Financing of Hydro Facilities

On June 6, 2012, MPT Hydro LP, an indirect wholly-owned subsidiary of Capstone, which owns the Dryden, Hluey Lakes, Sechelt and Wawatay hydro facilities (the "hydro facilities"), completed a $100,621 debt offering to recapitalize the hydro facilities. The debt offering comprised $80,379 of senior secured bonds and $20,242 of subordinated secured bonds.

Proceeds from the offering were used to repay the $27,239 balance of levelization debt at the Wawatay hydro facility and to pay $1,785 of transaction costs, which were capitalized. In addition, Capstone cash funded $3,846 for debt service and maintenance reserve accounts in accordance with the bond indenture and used $67,700 of net proceeds to repay a portion of the CPC-Cardinal credit facility. The remaining balance of $12,300 was subsequently refinanced in September 2012, as part of the new credit facility.

New Dividend Policy

On June 1, 2012, the Board of Directors of the Corporation established a new policy with respect to the timing and amount of its dividend, commencing with the month ended June 2012. Under the new dividend policy, the Corporation intends to pay a quarterly dividend of $0.075 per common share, or $0.30 per common share on an annualized basis. Among other things, the Corporation's dividend policy reflects management's view on current Ontario power market and fiscal dynamics and its expectation for the cash flow the Cardinal facility will generate following the expiry of its current power purchase arrangement at the end of 2014.

The Corporation's dividend policy is determined by the Board of Directors of the Corporation and is based on the Corporation's cash flows, financial requirements, the satisfaction of solvency tests imposed under corporate law for the declaration of dividends and other relevant factors. With the implementation of the new dividend policy, the Corporation expects to retain additional cash that can be reinvested in new growth opportunities.

NON-GAAP AND ADDITIONAL GAAP PERFORMANCE MEASURE DEFINITIONS

While the accompanying consolidated financial statements have been prepared in accordance with IFRS, this MD&A also contains figures that are performance measures not defined by IFRS. These non-GAAP and additional GAAP performance measures do not have any standardized meaning prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other issuers. The Corporation believes that these indicators are useful since they provide additional information about the Corporation's earnings performance and cash generating capabilities and facilitate comparison of results over different periods. The non-GAAP and additional GAAP measures used in this MD&A are defined below.

Earnings before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA")

EBITDA is net income (loss), including that net income (loss) related to the non-controlling interest ("NCI") and interest income excluding interest expense, income taxes, depreciation and amortization. EBITDA represents Capstone's continuing capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

Adjusted EBITDA

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. Adjusted EBITDA is reconciled to EBITDA by removing equity accounted income, other gains and losses (net), foreign exchange gains and losses, and adding in dividends or distributions from equity accounted investments.

Adjusted Funds from Operations ("AFFO")

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.

AFFO is calculated from Adjusted EBITDA by:

Deducting:

- Adjusted EBITDA generated from businesses with significant non-controlling interests

Adding:

- Dividends received from businesses with significant non-controlling interests
- Scheduled repayments of principal on loans receivable from equity accounted investments

Deducting items for businesses without significant non-controlling interests:

- Interest paid
- Income taxes paid
- Dividends paid on the preferred shares included in shareholders' equity
- Maintenance capital expenditure payments
- Scheduled repayments of principal on debt, net of changes to the levelization liability up to repayment on June 6, 2012

Payout Ratio

Payout ratio measures the proportion of AFFO that is paid as dividends to common shareholders. The payout ratio is calculated as dividends declared divided by AFFO.

Reconciliation of Non-GAAP Performance Measures

The following table reconciles Adjusted EBITDA and AFFO to the nearest GAAP measures:

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
EBITDA	**161,091**	32,066
Foreign exchange (gain) loss	**(1,620)**	3,274
Other (gains) and losses, net	**(1,294)**	21,742
Equity accounted (income) loss	**(2,294)**	5,276
Distributions from equity accounted investments	**2,001**	—
Non-controlling interest ("NCI") portion of Adjusted EBITDA	**(37,227)**	(6,685)
Adjusted EBITDA	**120,657**	55,673
Cash flow from operating activities	**114,678**	50,881
Bristol Water cash flow from operating activities	**(76,474)**	(22,192)
Bristol Water dividends paid to Capstone	**8,091**	3,971
Värmevärden dividends paid to Capstone	**2,001**	—
Foreign exchange (gain) loss on loans receivable from Värmevärden	**(415)**	33
Chapais loans receivable principal repayments	**984**	884
Power maintenance capital expenditures	**(5,398)**	(4,129)
Power and corporate scheduled principal repayments	**(12,581)**	(4,688)
Power and corporate working capital changes	**8,427**	(8,287)
Dividends on redeemable preferred shares	**(3,750)**	(1,264)
AFFO	**35,563**	15,209