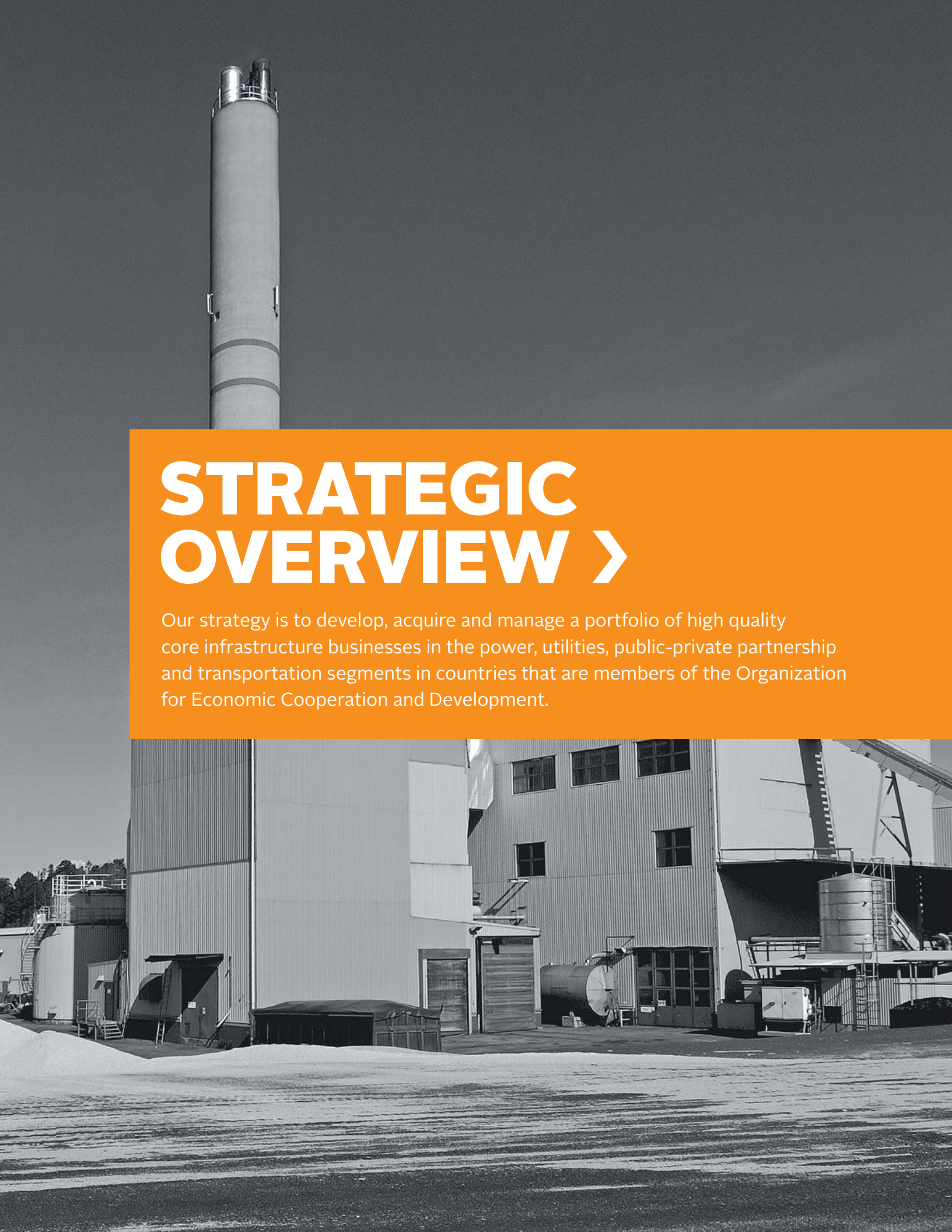

STRATEGIC OVERVIEW ›

Our strategy is to develop, acquire and manage a portfolio of high quality core infrastructure businesses in the power, utilities, public-private partnership and transportation segments in countries that are members of the Organization for Economic Cooperation and Development.

OVERVIEW

Vision, Mission and Strategy

In December 2013, Capstone updated its corporate vision and mission statements following an analysis of its goals, opportunities, strengths, values and stakeholder audiences. Capstone's vision is to be a Canadian leader in owning and operating diversified infrastructure businesses that benefit the communities we serve, the people we employ, and our investors. Our mission is to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally.

Infrastructure businesses provide services that meet critical, long-term community needs, such as power generation, electricity transmission, water systems, and roads and transportation networks. 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.

Over the long term, Capstone's growth strategy to is to develop, acquire and manage a portfolio of high quality core infrastructure businesses in the power, utilities, public-private partnership ("P3") and transportation segments in countries that are members of the Organization for Economic Cooperation and Development ("OECD") with the aim of providing an attractive, risk-adjusted return to investors. We focus on wholly-owned businesses while remaining open to collaborating with like-minded partners, an approach that has historically been successful for us with investments such as Bristol Water and Värmevärden. Specifically, we seek to invest in:

- A combination of lower risk opportunities where cash flow is contractually defined such as operating power facilities and P3s;
- Utility-like opportunities that offer the potential for predictable cash flow and steady growth; and
- Higher return investments such as power development projects or user-pay forms of infrastructure such as toll roads.

CORPORATE OBJECTIVES

Corporate Objective	Strategic Approach
Maximize Capstone shareholders' risk-adjusted return	• Build a portfolio of high quality infrastructure businesses that are regulated or operate within a contractually-defined framework, which typically feature a lower risk profile, provide stable dividends and offer the potential for growth and capital appreciation. • Increase Capstone's cash flow to fund growth and support growing dividends over time. • Improve economies of scale, thereby minimizing costs.
Improve performance by entering infrastructure segments that diversify Capstone's portfolio mix	• Creating a diversified portfolio across four infrastructure pillars: power, utilities, public-private partnerships and transportation. • Manage Capstone's mix of infrastructure businesses to reduce the company's risk profile and achieve better returns.
Create shareholder value by adding infrastructure businesses that increase scale, expand future opportunities and potentially offer synergies	• Achieve scale by reducing the average cost of managing Capstone's businesses and adding new capabilities. • Expand the scope and size of growth opportunities available to Capstone by building the scale of the company's portfolio. • Seek to capture synergies across our business through the transfer of skills or sharing of activities.
Operate infrastructure businesses in a responsible and sustainable manner	• Partner with the communities in which Capstone operates to provide socially-responsible services with due consideration to the environment, health and safety. • Apply a long-term philosophy to the maintenance and operation of Capstone's businesses. • Manage business risks to reduce likelihood and impact of adverse events.
Provide a work environment that attracts and retains skilled employees	• Offer competitive overall compensation. • Foster an enjoyable culture that promotes collaboration, learning and growth. • Create career development opportunities to enhance expertise and engage employees.

OUR PLATFORMS AND PERFORMANCE DRIVERS

Power

Our power platform includes gas cogeneration, wind, hydro, biomass and solar power generation facilities in Canada, totalling approximately 439 net megawatts of installed capacity. We are also developing a pipeline of wind power projects totalling an expected 79 net megawatts of capacity. The operating facilities and development projects have power purchase agreements with creditworthy customers. See Figure 1.

The key performance drivers for the power platform in 2014 are to:

- Achieve consistently high availability to help maximize production. See Figure 2.
- Maintain or improve the quality of each facility by focusing on routine and preventive maintenance and implementing technological and operational enhancements. See Figure 3.
- Efficiently manage operating costs at each facility.
- Complete the Skyway 8 and Saint-Philémon wind power development projects on time and on budget and advance the balance of the project pipeline.
- Operate facilities safely with a goal of zero lost-time injuries.

Figure 1: Counterparty Credit Ratings

Counterparty	Credit Rating
Ontario Electricity Financial Corporation ("OEFC")	AA (low)/Stable – DBRS
Ontario Power Authority ("OPA")	A (high)/Stable – DBRS
Nova Scotia Power Incorporated ("NSPI")	A (low)/Stable - DBRS
TransAlta	BBB/Stable – DBRS
BC Hydro	AA (high)/Stable – DBRS

Figure 2: Consistently High Availability

Facility	2013	Five-Year Average
Cardinal	98.2%	96.9%
Wind power facilities [(1)]	97.2%	97.2%
Hydro power facilities	99.1%	98.5%
Whitecourt	96.1%	92.9%
Amherstburg [(2)]	99.6%	n/a

(1) Includes Erie Shores and the operating wind power facilities acquired from ReD on October 1, 2013.

(2) Amherstburg commenced operations in June 2011.

Figure 3: Enhancing Cash Flow at Erie Shores

In 2013, Erie Shores installed WindBOOST, a turbine control system that helps to increase annual energy output, thereby increasing revenue.

Utilities

Capstone's utilities platform currently includes interests in a regulated water utility and a district heating business.

Water

We hold 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 more than 1.1 million people.

Bristol Water is currently executing a significant capital program aimed at maintaining and improving Bristol Water's infrastructure and operations while continuing to meet water quality requirements and support growth arising from an increasing population and expanded business activity in the region. This program will drive growth in Bristol Water's RCV, which over time will increase the cash flow we receive from this investment and its overall value for Capstone's shareholders.

The key performance drivers for Bristol Water in 2014 are to:

- Provide safe, reliable drinking water that is cost-effective for customers.
- Operate in compliance with all regulatory and environmental requirements. See Figure 3.
- Operate efficiently to manage costs.
- Execute the company's approximately $520 million regulator-approved capital expenditure program for the current regulatory period, resulting in RCV growth.

In addition, a key focus for 2014 is working with Bristol Water's management to bring the Price Review 14 ("PR14") process to a satisfactory regulatory conclusion. The PR14 outcome will establish the company's business plan for the next five-year regulatory period ("AMP6").

Figure 3: 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 2014 target of less than 49Ml/d	Achieved water leakage of 42 Ml/day
Save water	Achieve a base service water efficiency target of 4.0 Ml/d over the regulatory period	Cumulative 3.77 Ml/d since the start of the AMP5 period in 2010
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 4th out of 19 companies in the industry

(1) In the regulatory year ended March 31, 2013.

District Heating

We hold a 33.3% equity interest in Värmevärden, a district heating business in Sweden operating in 10 communities that serves residential customers, which includes multi-residential complexes and municipal users, and also has long-term contracts with industrial customers.

Our key performance drivers for Värmevärden in 2014 are to:

- Manage fuel costs, Värmevärden's largest operating expense, by using cost-effective fuels.
- Maintain strong customer relationships by providing highly reliable, quality service to customers, thereby increasing potential for contract renewals and the signing of new customers.
- Ensure high plant availability and operational efficiency, which helps to maximize revenue potential while minimizing the use of more expensive peak fuel.

Targeted Platforms

Public-Private Partnerships

A P3 is a partnership between the public and private sectors, built on the expertise of each partner, which best meets clearly defined public infrastructure needs through an optimal allocation of resources, risks and rewards, resulting in higher long-term infrastructure quality and value for taxpayers. There are a variety of P3 models available for delivery of public infrastructure, ranging from designing, building and financing an asset to designing, building, financing, maintaining and operating an asset. P3 models are used to deliver a variety of large-scale infrastructure, from roads to energy or government buildings such as schools and hospitals. For investors, P3s with a strong project rationale offer predictable, government-backed cash flow with limited volatility.

Transportation

Transportation infrastructure includes toll roads, railways, public transportation systems, ports and airports, all of which are required to support passenger and freight travel. Over the next four decades, the International Energy Agency estimates global passenger and freight travel will double over 2010 levels, requiring new infrastructure to be built at significant cost. In addition, many cities require significant investments to modernize and expand their transit systems to deal with increasing gridlock. A 2013 study by the CD Howe Institute estimated that traffic and transit gridlock costs the Greater Toronto Area up to $11 billion each year. More innovative funding and financing approaches will be required in many jurisdictions given government fiscal constraints and competing demands on limited budget resources.

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. It is 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.[1] Reaching this level of investment will require a 60% increase in the level of infrastructure investment globally from current expenditures, and may still be insufficient to address major infrastructure deficiencies.[1]

In Capstone's targeted jurisdictions, 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.

(1) *"Infrastructure Productivity: How to save $1 trillion a year,"* McKinsey Global Institute, January 2013.

Canada

In Canada, it is estimated that the infrastructure deficit --- for public buildings, roads, bridges, sewers, electrical grids, water purification plants and other critical infrastructure --- ranges up to approximately $570 billion.[1] There is significant private investment in infrastructure in Canada and P3s are a well-established model for infrastructure delivery in several provinces, notably Ontario, British Columbia, Alberta and Quebec, and at the federal level.

In Canada, Capstone continues to explore opportunities in the power sector, including operating facilities and development-stage projects, and believes the public-private partnership segment offers potential opportunities.

In the electricity sector, it is estimated that about $294 billion will need to be invested between 2010 and 2030 to maintain existing generation, transmission and distribution infrastructure, meet market growth and accommodate a changing generation mix.[2] In addition, the renewable energy sector is expected to continue to experience activity in Canada, although at a slower pace than in recent years, reflecting government policy imperatives with respect to carbon reduction, climate change management and job creation.

Canada enjoys an increasingly centralized and coordinated P3 market. There are currently 206 P3 projects across the country, primarily at the provincial or federal level, either in operation or in development representing an estimated cumulative investment of approximately $63.5 billion.[3] Canada's P3 pipeline is increasingly diverse, featuring a growing number of urban transit projects and offering the potential for more water/wastewater projects as municipalities must meet more stringent federal government compliance standards. Across Canada, the infrastructure spending of municipalities is comparable to that of the provinces yet the number and total value of P3 projects delivered by municipalities lags in comparison, creating the potential for increased adoption of the P3 model.

Capstone is primarily targeting P3 opportunities in transportation, such as roads and public transit, bridges and tunnels; water and wastewater; and government buildings such as schools or hospitals. Capstone emphasizes market P3 opportunities where the project is operational or near to completion, thereby offering greater cash flow predictability with a low risk profile.

United States

In the United States, infrastructure spending as a percentage of GDP has shrunk to about 2.4% from its peak of more than 3% during the 1960s.[4] In 2013, the condition of America's infrastructure --- including water, transportation, public facilities, and energy --- was assigned an overall grade of D+ by the America Society for Civil Engineers, which measures infrastructure conditions and needs according to eight criteria, including capacity, condition, funding, future need, operation and maintenance, public safety, resilience and innovation. Since 1998, grades have averaged only Ds due to delayed maintenance and underinvestment across most categories.[5]

In the United States, Capstone is primarily targeting opportunities in the power sector, both operating and development-stage projects, and utilities. The U.S. also has significant, unmet transportation infrastructure needs.

While slow economic growth and a declining manufacturing sector have dampened current demand for power in the United States, the electrical grid is aging and requires significant investment by utilities to reduce power failures and interruptions and to meet evolving government policy imperatives with respect to carbon reduction and climate change management. These two factors are expected to support continuing opportunities in renewable power generation as well as the building of new baseload generation capacity, primarily gas-fired, to replace power facilities reaching the end of their useful lives and to meet future demand growth.

The water sector also offers investment opportunities. 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.

In addition, the P3 market in the U.S. is expected to continue to grow, with the strengthening of project pipelines in states that were early adopters of the P3 model, with more public authorities turning to the P3 method of procurement, and with increasing acceptance of P3s by the U.S. construction industry.

(1) *"The Foundations of a Competitive Canada: The Need for Strategic Infrastructure Investment,"* Canadian Chamber of Commerce, December 2013.
(2) *"Canada's Electricity Infrastructure: Building a Case for Investment,"* Canadian Electricity Association, April 2011.
(3) Canadian Council for Public-Private Partnerships, 2013.
(4) *"Infrastructure 2013: Global Priorities, Global Insights,"* Ernst & Young, 2013.
(5) *"2013 Report Card for America's Infrastructure,"* American Society of Civil Engineers, 2013.

United Kingdom and Europe

In 2012-2013, the UK's global competitiveness ranking for "quality of overall infrastructure" was 24th --- equal to the US and below all other G7 economies except Italy, pointing to the country's significant infrastructure deficit.[1] In Europe, the public funding of infrastructure is at historically low levels for many governments despite increasing infrastructure investment requirements.[2] The European Commission estimates that funding needs for infrastructure development in the EU, covering transport, energy, and information and communication networks, could total up to €2 trillion by 2020.[3]

Capstone believes there are potential opportunities in operating and development-stage power projects, utilities and P3s in the UK, and Western and Northern Europe.

Overall, infrastructure investment opportunities are increasing in these markets as governments seek funding solutions to meet investment needs and due to the maturity of the public-private partnership market, particularly in the United Kingdom. There is also likely to be a shift to divestment of infrastructure assets, in part by private infrastructure funds as they approach the end of their fund terms.

The UK and Europe, similar to other OECD countries, are challenged to balance security, stability and affordability in energy supply while complying with stringent carbon reduction requirements, with major new investment in energy and utilities infrastructure required. In addition, the UK and EU have set requirements for renewable energy to comprise 15% and 20%, respectively, of electricity generation capacity by 2020.

Furthermore, many European countries are in acute need of upgrades and improvements to their roads and transportation infrastructure, reflecting aging infrastructure and years of underinvestment.

At the same time, public debt burdens have increased since the global financial crisis, creating the potential for the sale of public infrastructure assets. There is also the potential for the sale of non-core infrastructure assets by corporations and utilities as they seek to reduce debt and reposition.

Australia

In Australia, Capstone is primarily interested in P3 opportunities. Australia was a pioneer of the P3 model and features an active project pipeline and increasing market opportunities since the global financial crisis.

(1) *"Global Competitiveness Report 2012-2013,"* World Economic Forum, 2013.
(2) *"Private Infrastructure Finance and Investment in Europe,"* European Investment Bank, February 2013.
(3) *"Top 10 Investor Questions for 2013: Global Public Private Partnership Infrastructure Investment,"* Standard & Poor's, 2012.

CAPSTONE'S STRENGTHS AND ABILITY TO DELIVER RESULTS

Capstone is positioned to capitalize on emerging opportunities and trends in the global infrastructure market. A number of strengths enable us to deliver on our mission. They include:

Asset Management and Leadership

We have 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.

Our corporate management team comprises executives with decades of combined expertise in managing and financing infrastructure businesses. Our employees with Capstone Power Development also bring decades of experience in successfully developing and delivering power projects in Canada and the United States.

In addition, our Board of Directors comprises seasoned executives with a broad mix of skills in finance, operations, strategy, government and corporate governance.

Access to Opportunities

We have strong relationships within the infrastructure industry and with multinational partners, including, among others, Agbar and ITOCHU, our partners in Bristol Water, and the Macquarie group, our partner in Värmevärden, which enhance our ability to forge new partnerships across borders and to stimulate deal flow and access to unique opportunities.

Capstone has proven its ability to successfully pursue growth opportunities internationally and to integrate new businesses into its portfolio with the acquisitions of the Amherstburg Solar Park (2010), our interests in Bristol Water and Värmevärden (2011), and ReD (2013).

Professionalism

We bring a highly disciplined approach to managing our portfolio and to evaluating the growth opportunities we pursue, maintaining a focus on high quality, low risk businesses that will enhance value for shareholders while strengthening Capstone's reputation.

We are committed to operational excellence, working closely with our managerial teams or investment partners to improve productivity, manage costs and enhance long-term operations, and to ensuring a safe work environment for our employees and contractors.

In addition, we are committed to professionalism and transparency in our governance practices and financial reporting, which was recognized in 2013 by the Chartered Professional Accountants of Canada with an Award of Excellence in Corporate Reporting.

Agility

We anticipate, plan for and have an ability to adapt to changes in our business and the competitive landscape in order to capitalize on and respond quickly to value-building opportunities, reflecting the strength of our team and coordinated internal processes.

Analysis

Each of our businesses undergoes a comprehensive annual strategic and business planning exercise to assess progress against goals and to determine how we can further improve the efficiency, quality and performance of our operations. We likewise apply this discipline to the evaluation of growth opportunities, including completing a thorough financial analysis, and applying strong due diligence practices and risk management principles and procedures, which helps to safeguard Capstone's performance.

Capital Management

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 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.