INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated financial position, operating results and cash flows as at and for the years ended December 31, 2012 and 2011.

This MD&A should be read in conjunction with the accompanying audited consolidated financial statements of the Corporation and notes thereto as at and for the years ended December 31, 2012 and 2011. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2011, quarterly financial reports of Capstone and other public filings of the Corporation will be available under the Corporation's profile on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The information contained in this MD&A reflects all material events up to March 7, 2013, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

Financial information in this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRS") and amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

Amounts included in the consolidated financial statements of each entity in the Corporation are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars ("presentation currency"), which is Capstone's functional currency. The exchange rates used in the translation to the presentation currency are:

	Swedish krona (SEK)		Pound sterling (£)	
As at and for the year ended	Average	Spot	Average	Spot
Dec 31, 2011	0.1525 (1)	0.1479	1.6076 (2)	1.5799
Dec 31, 2012	**0.1476**	**0.1528**	**1.5840**	**1.6178**

(1) Nine-month period from acquisition on March 31, 2011 to December 31, 2011.

(2) Period from acquisition on October 5, 2011 to December 31, 2011.

CHANGES IN THE BUSINESS

In 2012, Capstone addressed maturing debt and positioned the company for future growth. At the end of 2011, Capstone had $197,375 of debt maturing in 2012, excluding amounts at Bristol Water. Capstone repaid or refinanced this amount through the initiatives described below. In addition, the Corporation implemented a new dividend policy in June 2012 reflecting the expected cash flow profile of the company post-2014, which includes the impact of lower cash flow from Cardinal following expiry of its current power purchase agreement.

Värmevärden Recapitalization

In March 2012, Värmevärden, the district heating business, issued approximately $150,000 (1,000,000 SEK) of senior secured bonds to institutional investors. Värmevärden repaid a portion of the shareholder loans from the bond proceeds. Capstone received $49,400 as partial repayment of its shareholder loan and accrued interest which is its pro rata share resulting from Capstone's one-third interest in Värmevärden. Capstone used these proceeds to repay a portion of its senior debt facility. As a result of the recapitalization, Capstone continues to own a one-third interest in Värmevärden, however its total investment in Värmevärden was reduced to $52,028, comprising $34,336 in loans receivable and $17,692 in equity accounted investment.

Partial Sale of Interest in Bristol Water

On May 10, 2012, Capstone sold to I-Environment Investments Ltd, a subsidiary of ITOCHU Corporation, a 20% indirect interest in Bristol Water plc. I-Environment Investments Ltd acquired a 2/7ths ownership interest in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone received $68,952 of net proceeds from the sale and used the funds to repay the remaining $28,975 on the senior debt facility and $39,000 on the CPC-Cardinal credit facility, retaining cash of $977.

Capstone retains a 50% indirect interest in Bristol Water and continues to consolidate based on retention of control. In accordance with IFRS, Capstone recorded the transaction as a transfer of equity to non-controlling interest holders. The excess net proceeds of $15,694 over the value of equity transferred to the non-controlling interest and $850 of taxes were recorded directly to retained earnings.