STRATEGIC OVERVIEW

Capstone's core competencies give us the capability to deliver on our mission. These strengths include our record of operational excellence and discipline in how we screen, pursue and execute on growth opportunities as well as strong leadership and financial flexibility. As a result, Capstone is well positioned to capitalize on opportunities currently emerging in the growing infrastructure sector.

PERFORMANCE OVERVIEW

Capstone's Business

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 our shareholders by providing reliable income and capital appreciation. Our vision is to be the pre-eminent diversified infrastructure company in Canada.

Infrastructure businesses provide services that meet critical, long-term community needs, such as power generation, electricity transmission, roads and transportation networks, and water systems. These businesses typically benefit from some form of barrier to entry, stable and growing demand, and other competitive advantages that provide stability in cash flow.

Our power infrastructure platform includes gas cogeneration, wind, hydro, biomass and solar power generation facilities in Canada, totalling approximately 370 megawatts of installed capacity. These facilities have power purchase agreements with creditworthy customers. Our objectives for the power platform are to maximize production and to maintain or improve the quality of each facility while efficiently managing costs.

Our utilities platform includes a 50% equity interest in Bristol Water, a regulated business in the United Kingdom that earns a return on its regulated capital value ("RCV"), or asset base. Bristol Water is the sole water supplier in the Bristol region, serving a population of 1.2 million people. Our objectives for Bristol Water are to provide safe, reliable drinking water that is cost-effective for customers, to operate efficiently and in compliance with all regulatory and environmental requirements, and to invest capital to grow its RCV.

We also hold a 33.3% equity interest in Värmevärden, a district heating business in Sweden that serves residential customers, which includes multi-residential complexes and municipal users, and also has long-term contracts with industrial customers. Our objectives for Värmevärden are to manage fuel costs by using more cost-effective fuels, maintain strong customer relationships, and ensure high plant availability and operational efficiency.

We expect to continue to build upon these two platforms and to further diversify our portfolio by geographic region and infrastructure category, which could include power distribution and transmission; transportation, such as roads; and public private-partnerships.

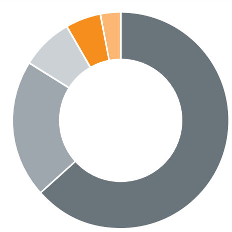
AVAILABILITY (%)

Facility	2012	Five-Year Average
Cardinal	**95.0**	96.7
Erie Shores	**97.9**	96.7
Hydro Power Facilities	**98.5**	98.0
Whitecourt	**95.9**	91.3
Amherstburg [1]	**97.4**	96.5

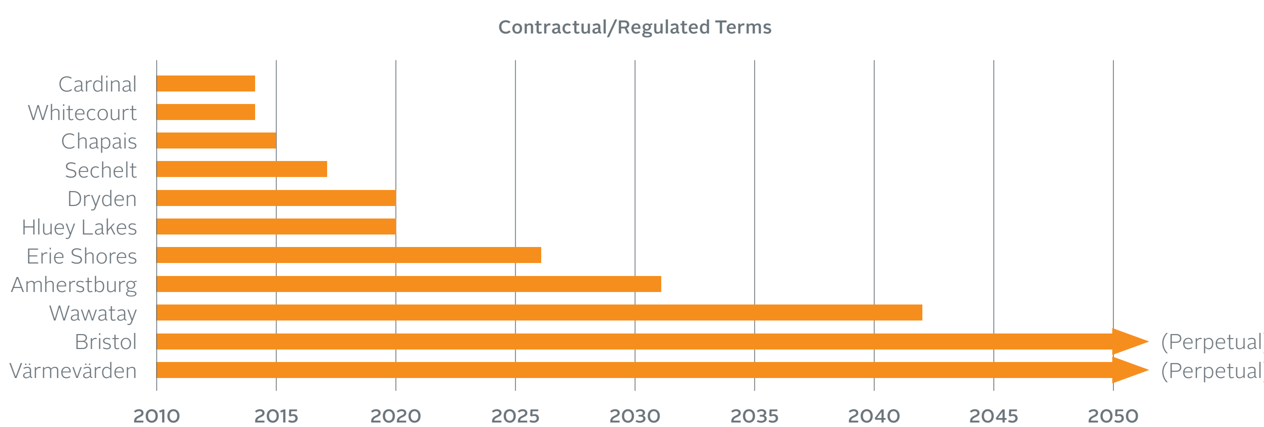
(1) Amherstburg commenced operations in June 2011.

PERCENTAGE OF 2012 POWER REVENUE BY COUNTERPARTY

- 63.5% Ontario Electricity Financial Corporation
- 20.6% Ontario Power Authority
- 7.8% TransAlta
- 5.1% BC Hydro
- 3.0% Other



DURATION OF CASH FLOW



STRATEGY

Accomplishing Our Vision

In support of its long-term vision, Capstone's decision making is guided by the following imperatives:

Maximize and sustain the long-term value of our existing businesses

Each of our assets undergoes an annual strategic planning exercise to assess progress against goals and to determine how we can further improve the efficiency, quality and performance of our operations. We work closely with the management teams at each asset to optimize operating and financial performance, which includes applying strong risk management principles and procedures to safeguard Capstone's performance. In addition, each business follows a comprehensive, planned maintenance and capital expenditure program, which contributes significantly to long-term value.

Deliver strong financial performance

Our infrastructure businesses provide essential services for which there is consistent demand throughout the economic cycle. They also operate within contractual frameworks or environments where they benefit from high barriers to entry. Combined, these attributes result in an inherently stable foundation and, accordingly, relatively predictable operating cash flow. We seek to maximize our businesses' cash flow by employing a long-term approach to strategic planing and capital expenditures and by focusing on identifying new efficiencies and opportunities for enhancements capable of driving revenue growth.

Achieve prudent growth

Capstone's strategy includes:

- Concentrating our business development efforts primarily on Canada, the United States, the United Kingdom and western Europe in alignment with our focus on investing only in countries that are members of the Organization for Economic Cooperation and Development (OECD) and feature stable fiscal and political environments;
- Pursuing regulated or contractually defined core infrastructure businesses, which typically generate stable cash flow throughout the economic cycle. This category includes power generation, electricity distribution and transmission, utilities, transportation and public-private partnerships;
- Seeking a blend of operating infrastructure businesses and development opportunities that offer an appropriate risk-adjusted rate of return; and
- Focusing on wholly-owned businesses while remaining open to collaborating with like-minded partners, an approach that has historically been successful for us.

Capstone's strategy is reviewed annually by its Board of Directors.

CORE INFRASTRUCTURE CATEGORIES

Highly regulated → **Less regulated**

Strong competitive advantage → **More competitive environment**

Target Assets for CSE

P3s	REGULATED ASSETS	USER-PAY ASSETS	COMPETITIVE ASSETS
▸ Courts ▸ Hospitals ▸ Schools ▸ Police & Other Government Facilities	▸ Transmission & Distribution Assets ▸ Water & Sewerage ▸ Contracted Power	▸ Road ▸ Rail ▸ Airports ▸ Ports	▸ Merchant Power ▸ Energy Trading
	▸ District Heating: favourable utility-like characteristics with user-pay dimension		

Increasing Risk

Minimizing financial risk

We continually monitor, analyze and seek to minimize the risks within our capital structure with a view to maintaining an optimal financing mix that aligns with the cash flows, risk profile and duration of our businesses and that generates value for shareholders. We seek to manage our capital structure so that it remains flexible and offers room for expansion. In 2012, we refinanced or repaid approximately $200 million coming due under various credit facilities, thereby significantly strengthening our balance sheet.

MARKET FUNDAMENTALS

Effective infrastructure supports economic growth and ensures a high quality of life. Globally, infrastructure investment requirements are significant and growing, driven by underinvestment as well as major factors of change such as global economic growth, technological progress, climate change, urbanization and growing congestion. There is a significant gap between the infrastructure investments required for the future and the capacity of the public sector to meet those requirements from traditional sources.

Significant infrastructure investment is required in Canada and internationally

In a 2013 report, the McKinsey Global Institute estimated that US$57 trillion in infrastructure investment is required between 2013 and 2030 simply to keep up with projected growth in global gross domestic product ("GDP"), including investments for transport (road, rail, ports and airports), power, water and telecommunications. It is estimated that approximately $400 billion will be required by 2020 to plug Canada's infrastructure deficit: its physical foundation of public buildings, roads, bridges, sewers, electrical grids, water purification plants and other critical infrastructure.

Strong demand for power infrastructure investment

According to the International Energy Agency, the global power generation, distribution and transmission infrastructure sector requires US$17 trillion in existing and new capacity by 2035. The Canadian Electricity Association estimates that the Canadian electricity sector is expected to invest about $294 billion between 2010 and 2030 to maintain existing generation, transmission and distribution infrastructure, meet market growth and accommodate a changing generation mix. In addition, the renewable energy sector is expected to continue to experience growth in North America reflecting government policy imperatives with respect to carbon reduction, climate change management and job creation.

Growing need for investment in water infrastructure

Aging infrastructure and years of underinvestment, growing demand and a variety of environmental pressures, including scarcity and climate change, are creating a growing need for investment in the modernization and improvement of water treatment and delivery and wastewater infrastructure systems throughout the OECD. The Federation of Canadian Municipalities estimates that Canada's water infrastructure deficit is approximately $31 billion with the amount of new investment required projected to be an additional $57 billion. The U.S. Environmental Protection Agency estimates water infrastructure investment needs in the United States over the next 20 years at more than US$500 billion.

Growing public support for private sector investment in infrastructure

Throughout much of the OECD, constrained government budgets and aging core infrastructure are expected to result in opportunities for additional private sector investment in infrastructure, including potential asset privatizations. In Canada, private sector investment in infrastructure is well established, with 185 public-private partnership (“P3”) projects at various stages currently underway, mostly involving hospitals, health care, courthouses, and transportation. The market for P3s is expected to continue to grow in Canada with water and waste water, energy and transit demanding more investment. A study conducted by the Canadian Council for Public-Private Partnerships in late 2011 showed that 70% of Canadians believe the private sector should work with governments to deliver critical infrastructure.

Combined, these market drivers contribute to the potential for increasing private sector participation in infrastructure renewal and expansion in Canada and the other OECD markets we target. Several attributes position Capstone to capitalize on these emerging opportunities, including our:

- Significant expertise in infrastructure investment and management across core infrastructure categories in Canada and internationally, which equips us to offer tangible, proven knowledge and experience to governments and prospective partners;
- New power development capability, which complements our existing skill set and will enable us to participate in earlier-stage greenfield or brownfield opportunities;
- Strong relationships within the infrastructure industry and with multinational partners, which enhance our ability to forge new partnerships across borders and to stimulate deal flow and access to unique opportunities; and
- Flexibility in how we work with prospective investment partners, which is a competitive advantage that has enabled us to effectively navigate less conventional, more complex opportunities such as our investment in Bristol Water. We acquired a controlling interest in Bristol Water, and a foothold in an attractive infrastructure category, while preserving a role for our new partner in the business.

By investing in regulated or contractually defined core infrastructure businesses, Capstone strives to offer shareholders reliable income and capital appreciation.

KEY PERFORMANCE DRIVERS

Across our businesses, we are focused on a number of performance drivers that support the quality, stability and long-term cash flow profile of our portfolio, and, accordingly, our ability to deliver value to shareholders.

Power

The major factors that drive the results of our power infrastructure segment are:

Maintaining consistently high availability

Availability is the number of hours that a generating unit is capable of generating electricity, whether or not it is actually generating electricity, as a percentage of total hours in the period. Our power businesses are characterized by high availability, which reflects the quality of plant operations and underpins the reliability of Capstone's cash flow. In 2012, our facilities achieved availability in line with or slightly ahead of their historical five-year average availability.

Entering into PPAs with creditworthy counterparties

Our power businesses have a sustainable competitive advantage through PPAs that provide price certainty for 98.7% of the power generated by our facilities, contributing to the overall predictability of Capstone's revenue. The remaining 1.3% of power, which represents approximately 4 MW of net capacity at Whitecourt, is sold at the Alberta Power Pool spot price. The weighted average PPA term remaining is approximately 7.3 years.

Conducting preventive maintenance and continually improving operations

Each facility has an established maintenance program with an emphasis on routine and preventive maintenance, which helps to ensure the plants' continuing consistent availability, capacity and long life.

In addition, we seek to improve the capacity and efficiency of each facility through the implementation of technological and operational enhancements. Initiatives in 2012 included completing a gear box oil exchange program at Erie Shores that is expected to reduce the number of oil changes required over the life of the facility, thereby lowering costs.

Counterparty Credit Ratings

Counterparty	Credit Rating
OEFC	AA (low)/Stable – DBRS
OPA	A (high)/Stable – DBRS
TransAlta	BBB/Stable – DBRS
BC Hydro	AA (high)/Stable – DBRS

Improving Operations at Erie Shores

In 2012, Erie Shores made operational enhancements that are expected to result in lower costs over the long term.

Utilities

The major factors that drive the results of our utilities segment are:

Water

Stable regulatory regime

The regulatory framework for water utilities in the United Kingdom enables Bristol Water to recover operating costs and earn a reasonable return on the capital it invests, resulting in highly visible and stable cash flows. As an incentive-based regime, the regulatory structure allows for significant outperformance through achievement of operational excellence and cost efficiencies.

Advancing capital investment program

In the current regulatory period, which runs from April 2010 to March 2015 ("AMP5"), Bristol Water will complete an approximately $441 million (£276 million) capital investment program. This program will enable Bristol Water to maintain and improve its infrastructure and operations, to continue to meet water quality requirements and to support growth arising from an increasing population and expanded business activity in the region. This significant capital program will drive growth in Bristol Water's regulated capital value, which over time will increase the cash flow we receive from this investment and its overall value for Capstone's shareholders.

Achieving of regulatory targets

Bristol Water is subject to a number of regulatory performance targets, including targets for serviceability, both above ground and below ground, security of supply, leakage and water efficiency. Failing to meet these targets could result in a fine or reduced revenue allowance at the next price setting review in 2014. Management is focused on achieving the following key regulatory outputs :

Key Regulatory Output	AMP5 Objective	Actual Performance (1)
Reduce amount of water that leaks from the network's pipes and mains	Reduce water leakage to 49 million litres of water per day ("Ml/d") with a 2013 target of less than 50 Ml/d	Achieved water leakage of 43 Ml/day due to a mild winter with fewer pipe bursts
Save water	Achieve a base service water efficiency target of 4.0 Ml/d	1.22 Ml/d
Strong performance on regulator's security of supply index, which measures reliability of water supply	Achieve a 100% grade	100%
Stable serviceability	Maintain stable serviceability	Achieved stable serviceability
Exceptional customer service as measured by regulator's Service Incentive Mechanism ("SIM")	Deliver top-quartile performance as measured through customer satisfaction surveys and quantitative data	Bristol Water ranked second out of 21 companies

(1) In the regulatory year ended March 31, 2012.

District heating

Managing fuel costs

Fuel costs are the largest expense for Värmevärden, accounting for approximately 37% of revenue. As a result, efficient management of fuel costs is a key driver of financial stability. Värmevärden's long-term contracts with industrial users include price escalators linked to a combination of inflation and fuel price increases. Contracts with residential users allow for rates to be set annually, which provides the business with flexibility to manage fuel price increases.

Maintaining strong customer relationships

Värmevärden's industrial customers provide approximately 25% of EBITDA. In addition, Värmevärden relies on its industrial partners for low-cost waste heat, which is a cost effective fuel source. Renewing existing customer contracts and securing new customers is important to Värmevärden's overall performance. The balance of Värmevärden's customers are categorized as residential, which includes multi-residential complexes as well as municipal users. Contracts with residential customers typically automatically renew annually but may be terminated with appropriate notice, which provides a strong incentive for Värmevärden to deliver highly reliable and quality service to its customers.

Increasing the availability and capacity of baseload production

Ensuring high plant availability and capacity helps to maximize revenue potential while minimizing the use of more expensive peak fuel.

CAPABILITY TO DELIVER RESULTS

Capstone's core competencies give us the capability to deliver on our mission. They include:

Record of operational excellence

We seek to ensure a stable portfolio by owning and managing a mix of relatively low-risk businesses. At each of our businesses, we work with the managerial team or our investment partners to improve productivity, manage costs and enhance long-term operations. Across our power facilities, for example, in 2012 we achieved an average availability of 95.8%, which was consistent with 2011. Our consistently strong availability is the product of effective, ongoing maintenance programs and the overall high quality of each facility.

Proven ability to execute on growth opportunities

Capstone has proven its ability to successfully pursue growth opportunities and to integrate new businesses into its portfolio, with the 2010 acquisitions of Amherstburg Solar Park and the 2011 acquisitions of our interests in Värmevärden and Bristol Water. We subsequently sold a portion of our investment in Bristol Water in May 2012.

Also in 2012, we established Capstone Power Development, a wholly owned subsidiary focused on sourcing, cultivating and pursuing power development opportunities in western Canada and the United States. This new capability will enable us to participate in earlier-stage opportunities and supports our objective of enhancing returns to shareholders.

Disciplined approach to pursuing growth

We bring a highly disciplined approach to selecting which growth opportunities we pursue and maintain a focus on high quality, low risk businesses that will enhance value for shareholders. Our discipline in selecting growth opportunities is evidenced by the attractive premium we achieved on the sale of a minority, non-controlling interest in Bristol Water just months after our initial acquisition.

Strong leadership

Capstone's corporate management team comprises executives with decades of combined expertise in managing and financing infrastructure businesses. Our newest employees with Capstone Power Development also bring decades of experience in successfully developing and delivering power projects in Canada and the United States. Our Board of Directors comprises seasoned executives with a broad mix of skills in finance, operations, strategy, government and corporate governance. In addition, employees throughout our organization are dedicated to operational excellence and continuous improvement.

Financial strength and flexibility

A key focus for us in 2012 was to refinance approximately $200 million in debt coming due during the year under various credit facilities. Through a variety of financing initiatives, we have successfully reduced our total leverage, lowered our refinancing risk and have limited exposure to movements in interest rates. Our debt to capitalization ratio at year end was 62.7%, which is conservative relative to the low risk profile and long life of our businesses.

We also seek to maintain a flexible capital structure that enables us to capitalize on growth opportunities when they arise. We are focused on:

- Ensuring an appropriate capital structure at the corporate and subsidiary level that aligns with the cash flow profile and duration of our businesses;
- Maintaining sufficient liquidity to meet short- and medium-term operating needs; and
- Building and maintaining strong relationships with investors and lenders.

As a result, we believe we have access to the resources we need to support growth.

In addition, we expect our dividend policy to result in a long-term payout ratio of 70% to 80% of Adjusted Funds from Operations, which will allow us to retain cash that can be reinvested in new growth opportunities.