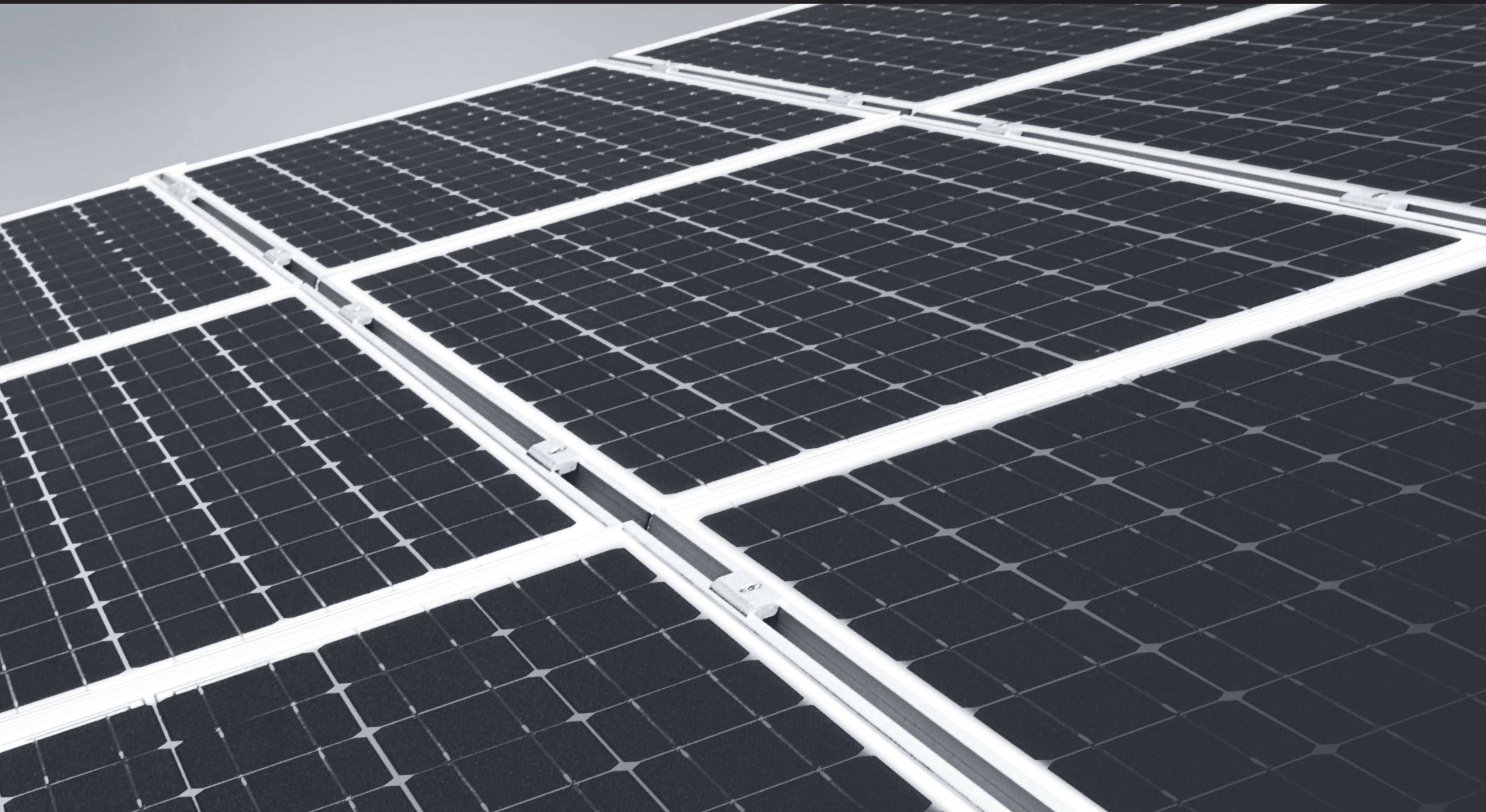
CAPSTONE INFRASTRUCTURE CORPORATION

Notice of Annual General Meeting of Shareholders and Management Information Circular



About Capstone

Capstone's mission is to build and responsibly manage a high quality portfolio of infrastructure businesses in Canada and internationally in order to deliver a superior total return to shareholders by providing reliable income and capital appreciation.

Today our portfolio comprises power generation facilities representing approximately 370 megawatts of installed capacity, and utilities businesses, including interests in a regulated water utility and a district heating business.

Our vision is to be the pre-eminent diversified infrastructure company in Canada.

MESSAGE TO SHAREHOLDERS

Dear Fellow Shareholder:

On behalf of the Board of Directors, I am pleased to invite you to attend Capstone Infrastructure Corporation's 2013 Annual General Meeting of Shareholders, which will be held at the TMX Broadcast Centre Gallery, 130 King Street West, Toronto, Ontario on June 18, 2013 at 10 a.m. (EDT).

The accompanying Notice of Meeting and Management Information Circular describe the formal business to be conducted at the Annual General Meeting and provides information on the company's approach to governance and executive compensation. Following the formal part of the meeting, management will make a presentation on the company's performance in 2012 and discuss our continued strategy to create value for Shareholders. You will also have an opportunity to ask questions and meet management and the Board of Directors. We value your participation in this process.

If you are unable to attend the meeting in person, you can still vote in advance by any one of the following methods: (a) telephone, (b) the internet or (c) completing and returning the enclosed Form of Proxy or Voter Information Form. Please refer to pages 5 to 7 of the accompanying Management Information Circular for further information.

A live audio webcast of the Annual General Meeting, together with accompanying slides, will also be available at www.capstoneinfrastructure.com. Viewers of the webcast will have the ability to participate in the question and answer portion of the meeting.

As we will discuss in greater detail at the meeting, 2012 was a busy year for Capstone during which we tackled various challenges and positioned our company for growth. We delivered Adjusted EBITDA of $120.7 million, which was slightly ahead of our expectations and reflected strong operational performance across our power and utilities businesses. We strengthened our financial position, welcomed a new international partner and launched a power development subsidiary to help source growth opportunities that will increase the value of our company. We also implemented a new dividend policy that is intended to provide stable income for Shareholders with the potential for capital appreciation as we realize our vision to be Canada's pre-eminent diversified infrastructure company.

We are continuing to work closely with the Ontario Power Authority and various Ministries of the Ontario government to finalize a new power purchase agreement for our Cardinal gas cogeneration facility once its existing one expires at the end of 2014. Bringing certainty to Cardinal's future is our top strategic objective for 2013. At the same time, we are seeking to further diversify our infrastructure portfolio in Canada and internationally to continue to build long-term value for Shareholders.

Overall, we are optimistic about Capstone's future. We believe Capstone's business has strong fundamentals, including a quality portfolio, a solid balance sheet and an experienced management team. We encourage you to read more about our performance and strategy at www.capstoneinfrastructure.com/ar2012.

We look forward to your participation at the Annual General Meeting and appreciate your continuing support.

Sincerely,

V. JAMES SARDO
Chairman of the Board of Directors

NOTICE OF ANNUAL GENERAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 18, 2013

Notice is hereby given that the annual general meeting (the "**Meeting**") of the holders ("**Shareholders**") of common shares ("**Common Shares**") of Capstone Infrastructure Corporation (the "**Corporation**" or "**Capstone**") will be held at the TMX Broadcast Centre Gallery, 130 King Street West, Toronto, Ontario on June 18, 2013 at 10 a.m. (EDT) for the following purposes:

1) to receive the audited consolidated annual financial statements of the Corporation, as at and for the years ended December 31, 2012 and 2011 and the auditor's report thereon;
2) to fix the number of Directors to be elected at seven and to elect the Directors of the Corporation;
3) to appoint the auditor of the Corporation and to authorize the Directors of the Corporation to fix such auditor's remuneration; and
4) to transact such other business as may properly come before the Meeting or any adjournment thereof.

A copy of the Management Information Circular, which includes specific details of the foregoing matters, together with either a Form of Proxy or a Voting Instruction Form, depending upon the particular securities dealer or broker, bank, trust company or other intermediary through which your Common Shares are held, accompany this Notice.

Shareholders are invited to attend the Meeting. Shareholders of record at 5 p.m. (EDT) on May 14, 2013 will be entitled to vote at the Meeting.

Shareholders are requested to complete and submit either the accompanying:

(a) Form of Proxy to Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department, at any time up to 48 hours (not including Saturdays, Sundays and holidays) prior to the Meeting or any postponement or adjournment thereof (or otherwise in accordance with the instructions printed on the Form of Proxy); or

(b) Voting Instruction Form in accordance with the instructions printed on the Voting Instruction Form.

DATED the 13th day of May 2013.

By Order of the Directors of Capstone Infrastructure Corporation

STUART M. MILLER
Executive Vice President, General Counsel and Corporate Secretary

MANAGEMENT INFORMATION CIRCULAR
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MANAGEMENT INFORMATION CIRCULAR MAY 13, 2013

1. GENERAL INFORMATION

This Management Information Circular is furnished in connection with the solicitation of proxies by or on behalf of the directors (the "**Directors**" or "**we**") of Capstone Infrastructure Corporation ("**Capstone**" or the "**Corporation**") to be used at the annual general meeting (the "**Meeting**") of holders ("**Shareholders**") of common shares ("**Common Shares**") of the Corporation to be held at the TMX Broadcast Centre Gallery, 130 King Street West, Toronto, Ontario on June 18, 2013 at 10 a.m. (EDT), and at any adjournment or postpone thereof, for the purposes set forth in the accompanying Notice of Annual General Meeting.

1.1. Common Shares Outstanding

As at May 13, 2013, Capstone had 72,865,409 Common Shares issued and outstanding. The Common Shares trade under the symbol "CSE" on the Toronto Stock Exchange (the "**TSX**").

1.2. Additional Equity Securities Outstanding

As at May 13, 2013, Capstone had 3,000,000 cumulative five-year rate reset preferred shares, series A (the "**Preferred Shares**") issued and outstanding. The Preferred Shares trade under the symbol "CSE.PR.A" on the TSX.

As at May 13, 2013, MPT LTC Holding LP, a subsidiary of Capstone, had 3,249,390 Class B exchangeable limited partnership units issued and outstanding (the "**Class B Exchangeable Units**"). The Class B Exchangeable Units have economic rights equivalent in all material respects to those of the Common Shares. Subject to certain conditions, the Class B Exchangeable Units are exchangeable for Common Shares on a one-for-one basis.

1.3. Record Date and Who Can Vote

Each Shareholder of record at 5 p.m. (EDT) on May 14, 2013 (the "**Record Date**") will be entitled to vote at the Meeting either in person or by proxy. Each Common Share confers the right to one vote per Common Share on each matter voted on at the Meeting.

Holders of the Class B Exchangeable Units and the Preferred Shares are not entitled to vote at the Meeting.

1.4. Holders of 10% or More Common Shares

To the knowledge of the Directors and officers of Capstone, no person or company owns or exercises control or direction over more than 10% of the outstanding Common Shares.

1.5. Indebtedness of Directors and Others

No current, former or nominated Directors or executive officers or employees of Capstone or any of its subsidiaries, or their associates, had any indebtedness to Capstone 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 Capstone or any of our subsidiaries at any time in 2012.

1.6. Interest of Informed Persons and Others in Material Transactions

No informed person or nominated Director or any associate or affiliate has or had a direct or indirect material interest in any transaction in 2012 or in any proposed transaction that had or will have a material effect on Capstone or any of its subsidiaries.

1.7. Additional Information

Capstone's head office is located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. Its registered office is located at 595 Burrard Street, Suite 2600, Three Bentall Centre, Vancouver, British Columbia, V7X 1L3.

Financial information regarding Capstone may be found in its 2012 Annual Report, which contains Capstone's audited annual consolidated financial statements, together with the auditor's report thereon and the related management's discussion and analysis, as at and for the years ended December 31, 2012 and 2011. Copies of the 2012 Annual Report and any unaudited interim consolidated financial statements of Capstone, together with the related management's discussion and analysis, subsequent thereto, in each case filed with the applicable securities regulatory authorities, may be obtained, free of charge, upon request from Capstone's Investor Relations Department.

Investor Relations Department
Capstone Infrastructure Corporation
155 Wellington Street West
Suite 2930
Toronto, Ontario M5V 3H1
Tel: 1-855-649-1300 (toll-free in North America)
Email: info@capstoneinfrastructure.com

Information regarding the Audit Committee (the "**Audit Committee**") of Capstone's Board of Directors (the "**Board**"), including descriptions of its members and their applicable education and experience, can be found in the Corporation's Annual Information Form (the "**AIF**") dated March 21, 2013 under the heading "Management of the Corporation – Audit Committee Information".

Additional information relating to Capstone, including the 2012 Annual Report and the AIF, is available under Capstone's profile on SEDAR at www.sedar.com and on Capstone's website at www.capstoneinfrastructure.com.

1.8. Currency

Unless otherwise specified, all dollar amounts herein are expressed in Canadian dollars.

1.9. Date of Information

Except as otherwise stated, the information contained herein is given as at May 13, 2013. In the case of references to matters relating to the period prior to January 1, 2011, the "Corporation" and "Capstone" refers to Macquarie Power & Infrastructure Income Fund (the "**Fund**"), Capstone's predecessor entity, and "Directors" refers to trustees of the Fund.

2. VOTING INFORMATION

2.1. Proxy Solicitation

We are soliciting proxies from Shareholders primarily by mail. Proxies may also be solicited by personal interview, telephone or other means of communication by or on our behalf by individual Directors, officers, agents or employees of Capstone, without special compensation, or by Capstone's registrar and transfer agent, Computershare Trust Company of Canada, at nominal cost. We have engaged CST Phoenix Advisors ("**Phoenix**") as our proxy solicitation agent to assist in the solicitation of proxies by mail and telephone for estimated fees of $26,500. The total cost of solicitation, including fees payable to Phoenix, will be borne by Capstone.

Capstone will also reimburse banks, brokerage firms and other custodians, nominees and fiduciaries for any reasonable expenses incurred in sending proxy material to beneficial and registered Shareholders and requesting authority to execute proxies.

If you have any questions about the information contained in this Information Circular or require assistance in completing the Form of Proxy or Voting Instruction Form accompanying this Information Circular, please contact Phoenix by telephone at 1-800-229-5716 (toll-free in North America) or by email at inquiries@phoenixadvisorscst.com.

Your vote is important regardless of how many Common Shares you own. As a Shareholder, it is important that you read this Information Circular carefully and then vote your Common Shares.

2.2. Matters to be Voted on at the Meeting

At the Meeting, the following matters will be proposed to Shareholders entitled to vote:

(1) Fixing the number of Directors to be elected at seven;

(2) The election of the Directors of the Corporation; and

(3) The appointment of PricewaterhouseCoopers LLP ("**PwC**") as the auditor of the Corporation and that the Directors be authorized to fix PwC's remuneration.

Each matter to be considered at the Meeting will be determined by a majority of votes cast at the Meeting by proxy or in person.

2.3. Quorum

Quorum for the Meeting is two persons present and holding or representing by proxy not less than 10% of the total number of outstanding Common Shares.

2.4. Beneficial Shareholders

Capstone uses an electronic book-based registration system through which its Common Shares are held. Under this system, the only "**Registered Shareholder**" of Capstone is CDS & Co., as nominee for CDS Clearing and Depository Services Inc. (collectively, "**CDS**"). CDS acts as a clearing agent for its participants (each a "**CDS Participant**"), which include banks, trust companies, securities dealers or brokers and trustees of or administrators of self-administered registered retirement savings plans, registered retirement income funds, registered educational savings plans and similar plans.

If you hold Common Shares through a CDS Participant, you are a "**Beneficial Shareholder**" and your Common Shares can only be voted (for, against or withheld from voting on resolutions, as applicable) by CDS (the Registered Shareholder) in accordance with your instructions. See "**2.5. Proxy Voting**" below.

Accordingly, in addition to the Notice of the Meeting accompanying this Management Information Circular, you will also receive (depending on the particular CDS Participant through which you hold your Common Shares), a:

(1) Form of Proxy (that has already been signed or stamped with the signature of your CDS Participant), which you must complete and return in accordance with the instructions printed on the form, or

(2) Voting Instruction Form, which you must complete and return in accordance with the instructions printed on the form.

It is important that you complete and return your Form of Proxy or Voting Instruction Form in advance of the Meeting in accordance with the instructions printed on the form in order to ensure that your Common Shares are properly voted at the Meeting.

2.5. Proxy Voting

The person named as Proxyholder in Form of Proxy or Voting Instruction Form accompanying this Management Information Circular must vote or withhold from voting your Common Shares according to your instructions on the form and on any ballot that may be called at the Meeting. Signing the Form of Proxy or Voting Instruction Form (and not writing in the name of another Proxyholder on the form) gives authority to Mr. V. James Sardo or, failing him, Mr. François R. Roy, each of whom is a Director of Capstone, to act as Proxyholder and vote your Common Shares in accordance with your voting instructions. In the absence of any voting instructions, your Common Shares will be voted as follows:

(1) FOR fixing the number of Directors to be elected at seven;

(2) The election as a Director of each of the individuals listed on the Form of Proxy or Voting Instruction Form provided in connection with the Meeting and as further described below; and

(3) FOR the appointment of PwC as the auditor of Capstone and that the Directors be authorized to fix PwC's remuneration.

You may appoint any person (who does not need to be a Shareholder) to act as Proxyholder and vote your Common Shares at the Meeting in accordance with your instructions by writing the name of that person in the blank space provided on the Form of Proxy or Voting Instruction Form under the heading "Appointment of Proxyholder" and returning the form in advance of the Meeting in accordance with the instructions printed on the form. If you wish to vote your Common Shares in person at the Meeting, you must enter your own name in the blank space on the Form of Proxy or Voting Instruction Form under the heading "Appointment of Proxyholder" and return the form in advance of the Meeting according to the instructions printed on the form.

In order to be effective, a Form of Proxy must be received by Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1 (Attention: Proxy Department) no later than 48 hours (not including Saturdays, Sundays and holidays) prior to the Meeting. A completed Voting Instruction Form must be returned in accordance with the instructions printed on the form. A Form of Proxy or Voting Instruction Form may also be completed and submitted over the telephone or through the Internet in accordance with the instructions printed on the form. Not withstanding the foregoing, the Chair of the Meeting has the sole discretion to accept proxies received after such deadline but is under no obligation to do so.

2.6. How to Revoke Your Proxy

To revoke voting instructions, a Beneficial Shareholder should follow the procedures provided by the CDS Participant through which the Beneficial Shareholder holds Common Shares.

In addition to revocation in any other manner permitted by law, a Registered Shareholder may revoke a proxy by depositing an instrument in writing executed by the Registered Shareholder or the Registered Shareholder's attorney authorized in writing or, if the Registered Shareholder is a corporation, under its corporate seal or by a duly authorized officer or attorney of the corporation, with Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario, M5J 2Y1, Attention: Proxy Department, at any time up to and including 10 a.m. on June 14, 2013 or, if the Meeting is adjourned, 48 hours (excluding Saturdays, Sundays and holidays) before any reconvened meeting.

2.7. Amendments and Other Matters

The person named as Proxyholder in the Form of Proxy and Voting Instruction Form will also have discretionary authority with respect to amendments or variations to matters identified in the Notice of the Meeting and to other matters that properly come before the Meeting.

As at the date of this Management Information Circular, Capstone's management and Directors know of no such amendment, variation or other matter expected to come before the Meeting. If any other matter comes before the Meeting, the Proxyholder named in the Form of Proxy or Voting Instruction Form will vote on such matter according to his or her best judgment.

3. BUSINESS OF THE MEETING

3.1. Financial Statements

The audited annual consolidated financial statements of Capstone as at and for the years ended December 31, 2012 and 2011, along with the auditor's report thereon, are included in the Corporation's 2012 Annual Report, which was previously mailed to Shareholders who requested a printed copy. These financial statements will be presented to Shareholders at the Meeting. The 2012 Annual Report is available under Capstone's profile on SEDAR at www.sedar.com and on Capstone's website at www.capstoneinfrastructure.com.

3.2. Fixing Number of Directors

The Directors and Management recommend voting FOR increasing the number of Directors to seven.

3.3. Election of Directors

The Articles of the Corporation provide that there shall be a minimum of three Directors to be elected annually by Shareholders. The Board consists of the number of Directors set by the Shareholders from time to time, with the number of Directors currently fixed at six. The term of office of each Director currently in office expires at the close of the Meeting, unless he or she resigns or his or her office becomes vacant for any reason. The Board has proposed that the number of Directors be increased from six to seven to accommodate the proposed election of Mr. Michael Bernstein, Capstone's President and Chief Executive Officer (the "**CEO**"), as a Director.

Each of the individuals (the "**Nominees**") set out in the table under the heading "**4.1. Biographical Information of Nominees**" below will be nominated at the Meeting for election as a Director. Each of the Nominees has received the unanimous recommendation for election as a Director from the Board and its Corporate Governance & Compensation Committee (the "**CG&C Committee**"), which previously conducted its annual Director, Board and committee assessment and performance review and its new director search process (see "**4.2 Nominee Skills and Experience Matrix**" and "**4.3. Director Nomination Process**"). The Board has also determined that all Nominees (other than Mr. Bernstein) are "independent" of the Corporation, as such term is defined in applicable securities regulations. Mr. Derek Brown, who had served as a Director since 2004, resigned as a Director on February 28, 2013 and Mr. Patrick Lavelle, who is currently a Director and has served in that capacity since 2004, is not seeking re-election at the Meeting.

The Directors and management of Capstone recommend voting FOR the election of each of the Nominees as a Director. If, prior to the Meeting, any of the Nominees become unable or unwilling to serve, the person named as your Proxyholder in the Form of Proxy or Voting Instruction Form will have the right to use his or her discretion in voting for a properly qualified substitute.

3.3.1. Majority Voting Policy

The Board has adopted a majority voting policy that provides that, in an uncontested election of Directors, if a Director receives more "withheld" votes than "for" votes, he or she is required to resign. The Board, with the assistance of the CG&C Committee, will evaluate the facts and circumstances in determining whether or not to accept or reject the resignation. Among the factors that will be considered by the Board are:

- The stated reason(s) why Shareholders withheld votes (if known);
- The length of service and qualifications of the Director; and
- The Director's contribution to the Corporation.

The Board will promptly (and in any event, within 90 days) publicly disclose its final decision in respect of such resignation.

3.3.2. Term Limits

The Board has fixed a term limit of 12 years for Directors that are not members of Capstone's management team. We believe that such a policy ensures Directors do not lose their ability to exercise independent judgment and allows for some turnover in Board membership to provide a different perspective.

3.3.3. Board Interlocks and Overboarding

We expect Directors to devote sufficient time and attention to Capstone's business and affairs so that they can perform their duties as Directors effectively. Our policy is that Directors generally should not serve on more than four other boards of directors that take up a significant amount of time in addition to serving on Capstone's Board. Moreover, no more than one public company "interlock" is permitted, where "**interlock**" means having two or more Directors of Capstone also serving as directors of another company. Should the CEO serve on Capstone's Board, he or she is not permitted to serve on more than one other public company board.

3.4. Appointment of Auditor

PwC will be nominated at the Meeting for appointment as the auditor of the Corporation and it will be proposed that the Directors be authorized to fix PwC's remuneration. The Board, upon the recommendation of the Audit Committee, recommends the appointment of PwC as auditor of the Corporation and that the Directors be authorized to fix PwC's remuneration. PwC is the current auditor of the Corporation and was first appointed as the auditor of the Fund on March 15, 2004.

The Directors and management recommend voting FOR the appointment of PwC as the auditor of Capstone and that the Directors be authorized to fix PwC's remuneration.

3.4.1. Auditor's Fees

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

	January 1, 2012 to December 31, 2012	January 1, 2011 to December 31, 2011
Audit Fees	$ 268,434	$ 216,517
Audit-Related Fees(1)	$ 172,185	$ 318,102
Tax Fees(2)	$ 44,745	$ 390,621
All Other Fees(3)	$ 43,094	$ 183,538
Total	**$ 528,457**	**$ 1,108,778**

Notes:

(1) The Corporation's audit-related fees include fees paid to PwC for statutory audits, attestation services, quarterly reviews and services provided in connection with the Corporation's offering of Preferred Shares and Common Shares.

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

(3) All Other Fees relates to fees for all other services provided by PwC, including the French translation of financial statements and management's discussion and analysis in connection with the Corporation's securities regulatory filings as well as the conversion to International Financial Reporting Standards and the Internalization Transaction (see "**5.1.1. Internalization Transaction**").

4. NOMINEES FOR ELECTION

4.1. Biographical Information of Nominees

The following highlights the specific experience, attributes and qualifications for each Nominee, including his or her name, age, present principal occupation and principal occupations during the past five years, the date the Nominee was first elected as a Director (if applicable); the number of Common Shares, Preferred Shares and deferred share units or restricted share units beneficially owned, or controlled or directed, directly or indirectly, by each Nominee, and the other public entities of which each Nominee currently serves as a director or in a similar capacity.

Michael Bernstein

Ontario, Canada
Age: 45
Director since: N/A

Mr. Bernstein was appointed CEO effective July 6, 2009, after serving as President and Chief Executive Officer on an interim basis since April 15, 2009. Prior to the Internalization Transaction on April 15, 2011 (see "**5.11. Internalization Transaction**"), Mr. Bernstein's principal occupation was as Senior Managing Director of the Macquarie Group and President of Macquarie Infrastructure and Real Assets Canada Ltd. From 2005 to 2009, Mr. Bernstein served as head of the infrastructure and utilities advisory practice for Macquarie Capital Markets Canada Ltd. Previously, Mr. Bernstein was a senior member of the Power & Utilities Group at CIBC World Markets, where he worked for nine years. Mr. Bernstein is a Chartered Financial Analyst and holds a Bachelor of Arts degree in Economics and Philosophy from Dartmouth College and a Master of Business Administration degree from the University of Western Ontario.

Principal Areas of Expertise/Experience(1)

- Management experience
- Mergers and acquisitions
- Finance and capital markets
- Government, policy and regulatory affairs

Securities Held(2)

- Common Shares(3): 25,000
- Preferred Shares(4): NIL
- Restricted Share Units(5): 347,662

Capstone Board/Board Committee Memberships

N/A

2012 Attendance

N/A

Other Current Public Entity Directorships

None

Notes:

(1) For a description of each area of expertise, see "**4.2. Nominee Skills and Experience Matrix**".

(2) In addition, Mr. Bernstein holds 142,014 Performance Share Units as at May 13, 2013. See "**5.1.6.3 Long-Term Incentive Plan**".

(3) The number of Common Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(4) The number of Preferred Shares benefically owned or over which the individual exercises control or direction as at May 13, 2013.

(5) The number of Restricted Share units held as at May 13, 2013. See "**5.1.5.3. Long-Term Incentive Plan**".

Richard Knowles

Ontario, Canada
Age: 63
Director since: N/A

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

Principal Areas of Expertise/Experience[1]

- Management experience
- Operations and strategy
- Risk management
- Investment management

Securities Held

- Common Shares[2]: NIL
- Preferred Shares[3]: NIL
- Deferred Share Units[4]: NIL

Capstone Board/Board Committee Memberships

N/A

2012 Attendance

N/A

Other Current Public Entity Directorships

None

Past Public Entity Directorships

- Legacy Hotels Real Estate Investment Trust, Trustee
- Legacy Hotels Corporation, Director

Notes:

(1) For a description of each area of expertise, see "**4.2. Nominee Skills and Experience Matrix**".

(2) The number of Common Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(3) The number of Preferred Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(4) The number of Deferred Share units owned as at May 13, 2013. See "**4.5. Director Compensation**".

Goran Mornhed

New York, United States
Age: 54
Director since: June 5, 2012

Mr. Mornhed is a Partner with Mornhed and Company LLC, a company engaged in the development and application of quantitative investment strategies, a position he has held since 2007. From 2004 to 2007, Mr. Mornhed was the Chief Executive Officer of Countryside Ventures, Manager of Countryside Power Income Fund. Previously, Mr. Mornhed was the President and Chief Executive Officer of U.S. Energy Systems Inc. and the Chief Executive Officer of Trigen-Cinergy Solutions LLC. He has extensive experience with companies involved in developing, operating and owning power assets and he began his career in engineering consulting, where he specialized in energy, power generation (including renewable power) and district energy projects. Mr. Mornhed earned his Master of Business Administration degree from New York University and his Master of Science, Engineering degree from the University of Lund, Sweden Institute of Technology.

Principal Areas of Expertise/Experience[1]

- Related industry experience
- Operations and strategy
- Management experience
- Investment management

Securities Held

- Common Shares[2]: 2,000
- Preferred Shares[3]: NIL
- Deferred Share Units[4]: 3,722

Capstone Board/Board Committee Memberships

- Board of Directors
- Audit Committee
- CG&C Committee

2012 Attendance

- Board of Directors Meetings: 5 of 5
- Audit Committee Meetings: 2 of 2
- CG&C Committee Meetings: 3 of 3

Other Current Public Entity Directorships

None

Notes:

(1) For a description of each area of expertise, see "**4.2. Nominee Skills and Experience Matrix**".

(2) The number of Common Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(3) The number of Preferred Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(4) The number of Deferred Share units owned as at May 13, 2013. See "**4.5. Director Compensation**".

Jerry Patava

Ontario, Canada
Age: 59
Director since: June 5, 2012

Mr. Patava is the Chief Executive Officer of the Great Gulf Group of Companies, a position he has held since 2007. Mr. Patava was Executive Vice President and Chief Financial Officer of Fairmont Hotels & Resorts Inc., a position he held from 1998 to 2005. Previously, he was Vice President and Treasurer of Canadian Pacific Limited from 1990 to 1997 and served as Vice President and Director of RBC Dominion Securities Inc. from 1986 to 1990. Mr. Patava holds a Bachelor of Arts degree from the University of Toronto and a Master of Business Administration degree from York University.

Principal Areas of Expertise/Experience(1)

- Governance
- Executive compensation/human resources
- Finance and capital markets
- Risk management

Securities Held

- Common Shares(2): NIL
- Preferred Shares(3): NIL
- Deferred Share Units(4): 3,722

Capstone Board/Board Committee Memberships

- Board of Directors
- Audit Committee
- CG&C Committee (Chairman)
- Nomination Sub-Committee of CG&C Committee (Chairman)

2012 Attendance

- Board of Directors Meetings: 5 of 5
- Audit Committee Meetings: 2 of 2
- CG&C Committee Meetings: 3 of 3
- Nomination Sub-Committee Meetings : 0 of 0

Other Current Public Entity Directorships

- EnerCare Inc., Director, Chairman of Governance Committee and member of Audit Committee
- Trimac Transportation Ltd. (formerly Trimac Income Fund), Lead Director and member of Governance and Compensation Committee

Past Public Entity Directorships

- Osprey Media Income Fund, Trustee
- TransAlta Power, L.P., Director

Notes:

(1) For a description of each area of expertise, see "**4.2. Nominee Skills and Experience Matrix**".

(2) The number of Common Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(3) The number of Preferred Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(4) The number of Deferred Share units owned as at May 13, 2013. See "**4.5. Director Compensation**".

François R. Roy[(1)]

Québec, Canada
Age: 57
Director since: March 15, 2004

Mr. Roy is a corporate director. He was the Vice Principal (Administration and Finance) of McGill University from 2007 to 2010 and, in that capacity, he was McGill's Chief Financial Officer and Chief Administration Officer. Mr. Roy was the Chief Financial Officer of Telemedia Corporation between 2000 and 2003. Mr. Roy earned his Bachelor of Arts and Master of Business Administration degrees from the University of Toronto.

Principal Areas of Expertise/Experience[(2)]

- Governance
- Executive compensation/human resources
- Finance and capital markets
- Risk management

Securities Held

- Common Shares[(3)]: NIL
- Preferred Shares[(4)]: 2,200
- Deferred Share Units[(5)]: 8,238

Capstone Board/Board Committee Memberships

- Board of Directors
- Audit Committee (Chairman)
- CG&C Committee

2012 Attendance

- Board of Directors Meetings: 13 of 13
- Audit Committee Meetings: 4 of 4
- CG&C Committee Meetings: 5 of 5

Other Current Public Entity Directorships

- Noranda Operating Trust, Trustee and member of Audit Committee, Governance and HR Committee, and Vice Chair of the Independent Committee
- Transcontinental Inc., Director and member of Audit Committee

Past Public Entity Directorships

- La Mancha Resources Inc., Director and member of the Audit Committee, and Governance and Human Resources Committee
- Fibrek Inc., Director and member of Audit Committee

Notes:

(1) Mr. Roy was a director of Pixman Nomadic Media Inc. from May 2006 to November 2009. Between November 2009 and February 2010, the Alberta Securities Commission, British Columbia Securities Commission, the Ontario Securities Commission and the Autorité des marchés financiers issued cease trade orders in respect of Pixman Nomadic Media Inc. in connection with its failure to file annual audited financial statements for the year ended June 30, 2009 and interim unaudited financial statements for the period ended September 30, 2009, as well as related continuous disclosure documents. On February 2, 2010, Pixman Nomadic Media Inc. filed a notice of intention to make a proposal to creditors under the *Bankruptcy and Insolvency Act* (Canada). Mr. Roy was also a director of Komunik Corporation from February 2007 to April 2008. Komunik Corporation filed for protection under the *Companies' Creditors Arrangement Act* (Canada) in the fall of 2008.

(2) For a description of each area of expertise, see "**4.2. Nominee Skills and Experience Matrix**".

(3) The number of Common Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(4) The number of Preferred Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(5) The number of Deferred Share units owned as at May 13, 2013. See "**4.5. Director Compensation**".

V. James Sardo[1]

Ontario, Canada
Age: 69
Director since: November 4, 2009

Mr. Sardo is a corporate director with significant operational and corporate governance expertise. Mr. Sardo served as interim Chief Executive Officer of Royal Group Technologies Limited from 2004 to 2005 and was President of the Canadian operations of Moore Corporation Limited, a business forms and communications company, from 1999 to 2001, and President and Chief Executive Officer of SMK Speedy International Inc., an international automotive repair company, from 1997 to 1999. Mr. Sardo was Chief Executive Officer of Amre Inc., a Dallas-based marketer of home improvement products, from 1994 to 1995 and Chief Executive Officer of SNE Inc., a manufacturer and marketer of windows and doors, from 1991 to 1994. Previously, he was Chairman and Chief Executive Officer of Firestone Canada Inc. Mr. Sardo earned his Bachelor of Arts degree at the University of Western Ontario and his Master of Business Administration degree at McMaster University. Mr. Sardo is a member of the Institute of Corporate Directors and holds the ICD.D designation.

Principal Areas of Expertise/Experience[2]

- Governance
- Executive compensation/human resources
- Operations and strategy
- Management experience

Securities Held

- Common Shares[3]: 20,000
- Preferred Shares[4]: NIL
- Deferred Share Units[5]: 11,958

Capstone Board/Board Committee Memberships

- Board of Directors (Chairman)
- Audit Committee
- CG&C Committee
- Nomination Sub-Committee

2012 Attendance

- Board of Directors Meetings: 13 of 13
- Audit Committee Meetings : 4 of 4
- CG&C Committee Meetings: 5 of 5
- Nomination Sub-Committee Meetings: 3 of 3

Other Current Public Entity Directorships

- Currency Exchange International Corporation, Director
- New Flyer Industries Inc., Director

Past Public Entity Directorships

- Consolidated Thompson Iron Mines Limited, Director
- Hydrogenics Corporation, Director
- SonnenEnergy Corp., Director
- Royal Group Technologies Limited, Director
- Northstar Healthcare Inc., Director
- Countryside Power Income Fund, Trustee and Chairman
- UE Waterheater Income Fund, Trustee
- Custom Direct Income Fund, Trustee

Notes:

(1) Between April 2006 and May 2006, Mr. Sardo, who was then a director of Royal Group Technologies Limited, was prohibited from trading in securities of Royal Group Technologies Limited pursuant to a management cease trade order issued by the Ontario Securities Commission in connection with the delay in filing of certain of Royal Group Technologies Limited's financial statements.

(2) For a description of each area of expertise, see "**4.2. Nominee Skills and Experience Matrix**".

(3) The number of Common Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(4) The number of Preferred Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(5) The number of Deferred Share units owned as at May 13, 2013. See "**4.5. Director Compensation**".

Janet Woodruff

British Columbia, Canada
Age: 56
Director since: N/A

Ms. Woodruff is a consultant and corporate director. Most recently, she was the Chief Financial Officer (interim) of Transportation Investment Corporation, a B.C. Crown Corporation, and from 2010 to 2011, Ms. Woodruff was Vice President and Special Advisor at B.C. Hydro. Prior to this, Ms. Woodruff served B.C. Transmission Corporation as Interim President (2009-10) and Vice President and Chief Financial Officer (2007-08). Ms. Woodruff also served as an executive for a number of operating subsidiaries and corporate head office of Westcoast Energy Group from 1988 to 2002. She serves on the board of the Mutual Fund Dealers Association of Canada and is a member of the Directors Advisory Group of the Canadian Institute of Chartered Accountants. Ms. Woodruff is a member of the Institute of Corporate Directors, holding the ICD.D designation, and is a Fellow Chartered Accountant. She earned her Master of Business Administration degree from York University.

Principal Areas of Expertise/Experience(1)

- Related industry experience
- Operations and strategy
- Finance and capital markets
- Government, policy and regulatory affairs

Securities Held

- Common Shares(2): NIL
- Preferred Shares(3): NIL
- Deferred Share Units(4): NIL

Capstone Board/Board Committee Memberships

N/A

2012 Attendance

N/A

Other Current Public Entity Directorships

- Nordion Inc., Chair, Finance and Audit Committee and member of the Human Resources and Compensation Committee
- FortisBC Inc., FortisBC Holdings Inc. and FortisBC Energy Inc. (each a subsidiary of Fortis Inc.), Director and member of the Audit Committee

Past Public Entity Directorships

- Pacific Northern Gas Ltd., Director and Chair of Audit Committee, member of the Health and Safety Committee

Notes:

(1) For a description of each area of expertise, see "**4.2. Nominee Skills and Experience Matrix**".

(2) The number of Common Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(3) The number of Preferred Shares beneficially owned or over which the individual exercises control or direction as at May 13, 2013.

(4) The number of Deferred Share units owned as at May 13, 2013. See "**4.5. Director Compensation**".

4.2. Nominee Skills and Experience Matrix

As part of its annual Director, Board and committee assessment and performance review and its new Director search process, the CG&C Committee evaluated the skills and experience of each Nominee. The matrix presented below identifies the primary skills and experience that the CG&C Committee believes are important for Directors and ranks each Nominee on his or her top four competencies. See also "**4.3. Director Nomination Process**" and "**6.3. Board Assessment and Director Performance Evaluation**".

Top-Four Competencies	M. Bernstein	R. Knowles	G. Mornhed	J. Patava	F. Roy	V.J. Sardo	J. Woodruff
Related industry experience			●				●
Governance				●	●	●	
Operations and strategy		●	●			●	●
Mergers and acquisitions	●						
Finance and capital markets	●			●	●		●
Management experience	●	●	●			●	
Executive compensation/human resources				●	●	●	
Risk management		●		●	●		
Investment management		●	●				
Government, policy and regulatory affairs	●						●

Definitions:

1. Related industry experience – Senior executive experience, as an officer or director, in power and utilities or in other categories of infrastructure targeted by Capstone.
2. Governance – Expertise in public company governance practices and policies.
3. Operations and strategy – Experience operating a company or division of a company with responsibility for strategic direction and leadership.
4. Mergers and acquisitions – Experience, as an officer or director, in major transactions involving publicly-listed and/or private companies.
5. Finance and capital markets – Senior executive experience, including as a chief executive officer or chief financial officer, in finance, accounting, financial reporting, corporate finance and capital markets.
6. Management experience – Experience working as a CEO or senior executive of a publicly-listed company or large organization
7. Executive compensation/human resources – Experience in designing or implementing market-based executive compensation plans.
8. Risk management – Experience in assessing risks and enterprise risk management.
9. Investment management – Senior executive experience in managing financial assets or investment portfolio.
10. Government, policy and regulatory affairs – Experience working with governments, including an ability to contribute relationships or knowledge that may advance favourable public policy environment for Capstone's business.

4.3. Director Nomination Process

The CG&C Committee is responsible for identifying, and making recommendations to the Board, qualified nominees for election at the annual meeting of Shareholders or 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 Capstone. 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.

While the Board is committed to promoting diversity, including gender diversity, key criteria for Directors include:

- Highest personal and professional ethics, integrity and values;
- A commitment to representing the long-term interests of Capstone's Shareholders;
- An inquisitive and objective perspective;

- Practical wisdom and mature judgment;
- Outstanding ability in their individual fields of expertise; and
- A willingness to devote necessary time to Board matters.

A nomination sub-committee of the CG&C Committee (the "**Nomination Sub-Committee**"), comprising the Chairman of the Board and the Chairman of the CG&C Committee (who also acts as Chairman of the Nomination Sub-Committee), maintains a list of potential candidates for future consideration for nomination for election as Directors. This list comprises individuals that the Nomination Sub-Committee feels would be appropriate to join the Board. When a vacancy on the Board arises, the Nomination Sub-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 CG&C Committee.

During the second half of 2012 and the first half of 2013, the Nomination Sub-Committee identified several potential candidates to be nominated for election as Directors at the Meeting. Each of the Directors was afforded the opportunity to meet with various potential candidates and, upon the recommendation of the Nomination Sub-Committee and the CG&C Committee, Mr. Bernstein, Mr. Knowles and Ms. Woodruff were unanimously selected by the Board as Nominees.

4.4. 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 Capstone'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 Capstone's operations. The Nomination Sub-Committee meets as determined by its members. Directors are expected to attend a minimum of 75% of all regularly scheduled meetings of the Board and the committees on which they serve.

At each quarterly Board meeting and periodically during the year at other meetings, the Directors that are "independent" of the Corporation (the "**Independent Directors**"), as such term is defined in applicable securities regulations, hold in-camera meetings at which non-Independent Directors and management are not in attendance. During 2012, there were six in-camera sessions held at various Board meetings and four in-camera sessions held at various Audit Committee meetings. The following table summarizes the attendance of each Nominee who was previously a Director at the Board, each committee and the Nomination Sub-Committee meetings held between January 1, 2012 and December 31, 2012:

Director(1)	Board of Directors		Audit Committee		CG&C Committee		Nomination Sub-Committee		Attendance
	Attended	Held	Attended	Held	Attended	Held	Attended	Held	
James Cowan(2)	8	8	2	2	2	2	–	–	12/12 = 100%
Derek Brown(3)	11	13	4	4	4	5	–	–	19/22 = 86%
Patrick Lavelle(4)	12	13	3	4	4	5	3	3	23/25 = 92%
Goran Mornhed(5)	5	5	2	2	3	3	–	–	10/10 = 100%
Jerry Patava(5)	5	5	2	2	3	3	–	–	10/10 = 100%
François R. Roy	13	13	4	4	5	5	–	–	22/22 = 100%
V. James Sardo	13	13	4	4	5	5	3	3	25/25 = 100%

Notes:

(1) Does not include Mr. Bernstein, Ms. Woodruff and Mr. Knowles, each of whom is a Nominee but who is not currently a Director.

(2) Mr. Cowan did not stand for re-election as a Director at the Corporation's annual general meeting on June 5, 2012.

(3) Mr. Brown resigned as a Director on February 28, 2013.

(4) Mr. Lavelle is currently a Director, but is not standing for re-election at the Meeting.

(5) Mr. Mornhed and Mr. Patava were elected as Directors at the Corporation's annual general meeting on June 5, 2012 and so their attendance figures reflect only those meetings that occurred following their election.

4.5. Director Compensation

The Board has determined that the Directors should be compensated in a form and amount which is appropriate and which is customary for 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.

Director compensation comprises the following components:

Annual Retainer: Each Director who is not a member of management of the Corporation (each a "**Non-Management Director**") is entitled to receive an annual cash retainer equal to $35,000 per year. The Chairman of the Board, the Chairman of the Audit Committee and the Chairman of the CG&C Committee are each entitled to receive additional annual cash retainers equal to $35,000, $15,000, and $10,000 per year, respectively. The Chairman and the members of the Nomination Sub-Committee are not entitled to receive any additional annual cash retainers for their membership on that sub-committee.

Meeting Fees: Each Non-Management Director is entitled to receive $1,500 per Board, committee or sub-committee meeting attended in person or by teleconference.

Deferred Share Units: Under Capstone's deferred share unit ("**DSU**") plan, Non-Management Directors are entitled to receive an additional annual retainer equal to $15,000 in the form of DSUs (with the Chairman of the Board receiving an additional annual retainer equal to $15,000 in the form of DSUs, effective July 2012). Pursuant to the DSU plan, Non-Management Directors receive a grant of DSUs equal to $3,750 ($7,500 for the Chairman of the Board) on the first day of each fiscal quarter of the Corporation (calculated in the manner discussed below). Directors may also elect to receive DSUs in full or partial satisfaction of their annual cash retainer and/or meeting fees. A DSU is a notional share that has the same value as one Common Share. Its value fluctuates with variations in the market price of the Common Shares. DSUs do not have voting rights but accrue dividends in the form of additional DSUs in the same notional amount as dividends paid on the Common Shares. The number of DSUs granted is determined by dividing the amount of the retainer or other amount payable by the volume-weighted average price for the Common Shares on the TSX for the five-trading day period prior to the date of the grant. DSUs vest on issuance but are required to be held, at a minimum, until the date that the Non-Management Director ceases to be a Director, following which each DSU will be redeemed for cash during a prescribed period at the prevailing Common Share price at the date of redemption. The DSU Plan was implemented with the following objectives in mind: (a) to promote a greater alignment of interests between Directors and Shareholders; (b) to provide a compensation system for Directors that is reflective of the responsibility, commitment and risk accompanying Board membership; (c) to assist in attracting and retaining individuals with experience and ability to serve as members of the Board; and (d) to allow the Directors to participate in Capstone's long-term success.

Expense Reimbursement: Directors are reimbursed for expenses incurred in attending Board, committee and sub-committee meetings.

During 2012, the Corporation paid the Directors a total of approximately $489,500 on account of retainer and meeting attendance fees and approximately $52,000 on account of reimbursement for out-of-pocket expenses incurred in connection with their attendance at meetings.

The following table outlines all compensation received by the Directors during the Corporation's fiscal year ended December 31, 2012:

Name[1]	Annual Retainer	Board/ Committee Chairman Retainer	Board Meeting Fees	Committee Meeting Fees	DSUs[5]	All Other Compensation	Total[6]
Derek Brown	$ 35,000	–	$ 16,500	$ 12,000	$ 15,000	–	$ 78,500
James Cowan[2]	–	–	–	–	–	–	–
Patrick Lavelle	$ 35,000	$ 5,000	$ 18,000	$ 15,000	$ 15,000	–	$ 88,000
Goran Mornhed[3]	$ 20,000	–	$ 7,500	$ 7,500	$ 7,500	–	$ 42,500
Jerry Patava[3]	$ 20,000	$ 5,000	$ 7,500	$ 7,500	$ 7,500	–	$ 47,500
François R. Roy	$ 35,000	$ 15,000	$ 19,500	$ 13,500	$ 15,000	–	$ 98,000
V. James Sardo[4]	$ 35,000	$ 40,000	$ 19,500	$ 18,000	$ 22,500	–	$135,000

Notes:

(1) Does not include Mr. Bernstein, Ms. Woodruff and Mr. Knowles, each of whom is a Nominee but who is not currently a Director. In addition, Mr. Brown resigned as a Director on February 28, 2013 and Mr. Lavelle (who is currently a Director) is not standing for re-election at the Meeting.

(2) As part of the Internalization Transaction (see "**5.1.1. Internalization Transaction**"), the Corporation and MPML agreed that any individual (such as Mr. Cowan) who is employed by MPML and serves as a Director is not entitled to receive any compensation from the Corporation for serving as a Director. Mr. Cowan did not stand for re-election as a Director at the Corporation's annual general meeting on June 5, 2012;

(3) Mr. Mornhed and Mr. Patava were elected as Directors at the Corporation's annual general meeting on June 5, 2012 and Mr. Patava was appointed Chairman of the CG&C Committee on July 1, 2012. Mr. Mornhed and Mr. Patava each received prorated annual compensation to reflect the foregoing.

(4) Mr. Sardo served as Chairman of the Board's Compensation Committee (predecessor of the CG&C Committee) from January 1 to July 1, 2012.

(5) Represents the aggregate cash grant date fair value of DSUs.

(6) Table does not include any amounts received by Directors as reimbursement for expenses.

As at December 31, 2012, the number of DSUs held by Directors and the market value of such DSUs were as follows:

Name[1]	DSUs (#)[3]	Market Value of DSUs ($)[4]
Derek Brown	6,182.91	$ 24,917
James Cowan[2]	–	–
Patrick Lavelle	6,182.91	$ 24,917
Goran Mornhed	1,822.37	$ 7,344
Jerry Patava	1,822.37	$ 7,344
François R. Roy	6,182.91	$ 24,917
V. James Sardo	8,004.26	$ 32,257

Notes:

(1) Does not include Mr. Bernstein, Ms. Woodruff and Mr. Knowles, each of whom is a Nominee but who is not currently a Director. In addition, Mr. Brown resigned as a Director on February 28, 2013 and Mr. Lavelle (who is currently a Director) is not standing for re-election at the Meeting.

(2) As part of the Internalization Transaction (see "**5.1.1. Internalization Transaction**"), the Corporation and MPML agreed that any individual (such as Mr. Cowan) who is employed by MPML and serves as a Director is not entitled to receive any compensation from the Corporation for serving as a Director. Mr. Cowan did not stand for re-election as a Director at the Corporation's annual general meeting on June 5, 2012.

(3) Comprises all DSUs granted plus additional DSUs issued in respect of dividends paid on Common Shares, based on the value of a DSU at such time.

(4) Calculated using the closing price of Common Shares on the TSX on December 31, 2012 of $4.03 per Common Share.

4.6. Director Share Ownership Guidelines

The Board believes that the economic interests of Directors should be aligned with those of Shareholders. To achieve this, all Directors are required to own Common Shares and/or DSUs in an amount equivalent to three years' annual cash retainer (not including any additional retainer which a Director receives in his or her capacity as Chairman of the Board or the additional annual retainer payable in the form of DSUs), within five years of the later of: (a) the date such individual is elected or appointed as a Director or (b) Board approval of the Charter of Director Expectations in November 2011 (which contains the Director share ownership guidelines). The value of the Common Shares and/or DSUs owned by a Director shall be equal to the greater of the market value (or equivalent value) or the acquisition cost (or equivalent amount) of each such Common Share or DSU. The Corporation understands that each Director intends to comply with these share ownership guidelines within the specified period. See "**4.1. Biographical Information of Nominees**" for the number of Common Shares and "**4.5. Director Compensation**" for the number of DSUs held by each Director.

5. EXECUTIVE COMPENSATION

5.1. Compensation Discussion and Analysis

5.1.1. Internalization Transaction

On April 15, 2011, Capstone and certain of its subsidiaries terminated all management and administrative agreements (collectively, the "**Management Agreements**") with Macquarie Power Management Ltd. ("**MPML**"), an indirect wholly-owned subsidiary of Macquarie Group Limited ("**Macquarie**"), for aggregate consideration of approximately $14 million (plus applicable tax), thereby internalizing the management of the Corporation (the "**Internalization Transaction**").

Prior to the completion of the Internalization Transaction, MPML provided various management services to the Corporation and its subsidiaries, including legal, investor relations and financial accounting and administration services, and MPML assisted in and supervised the analysis of potential acquisitions and dispositions and carried out or supervised the making of acquisitions, dispositions or investments, in accordance with the terms of the Management Agreements. In connection with the Management Agreements, MPML supplied the services of persons to serve as the President and Chief Executive Officer and the Executive Vice President, Chief Financial Officer and Secretary of the Corporation and certain of its subsidiaries. These individuals provided services on an "as needed basis" and these offices were not full time positions.

Upon the completion of the Internalization Transaction, the senior management team of the Corporation, all of whom were employees of Macquarie Infrastructure and Real Assets Canada Ltd. ("**MIRACL**"), the parent company of MPML, became employees of the Corporation and continued in their previous roles, and certain employees of other affiliates of MPML who had provided services to the Corporation also became employees of the Corporation.

5.1.2. Compensation Governance

5.1.2.1. 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 Mr. Lavelle, Mr. Mornhed, Mr. Patava (Chairman), Mr. Roy and Mr. Sardo, each of whom is an Independent Director. A description of the skills and expertise of each member of the CG&C Committee (other than for Mr. Lavelle, who is not standing for re-election) can be found under the heading "**4.1 Biographical Information of Nominees**".

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

- Review corporate goals and objectives relevant to the CEO's 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 Capstone's senior management team (other than the CEO), including any share-based compensation;
- Periodically review the terms of and experience with our 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 the Director compensation.

Further information regarding the duties and responsibilities of the CG&C Committee, including those related to corporate governance matters, is set out in "**6.3.2. CG&C Committee**" .

5.1.2.2. Risk Management

As part of its annual review of Capstone'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 Capstone's current compensation policies and practices, combined with Capstone's enterprise risk management practices and protocols, offer a balanced combination that promotes adequate risk-taking with appropriate and reasonable compensation incentives.

5.1.2.3. External Compensation Consultants

In 2012, Towers Watson & Co. ("**Towers Watson**") was engaged by the CG&C Committee to provide advice on compensation matters regarding the compensation of the Chairman of the Board. In addition, in 2012, Meridian Compensation Partners, LLC ("**Meridian**") was engaged by (a) the CG&C Committee to provide advice in connection with share ownership guidelines for Directors (see "**4.6. Director Share Ownership Guidelines**") (b) management in respect of compensation to employees (other than the NEOs and other members of Capstone's senior management team) and (c) the CG&C Committee in respect to 2011 STIP and LTIP calculation metrics.

In 2011 and 2012, Mercer ("**Mercer**"), a wholly-owned subsidiary of Marsh & McLennan Companies, Inc. ("**MMC**"), was engaged to provide advice on compensation matters regarding the Corporation's senior management team. During 2011 and 2012, Marsh Inc. ("**Marsh**"), a separate independent operating company owned by MMC, provided insurance brokerage services to the Corporation.

The fees paid to consultants engaged to provide advice on Director and executive compensation and their affiliates in the last two fiscal years were as follows:

	2012		2011	
Consultant	($)(1)	% of Total	($)(1)	% of Total
Mercer and MMC affiliates				
Senior management team compensation-related fees	316	1%	$ 26,470	4%
All other fees(2)	$ 1,914,600	99%	$ 689,302	96%
Total fees	$ 1,914,916	100%	$ 715,107	100%
Towers Watson				
Chairman of Board compensation-related fees	$ 13,077	100%	$ 15,718(3)	100%
All other fees	–	–	–	–
Total fees	$ 13,077	100%	$ 15,718	100%
Meridian				
Director share ownership guidelines-related fees	$ 675	4%	–	–
Employee compensation-related fees:	$ 9,155	57%	–	–
STIP/ LTIP Calculation metrics-related fees:	$ 6,207	39%	–	–
All other fees	–	–	–	–
Total fees	$ 16,037	100%	–	–

Notes:

(1) All figures include applicable tax.

(2) Includes (i) for 2011 and 2012, fees paid to Marsh for insurance brokerage services provided to the Corporation and insurance premiums and (ii) for 2011 only, fees of $565 paid to Mercer for advice provided to management in connection with the Corporation's employee share purchase plan.

(3) Includes fees billed and paid in 2011 for work performed for the CG&C Committee in 2010 with respect to Towers Watson's review of director compensation.

As a result of the policies and procedures followed by Mercer, as well as the CG&C Committee's own policies and procedures, the CG&C Committee is confident that the advice it receives from Mercer is objective and not influenced by Mercer's or Marsh's relationships with the Corporation. These policies and procedures include:

- The individual Mercer consultant providing services to the CG&C Committee (the "**Mercer Consultant**") does not receive any incentive or other compensation based on the fees charged to the Corporation for other services provided by Mercer or any of its affiliates;
- The Mercer Consultant is not responsible for selling other Mercer or its affiliate's services to the Corporation;
- Mercer's professional standards prohibit the Mercer Consultant from considering any other relationships that Mercer or any of its affiliates may have with the Corporation in rendering his or her advice and recommendations;

- The CG&C Committee has the sole authority to retain and terminate the Mercer Consultant and management confirms all other proposed engagements of Mercer and Marsh with the CG&C Committee prior to the commencement of such engagements;
- The Mercer Consultant has direct access to the CG&C Committee without management intervention and reports solely to the CG&C Committee;
- The CG&C Committee reaches decisions following discussions of the Mercer Consultant's conclusions and recommendations and after in-camera sessions during which the CG&C Committee assures itself that the Mercer Consultant's recommendations are independent; and
- The CG&C Committee evaluates the quality and objectivity of the services provided by the Mercer Consultant each year and determines whether to continue to retain the Mercer Consultant.

In the future, Mercer or another compensation consultant may provide some or all of the following services to the CG&C Committee:

- Assisting the CG&C Committee in reviewing and validating Capstone's compensation philosophy, including the selection of compensation peer group members;
- Assessing desired competitive positioning and pay mix;
- Assisting the CG&C Committee by ensuring its members understand and are comfortable with executive compensation matters;
- Ensuring the CG&C Committee fully understands the current and any proposed compensation program and is comfortable with the potential range of pay outcomes;
- Providing an overview of emerging trends and best practices; and
- Undertaking other special projects on behalf of the CG&C Committee.

5.1.3. Named Executive Officers

The following executive and senior officers are the "**Named Executive Officers**" or "**NEOs**" of the Corporation for the purposes of the discussion set out below.

Name	Title
Michael Bernstein	President and Chief Executive Officer
Michael Smerdon	Executive Vice President and Chief Financial Officer
Stu Miller	Executive Vice President, General Counsel and Corporate Secretary
Jack Bittan	Senior Vice President, Business Development
Rob Roberti	Senior Vice President, Power Generation

5.1.4. Executive Compensation Objectives

We have designed an executive compensation program for Capstone's NEOs that 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 Shareholders' interests and with the execution of Capstone'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.

Our executive compensation program reflects a blend of short- and long-term incentive awards to support our 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 Shareholders' interests. The performance measures for the long-term focus on overall corporate performance and include an emphasis on Total Shareholder Return (as defined below) relative to a set group of peer companies (see "**5.1.5. Compensation Peer Group**").

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 Capstone'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/Common Share, as defined under the heading "**5.1.6.2. Short-Term Incentive Plan**");
- Having our long-term incentive plan ("**LTIP**") reflect the total return on the Common Shares;
- 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);
- Targeting total direct compensation, which includes salary, STIP and LTIP awards, at the median of our compensation peer group; and
- Adopting a policy that prohibits Capstone's officers and Directors from purchasing financial instruments that hedge or offset a decrease in the market value of our Common Shares.

5.1.5. Compensation Peer Group

Our executive compensation program has been designed to compete with compensation practices of companies similar to ours and those which represent potential competition for our NEOs and other employees. In designing our executive compensation program, the CG&C Committee focuses on remaining competitive in the market with respect to total compensation for each NEO. However, the CG&C Committee may weigh a particular element of compensation more or less based on the NEO's specific role with our company. The benchmark data obtained acted only as a guide and point of reference and was not a substitute for the judgment of the CG&C Committee.

Mercer was engaged in 2011 to provide advice on compensation matters (including assistance in identifying an appropriate compensation peer group for the NEOs). In consultation with Mercer, the CG&C Committee focused on entities that: (a) are involved in the infrastructure and/or power sector; (b) have a similar size and/or complexity as Capstone; and (c) operate in industry sectors that Capstone aspires to operate in or are of a size we aspire Capstone to attain.

The "**Compensation Peer Group**" that was identified at that time for the NEOs comprises the following entities:

- Altagas Ltd.
- Atlantic Power Corp.
- Boralex Inc.
- Capital Power Corp.
- Clarke Inc.
- Connacher Oil & Gas Ltd.
- Exchange Income Corp.
- Innergex Renewable Energy Inc.
- Just Energy Group Inc.
- Maxim Power Corp.
- Pacific Northern Gas Ltd.
- Primary Energy Recycling Corp.
- Marsulex Inc.
- Trinidad Drilling Ltd.

5.1.6. Categories and Components of Executive Compensation

Our executive compensation program for NEOs comprises the following categories and components:

Category	Component	Key Features	Purpose
Guaranteed Compensation	Salary, Benefits and Perquisites	▸ Initial amount or item specified in employment agreements ▸ Assessed annually, with consideration to the scope and responsibilities of the position and the competitive market	▸ Attract and retain NEOs ▸ Provide guaranteed minimum level of compensation to NEOs for meeting the responsibilities of their positions
At Risk Compensation	Short-Term Incentive Plan ("**STIP**")	▸ Annual cash award based on assessment of performance against a set of pre-determined business and individual performance measures ▸ Business performance measures and threshold, target and maximum values are established, having regard to the Corporation's expected performance for the fiscal year ▸ Individual performance measures and targets are agreed to with each NEO	▸ Motivate, attract and retain NEOs ▸ Encourage and reward achievement of annual business objectives and individual targets
	Long-Term Incentive Plan ("**LTIP**")	▸ Awards of restricted stock units ("**RSUs**") and performance stock units ("**PSUs**") in equal parts ▸ RSUs vest at the end of the second full year after the year of the grant ▸ PSUs vest at the end of the second full year after the year of the grant based on certain performance hurdles ▸ Once vested, RSUs and PSUs are paid in cash or through purchase of Common Shares on the open market, as elected by the Board or the CG&C Committee	▸ Reward for long-term performance ▸ Align interests of NEOs with Shareholders ▸ Encourages long-term service and loyalty

5.1.6.1. 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.

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

5.1.6.2. Short-Term Incentive Plan

The STIP is an annual bonus plan that is paid in cash. It is designed to motivate the NEOs to achieve defined corporate, business and individual objectives that are tied to the execution of Capstone's strategy and that increase Shareholder value. The STIP is intended to reward NEOs according to their achievements for the year. A significant portion of each NEO's incentive is tied to corporate performance measures, which are given more weight than the achievement of personal objectives.

The target STIP award (the "**Target STIP Award**") for an 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 165% of the Target STIP Award based upon actual performance compared to target business performance measures and individual performance measures.

The Board and the CG&C Committee have the right to adjust the targets for the business performance measures and individual performance measures to address major corporate transactions or other extraordinary events.

5.1.6.2.1. Business Performance Measures

The STIP presently comprises two business performance measures that together account for a 70% weighting of the STIP Payout Ratio: "**Adjusted EBITDA**"(1) and "**AFFO/Common Share**"(2). Each measure accounts for a 35% weighting of the STIP Payout Ratio. For each of these measures, 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 business performance measures has a corresponding payout multiplier as described in the table below:

Category	Actual Performance as % of Target Business Performance Measure	Business Performance Measure Payout Multiplier
Below Threshold	less than 90%	0%
Threshold	90%	50%
Target	100%	100%
Maximum	110%	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 interpolated.

Adjusted EBITDA and AFFO/Common Share are useful measures for short-term compensation as these metrics capture the financial performance of the Corporation for the period.

5.1.6.2.2. Individual Performance Measures

Individual performance measures account for an aggregate 30% weighting of the STIP Payout Ratio. Individual performance measures for NEOs other than the CEO are agreed to between each NEO and the CEO and reviewed by the CG&C Committee, with the individual performance measures of the CEO being agreed to between 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 individual performance measures as determined by the CG&C Committee and the Board as applicable.

The Board (acting reasonably and in consultation with the NEOs) retains the right to adjust the targets for the business performance measures and individual performance measures to address major corporate transactions or other extraordinary events.

5.1.6.3. Long-Term Incentive Plan

LTIP awards are granted each year based on a percentage of an NEO's base salary. Each LTIP award is composed of 50% of RSUs and 50% of PSUs. RSUs are subject to time-based vesting and PSUs are subject to both time-based vesting and performance-related vesting. In certain circumstances, accelerated vesting of LTIP awards may occur. See "**5.5. NEO Employment Agreements**".

RSUs and PSUs have a vesting period of up to three years. If and when cash dividends are paid on the Common Shares after the grant date and until the settlement of any LTIP awards, additional RSUs and PSUs ("**Dividend Equivalent RSUs and PSUs**"), as applicable, will be granted to the LTIP award recipients equal to the product of the amount of the cash dividend per Common Share and the number of RSUs and PSUs granted pursuant to the LTIP awards. This includes any Dividend Equivalent RSUs and PSUs granted after the original grant date but before the issuance of the cash dividend in question. The Dividend Equivalent RSUs and PSUs will be subject to the same terms and conditions, including vesting and settlement terms, as the original LTIP awards.

At the discretion of the CG&C Committee, vested RSUs and PSUs can be settled and paid in cash, through the purchase of Common Shares on the open market or a combination of these alternatives. In addition, additional RSUs may be issued at the discretion of the CG&C Committee. To date, no discretionary RSUs have been granted.

Notes:

(1) We use Adjusted EBITDA to measure Capstone's performance prior to the impact of financing costs, taxes and charges for depreciation and amortization. Adjusted EBITDA is calculated as revenue less operating and administrative expenses plus interest income and dividends or distributions received from equity accounted investments. Amounts attributed to any non-controlling interest are deducted. Adjusted EBITDA for the investment in Bristol Water is included at Capstone's proportionate ownership interest. For the period from October 5, 2011 to May 10, 2012, Capstone held a 70% ownership interest. This ownership interest was reduced to 50% upon the partial sale of Bristol Water on May 10, 2012.

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

The number of PSUs that vest at the end of the vesting period, which may be more or less than 100% of the PSUs outstanding at the end of the vesting period, will be determined based upon a performance multiplier reflecting the achievement of one or more performance conditions as compared to a Comparator Group (see definition below), that is set at the time of the PSU grant

For the purpose of determining the performance multiplier for the PSUs, the CG&C Committee has established a "**Comparator Group**", which includes entities similar to Capstone in terms of sector focus, size and complexity, or are similar in scope and size to what Capstone aspires to be. This group currently comprises:

- Algonquin Power & Utilities Corp.
- Altagas Ltd.
- Atlantic Power Corp.
- Boralex Inc.
- Capital Power Corp.
- Enercare Inc.
- Innergex Renewable Energy Inc.
- Just Energy Group Inc.
- Maxim Power Corp.
- Northland Power Inc.
- Primary Energy Recycling Corp.
- Veresen Inc.

The Corporation considers "**Total Shareholder Return**" as the difference, expressed as a percentage, between:

- An initial hypothetical investment (the "**Investment Shares**") of $100 in common shares (of the Corporation or the members of the Comparator Group, as applicable) on the first day of the applicable vesting period, which is expressed as a number of common shares determined by dividing $100 by the market price on the first day of the vesting period. The number of Investment Shares is increased over time to reflect the re-investment of any dividends paid on common shares issued during the vesting period; and
- The ending dollar value of the Investment Shares, which is a product of the number of Investment Shares and the market price of the common shares on the last day of the vesting period.

The members of the Comparator Group are generally the same as those of the Compensation Peer Group, with certain adjustments in membership attributable to changes in the nature of the Compensation Peer Group since it was selected in 2011.

For PSUs granted in 2011 and 2012, vesting is contingent on the three-year vesting period and on Capstone's Total Shareholder Return relative to the Total Shareholder Return of the members of the Comparator Group. The Total Shareholder Return for each entity in the Comparator Group will be calculated in the same manner as it is calculated for Capstone. The CG&C Committee believes that Total Shareholder Return is a useful measure of performance for the PSUs as it reflects Capstone's mission to deliver a superior total return to Shareholders by providing reliable income and capital appreciation.

Actual Performance vs. Comparator Group	Performance Multiplier
< 25th percentile	0
37.5th percentile	0.5
50th percentile	1
at or above 75th percentile	2

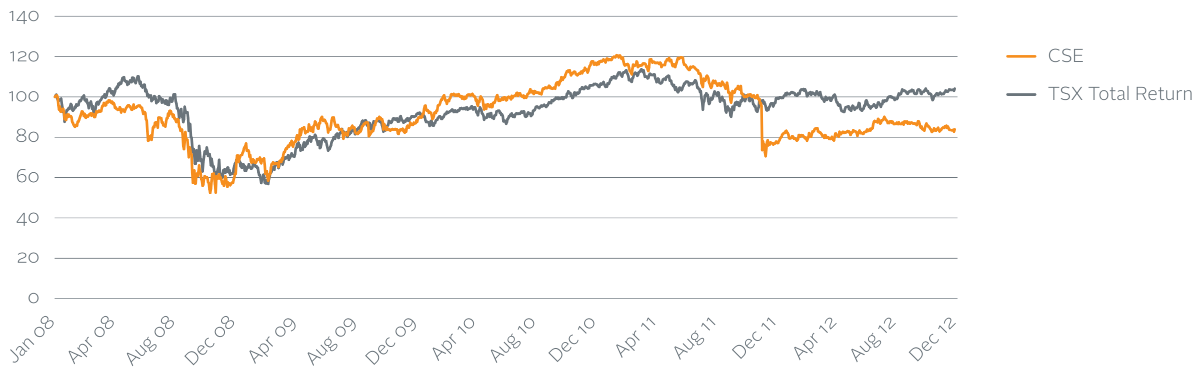
If performance falls between the defined performance levels, the performance multiplier used will be determined on a proportionate basis by the CG&C Committee.

5.1.7. Common Share Performance Graph

The Common Shares have been listed on the TSX since January 10, 2011, when Capstone converted to a corporation from an income fund structure. The trust units of our predecessor entity, Macquarie Power & Infrastructure Income Fund, were listed on the TSX on April 30, 2004.

The following graph compares the cumulative total return on a $100 investment in units/Common Shares with the cumulative total return on a $100 investment in the S&P/TSX Composite Total Return Index for the five-year period from January 1, 2008 to December 31, 2012. For the purpose of calculating the cumulative return on the units/Common Shares, we assume that distributions and dividends, as applicable, are reinvested. Historical unit/Common Share performance as set out below does not necessarily indicate future price performance of the Common Shares.

Five-Year Total Return on $100 Investment (Dividend Reinvestment)
CSE vs. S&P/TSX Composite – Total Return Index
(January 1, 2008 = $100)



Prior to the completion of the Internalization Transaction (see "**5.1.1. Internalization Transaction**"), the compensation earned by the persons serving as the executive officers of the Corporation and its subsidiaries, that can be attributed to the services they provided to the Corporation and its subsidiaries on behalf of MPML, was not within or subject to the discretion of the Directors as these individuals were employed by MIRACL. Accordingly, compensation paid to such executive officers was not based upon, and may not be comparable to, the total return of the Units/Common Shares relative to any particular index. Following completion of the Internalization Transaction, a compensation policy was implemented for all NEOs that includes the LTIP, which is linked to the share price performance of the Common Shares (and, in the case of the PSUs, to the Corporation's performance against the Comparator Group, see "**5.1.6.3. Long-Term Incentive Plan**"), as the Board believes that linking a portion of an NEO's individual compensation to the performance of the Common Shares creates long-term Shareholder value. However, the Corporation's determination of executive compensation is based upon the policies and procedures detailed above and is not based upon the total return of the Common Shares relative to any particular index.

5.2. 2012 Executive Compensation

5.2.1. Components of Compensation as a Percentage of 2012 Target Total Compensation

The CG&C Committee determined the relative proportion of each component of compensation to 2012 target total compensation for each NEO, based upon the NEO's role and responsibilities and the compensation objectives discussed above, is as follows[(1)]:

Name	Salary (%)	Target STIP (%)	LTIP (%)
Michael Bernstein	33.3%	33.3%	33.3%
Michael Smerdon	40.0%	30.0%	30.0%
Stu Miller	64.5%	19.4%	16.1%
Jack Bittan	43.5%	26.1%	30.4%
Rob Roberti	60.6%	18.2%	21.2%

Note:

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

5.2.2. 2012 Salary

The salaries for each NEO for 2012 are presented in the table below:

Name	Annual Salary
Michael Bernstein	$ 400,000
Michael Smerdon	$ 330,000
Stu Miller	$ 288,000
Jack Bittan	$ 265,000
Rob Roberti	$ 240,000

5.2.3. 2012 Short-Term Incentive Plan Awards

The STIP is awarded based on performance against a combination of business performance measures and individual objectives that were established and approved at the beginning of 2012.

For 2012, the Target STIP Awards for Mr. Bernstein, Mr. Smerdon, Mr. Miller, Mr. Bittan and Mr. Roberti were 100%, 75%, 30%, 60% and 30% of their salaries, respectively, as described above.

To determine the actual 2012 STIP awards, the targets were adjusted by the STIP Payout Ratio, which was based on Adjusted EBITDA and AFFO/Common Share business performance measures, each with a 35% weighting, and individual performance measures set for each NEO, which have a 30% weighting, each subject to the applicable payout multiplier.

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

Business Performance Measure	Threshold	Target	Maximum	Actual 2012 Performance	Business Performance Measure Payout Multiplier
Adjusted EBITDA	$ 107,484,300	$ 119,427,000	$ 131,369,700	$ 120,657,000	105%
AFFO/Common Share	$ 0.392	$ 0.436	$ 0.480	$ 0.473	143%

There are four categories that are assessed as part of each NEO's (other than the CEO) annual individual performance objectives: (a) financial; (b) strategy; (c) operations; and (d) personal objectives. The CEO's annual individual performance objectives are comprised of six categories: (a) financial; (b) strategy; (c) operations; (d) leadership; (e) reputation; and (f) community and industry Involvement. Each individual performance objective category for each NEO has several specific objectives that are reviewed and approved by 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 his objectives. The following table provides an overview of each NEO's key individual performance measures for the year and the overall assessment of his performance and the individual performance measure payout multiplier:

Name	Key Individual Performance Measure	Overall Assessment of Performance and Individual Performance Measure Payout Multiplier
Michael Bernstein	▸ Achieve budgeted revenue and expenses ▸ Outperform peer group ▸ Set new dividend ▸ Implement growth strategy and add development capabilities ▸ Progress re-contracting of Cardinal facility	100%
Michael Smerdon	▸ Refinance maturing credit facilities ▸ Implement internal audit and enterprise risk management ▸ Oversee financial reporting	120%
Stu Miller	▸ Overseeing legal matters related to the Corporation's various corporate finance and M&A transactions ▸ General legal and corporate secretarial activities ▸ Effective management of external legal fees	100%
Jack Bittan	▸ Implement growth strategy and add development capabilities ▸ Värmevärden and Bristol Water asset management activities ▸ Complete sale of partial interest in Bristol Water	130%
Rob Roberti	▸ Progress re-contracting of Cardinal facility ▸ Achieve targets for power assets	100%

The following table presents the STIP awards for each NEO for 2012:

Name	Business Performance Measures x Payout Multipliers[1]: Adjusted EBITDA (35%)	+	Business Performance Measures x Payout Multipliers[1]: AFFO/ Common Share (35%)	+	Individual Performance Measure (30%) x Payout Multiplier[2]	=	STIP Payout Ratio (% of Target)	x	Target STIP Award (% of Salary)	=	Actual 2012 STIP Award (% of Salary)	Actual 2012 STIP Award ($)
Michael Bernstein	36.75%		50.05%		30%		116.8%		100%		116.8%	$ 467,200[3]
Michael Smerdon	36.75%		50.05%		36%		122.8%		75%		92.1%	$ 303,930
Stu Miller	36.75%		50.05%		30%		116.8%		30%		35.04%	$ 100,915
Jack Bittan	36.75%		50.05%		39%		125.8%		60%		75.5%	$ 200,022
Rob Roberti	36.75%		50.05%		30%		116.8%		30%		35.4%	$ 84,096

Notes:

(1) Adjusted EBITDA and AFFO/Common Share business performance measure payout multiplies were 105% and 143%, respectively (see "**5.2.3. 2012 Short-Term Incentive Plan Awards"**).

(2) Individual performance measure payout multiplies for the NEOs were: Mr. Bernstien – 100%; Mr. Smerdon – $120%; Mr. Miller – 100%; Mr. Bittan – 130%; and Mr. Roberti – 100% (see "**5.2.3. 2012 Short-Term Incentive Plan Awards**").

(3) In 2012, Mr. Bernstein volunteered to receive 109,969 RSUs in lieu of 100% of his cash entitlement under the STIP for 2012. The Board and CG&C Committee determined that such grant of RSUs was appropriate and approved such grant. The number of RSUs granted to Mr. Bernstein was determined by dividing the applicable percentage of his cash entitlements under the STIP for 2012 by the volume-weighted average price for the Common Shares on the TSX for the five-trading day period prior to the date of the RSU issuance on March 20, 2013, being $4.2485 per Common Share.

5.2.4. 2012 Long-Term Incentive Plan Awards

For the year ended December 31, 2012 the following awards were made to the NEOs under the LTIP. The vesting period for both the RSUs and PSUs granted in 2012 is from January 3, 2012 to December 31, 2014:

Name	2012 LTIP Award (% of Salary)	Total LTIP Award (#)[1]	Total LTIP Award ($)[2]	RSUs (#)[1]	RSUs ($)[2]	PSUs (#)[1]	PSUs ($)[2]
Michael Bernstein	100%	105,742	$ 400,000	52,871	$ 200,000	52,871	$ 200,000
Michael Smerdon	75%	65,428	$ 247,500	32,714	$ 123,750	32,714	$ 123,750
Stu Miller	25%	19,034	$ 72,000	9,517	$ 36,000	9,517	$ 36,000
Jack Bittan	70%	49,038	$ 185,500	24,519	$ 92,750	24,519	$ 92,750
Rob Roberti	35%	22,206	$ 84,000	11,103	$ 42,000	11,103	$ 42,000

Notes:

(1) Does not include the 109,969 RSUs that Mr. Bernstein volunteered to receive in lieu of 100% of his cash entitlement under the STIP for 2012. See "**5.2.3. 2012 Short-Term Incentive Plan Awards**".

(2) Represents the grant date fair value. The grant date fair value is determined by multiplying the number of awards granted by the volume-weighted average price for the Common Shares on the TSX for the five-trading day period prior to the date of their issuance on January 3, 2012, being $3.7828 per Common Share for the 2012 LTIP awards.

5.3. Summary Compensation Table

The following table presents the compensation earned by each NEO from the Corporation during the fiscal years ended December 31, 2012 and 2011, as well as, where indicated, the compensation earned from MPML (or its affiliates) during the fiscal years ended December 31, 2011 and 2010 that is attributable to the NEO's work for Capstone. See "**5.1.1. Internalization Transaction**".

Name and Principal Position	Year(1)	Salary(2)	STIP	LTIP(3)	All Other Compensation(4)	Total Compensation
Michael Bernstein(5)						
	2012	$ 400,000	$ 467,200(6)	$ 400,000	–	$ 1,267,200
	2011	$ 283,333	$ 358,500(6)	$ 400,000	$ 1,349,167	$ 2,391,000
	2010	–	–	–	$ 539,200	$ 539,200
Michael Smerdon(7)						
	2012	$ 330,000	$ 303,930	$ 247,500	–	$ 881,430
	2011	$ 230,208	$ 234,914(6)	$ 243,754	$ 834,907	$ 1,543,783
	2010	–	–	–	$ 417,600	$ 417,600
Stu Miller(8)						
	2012	$ 288,000	$ 100,915	$ 72,000	–	$ 460,915
	2011	$ 198,333	$ 87,570	$ 70,012	$ 393,229	$ 749,144
	2010	–	–	–	$ 308,700	$ 308,700
Jack Bittan(9)						
	2012	$ 265,000	$ 200,022	$ 185,500	–	$ 650,522
	2011	$ 184,167	$ 171,405	$ 182,002	$ 649,987	$ 1,187,561
	2010	–	–	–	–	–
Rob Roberti(9)						
	2012	$ 240,000	$ 84,096	$ 84,000	–	$ 408,096
	2011	$ 166,458	$ 71,117	$ 82,253	$ 319,546	$ 639,374
	2010	–	–	–	–	–

Notes:

(1) Prior to the completion of the Internalization Transaction on April 15, 2011, none of the NEOs were employed by the Corporation or any of its subsidiaries and neither the Corporation nor any of its subsidiaries provided any remuneration to the NEOs or any of their respective associates. The individuals who were appointed to serve as the NEOs of the Corporation prior to completion of the Internalization Transaction were employees of MIRACL that were recommended by MPML and were appointed to serve as the executive officers of the Corporation by the Directors. Such executive officers served in such capacity on an "as needed basis" and the compensation that such officers received from MPML and its affiliates was not within or subject to the discretion of the Directors. See "**5.1.1. Internalization Transaction**".

(2) For 2011, the salary for each NEO is pro-rated from April 15, 2011 (the date on which each NEO became an employee of the Corporation) to December 31, 2011.

(3) The grant date fair value of the RSUs and PSUs issued in 2011 and 2012 is determined by multiplying the number of RSUs and PSUs granted by the volume-weighted average price for the Common Shares on the TSX for the five-trading day period prior to the date of their issuance on June 17, 2011 and January 3, 2012 being $7.8666 and $3.9951, respectively, per Common Share.

(4) For 2011, these amounts include one-time payments in connection with the Internalization Transaction of $1,250,000 to Mr. Bernstein, $750,000 to Mr. Smerdon, $325,562 to Mr. Miller, $620,195 to Mr. Bittan and $251,005 to Mr. Roberti in accordance with each such NEO's employment agreement with the Corporation representing profit-share entitlements, amounts in lieu of vacation and/or retention amounts earned by the NEOs while employees of MIRACL. These amounts also include the portion of the total compensation paid by MIRACL to each NEO, including salary, bonus and all other compensation including perquisites and other personal benefits, that can be attributed to services each provided to the Corporation and its subsidiaries on behalf of MPML from January 1, 2011 to April 14, 2011 and, in the case of Mr. Bernstein, Mr. Smerdon and Mr. Miller for the year ended December 31, 2010. Such allocation was determined solely for the purposes of this table, based on the role, responsibility and time spent by the respective officers to fulfil the requirements of their offices. See "**5.1.1. Internalization Transaction**".

(5) Mr. Bernstein was appointed President and Chief Executive Officer of the Fund effective July 6, 2009, after serving as its President and Chief Executive Officer on an interim basis since April 15, 2009. In connection with the conversion of the Fund into the Corporation, effective January 1, 2011, Mr. Bernstein was appointed the President and Chief Executive Officer of the Corporation.

(6) Mr. Bernstein was granted 84,758 RSUs in lieu of 100% of his cash entitlement under the STIP for 2011 and 109,969 RSUs in lieu of 100% of cash entitlement under the STIP for 2012. See "**5.2.3. 2012 Short-Term Incentive Plan Awards**". Mr. Smerdon was granted 27,770 RSUs in lieu of 50% of his cash entitlement under the STIP for 2011. The number of RSUs granted to each of Mr. Bernstein and Mr. Smerdon was determined by dividing the applicable percentage of their cash entitlements under the STIP for 2012 and 2011 as applicable by the volume-weighted average price for the Common Shares on the TSX for the five-trading day period prior to the date of the applicable RSU issuance on March 23, 2012 and March 20, 2013, being $4.2297 and $4.2485 per Common Share, respectively.

(7) Mr. Smerdon was appointed Vice President, Chief Financial Officer and Secretary of the Fund effective August 14, 2009. In connection with the conversion of the Fund into the Corporation, effective January 1, 2011, Mr. Smerdon was appointed the Executive Vice President, Chief Financial Officer and Secretary of the Corporation. On March 10, 2011, Mr. Smerdon ceased to be the Secretary of the Corporation.

(8) Prior to January 1, 2011, Mr. Miller was the Vice President and General Counsel of the Fund. In connection with the conversion of the Fund into the Corporation, effective January 1, 2011, Mr. Miller was appointed the Executive Vice President and General Counsel of the Corporation. On March 10, 2011, Mr. Miller was also appointed as the Corporate Secretary of the Corporation.

(9) Mr. Bittan and Mr. Roberti each became employees of the Corporation on April 15, 2011 and were appointed as officers of the Corporation on April 18, 2011. Prior to April 15, 2011, both were employees of MIRACL.

5.4. Incentive Plan Awards

The following is a summary of all share-based incentive plan awards that vested during 2012 and all non-equity incentive plan compensation earned in 2012:

Name	LTIP Awards – Value Vested During 2012[1] RSUs ($)	PSUs ($)	Total ($)	STIP Awards Earned During 2012 ($)
Michael Bernstein	–	–	–	$ 467,200[2]
Michael Smerdon	–	–	–	$ 303,930
Stu Miller	–	–	–	$ 100,915
Jack Bittan	–	–	–	$ 200,022
Rob Roberti	–	–	–	$ 84,096

Notes:

(1) The LTIP was established in 2011. No LTIP awards vested in 2012.

(2) In 2012, Mr. Bernstein volunteered to receive 109,969 RSUs in lieu of 100% of his cash entitlement under the STIP for 2012. The Board and CG&C Committee determined that such grant of RSUs was appropriate and approved such grant. The number of RSUs granted to Mr. Bernstein was determined by dividing the applicable percentage of his cash entitlements under the STIP for 2012 by the volume-weighted average price for the Common Shares on the TSX for the five-trading day period prior to the date of the RSU issuance on March 20, 2013, being $4.2485 per Common Share. See "**5.2.3. 2012 Short-Term Incentive Plan Awards**".

The following table shows all awards under the LTIP outstanding as at December 31, 2012, the end of the Corporation's most recently completed financial year:

	Number of LTIP Awards Not Yet Vested[1]			Market Value of LTIP Awards Not Yet Vested[2]			Market or Payout Value of Vested Share Based Awards Not Paid Out or Distributed		
Name	RSUs (#)	PSUs (#)	Total (#)	RSUs ($)	PSUs ($)	Total ($)	RSUs ($)	PSUs ($)	Total ($)
Michael Bernstein	178,339	87,898	266,237	$ 718,706	$ 354,229	$1,072,935	–	–	–
Michael Smerdon	83,744	54,110	137,854	$ 337,488	$ 218,063	$ 555,552	–	–	–
Stu Miller	15,683	15,683	31,366	$ 63,202	$ 63,202	$ 126,405	–	–	–
Jack Bittan	40,504	40,504	81,008	$ 163,231	$ 163,231	$ 326,462	–	–	–
Rob Roberti	18,337	18,337	36,674	$ 73,898	$ 73,898	$ 147,796	–	–	–

Notes:

(1) Comprises the LTIP grants made on June 17, 2011 and January 3, 2012 plus Dividend Equivalent RSUs and Dividend Equivalent PSUs granted to account for dividends paid on the Common Shares since the date of such grants. Includes the 84,758 RSUs granted to Mr. Bernstein in lieu of 100% of his cash entitlement under the STIP for 2011 and the 27,770 RSUs granted to Mr. Smerdon in lieu of 50% of his cash entitlement under the STIP for 2011. Does not include the 109,969 RSUs granted to Mr. Bernstein in lieu of 100% of his cash entitlement under the STIP for 2012 as such grant occurred after December 31, 2012. See "**5.2.3. 2012 Short-Term Incentive Plan Awards**".

(2) The market value is determined by multiplying the number of awards not vested by the closing price for the Common Shares on the TSX on December 31, 2012, being $4.03 per Common Share. For the PSUs, it is assumed that the performance multiplier is 1.0. See "**5.1.6.3. Long-Term Incentive Plan**".

5.5. Executive Employment Agreements

Each NEO has entered into an employment agreement with Capstone that includes provisions relating to the NEO's salary, benefits, perquisites, and short-and long-term incentives. In addition, each NEO's employment agreement contains provisions relating to the termination of the NEO's employment: (a) for cause, (b) without cause, (c) by the NEO for good reason or (d) in relation to a change of control, as summarized below.

5.5.1. Termination of Employment for Cause

Capstone may terminate the employment of an NEO at any time for cause by written notice to the NEO, whose termination is effective on the date that notice is received. In the event of a termination for cause, no further payments to the NEO are required under his or her employment agreement, except for certain amounts due and owing to the NEO for salary, STIP compensation, LTIP compensation, benefits, certain perquisites, vacation and expenses incidental to employment that have been earned or properly incurred and are owing at the time of the termination. All unvested LTIP awards would be cancelled.

5.5.2. Termination of Employment without Cause

Capstone may terminate the employment of an NEO at any time without cause by providing the NEO with a notice in writing and certain compensation in lieu of notice. This compensation includes:

- All outstanding salary, STIP compensation, LTIP compensation, certain perquisites, vacation and expenses incidental to employment that have been earned and are owing, including any unpaid wages and an annual STIP award pro-rated to the last day of employment calculated based on the average of the value of STIP payments made to the NEO in the two-year period prior to the termination (if the NEO's employment is terminated before a two-year average is available, the calculation will be on the basis of the NEO's Target STIP Award in the year of termination) and reimbursement for all proper expenses incurred in connection with Capstone's business ("**Accrued Compensation**");
- A retiring allowance (the "**Retiring Allowance**") equal to 12 months of Total Compensation (as defined below) plus one additional month of Total Compensation for each completed year of service (which includes years of service with Capstone's predecessor entities) to a maximum of 18 months (the "**Severance Period**"); and
- Continuing benefits coverage for the Severance Period or the NEO will be paid an amount equal to the premium cost or contributions that Capstone would otherwise have made.

"**Total Compensation**" includes payment in lieu of salary plus payment in lieu of STIP compensation based on the average of the value of STIP awards to the NEO in the two-year period prior to any termination without cause (or, if the NEO's employment is terminated before a two-year average is available, on the basis of the NEO's Target STIP Award in the year of termination).

In the event of termination without cause:

- RSUs granted in 2011, together with all Dividend Equivalent RSUs related to those RSUs, will fully vest and be paid out in full;
- All other outstanding unvested RSUs issued under the LTIP will vest pro-rata to the date on which notice of termination without cause was delivered to the NEO, and paid out with the RSUs that remain unvested being cancelled; and
- Outstanding PSUs issued under the LTIP will vest pro-rata at the end of the vesting period based on the date of termination (with vesting being dependent on the applicable performance multipliers) and be paid out while the remaining unvested PSUs will be cancelled.

5.5.3. Termination of Employment for Good Reason

An NEO may terminate his employment at any time for Good Reason (as defined below) and be entitled to receive the same compensation and benefits that the NEO would have been entitled to if the NEO had been terminated by Capstone without cause.

"**Good Reason**" is any event that constitutes constructive dismissal under Canadian law, including, among other things, a change to the NEO's duties or status, a reduction in the salary or a change to the STIP or LTIP that would materially reduce the NEO's aggregate target incentive compensation (including any change to the performance metrics that would produce this result), ending benefit plans or perquisites, or requiring the NEO to relocate.

5.5.4. Termination of Employment following Change of Control

If an NEO's employment is either terminated without cause or the NEO terminates his employment for Good Reason in the six-month period prior to the public announcement of a Change of Control (as defined below) of Capstone (applicable only if Capstone has knowledge of the potential Change of Control) or in the 12-month period following a Change of Control, the NEO is entitled to receive an amount equal to all Accrued Compensation plus 1.5 times the amount of the Retiring Allowance (subject to a maximum payment of 24 months of Total Compensation). In addition, the NEO's entitlement to benefit coverage or pay in lieu of benefits will be increased by a corresponding period of months. On a Change of Control, all unvested LTIP awards, if any, will vest immediately, with any PSUs vesting based upon a performance multiplier equal to 1.0, and be paid out. In addition, in circumstances where an NEO is either terminated without cause or terminates his employment for Good Reason in the six-month period prior to the public announcement of a Change of Control (applicable only if Capstone has knowledge of the potential Change of Control) and a Change of Control subsequently occurs, all of the NEO's unvested LTIP awards will vest immediately, with any PSUs vesting based on a performance multiplier equal to 1.0 and to be paid out as if the NEO was still an employee of Capstone on the date of the Change of Control.

"**Change of Control**" refers to a third party acquiring control in law (whether by sale, transfer, merger, consolidation or otherwise) of over 50% of the issued and outstanding voting shares of Capstone, or the sale, transfer or other disposition of all or substantially all of the company's assets to a third party.

5.5.5. Payments Upon Termination

Assuming that each of the NEOs was terminated on December 31, 2012, each NEO would have been entitled to receive the following total compensation from Capstone in each of the scenarios listed below (not including amounts due and owing at the time of termination):

Name	Termination for Cause ($)	Termination without Cause[1] ($)	Termination due to Change of Control[1] ($)
Michael Bernstein	–	$ 2,160,132	$ 3,067,610
Michael Smerdon	–	$ 1,353,647	$ 1,955,295
Stu M. Miller	–	$ 682,977	$ 960,978
Jack Bittan	–	$ 878,032	$ 1,322,842
Rob Roberti	–	$ 580,973	$ 843,063

Note:

(1) The value of RSUs and PSUs is determined by multiplying the number of awards vested upon the triggering event by the closing price for the Common Shares on the TSX on December 31, 2012, being $4.030 per Common Share and, in the case of PSUs for Termination due to Change of Control, assuming a performance multiplier equal to 1.0. In the case of Termination without Cause, PSUs vest pro rata at the end of the vesting period based on the date of termination (with vesting being dependent on the applicable performance multipliers) and are paid out at such time, with unvested PSUs being cancelled. Amounts include 2012 STIP award based on the NEO's 2012 Target STIP Award (the actual 2012 STIP award was paid to each NEO on March 20, 2013).

5.5.6. Confidentiality and Non-Solicitation Obligations

Under each of their employment agreements with Capstone, the NEOs have agreed to not use for their own account or disclose to anyone else any confidential or proprietary information or material relating to the Corporation's operations or business. In addition, each NEO has agreed, for a 12-month period following the end of his period of active employment, not to, among other things, solicit business from any customer or client of the Corporation with whom the NEO dealt during his employment with the Corporation for the benefit of any business which competes with the Corporation or any of its subsidiaries, or induce or entice away or in any other manner persuade or attempt to persuade any officer, employee, or agent of the Corporation or its subsidiaries to discontinue or alter any one or more of their relationships with the Corporation or its subsidiaries.

5.6. Executive Stock Ownership Guidelines

The Board has adopted stock ownership guidelines under which the NEOs are required to acquire and hold Common Shares or RSUs with a value equal to the following percentage of their salaries within five years of the date they commenced their employment with Capstone:

- 200% for the CEO;
- 150% for the Executive Vice President and Chief Financial Officer; and
- 100% in the case of all other NEOs.

The value of the Common Shares or RSUs is based upon the greater of their acquisition cost (or equivalent value) or their market value (or equivalent value). The CG&C Committee may waive compliance with the stock ownership guidelines in certain circumstances. No waivers have been provided to date. It is our understanding that each NEO intends to comply with the stock ownership guidelines within the specified period.

6. CORPORATE GOVERNANCE

6.1. Overview

Capstone is subject to the Canadian Securities Administrators' National Instrument 58-101 – *Disclosure of Corporate Governance Practices* and National Policy 58-201 – *Corporate Governance Guidelines* of (collectively, the "**Governance Rules**"). In addition, the Board assisted by the CG&C Committee, has implemented various guidelines and policies to enhance and strengthen Capstone's corporate governance.

6.1.1. Corporate Governance Guidelines

A key component of Capstone's corporate governance is its corporate governance guidelines (the "**Guidelines**"). The Guidelines are annually reviewed by the Board, upon the recommendation of the CG&C Committee, and relate to various corporate governance matters, including:

- *Board Organization and Membership* – including the requirement that a majority of the Directors are to be Independent Directors and a majority voting policy for uncontested elections of Directors (see "**3.3.1. Majority Voting Policy**");
- *Board Committees* – including the requirement that the Audit Committee and CG&C Committee be composed entirely of Independent Directors;
- *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 review and assess the Board's relationship with senior management; and
- *Director Responsibilities and Performance* – including the requirement to assess the overall performance and effectiveness of the Board and each of its committees, the Chairman of the Board, the Chairman of each committee of the Board and each Director on an annual basis.

The Guidelines are available on Capstone's website at www.capstoneinfrastructure.com.

6.1.2. 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, contractors and agents (collectively referred to in the Code of Ethics as "**Employees**") of the Corporation and any subsidiary of the Corporation (the "**Capstone Infrastructure Group**"). The Code of Ethics generally outlines standards of conduct that must be met in the carrying out of an Employee's duties, including: (i) guidelines on the acceptance or offering of gifts, entertainment or other advantages 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 Employees to avoid all situations in which their personal interests conflict or might conflict with their duties to the Capstone Infrastructure Group by avoiding acquiring any interests or participating in any activities that could:

- Deprive the Capstone Infrastructure Group 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 Capstone Infrastructure Group.

In addition, Directors and officers of the Capstone Infrastructure Group are required to follow the procedures contained in the Code of Ethics (and also, in the case of the Directors, 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: (i) 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; and (ii) for the individuals in question to abstain from voting on such matters, as applicable.

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 Employee 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 and on the Corporation's website at www.capstoneinfrastructure.com.

6.1.3. Charter of Director Expectations

A Charter of Director Expectations (the "**Charter**") has also been developed to supplement the Guidelines and the Mandate of the Board (see "**6.2.1. Mandate of the Board**") by specifying certain expectations that the Board has for the Directors. The Board annually reviews the Charter. A copy of the Charter is attached to this Management Information Circular as Appendix "A".

6.2. Board of Directors

The Board consists of the number of Directors set by the Shareholders from time to time, with the number of Directors currently fixed at six and the following individuals currently serving as Directors: Mr. Patrick Lavelle, Mr. Goran Mornhed, Mr. Jerry Patava, Mr. François R. Roy and Mr. V. James Sardo (Chairman of the Board), all of who are Independent Directors. Mr. Derek Brown, who had served as a Director since 2004, resigned as a Director on February 28, 2013 and Mr. Lavelle, who is currently a Director and has served in that capacity since 2004, is not seeking re-election at the Meeting. The term of office of each Director currently in office expires at the close of the Meeting, unless he or she resigns or his or her office becomes vacant for any reason. The Board has proposed that the number of Directors be increased from six to seven at the Meeting.

Certain Nominees are also directors of (or serve in similar capacities on behalf of) other public entities in Canada and in other jurisdictions. Please see "**4.1. Biographical Information of Nominees**" for (i) the names of those Nominees who serve as directors of (or serve in similar capacities on behalf of) other public entities and (ii) the names of those other public entities. The biography of each Nominee set forth under such heading also outlines each Nominee's relevant experience and expertise. No Nominee sits on the board of a public entity (other than the Corporation) on which another Director also sits. For information regarding the compensation of Directors, please see "**4.5. Director Compensation**".

The Board meets at least once each quarter, with additional meetings as the Board deems advisable, to review the business operations and financial results of the Corporation. Meetings of the Board include regular meetings with management to review and discuss specific aspects of the business operations of the Corporation. The Independent Directors hold in-camera sessions with only the Independent Directors present at each quarterly meeting of the Board and periodically during the year at other meetings. Between January 1, 2012 and December 31, 2012, the Independent Directors have met six times without management present.

6.2.1. Mandate of the Board

The Board has a written mandate (the "**Mandate of the Board**") which specifies the Board's ongoing responsibility for stewardship of the Corporation. The Board annually assesses the Mandate of the Board. A copy of the Mandate of the Board is attached to this Management Information Circular as Appendix "B". The Board is ultimately responsible for supervising the activities and managing the business and affairs of the Corporation and, in doing so, 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 Mandate of the Board include:

- Oversight of the Corporation's corporate 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.

6.3. Committees

Each of the Board's two standing committees (the Audit Committee and the CG&C Committee) is comprised entirely of Independent Directors. The Board does not have a nominating committee as the functions that would otherwise be performed by such committee are performed by the CG&C Committee (either by itself or by the Nomination Sub-Committee).

6.3.1. Audit Committee

The current members of the Audit Committee are Mr. Lavelle, Mr. Mornhed, Mr. Patava, Mr. Roy (Chairman) and Mr. Sardo. In accordance with applicable securities laws, each of the members of the Audit Committee is an Independent Director and "financially literate". The Audit Committee corresponds directly with the Corporation's finance and accounting staff to review issues as appropriate and meets directly with PwC, the Corporation's external auditor, on a regular basis. The Audit Committee charter (the "**Audit Committee Charter**"), is attached as a schedule to the AIF, which is available under the Corporation's profile on SEDAR at www.sedar.com. The Audit Committee Charter is assessed annually and updated as required. The Audit Committee Charter outlines, among other things, the mandate of the Audit Committee to:

- Oversee the integrity, accuracy and transparency of the Corporation's financial statements and financial reporting process;
- Oversee the Corporation's internal controls and the management of risk to the Corporation;
- Oversee the qualifications and independence of the Corporation's external auditor;
- Communicates directly with the Corporation's finance and accounting staff to review issues as appropriate;
- Meets directly with PwC, Capstone's external auditor, on a regular basis;
- Oversee the work of the Corporation's financial management and external auditors; and
- Provide an open avenue of communication between the external auditors, the Board and management of the Corporation.

Further disclosure relating to the Audit Committee and its members, as required by applicable securities regulations, can be found in the AIF, which is available under the Corporation's profile on SEDAR at www.sedar.com.

6.3.2. CG&C Committee

The current members of the CG&C Committee are Mr. Lavelle, Mr. Mornhed, Mr. Patava (Chairman), Mr. Roy and Mr. Sardo, each of whom is an Independent Director. The mandate for the CG&C Committee is contained in the CG&C Committee Charter (the "**CG&C Committee Charter**"), and includes, among other things:

- Reviewing and making recommendations to the Board with regard to all forms of compensation to be paid to the Directors and the CEO;
- Reviewing the CEO's proposals regarding the compensation of the other senior executives of the Corporation;
- Identifying and recommending to the Board qualified candidates to nominate for election as Directors, with regard to the background, employment and qualifications of possible candidates, including, among other things, the competencies, skills, business and financial experience, leadership roles and level of commitment to fulfil Board responsibilities (see "**4.3. Director Nomination Process**");
- Reviewing and revising, as applicable, Capstone's approach to corporate governance issues;
- Succession planning for senior management and the Directors to ensure the orderly succession of responsibilities and making recommendations to the Board;
- Overseeing the annual Board and committee assessment and Director performance evaluation process; and
- Overseeing compliance with the Code of Ethics.

The CG&C Committee reviews and reassesses the adequacy of the CG&C Committee Charter annually and recommends any changes to the Board.

6.4. Board and Committee Assessment and Director Performance Evaluation

The CG&C Committee annually assesses the size and effectiveness of the Board as a whole and each committee of the Board, including evaluating the performance of the Chairman of the Board and the chairman of each committee as well as the performance and contribution of individual Directors. The evaluation process includes conducting an annual survey of the Directors to elicit their views on the effectiveness of the Board, the Chairman of the Board, the Board's committees, the chairman of each committee and the individual Directors. The results of the annual survey are reported to the Board. As part of its annual Director, Board and Committee assessment and performance review, the CG&C Committee prepares a skills and experience matrix for all Directors (see "**4.2. Nominee Skills and Experience Matrix**").

6.5. Position Descriptions

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

The Chairman 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 Chairman 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 Chairman of the Board.

6.6. Director Continuing Education

The CG&C Committee oversees an orientation and education program for new Directors and provides ongoing educational opportunities for all Directors. To assist in familiarizing new Directors with the role of the Board and its committees, new Directors are provided with a Director Reference Manual, which includes the Guidelines, the Code of Ethics, the Mandate of the Board, the Audit Committee Charter, the CG&C Committee Charter, as well as the various position descriptions and other information relevant to their office. New Directors also receive a comprehensive orientation on the Corporation and its businesses and have the opportunity to meet with management of the Corporation and other members of the Board.

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 consultants concerning topics related to the Corporation's business, changes to the Corporation's legal and regulatory framework and corporate and board governance matters. Management regularly advises the Directors of opportunities for continuing education and the Directors are encouraged to attend external continuing education programs at the expense of the Corporation.

Directors attended the following internal and external continuing education programs during 2012:

2012	Topic	Presented/Hosted By	Attended By[1]
January	Compensation in Canada	Towers Watson	V.J. Sardo
February	Global Water Industry and water facility site tours	Sociedad General de Aguas de Barcelona, S.A.	All Directors
March	Cardinal facility site tour	Capstone	F. R. Roy V. J. Sardo
May	Capstone Director Orientation	Capstone	G. Mornhed J. Patava V. J. Sardo
July	Bristol Water and Värmevärden site tours Public Company Financial Reporting	Capstone BDO Dunwoody	V. J. Sardo V. J. Sardo
August	Enterprise Risk Management	KPMG LLP	All Directors
September	Compensation briefing	Meridian	V. J. Sardo
October	Natural Resources and the Global Economy and Fuelling a Sustainable Recovery: The Oil Factor	International Economic Forum of the Americas	J. Patava V. J. Sardo
November	Ontario's Electricity Marketplace	Sussex Group	All Directors

Note:

(1) Does not include information for Mr. Brown, Mr. Cowan and Mr. Lavelle.

APPENDIX “A”: CHARTER OF DIRECTOR EXPECTATIONS

The roles, responsibilities, qualifications and procedures of the board of directors of the Corporation (the “Board”) are set out in the Mandate for the Board of Directors of the Corporation (the “Mandate”) and the Corporation’s Corporate Governance Guidelines (the “Guidelines”). This Charter supplements the Mandate and the Guidelines by specifying certain expectations the Board places on its directors. This Charter of Director Expectations will be published annually in the Corporation’s proxy circular.

1. Personal Attributes

The Board considers a diverse group of candidates in the evaluation incumbent directors and potential candidates for election to the Board. The Board believes that the best directors exhibit the following qualities:

(a) they have demonstrated integrity and high ethical standards;

(b) they have a proven track record of sound business judgment and good business decisions; and

(c) they have loyalty to the Corporation and are dedicated to its success.

2. Professional Standards

In discharging his or her responsibilities, each director must act honestly and in good faith with a view to the best interests of the Corporation and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

In keeping with these standards, the directors should demonstrate the following key traits:

(a) the director brings outstanding and relevant business or other valuable experience, such as:

- (i) holds or has recently held a position of high-level responsibility;
- (ii) has experience operating a major public company;
- (iii) preferably has experience in the infrastructure sector or a related or similar industry;
- (iv) has a broad exposure to or understanding of the funding environment in which customers of the Corporation operate; and/or
- (v) possesses a high level of expertise in areas that are important to the Corporation;

(b) the director effectively contributes to the development of the Corporation’s strategic plan and businesses; and

(c) the director understands and effectively contributes to the broad range of issues that the Board and its committees must consider.

3. Compliance with Laws, Rules and Regulations

Directors must comply with laws, rules, regulations and Stock Exchange requirements applicable to the Corporation from time to time, including insider trading laws. “Stock Exchanges” means, at any time, those stock exchanges on which any securities of the Corporation are listed for trading. Directors must comply with the Corporation’s Insider Trading Policy.

4. Share Ownership

The Board believes that directors who have an equity position in the Corporation can better represent the interests of shareholders, and, as such, the Board has established minimum share ownership standards for directors. All directors are required to own the equivalent of three (3) years’ annual cash retainer in the form of common shares or deferred share units within five (5) years of becoming a director or the approval of these Guidelines. For the purposes of the foregoing provision, the aggregate value of the common shares or deferred share units owned by a director shall be deemed to be equal to the greater of the market value (or equivalent value) or the acquisition cost (or equivalent amount) of each such common share or deferred share unit.

5. Conflicts of Interest

Directors are expected to identify in advance any conflict of interest regarding a matter coming before the Board or its committees and to refrain from voting on such matters. If a director is uncertain of the nature or extent of a potential conflict, he or she should seek a ruling on the matter in advance with the Chairman or, at the time of the meeting with the chairman of the meeting.

In addition to the statutory responsibilities of directors to disclose all actual or potential conflicts of interest and generally to abstain from voting on matters in which the director has a conflict of interest, the director must recuse himself or herself from any discussion or decision on any matter in which the director is precluded from voting as a result of a conflict of interest or which otherwise affects his or her personal, business or professional interests.

6. Resignation Events

A director is required to submit his or her resignation to the Board for consideration if any of the following events occur:

(a) the director did not attend at least 75% of the regularly scheduled meetings of the Board or of the committees on which he or she serves;

(b) the director becomes involved in a legal dispute, regulatory or similar proceeding that could materially impact his or her ability to serve as a director and negatively impact the reputation of the Corporation;

(c) the director takes on new responsibilities in business, politics or the community which may conflict with the goals of the Corporation and materially reduce his or her ability to serve as director;

(d) the director makes a major change in principal occupation;

(e) In an uncontested election of directors, any nominee for director who receives a greater number of votes or proxies "withheld" from his or her election than votes or proxies "for" such election (the "Majority Voting Policy");

(f) there is any other change in the director's personal or professional circumstances that impact the Corporation or such director's ability to serve the Corporation; or

(g) the director fails to comply with the Corporation's share ownership guidelines.

Upon the occurrence of any of the foregoing, the Board, with the assistance of the CG&C Committee, will evaluate the facts and circumstances, and determine whether it is appropriate for the director to remain a member of the Board under such circumstances. A resignation will only become effective if and when it is accepted by the Board. In considering whether or not to accept the resignation, the Board will consider all factors deemed relevant by the members of the Board including, without limitation, the stated reasons why shareholders withheld votes from the election of that nominee (in the case of a resignation under the Majority Voting Policy), the length of service and the qualifications of the director whose resignation has been tendered, such director's contributions to the Corporation and these Corporate Governance Guidelines. The Board's decision to accept or reject a resignation and its reasons for its decision will be disclosed to the public promptly in accordance with applicable securities regulations and in any event within 90 days. If a resignation is accepted, the Board may appoint a new director to fill the vacancy.

Code of Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics ("Code") which applies to all directors, officers and employees, and requires them to act ethically at all times. The Board does not permit any waiver of any ethics policy with respect to any director or executive officer of Capstone Infrastructure Group. Any waivers from the Code that are granted for the benefit of directors or officers of Capstone Infrastructure Group may only be granted by the CG&C Committee.

Review of Guidelines

The Board, with the assistance of the CG&C Committee, reviews these Corporate Governance Guidelines on an annual basis to determine whether any changes are appropriate.

APPENDIX "B": 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.

1. Independence of Directors

At least two-thirds of the directors must be independent of the Corporation and the business of Capstone Infrastructure Group. In order to be independent, the director must qualify as "independent" as defined in Multilateral 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.

The Chairman of the Board shall be an independent director. The Chairman shall act as the effective leader of the Board and ensure that the Board's agenda will enable it to successfully carry out its duties.

2. Meetings

The Board will meet at least once in each quarter, with additional meetings held as deemed advisable. The Chairman 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.

3. 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

(a) 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.

(b) The Board is responsible for reviewing the performance of the directors of the Corporation and at least annually conducts 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.

(c) 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.

(d) 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.

(e) 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.

(f) The Board is responsible for reviewing, at least annually, the succession plans of the Corporation for the Chairman, President and Chief Executive Officer and other executive officers, including the appointment, training and monitoring of such persons.

(g) 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.

(h) 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

(a) The Board will review, provide input and approvethe Corporation's strategic plan and budget.

(b) 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.

(c) 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, the annual report, management proxy circular and annual securities law filings.

(d) 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

(a) The Board is responsible for:

- (i) maintaining records on the Corporation's affairs and investments;
- (ii) approving and monitoring compliance with all significant policies and procedures by which the Corporation is operated;
- (iii) 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
- (iv) enforcing obligations of the directors respecting confidential treatment of the Corporation's proprietary information and Board deliberations.

(b) 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

(a) The Board is responsible for:

  (i) overseeing the accurate reporting of the financial performance of the Corporation to shareholders, other security holders and regulators on a timely and regular basis;

  (ii) overseeing that the financial results are reported fairly and in accordance with generally accepted accounting or other applicable standards and related legal disclosure requirements;

  (iii) taking steps to enhance the timely disclosure of any other developments that have a significant and material impact on the Corporation;

  (iv) reporting annually to shareholders on its stewardship for the preceding year;

  (v) overseeing the provision to shareholders of all such information as is required by applicable law, prior to each meeting of shareholders;

  (vi) overseeing the investor relations and communications strategy of the Corporation; and

  (vii) overseeing the Corporation's ability to accommodate feedback from shareholders.

Professional Advisors for Directors

(a) 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 Chairman in advance as being reasonable and the procedures as set out in the Corporation's Corporate Governance Guidelines being followed.

CORPORATE INFORMATION

CORPORATE HEAD OFFICE

155 Wellington Street West
RBC Centre
Suite 2930
Toronto, Ontario M5V 3H1

Tel: 416-649-1300
Fax: 416-649-1335

INVESTOR RELATIONS

Sarah Borg-Olivier
Senior Vice President, Communications

Tel: 416-649-1325
Toll free: 1-855-649-1300
Email: info@capstoneinfrastructure.com

Visit our website at www.capstoneinfrastructure.com for information about Capstone's business and to access investor materials such as annual and quarterly financial reports, recent news and investor presentations, including a webcast of the annual general meeting.

Questions?

Your vote is important regardless of how many Common Shares you own. As a Shareholder, we encourage you to read this Management Information Circular carefully and to vote your Common Shares.

Our Proxy Solicitation Agent is ready to answer questions and to assist you in registering your vote.

North American Toll-Free Phone: 1-800-229-5716
Banks, Brokers and collect calls: 201-806-2222
Toll-Free Facsimile: 1-888-509-5907
Email: inquiries@phoenixadvisorscst.com

CST PHOENIX ADVISORS
LINK GROUP network

WHY INVEST IN INFRASTRUCTURE?

- **ESSENTIAL SERVICE**
  Core infrastructure businesses provide an essential service, which translates into steady, long-term cash flow for investors that is largely resistant to economic or market fluctuations.
- **STRATEGIC COMPETITIVE ADVANTAGE**
  Capstone's core infrastructure businesses are physical, long-life assets that are regulated or contractually defined, which creates a competitive advantage that cannot easily be replicated.
- **PREDICTABLE, GROWING CASH FLOW**
  Capstone's infrastructure portfolio generates reliable cash flow that is largely linked to measures of economic growth.
- **ATTRACTIVE RISK-ADJUSTED RETURN**
  Infrastructure represents a distinct asset class that has historically exhibited a low correlation to other asset classes, making it an excellent portfolio diversification tool.