Whitecourt

The Whitecourt Facility uses biomass combustion technology to convert the energy content in wood waste into electricity. Biomass is generally considered to be "carbon-neutral" as the amount of CO_2 arising from combustion is equal to what would be emitted if the biomass were to decompose naturally. As a result, electricity generated from biomass is regarded as an environmentally-friendly form of power generation. The Whitecourt facility is subject to limits governing the emissions of carbon monoxide, NOx and particulates in accordance with the facility's Environmental Approval. Average annual emission levels at the Whitecourt facility are below the levels of permitted emissions for the facility. The Whitecourt Facility is also subject to certain federal and provincial GHG reporting requirements and is in compliance with these requirements.

Hydro Facilities

Capstone's hydro facilities do not produce GHGs. However, their operations are governed by water management plans, which specify the hydrological conditions during which production may occur.

Erie Shores Wind Farm

Erie Shores does not produce GHGs, but is subject to regulations and/or approvals relating to birds, mammals, other animals, and to sound.

Amherstburg Solar Park

The operation of the Amherstburg does not generate GHGs and the primary environmental regulation relates to potential sound emissions issues.

Värmevärden

In 2007, the European Union adopted a long-term climate change target, commonly referred to as 20-20-20. The goal of the target is for member states (including Sweden) to reduce energy use by 20%, reduce CO_2 emissions by 20%, and increase their proportion of renewable energy by 20%, all by 2020. The government of Sweden has subscribed to the 20-20-20 targets and has made biomass-fired and waste-fired heating facilities an important component in its overall plan to meet its CO_2 reduction commitments.

Bristol Water

Energy use in water treatment and other activities carried out by Bristol Water results in indirect emissions of GHGs. Bristol Water is subject to the UK Climate Change Levy, although the forecast cost for 2012-2013 is an immaterial amount due to credits arising from Bristol Water's purchase of green energy. Bristol Water is also subject to the CRC Energy Efficiency Scheme, a mandatory UK carbon emissions reduction plan for significant consumers of energy; costs for 2012-2013 are projected to be an immaterial amount.

Further information regarding Environmental, Safety and Health Regulations matters is contained in the Corporation's Annual Information Form (which is available under the Corporation's profile on www.sedar.com).

RELATED PARTY TRANSACTIONS

Capstone's related party transactions in 2012 comprise compensation to key management, which commenced after the internalization of management on April 15, 2011.

In 2011, Capstone terminated its management and administration agreements with MGL, which established the related party relationship between Capstone and MGL. The 2011 transactions with MGL and MPML are described in note 26 (Related Party Transactions) in the consolidated financial statements for the year ended December 31, 2012.

Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Compensation awarded to key management consisted of salaries, directors' fees and short-term employee benefits, which include fees paid to directors. Eligible directors and senior management of the Corporation also receive forms of stock-based compensation. Key management compensation is described in note 26 (Related Party Transactions) in the consolidated financial statements for the year ended December 31, 2012.

Prior to April 15, 2011, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of Capstone and other employees were employed by MGL. Accordingly, employee compensation disclosure only includes executive compensation since the internalization of management.

Linking Management Compensation to Performance

Compensation plays an important role in achieving short- and long-term business objectives that ultimately drive the Corporation's business success in alignment with long-term shareholder goals. The objectives of the Corporation's compensation program are to:

- attract and retain highly qualified employees with a history of proven success;
- align the interests of employees with shareholders' interests and with the execution of the Corporation's business strategy;
- establish performance goals that, if met, are expected to improve long-term shareholder value; and
- tie compensation to those goals and provide meaningful rewards for achieving them.

Financial performance targets are set each year to provide management with an incentivize to improve upon yearly budgeted financial results and are therefore aligned with shareholder interests.

The following table summarizes the link between the Corporation's executive and senior officer forms of compensation and performance:

	Salary	Short-term incentive plan ("STIP")	Long-term incentive plan ("LTIP")
Description	Salary is a fixed component of compensation that provides income certainty by establishing a base level of compensation for executives fulfilling their roles and responsibilities.	The STIP provides the possibility of an additional annual cash award based on the achievement of corporate and individual goals.	The LTIP provides the possibility of an additional award linked to the Corporation's common shares. This award is paid in cash or common shares purchased on the open market after meeting certain vesting conditions.
Purpose	To attract and retain qualified executives.	To motivate, attract and retain qualified executives.	To reward long-term performance and align interests of executives with security holders.
Link to performance	No direct link.	A significant portion of this award is based on actual business performance against Capstone's non-GAAP performance measures, Adjusted EBITDA and AFFO.	A significant portion of this award is directly linked to the performance of the Corporation's shares over the vesting period, as well as the total shareholder return relative to a comparator group.

For a comprehensive understanding of Capstone's compensation program please refer to the "Compensation Discussion and Analysis" section of the Corporation's most recently filed information circular.

SUMMARY OF QUARTERLY RESULTS

The following table provides a summary of the previous eight quarters of Capstone's financial performance.

	2012				2011			
($000s, except for per share amounts)	Q4	Q3	Q2	Q1	Q4 (1)	Q3	Q2 (2, 3)	Q1
Revenue	**94,654**	**84,951**	**85,849**	**92,156**	91,663	40,361	37,028	46,915
Net income (loss)(4)	**12,612**	**5,553**	**(4,568)**	**13,381**	(4,891)	(11,783)	(30,370)	41,332
Adjusted EBITDA	**31,139**	**24,618**	**27,605**	**37,295**	31,120	13,253	(6,569)	17,869
AFFO	**13,560**	**3,381**	**3,707**	**14,915**	9,722	5,891	(13,888)	13,484
Common dividends(5)	**5,579**	**5,655**	**10,231**	**12,299**	11,569	10,225	10,217	10,015
Preferred dividends	**938**	**938**	**938**	**938**	1,264	—	—	—
Earnings Per Share – Basic	**0.144**	**0.061**	**(0.073)**	**0.167**	(0.086)	(0.190)	(0.492)	0.685
Earnings Per Share – Diluted	**0.139** (6)	**0.061**	**(0.073)**	**0.161** (6)	(0.086)	(0.190)	(0.492)	0.625 (6)
AFFO per share	**0.179**	**0.045**	**0.049**	**0.200**	0.136	0.096	(0.225)	0.223
Dividends declared per common share	**0.075**	**0.075**	**0.135**	**0.165**	0.165	0.165	0.165	0.165

(1) AFFO and AFFO per share have been adjusted to conform to the Corporation's revised definition of AFFO; refer to page 20 of this MD&A.

(2) Net loss, Adjusted EBITDA, AFFO, Earnings Per Share, and AFFO per share were significantly impacted by $18,611 of internalization costs incurred during the second quarter.

(3) Net loss has been adjusted by $2,409 for acquisition costs on Capstone's investment in Värmevärden.

(4) Net income (loss) attributable to the shareholders of Capstone.

(5) Common dividends include amounts declared for both the common shares of the Corporation and the Class B exchangeable units.

(6) Convertible debentures were dilutive during the period.