michael Smerdon	-	-	-
Andrew Kennedy	-	121,423	206,971
Aileen Gien	-	50,000	-
Patrick Leitch	-	47,250	-

Notes:

- (1) Does not include any common law benefits payable pursuant to Canadian law.
- (2) Amounts include the target 2017 STIP award based upon the STIP percentage entitlement.
- (3) Michael Smerdon resigned as an officer of the Corporation effective March 31, 2017. Pursuant to the terms of his employment agreement, he received a payment of \$1,258,131 upon his resignation.

**Confidentiality and Non-Solicitation Obligations**

Under each of their employment agreements with the Corporation, the NEOs have certain confidentiality obligations not to use or disclose the Corporation's confidential information, either during or after their employment. In addition, each of the NEOs has certain non-solicitation obligations for a 6-month period following termination of employment relating to the Corporation's clients, employees, and consultants.

**CLAWBACK POLICY**

The Board has adopted a clawback policy (the "**Clawback Policy**") in respect of compensation paid or payable to the CEO and the Chief Financial Officer (the "**CFO**"). Under the Clawback Policy, the Corporation, at its discretion, may claw back the after-tax portion of cash and equity compensation awarded to the CEO and CFO, as applicable, if there is of a restatement of the Corporation's financial results and it is determined that the cash or equity awards paid or payable would have been lower had the restatement occurred prior to the payment or grant of such awards.

## SCHEDULE “B”

### CORPORATE GOVERNANCE

Any capitalized term used but not defined herein has the meaning ascribed thereto in the Corporation’s annual information form.

#### **Overview**

The Corporation believes in the importance of good corporate governance and the central role played by directors in the governance process.

All of the Class A Shares of the Corporation, the only voting securities of the Corporation, are indirectly owned by iCON III. The only other securities of the Corporation that are outstanding are the non-voting Series A Preferred Shares, which are widely held. See “*Capital Structure of the Corporation*” in the annual information form. The foregoing is an important consideration when assessing the governance philosophy and practices of the Corporation.

National Policy 58-201 *Corporate Governance Guidelines* (the “**Policy**”) of the Canadian Securities Administrators sets forth a number of suggested guidelines on corporate governance practices. Under the Policy, issuers are encouraged to consider the guidelines set out therein in developing their own corporate governance practices.

In the Board’s view, no single corporate governance model is a “one size fits all” solution. The Board believes that the Corporation’s governance system is effective and is appropriate to its circumstances, and that there are in place appropriate structures and procedures to ensure the Board’s independence from management and to ensure that actual or potential conflicts of interest between the Corporation and its controlling shareholder are dealt with appropriately.

#### **Corporate Governance Guidelines**

A key component of the Corporation’s corporate governance is its corporate governance guidelines (the “**Guidelines**”). The Guidelines are annually reviewed by the Board, with advice received from the CG&C Committee, and relate to various corporate governance matters, including:

- *Board Organization and Membership* – including the requirement that at least three of the Directors be independent (as defined in NI 52-110), subject to the exception that only two Directors may be independent if a third is exempt from the independence requirement and otherwise fulfills the requirements of NI 52-110;
- *Board Committees* – including the requirement that the Audit Committee be composed of three members, all of whom are independent unless a Director is exempt from the independence requirement and otherwise fulfills the requirements of NI 52-110, and the requirement that the CG&C Committee be composed of three members, at least two of whom are independent and none of whom are a member of senior management of the Corporation (other than any director who has been appointed to senior management of the Corporation on an interim basis);
- *Board’s Relationship with Management* – including the requirement for the Board to support and encourage the members of the senior management team in the performance of their duties and the requirement for the CG&C Committee to monitor and assess the Board’s relationship with senior management; and
- *Director Responsibilities and Performance* – including the requirement for the CG&C Committee to assess the overall performance and effectiveness of the Board and each of its committees, the Chair of the Board, the Chair of each committee of the Board and each Director on a biennial basis.

The Guidelines are available on the Corporation’s website at [www.capstoneinfrastructure.com](http://www.capstoneinfrastructure.com).

### **Code of Business Conduct and Ethics**

To encourage and promote a culture of ethical business conduct, the Board has adopted a written Code of Business Conduct and Ethics (the “**Code of Ethics**”). The Code of Ethics is applicable to all Directors, officers, employees and agents (collectively referred to in the Code of Ethics as “**Representatives**”) of the Corporation. The Code of Ethics generally outlines standards of conduct that must be met in the carrying out of a Representative’s duties, including: (i) guidelines on the acceptance or offering of gifts, entertainment or other benefits in the conduct of business; (ii) guidelines relating to dealings with public officials; and (iii) prohibitions on the inappropriate gathering of competitive information. The Code of Ethics also provides detailed guidelines with respect to the identification and declaration of conflicts of interest, the protection of confidential information and the appropriate use of computer and communications systems.

The Code of Ethics requires all Representatives to avoid all situations in which their personal interests conflict or might conflict with their duties to the Corporation by avoiding acquiring any interests or participating in any activities that could:

- deprive the Corporation of the time or attention required to perform their duties properly; or
- create an obligation or distraction which would affect their judgment or ability to act solely in the best interests of the Corporation.

In addition, Directors and officers of the Corporation are required to strictly follow the procedures prescribed under corporate legislation, the Code of Ethics and the Guidelines in respect of material contracts or transactions to which they are a party or in which they have a material interest, including the requirement to disclose in writing all business, commercial or financial interests or activities that might reasonably be regarded as creating an actual or potential conflict of interest. In the event such a situation arises, the Board will determine whether a special committee of the Board comprised of non-conflicted Directors should be established to consider the material contract or transaction in question. Such a special committee was established in connection with the sale of the Corporation’s interest in Bristol Water (see “*General Development of the Business – Fiscal Year 2016*” in the annual information form).

The Board has delegated its responsibility for monitoring compliance with the Code of Ethics to the CG&C Committee, which, among other things, reviews the Code of Ethics annually, is responsible for granting any waivers from the Code of Ethics and oversees management’s implementation and monitoring of the Code of Ethics. Each year, each Representative is required to provide a written acknowledgement of his or her compliance with the Code of Ethics. To date, no waivers of the Code of Ethics have been granted.

A copy of the Code of Ethics is available under the Corporation’s profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Corporation’s website at [www.capstoneinfrastructure.com](http://www.capstoneinfrastructure.com).

### **Board of Directors**

The Board consists of the number of Directors set by the shareholder from time to time, with the number of Directors currently fixed at nine. The following individuals currently serve as Directors:

<b>Director</b>	<b>Status</b>
Gary Eade	Not Independent
David Eva	Not Independent
Andrew Kennedy	Not Independent
Richard Knowles	Independent
Paul Malan	Not Independent
Adèle Malo	Independent
Michael Smerdon	Not Independent
Paul Smith	Not Independent
Janet Woodruff	Independent

See “*Management of the Corporation – Directors*” in the annual information form for more information about the Directors, including more information on their status as independent or non-independent within the meaning of NI 52-110, other public directorships held and attendance at Board and committee meetings.

While the majority of the Board is not independent pursuant to the standards set out in NI 52-110, the Board is of the view that Messrs. Eade, Malan, Smerdon and Smith, who are not independent because of their relationship with the holder of all of the Corporation’s voting shares, do not have any direct or indirect relationship with the issuer which could, in the view of the Board, be reasonably expected to interfere with the exercise of their independent judgment. Any concerns which may exist in a controlled company situation about conflicts of interest or self-dealing should, in the view of the Board, be resolved directly through a committee of directors who are independent of the controlling shareholder, as was done in connection with the Corporation’s sale of its interest in Bristol Water to a subsidiary of iCON III (see “*General Development of the Business – Fiscal Year 2016*” in the annual information form).

Mr. Smith is currently the Chair of the Board and is not independent. The Guidelines provide that if the Chair is not an independent director, the independent directors shall be entitled (but not required) to appoint one of the independent directors as the Lead Independent Director if, in the sole discretion of the independent directors, such appointment is warranted to provide leadership to the independent directors. The Lead Independent Director would chair regular meetings of the independent directors and assume other responsibilities which the independent directors as a whole have designated. To date, the independent directors have not determined that there is a need for a Lead Independent Director.

The Board Mandate (see “*Schedule “B” Corporate Governance – Board Mandate*”) provides that independent directors will hold regularly scheduled meetings, or portions of regularly scheduled meetings, at which non-independent Directors and members of management are not present. During 2017, there were eight such in-camera sessions held at various Board, Audit Committee and CG&C Committee meetings.

### **Term Limits**

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. The Board has fixed a term limit of 12 years for independent directors. The Board is of the view that such a policy ensures that independent directors do not lose their ability to exercise independent judgment. The Board recognizes the value of some turnover in Board membership to provide on-going input of fresh ideas and views. Therefore, the CG&C Committee annually considers recommending changes to the composition of the Board and monitors directors’ independence.

### **Board Mandate**

The Board has a written mandate (the “**Board Mandate**”) that specifies the Board’s ongoing responsibility for stewardship of the Corporation. The Board annually assesses the Board Mandate. A copy of the Board Mandate is attached to the annual information form as Schedule “D”. The Board is ultimately responsible for supervising the activities and managing the business and affairs of the Corporation and, in so doing, is required to act in the best

interests of the Corporation. The Board generally discharges its responsibilities either directly or through the Audit Committee or the CG&C Committee. Responsibilities of the Board set out in the Board Mandate include:

- Oversight of the Corporation’s governance;
- Monitoring of the Corporation’s financial performance and other financial reporting matters;
- Approving the Corporation’s policies and procedures; and
- Oversight of the Corporation’s communications and reporting.

### **CG&C Committee**

The CG&C Committee is responsible for oversight respecting Board composition and director nominations, corporate governance, business and ethical conduct, director orientation and continuing education, Board evaluations, Board operations and committee composition of the Board. In addition, the CG&C Committee is responsible for making recommendations for approval by the Board with respect to all forms of compensation to be granted to the CEO and for reviewing and approving the CEO’s proposals respecting the compensation of the other senior executives of the Corporation.

Subject to any requirements of applicable law, the CG&C Committee is to be composed of three members, at least two of whom are independent directors and none of whom are a member of the Corporation’s management (other than any director who has been appointed to management on an interim basis).

The current members of the CG&C Committee are Adèle Malo (chair), Richard Knowles and Paul Malan. Other than Mr. Malan, each member of the CG&C Committee is independent (as defined in NI 52-110). The Board is comfortable that Mr. Malan does not have any direct or indirect relationship with the issuer or management which could, in the view of the Board, be reasonably expected to interfere with the exercise of his independent judgment.

The mandate for the CG&C Committee is contained in the CG&C Committee’s Charter, which is available on the Corporation’s website at [www.capstoneinfrastructure.com](http://www.capstoneinfrastructure.com).

For a discussion of how compensation is set for the Corporation’s directors and officers, see Schedule “A” *Compensation Disclosure*, to the Corporation’s annual information form.

### **Director Nomination Process**

The CG&C Committee is responsible for, in consultation with management and the sole voting shareholder, identifying and recommending to the Board qualified nominees to fill any vacancies on the Board. The Board strives to achieve the best mix of skills and experience to provide for the overall stewardship of the Corporation. The Board also endeavours to take into account the desirability of maintaining a reasonable diversity of personal characteristics such as age, gender, geographic residence and origin. See “*Diversity – Diversity Policy*”. Ultimately, the sole voting shareholder determines who is elected to the Board.

The CG&C Committee’s Charter provides that the CG&C Committee will maintain an “ever-green” list of independent director candidates to ensure outstanding candidates with needed talents can be identified to fill planned and unplanned vacancies and to ensure plans are in place for the orderly succession of directors to keep the Board appropriately balanced in terms of skills and experience. When a vacancy on the Board arises for an independent director, the CG&C Committee reviews the list of potential candidates against the skill set of incumbent Directors and the range of experience and expertise necessary for the Board and makes its recommendation to the Board.

## **Diversity**

### **Diversity Policy**

The Corporation has adopted a written diversity policy (the “**Diversity Policy**”) formalizing the Corporation’s commitment to diversity at all levels of the Corporation, including on the Board and in senior management positions. The Diversity Policy does not establish any fixed targets regarding the representation of diverse candidates on the Board or in senior management, including executive officer positions, because (i) the Board does not believe that quotas or strict rules necessarily result in the identification or selection of the best candidates for the Corporation’s highly specialized business and small management team; and (ii) the Board believes that nominations or appointments of directors and appointments of senior management personnel should be made, and should be perceived as being made, on the merits of each individual and having a fixed target could impede the application of this principle. Instead, the Diversity Policy articulates Capstone’s desire to promote better corporate governance and performance and effective decision-making by having a diverse range of views and considerations represented at the Board and senior management levels. In considering potential nominees for election to the Board or appointment as CEO, the Diversity Policy requires the CG&C Committee to: (i) consider only highly qualified candidates; (ii) take into consideration criteria that promote diversity (such as gender, age, ethnicity and geographic background); and (iii) to include at least one woman on any short-list of potential candidates for appointment or nomination to the Board. The Diversity Policy also requires that similar considerations be taken into account by the CEO in making senior management appointments. For Board nominations and appointments, the Diversity Policy provides that, as required, the Board will engage qualified independent external advisors to assist in searching for candidates who meet the Board’s criteria regarding skills, experience and diversity. In addition, the Diversity Policy requires the CG&C Committee to consider and recommend, where appropriate, the implementation of initiatives to promote diversity at the Board and senior management levels.

As part of the Board’s performance assessment process, the CG&C Committee will review the effectiveness of the Board appointment and nomination process, including its success in achieving an appropriate balance of talents, experience, functional expertise and diversity among Board members. The CEO will perform a similar review of appointment process for senior management positions. These reviews will enable the Board, on an ongoing basis, to assess the effectiveness of the Diversity Policy.

### **Representation of Women on the Board and in Senior Management**

As part of its overall approach to diversity under the Diversity Policy, the Corporation recognizes that the involvement of highly qualified women on the Board and in senior management roles can provide valuable perspectives that can assist in achieving the goal of enhancing value for the Corporation’s shareholder. As of December 31, 2017, two of nine members of the Board (22% of the Board, but 66% of the members of the Board who are not members of management or representatives of the Corporation’s sole voting shareholder), while one of four (25%) of the executive officers of the Corporation, including all major subsidiaries, is a woman. The chairs of the Audit Committee and the CG&C Committee are both women.

### **Board and Committee Assessment and Director Performance Evaluation**

The CG&C Committee biennially assesses the size and effectiveness of the Board as a whole and each committee of the Board, including evaluating the performance of the Chair of the Board and the Chair of each committee, as well as the performance and contribution of individual Directors. The evaluation process includes conducting a biennial survey of the Directors to elicit their views on the effectiveness of the Board, the Chair of the Board, the Board’s committees, the Chair of each committee and the individual Directors, and performing a self-assessment of skills and experience. The results of the annual survey and self-assessments are reported to the Board.

### **Position Descriptions**

The Board has approved position descriptions for the Chair of the Board, the Chair of each of the Board’s committees and the CEO. In accordance with the CG&C Committee’s Charter, the CG&C Committee is responsible reviewing and making recommendations to the Board regarding the foregoing position descriptions.

The Chair of the Board is responsible for, among other things, overseeing the Board's discharge of its duties, governing the conduct of the Board, assisting the Board's committees and acting as a liaison between the Board and management. The Chair of each of the Board's committees is responsible for, among other things, providing leadership to the respective committee to enhance its effectiveness. The CEO is responsible for managing the underlying business within the structure of the Corporation. The CEO's specific responsibilities include developing a long-term strategy for the Corporation, reporting to the Board on succession planning and consulting with the Chair of the Board.

#### **Director Orientation and Continuing Education**

To assist in familiarizing new Directors with the role of the Board and its committees, new Directors are provided with a package of materials that includes the Guidelines, the Code of Ethics, the Mandate of the Board, the Audit Committee's Charter, the CG&C Committee's Charter, as well as the various position descriptions and other information relevant to the functioning of the Board. New Directors also receive materials to educate them on the Corporation and its businesses. New Directors have the opportunity to meet with management of the Corporation and other members of the Board to discuss the role of the Board, its committees and the Directors, as well as the nature and operation of the Corporation's business, should they wish to do so.

To ensure that the Directors maintain the knowledge and skill necessary to meet their obligations as Directors, the CG&C Committee from time to time arranges for presentations by key personnel or qualified outside advisors concerning topics related to the Corporation's business, changes to the Corporation's legal and regulatory framework and corporate and board governance matters. Directors are encouraged to attend external continuing education programs at the expense of the Corporation.

C-1

**SCHEDULE "C"**

**AUDIT COMMITTEE CHARTER**



**AUDIT COMMITTEE CHARTER**  
CAPSTONE INFRASTRUCTURE CORPORATION

August 2017

**CAPSTONE INFRASTRUCTURE CORPORATION**

**AUDIT COMMITTEE CHARTER**

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

**PURPOSE**

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

- (i) oversee the work of the Corporation’s external auditors engaged for the purpose of preparing or issuing an auditor’s report or performing other audit, review or attestation services for the Corporation;
- (ii) oversee the integrity of the Corporation’s financial statements and financial reporting process, including the audit process and the Corporation’s internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- (iii) oversee the qualifications and independence of the external auditors;
- (iv) oversee the work of the Corporation’s financial management and external auditors in these areas;
- (v) oversee the Enterprise Risk Management process and the work of the internal auditor (see Internal Audit Mandate in Appendix A); and
- (vi) provide an open avenue of communication between the external auditors, the Board and Capstone Infrastructure Group, including the Board of Directors of the Corporation and Management, thus enabling information and points of view to be freely exchanged.

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

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

- (i) plan or conduct audits,
- (ii) 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) conduct other types of auditing or accounting reviews or similar procedures or investigations.

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

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

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

## **PROCEDURES, POWERS AND DUTIES**

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

### General

- (a) *Composition* - The Committee shall be composed of a minimum of three members. Each member of the Committee shall be an "independent" director (as that term is defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Corporation's securities are listed for trading or if it is not so defined as that term is interpreted by the Board in its business judgement) unless a director is exempt from such independence requirement and otherwise fulfills the requirements set out under National Instrument 52-110 – *Audit Committees*, and none of the members shall have participated in the preparation of the financial statements of the Corporation at any time over the past three years; provided that if a director is also a director of one or more Subsidiaries it will not disqualify the director from being a member of the Committee so long as the director would otherwise be eligible to be a member of the Committee pursuant to the requirements set out under National Instrument 52-110 – *Audit Committees*.

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 Chair* - The Chair of the Committee shall be designated by the Board. The Chair 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 Chair of the Committee shall take place annually at the first meeting of the Board after a meeting of shareholders at which Directors are elected, (or the execution of a written shareholder resolution in lieu of such a meeting), provided that if the designation of the Chair of the Committee is not so made, the Director who is then serving as the Chair of the Committee shall continue as the Chair 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 Chair. If the Committee Chair faces a potential or actual conflict of interest, the Committee Chair shall advise the Chair of the Board. If the Committee Chair, or the Chair 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 the Committee at least 48 hours prior to the time fixed for such meeting. However, a member may in any manner waive a notice of a meeting. Attendance of a member at a meeting constitutes a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called. Whenever practicable, the agenda for the meeting and the meeting materials shall be provided to members before each Committee meeting in sufficient time to provide adequate opportunity for their review.

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

*Chair of Meetings* - If the Chair of the 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 Chair of the Committee shall designate a person, who need not be a member of the Committee, to act as secretary or, if the Chair 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 Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.
- (k) *Powers of the Committee*

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

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

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

## AUDIT RESPONSIBILITIES OF THE COMMITTEE

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

The external auditors are ultimately accountable to the Committee and the Board as the representatives of the shareholders of the Corporation and shall report directly to the Committee and the Committee shall so instruct the external auditors. The Committee shall evaluate the performance of the external auditors and make recommendations to the Board on the reappointment or appointment of the external auditors of the Corporation to be proposed 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 for shareholder approval and appointment.

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

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

- (a) perform an annual assessment of the auditor's performance in accordance with recommendations of the Canadian Public Accountability Board ("CPAB"), Chartered Professional Accountants Canada ("CPA Canada") and Institute of Corporate Directors ("ICD"). The annual assessment should focus on the independence, objectivity and quality of audit work performed by the audit team and the engagement partner and quality of interactions between the external auditor and the Committee;
- (b) perform a comprehensive review of the auditor's performance no less than every five years in accordance with recommendations of the Canadian Public Accountability Board ("CPAB"), Chartered Professional Accountants Canada ("CPA Canada") and Institute of Corporate Directors ("ICD"). The comprehensive review should be deeper and broader than the annual assessment and focus on the audit firm, its independence, objectivity and professional skepticism and identify significant trends and the impact of tenure on the audit firm's performance.
- (c) 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;
- (d) 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;
- (e) 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 five year "cooling off" period where they are not permitted to participate in an audit of the financial statements of the Corporation and (ii) all other partners on the audit engagement team who make important decisions or judgements on significant matters with respect to the Corporation's audit or review engagement be rotated at least every seven years and be subject to a two year "cooling off" period where they are not permitted to participate in an audit of the financial statements of the Corporation;
- (f) require that members and employees of the external auditor are prohibited from concurrently being a director or officer of the Capstone Infrastructure Group;
- (g) require that no audit partner or audit firm employee will participate on the engagement team for the audit of the Capstone Infrastructure Group if such person's immediate or close family member has an accounting role or a financial reporting oversight role at the Capstone Infrastructure Group, or had such a position during the period covered by the financial statements subject to audit or the engagement period;
- (h) require that the audit firm engagement team in any given year cannot include a person who is a former director or officer of the Capstone Infrastructure Group or who was in a position to exert significant influence over the subject matter of the engagement during that year;

- (i) require that no person who participated in an audit capacity in an audit of the financial statements of the Capstone Infrastructure Group performed by the external auditor be appointed an officer or director of the Capstone Infrastructure Group or be placed in a financial reporting oversight role unless a period of one year has elapsed from the date that the applicable financial statements were filed with the relevant securities regulator or stock exchange;
- (j) require that officers of the Capstone Infrastructure Group are prohibited from receiving any remuneration from the audit firm;
- (k) 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 limited to a financial interest that is immaterial and the relationship is clearly insignificant to both parties;
- (l) require that the audit firm, its partners, its employees on the audit of the Capstone Infrastructure Group and their immediate family members are prohibited from having loans or guarantees to or from the Capstone Infrastructure Group, any director or officer of the Capstone Infrastructure Group or any shareholder who owns more than 10% of the equity securities of the Corporation;
- (m) require that the audit firm, its partners, its employees on the audit of the Capstone Infrastructure Group and their immediate family members are prohibited from holding a direct financial interest or a material indirect financial interest in the Capstone Infrastructure Group or any affiliate of the Capstone Infrastructure Group;
- (n) consider whether there should be a regular rotation of the external audit firm itself; and
- (o) consider the auditor independence standards promulgated by applicable auditing regulatory and professional bodies.

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

The auditor will not normally provide the following services:

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

- (b) appraisal or valuation and fairness opinions;
- (c) financial information or information technology systems design and implementation;
- (d) internal audit outsourcing services;
- (e) management functions, including temporary staff assignments or human resource services, including recruitment of senior management;
- (f) legal or litigation support services;
- (g) broker or dealer, investment adviser or investment banking;
- (h) actuarial services; or
- (i) accounting and tax work on behalf of members of the senior management team of Capstone or the senior executives of Capstone's subsidiaries.

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

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

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

- (a) a description of the external auditors' internal quality-control procedures, any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; and
- (b) a report describing (i) all critical accounting policies and practices used in the preparation of the Corporation's financial statements, (ii) all alternative treatments of financial information within generally accepted accounting principles or other standards related to material items that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors (iii) other material written communication between the external auditors and Management, such as any management letter or schedule of unadjusted differences; and (iv) disagreements between Management and/or the internal auditors and the external auditors regarding financial reporting.

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

## 2. Oversight of Internal Audit Function

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

## 3. Oversight and Monitoring of Audits

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

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

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

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

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

## 4. Oversight and Review of Accounting Principles and Practices

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

- (a) the quality, appropriateness and acceptability of the Corporation's accounting principles and practices used in its financial reporting, changes in the Corporation's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;
- (b) all significant financial reporting issues and judgments made in connection with the preparation of the Corporation's financial statements, including the effects of alternative methods within generally accepted accounting principles and other standards on the financial statements and any "second opinions" sought by Management from an independent auditor with respect to the accounting treatment of a particular item;
- (c) disagreements between Management and the external auditors or any internal auditors regarding the application of any accounting principles or practices;

- (d) any material change to the Corporation's auditing and accounting principles and practices as recommended by Management, the external auditors or any internal auditors or which may result from proposed changes to applicable generally accepted accounting principles and other standards;
- (e) the effect of regulatory and accounting initiatives on the Corporation's financial statements and other financial disclosures;
- (f) any reserves, accruals, provisions, estimates or Management programs and policies, including factors that affect asset and liability carrying values and the timing of revenue and expense recognition, that may have a material effect upon the financial statements of the Corporation;
- (g) the use of special purpose entities and the business purpose and economic effect of off-balance sheet transactions, arrangements, obligations, guarantees and other relationships of Capstone Infrastructure Group and their impact on the reported financial results of the Corporation;
- (h) any legal matter, claim or contingency that could have a significant impact on the financial statements, the Corporation's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Corporation's financial statements;
- (i) the treatment for financial reporting purposes of any significant transactions which are not a normal part of the Corporation's operations;
- (j) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles; and
- (k) Management's determination of goodwill impairment, if any, as required by applicable accounting standards.

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

#### 5. Oversight and Monitoring of Internal Controls and Disclosure Controls

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

- (a) the adequacy and effectiveness of the Corporation's internal accounting and financial controls (including accounting and operational risk management controls) based on recommendations of Management and the external auditors for the improvement of accounting practices and internal controls;
- (b) any material weaknesses in the internal control environment, including with respect to computerized information system controls and security;
- (c) any material weaknesses in the disclosure control environment; and

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

## 6. Communications with Others

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

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

The Committee shall:

- (a) review with the external auditors and Management and recommend to the Board for approval the audited financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements and the financial information of the Corporation contained in any prospectus, information circular or other disclosure document or regulatory filing of the Corporation; and
- (b) review with the external auditors and Management and review or approve, subject to the determination of the Board, each set of interim financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements and any other disclosure documents or regulatory filings of the Corporation containing or accompanying financial information of the Corporation.

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

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

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

As part of the process by which the Committee shall satisfy itself as to the reliability of public disclosure documents that contain audited and unaudited financial information, the Committee shall require each of the Chief Executive Officer and the Chief Financial Officer of the

Corporation (or those holding similar positions) to provide a certificate addressed to the Committee certifying in respect of each annual and quarterly report the matters such officers are required to certify in connection with the filing of such reports under applicable securities laws.

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

#### 8. Oversight of Finance Matters

The Committee shall receive and review:

- (a) periodic reports on compliance with requirements regarding statutory deductions and remittances, the nature and extent of any non-compliance together with the reasons therefore and Management's plan and timetable to correct any deficiencies;
- (b) material policies and practices of Capstone Infrastructure Group respecting cash management and material financing strategies or policies or proposed financing arrangements and objectives of Capstone Infrastructure Group (documented in the Corporation's Treasury Policy); and
- (c) material tax policies and tax planning initiatives, tax payments and reporting and any pending tax audits or assessments.

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

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

#### 9. Committee Reporting

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

#### 10. Board, Committee and Breach Reporting

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

- (a) Results of the annual enterprise risk management assessment ("ERM")
- (b) A summary of policies and procedures established during the period

- (c) Results of due diligence carried out on external service providers, if any
- (d) Current Business Continuity Plan for the operations, and if the Committee recommends material changes therein, such material changes to be provided to the Board for review and approval
- (e) Results of internal audit reviews and a rolling annual internal audit plan.

As necessary:

- (f) Any significant changes to the ERM, including external factors to be considered (such as major regulatory or industry developments)
- (g) Any significant operational risk incidents relating to the Corporation, not already reported to the Board.

#### 11. Additional Responsibilities

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

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

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

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

### **THE CHARTER**

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

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

## APPENDIX A: INTERNAL AUDIT MANDATE

### 1. **Introduction**

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

### 2. **Purpose**

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

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

### 3. **Scope of Internal Audit Activities**

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

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

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

### 4. **Independence and Authority**

In order to ensure independence of the Internal Audit function, the Audit Committee has assumed oversight responsibility on behalf of the Board. Internal Audit reports functionally to the Chair of the Audit Committee and administratively to the Chief Financial Officer (or his or her designate). Capstone has chosen to outsource Internal

Audit to maximize the expertise available to evaluate and provide recommendations for Capstone's diverse and complex operations.

The Audit Committee will:

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

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

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

## **5. Professional Standards and Proficiency**

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

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

## **6. Audit Planning**

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

## **7. Reporting**

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

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

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**SCHEDULE "D"**

**BOARD MANDATE**



**MANDATE OF THE BOARD OF DIRECTORS**  
CAPSTONE INFRASTRUCTURE CORPORATION  
UPDATED AUGUST 2017

## **CAPSTONE INFRASTRUCTURE CORPORATION**

### **MANDATE OF THE BOARD OF DIRECTORS**

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.

The Board is elected by the shareholders and is responsible for the stewardship of the affairs of the Corporation. The directors shall act honestly and in good faith with a view to the best interests of the Corporation and in connection therewith shall exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Board seeks to discharge such responsibility by supervising and reviewing the Corporation’s investments, conducting the affairs of the Corporation and monitoring the stewardship of any Subsidiaries.

The Board is responsible for establishing and maintaining a culture of integrity in the conduct of the Corporation’s affairs. The Board seeks to discharge this responsibility by satisfying itself as to the integrity of Management and by overseeing Management to ensure a culture of integrity is maintained.

Although directors may be elected by the shareholders to bring special expertise or a point of view to Board deliberations, they are not chosen to represent a particular constituency. The best interests of the Corporation must be paramount at all times.

The Corporation is a publicly listed vehicle which must comply with the applicable securities laws and the Board is responsible for overseeing such compliance by the Corporation.

### **INDEPENDENCE OF DIRECTORS**

At least three of the directors must be independent of the Corporation and the business of Capstone Infrastructure Group and there may be only two independent directors if a third director is exempt from the independence requirement and otherwise fulfills the requirements set out under National Instrument 52-110 – *Audit Committees*. In order to be “independent”, the director must qualify as independent as defined in National Instrument 52-110 – *Audit Committees*, and as set out in the Corporation’s Corporate Governance Guidelines. However, the fact that a director is also a director of a Subsidiary shall not disqualify the director from being considered to be an “independent director” of the Corporation if the director would otherwise meet the foregoing tests.

### **MEETINGS**

The Board will meet at least once in each quarter, with additional meetings held as deemed advisable. The chair of the Board (the “Chair”) is primarily responsible for the agenda and for supervising the conduct of the meeting. Any director may propose the inclusion of items on the agenda, request the presence of, or a report by, any member of senior management, or at any Board meeting raise subjects that are not on the agenda for that meeting.

The independent directors will hold regularly scheduled meetings, or portions of regularly scheduled meetings, at which non-independent directors and members of Management are not present.

Each director is expected to attend all meetings of the Board and any committee of which he or she is a member. Directors will be expected to have read and considered the materials sent to them in advance of each meeting and to actively participate in the meetings.

## **DUTIES OF DIRECTORS**

The Board discharges its responsibilities both directly and through its committees, the Audit Committee and the Corporate Governance & Compensation Committee. In addition to these standing Committees, the Board may appoint *ad hoc* committees periodically to address certain issues of a more short-term nature. In addition to the Board's primary roles of supervising the activities and managing the investments and affairs of the Corporation, principal duties include, but are not limited to the following categories:

### **Oversight of the Corporation's Governance**

1. The Board is responsible for acting for, voting on behalf of and representing the Corporation as a holder of shares, notes and other securities of Subsidiaries.
2. The Board is responsible for reviewing the performance of the directors of the Corporation and, at least annually, conducting an effective evaluation of the directors of the Corporation. As part of the annual performance evaluation, the directors of the Corporation will collectively review and, if appropriate, update this mandate.
3. The Board is responsible for ensuring the directors of Subsidiaries provide annual reviews of operational matters pertaining to the Corporation's investments to the Board and reports on performance matters pertaining to the management of the Corporation's investments.
4. The Board is responsible for conducting an annual review of the performance of the Corporation against the goals and objectives as set out in the strategic plan and budget of the Corporation.
5. The Board may delegate to Board committees matters it is responsible for, but the Board retains its oversight function and ultimate responsibility for all delegated responsibilities.
6. The Board is responsible for reviewing, at least annually, the succession plans of the Corporation for the Chair, President and Chief Executive Officer and other executive officers, including the appointment, training and monitoring of such persons.
7. The Board is responsible for ensuring that the composition and organization of the Board, including: the number, qualifications and remuneration of directors, the number of Board meetings; Canadian residency requirements; quorum requirements; meeting procedures and notices of meetings comply with the requirements of the *Business Corporations Act* (British Columbia), the *Securities Act* (Ontario) and the Articles of the Corporation, subject to any exemptions or relief that may be granted from such requirements.

8. The Board is responsible for ensuring that each director has an understanding of the Corporation's principal operational and financial objectives, plans and strategies, and financial position and performance. Directors must have sufficient time to carry out their duties and not assume responsibilities that would materially interfere with, or be incompatible with, Board membership.

### **Monitoring of Financial Performance and Other Financial Reporting Matters**

9. The Board will review, provide input and approve the Corporation's strategic plan and budget.
10. The Board is responsible for considering appropriate measures it may take on behalf of the Corporation if the performance of Capstone Infrastructure Group and the assets under Management's authority to manage, supervise and/or operate do not meet the Corporation's goals or other special circumstances warrant.
11. The Board shall be responsible for approving the Corporation's annual and interim financial statements and the notes and Management's Discussion and Analysis accompanying such financial statements, as well as the Corporation's annual information form.
12. The Board is responsible for reviewing and approving material transactions involving the Corporation and the Board is required to approve the payment of dividends, the purchase and issuance of securities, acquisitions and dispositions of material assets by the Corporation and material expenditures by the Corporation.

### **Policies and Procedures**

13. The Board is responsible for:
  - (a) maintaining records on the Corporation's affairs and investments;
  - (b) approving and monitoring compliance with all significant policies and procedures by which the Corporation is operated;
  - (c) approving policies and procedures designed to ensure that the Corporation operates at all times within applicable laws and regulations and to the highest ethical and moral standards; and
  - (d) enforcing obligations of the directors respecting confidential treatment of the Corporation's proprietary information and Board deliberations.
14. The Board is responsible for approving an External Communications Policy respecting communications to the public and an Insider Trading Policy respecting insider trading and reporting matters.

### **Communications and Reporting**

15. The Board is responsible for:

- (a) overseeing the accurate reporting of the financial performance of the Corporation to shareholders, other security holders and regulators on a timely and regular basis;
- (b) overseeing that the financial results are reported fairly and in accordance with generally accepted accounting or other applicable standards and related legal disclosure requirements;
- (c) taking steps to ensure the timely disclosure of any other developments that have a significant and material impact on the Corporation;
- (d) reporting annually to shareholders on its stewardship for the preceding year;
- (e) overseeing the provision to shareholders of all such information as is required by applicable law;
- (f) overseeing the investor relations and communications strategy of the Corporation; and
- (g) overseeing the Corporation's ability to accommodate feedback from shareholders.

#### **Professional Advisors for Directors**

16. Each director and the Board as a whole shall have the ability to take independent professional advice where that director or the Board considers it necessary to carry out their duties and responsibilities. Any costs incurred as a result of the director or the Board consulting an independent expert will be borne by the Corporation, subject to the estimated costs being approved by the Chair in advance as being reasonable and the procedures as set out in the Corporation's Corporate Governance Guidelines being followed.