RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO in 2012 were both higher than in 2011 as reflected in the following table.

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Revenue	**357,610**	215,967
Expenses	**(206,613)**	(160,052)
Interest income	**4,886**	6,443
Distributions from equity accounted investments	**2,001**	—
Less: non-controlling interest ("NCI")	**(37,227)**	(6,685)
Adjusted EBITDA	**120,657**	55,673
Adjusted EBITDA of consolidated businesses with NCI	**(48,516)**	(15,597)
Dividends from businesses with non-controlling interests	**8,091**	3,971
Principal from loans receivable	**984**	884
Interest paid	**(23,312)**	(19,641)
Dividends paid on Capstone's preferred shares	**(3,750)**	(1,264)
Income taxes (paid) recovery	**(612)**	—
Maintenance capital expenditures	**(5,398)**	(4,129)
Scheduled repayment of debt principal	**(12,581)**	(4,688)
AFFO	**35,563**	15,209
Internalization costs	**—**	19,675
AFFO before internalization costs	**35,563**	34,884
Before internalization costs		
AFFO per share	**0.473**	0.541
Payout ratio (1)	**94.9%**	120.5%
Dividends declared per share	**0.450**	0.660

(1) Capstone's payout ratio for the year ended December 31, 2012 would have been 63.4% if the new dividend policy of $0.30/share had been effective for all of 2012.

Revenue increased by $141,643, or 65.6%, primarily due to full year contributions from businesses acquired or commencing operations during 2011. Bristol Water and Amherstburg contributed $132,797 and $8,582 representing nine and six months, respectively, of additional revenue.

Expenses increased by $46,561, or 29.1%, including internalization costs, and $66,236, or 47.2%, excluding these costs.

- Operating expenses increased by $73,092 or 59.9%, primarily due to a full year of Bristol Water, which added $68,486 during the first nine months of 2012.
- Administrative expenses increased by $1,068, or 10.7%, from 2011, excluding internalization costs, primarily due to the inclusion of a full year of corporate costs such as rent, IT, and staff compensation. Prior to April 15, 2011, such costs were covered by the management fee paid to Macquarie Group Limited ("MGL").
- Project development costs decreased by $7,924, or 95.6%, as Capstone had less business acquisition activity in 2012 as management focused on financing and asset management initiatives.

Interest income decreased by $1,557, or 24.2%, primarily due to Värmevärden repaying $48,100 of the shareholder loan balance from the proceeds of the bond issuance. The reduction in interest income was partially offset by the receipt of an additional quarter of interest from Värmevärden for the first quarter of 2012 compared with the prior year as the business was acquired on March 31, 2011. The remaining difference was attributable to interest income variances on cash balances at Bristol Water and corporate.

Distributions from equity accounted investments increased by $2,001, or 100%, as Värmevärden began paying dividends to Capstone in 2012. The new dividends offset the lower interest income received from Värmevärden.

Interest paid increased by $3,671, or 18.7%, primarily due to additional interest costs at Amherstburg since commencement of operations in June 2011, new long-term debt at the hydro power facilities beginning in June 2012, and interest on the corporate senior debt facility up until May 2012 when it was repaid. Interest paid by Bristol Water is excluded from Capstone's definition of AFFO and is the primary difference between interest expense included in consolidated net income (loss) and interest paid in AFFO. The remaining difference between interest expense and interest paid was attributable to amortization of financing costs and timing differences between accrual and payment basis.

Scheduled debt repayments increased by $7,893, or 168%, primarily due to higher debt service payments at Amherstburg during the first full year of operations, along with new debt for the hydro facilities and a full year of debt amortization in 2012 on tranche C of the Erie Shores project debt.

Maintenance capital expenditures increased by $1,269, or 30.7%, primarily due to Cardinal's scheduled hot gas path inspection, which occurs every three years.

Results by Segment

Capstone's results are segmented into power facilities across Canada, a water utility in Europe and a district heating utility in Europe. All remaining results relate to corporate activities. The power segment includes gas cogeneration, hydro, wind, biomass and solar power, as well as project development. In 2011, Capstone made investments in the utilities segment through the acquisition of an interest in Bristol Water, a regulated water utility in the United Kingdom, and the acquisition of a 33.3% interest in Värmevärden, a district heating business in Sweden. The financial results of Bristol Water are consolidated with Capstone's other businesses before deducting the portion of Adjusted EBITDA attributable to non-controlling interests. Capstone's non-controlling interest in Värmevärden provides interest income and dividends.

Non-GAAP performance measures

Non-GAAP performance measures results for each business segment were as follows:

Adjusted EBITDA	For the year ended		
	Dec 31, 2012	Dec 31, 2011	Change
Power	**78,178**	72,677	5,501
Utilities – water	**48,516**	15,597	32,919
Utilities – district heating	**5,357**	5,024	333
Corporate [(1)]	**(11,394)**	(17,950)	6,556
Total	**120,657**	75,348	45,309

AFFO	For the year ended		
	Dec 31, 2012	Dec 31, 2011	Change
Power	**43,859**	50,048	(6,189)
Utilities – water	**8,091**	3,971	4,120
Utilities – district heating	**5,357**	5,024	333
Corporate [(1)]	**(21,744)**	(24,159)	2,415
Total	**35,563**	34,884	679

(1) Excludes internalization costs of $19,675 for 2011.

Power

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2011:

Change	**Explanations**
8,210	Amherstburg contributed an additional six months of Adjusted EBITDA in 2012.
(1,561)	Cardinal's hot gas path inspection required more days of maintenance than the combustion inspection completed in 2011, which resulted in lower revenue and lower operating expenses.
(1,079)	Higher fuel transportation costs at Cardinal as TransCanada Pipelines ("TCPL") tolls increased from $1.64 per GJ to $2.24 per GJ in March 2011.
843	Whitecourt's sales of additional renewable energy credits ("RECs") produced higher revenue.
(912)	Various other changes.
5,501	Change in Adjusted EBITDA.
(5,604)	Amherstburg had an additional six months of debt servicing costs in 2012.
(4,462)	The hydro facilities and Erie Shores had additional debt servicing costs. The increase was due to the recapitalization of the hydro facilities in June 2012 and the refinancing of Erie Shores in April 2011.
(959)	Cardinal's hot gas path inspection resulted in higher maintenance capital expenditures than in 2011.
(665)	Various other changes.
(6,189)	Change in AFFO.

Utilities – water

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2011:

Change	**Explanations**
38,372	Bristol Water contributed nine months of additional Adjusted EBITDA in 2012.
(4,340)	Sale of Bristol Water interest to ITOCHU resulted in less Adjusted EBITDA from Bristol Water in the fourth quarter of 2012.
(1,113)	Various other changes.
32,919	Change in Adjusted EBITDA.
(32,919)	Remove Bristol Water Adjusted EBITDA changes.
4,868	Higher AFFO from a full year of dividends from Bristol Water, which was acquired in October 2011.
(1,135)	Lower dividend to Capstone due to a reduced ownership interest after the sale of a partial interest in Bristol Water.
387	Various other changes.
4,120	Change in AFFO.

Utilities – district heating

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2011:

Change	Explanations
(3,020)	Lower interest income due to repayments of the shareholder loan from proceeds of the refinancing.
2,001	Higher dividends received in 2012.
1,352	Additional quarter of interest income for the first quarter in 2012 because the business was acquired at the end of the first quarter of 2011.
333	Change in Adjusted EBITDA and AFFO.

Corporate

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2011, excluding internalization costs:

Change	Explanations
7,947	Lower business development expenses were incurred in 2012 as Capstone focused on various refinancing and asset management initiatives. In addition, Capstone initiated development capabilities within the power segment. In 2011, Capstone incurred one-time costs for the acquisition of Bristol Water and Värmevärden.
(2,623)	Inclusion of a full year of staffing costs since internalization April 15, 2011.
1,232	Various other changes.
6,556	Change in Adjusted EBITDA.
(3,098)	Preferred share dividends and related taxes were higher in 2012 as the preferred shares were issued on June 30, 2011.
(1,043)	Debt interest was higher in 2012 which was primarily due to the senior debt facility established for the Bristol Water acquisition, which was outstanding from October 2011 to May 2012.
2,415	Change in AFFO.

Net income (loss)

Net income (loss) for each business segment was as follows:

Net Income (loss)	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Power	**19,788**	27,757
Utilities – water	**38,805**	5,002
Utilities – district heating	**7,936**	(3,541)
Corporate	**(22,805)**	(32,481)
Total	**43,724**	(3,263)

Capstone's net income (loss) comprises cash measures included in Adjusted EBITDA and non-cash measures required by IFRS. The major items are summarized below:

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Adjusted EBITDA	**120,657**	55,673 (1)
Adjustment of Värmevärden distributions to equity accounted income	**293**	(5,276)
NCI portion of Adjusted EBITDA	**37,227**	6,685
Other gains and (losses), net	**1,294**	(21,742)
Foreign exchange gain (loss)	**1,620**	(3,274)
Interest expense	**(49,707)**	(31,668)
Depreciation and amortization	**(57,552)**	(39,419)
Income tax recovery (expense)	**(10,108)**	35,758
Net Income (loss)	**43,724**	(3,263)

(1) Includes internalization costs of $19,675 for 2011.

Infrastructure – Power

Capstone's power facilities produce electricity from gas cogeneration, wind, biomass, hydro and solar and are located in Ontario, Alberta, British Columbia and Quebec. Results from these facilities were:

4.8%

Percentage of total installed wind capacity in Ontario currently represented by Erie Shores.

11%

Percentage increase in Adjusted EBITDA at Whitecourt primarily due to $843 in additional revenue from the sale of renewable energy credits.

4,000

Approximate number of households capable of being powered by Amherstburg's green electricity each year.

For the year ended December 31, 2012

	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	**1,231.9**	**233.4**	**197.0**	**157.0**	**39.5**	**n/a**	**1,858.8**
Capacity factor	**92.9%**	**26.8%**	**95.3%**	**50.1%**	**22.5%**	**n/a**	**n.m.f**
Availability	**95.0%**	**97.9%**	**95.9%**	**98.5%**	**97.4%**	**n/a**	**n.m.f**
Revenue	110,926	22,876	15,202	13,826	16,388	—	179,218
Expenses	(84,088)	(4,265)	(8,890)	(3,289)	(1,246)	(23)	(101,801)
Interest income	64	54	588	22	33	—	761
Adjusted EBITDA	26,902	18,665	6,900	10,559	15,175	(23)	78,178
Principal from loans receivable	—	—	984	—	—	n/a	984
Interest paid	(672)	(6,065)	(5)	(3,778)	(6,804)	n/a	(17,324)
Income taxes (paid) recovery	—	—	—	—	—	n/a	—
Maintenance capital expenditures	(2,576)	(536)	(1,130)	(1,156)	—	—	(5,398)
Scheduled repayment of debt principal	(250)	(5,231)	(128)	(3,265)	(3,707)	—	(12,581)
AFFO	23,404	6,833	6,621	2,360	4,664	(23)	43,859

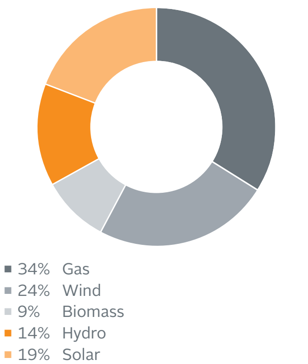
For the year ended December 31, 2011

	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	**1,256.1**	**236.7**	**202.4**	**161.6**	**17.6**	**n/a**	**1,874.4**
Capacity factor	**95.0%**	**27.2%**	**95.9%**	**51.4%**	**19.9%**	**n/a**	**n.m.f**
Availability	**97.6%**	**96.9%**	**96.6%**	**98.8%**	**95.6%**	**n/a**	**n.m.f**
Revenue	114,311	23,093	14,217	13,497	7,289	—	172,407
Expenses	(84,185)	(3,409)	(8,559)	(3,326)	(1,038)	—	(100,517)
Interest income	87	7	547	—	146	—	787
Adjusted EBITDA	30,213	19,691	6,205	10,171	6,397	—	72,677
Principal from loans receivable	—	—	884	—	—	—	884
Interest paid	(1,027)	(6,315)	(14)	(3,966)	(3,374)	—	(14,696)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(1,749)	(347)	(969)	(1,064)	—	—	(4,129)
Scheduled repayment of debt principal	—	(4,129)	—	974	(1,533)	—	(4,688)
AFFO	27,437	8,900	6,106	6,115	1,490	—	50,048

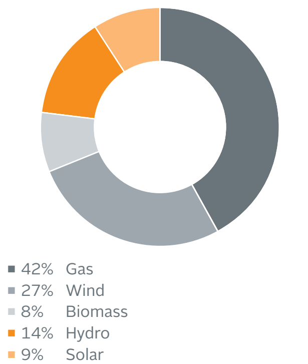
(1) Includes receipts from interest and loan receivable on Capstone's 31.3% equity interest in the Chapais facility. Statistics for power generated, capacity factors and availability do not include the Chapais facility.

The following charts show the composition of the power segment's Adjusted EBITDA and AFFO for the years ended December 31, 2012 and 2011:

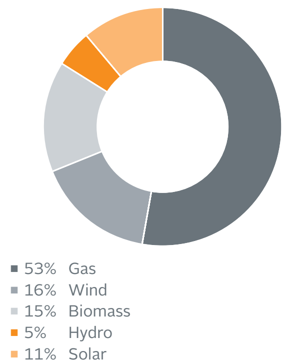
ADJUSTED EBITDA 2012



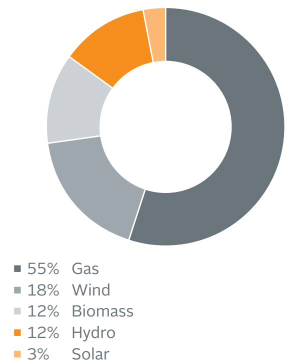
ADJUSTED EBITDA 2011



AFFO 2012



AFFO 2011



Revenue was $6,811, or 4.0%, higher compared with 2011, primarily due to the inclusion of $8,582 from an additional six months of operations at Amherstburg. In addition, Whitecourt increased revenue by $985 over 2011, primarily due to the increased sale of renewable energy credits. Lower revenue of $3,385 at Cardinal partially offset these gains.

The $3,385, or 3.0%, decrease at Cardinal was primarily attributable to lower power generation, which decreased electricity sales by $1,318, and a $2,151 decline in gas sales as Cardinal had previously entered into gas swaps at higher prices, with the last one expiring in 2011. Cardinal's power generation was lower by 24.2 GWh, or 1.9%, reflecting the impact of the scheduled hot gas path inspection in the second quarter, which occurs every three years and requires more time than other annual outages. In addition, power production was reduced as a result of higher ambient temperatures in 2012.

Expenses increased by $1,284, or 1.3%, over 2011. Excluding Amherstburg, the increase was primarily attributable to repairs and maintenance expenditures at Erie Shores and Whitecourt, which contributed a combined increase of $1,187. The remaining expenses at Cardinal and hydro facilities were consistent with 2011. In December 2012, Capstone established a power development subsidiary focused on developing and acquiring renewable and clean electricity generation projects in western Canada and the United States.

Interest paid was $2,628, or 17.9%, higher than in 2011, primarily due to Amherstburg, which paid $3,430 more in interest in 2012. Higher interest paid during 2012 was partially offset by $355 less interest on the CPC-Cardinal credit facility, which had a lower average balance in 2012, and a $250 decline at Erie Shores due to a lower debt balance following scheduled debt repayment.

Maintenance capital expenditures increased by $1,269 over 2011, primarily due to the hot gas path inspection at Cardinal.

Scheduled repayments of debt principal were $7,893, or 168%, higher than in 2011. The increase was primarily due to:

- A $2,174 increase in debt payments at Amherstburg, reflecting a full year of repayments compared with six months in 2011;
- Hydro debt repayments of $4,239 beginning in June 2012; and
- An increase of $1,102 in debt repayments at Erie Shores as the Tranche C debt became fully amortizing in the second quarter of 2011.

Seasonality

Results for Capstone's power segment fluctuate during the year due to seasonal factors that affect quarterly production at each facility. These factors include scheduled maintenance, seasonal electricity demands and environmental factors such as water flows, sunlight, wind speeds and density, ambient temperature and humidity, which affect the amount of electricity generated. In aggregate, these factors have historically resulted in higher electricity production during the first and fourth quarters as shown in the following table:

			Actual	Average long-term production (GWh) (1)				
Type	Facility	PPA Expiry	**2012**	Q1	Q2	Q3	Q4	Annual
Gas	Cardinal	2014	**1,231.9**	342.9	278.1	303.5	333.3	1,257.8
Wind	Erie Shores	2026	**233.4**	76.3	52.5	34.0	76.9	239.7
Biomass	Whitecourt	2014	**197.0**	50.3	45.3	50.1	49.3	195.0
Hydro	Various	2017 – 2042	**157.0**	32.2	57.1	29.0	40.9	159.2
Solar	Amherstburg	2031	**39.5**	6.8	13.7	12.5	5.9	38.9
Total			**1,858.8**	508.5	446.7	429.1	506.3	1,890.6

(1) Average long-term production is from March 2005 to December 31, 2012, except for Erie Shores, which is from June 2006, and Amherstburg, which is from July 2011.

Outlook

In 2013, Capstone expects slightly higher revenue from higher power production, which will be partially offset by increased development costs.

Capstone's power facilities are expected to perform consistently with long-term average production, subject to variations in wind, water flows, ambient temperatures and sunlight.

Capstone expects Cardinal's production to return to its long-term average and that the facility will incur lower average fuel transportation costs due to:

- Higher power generation reflecting less maintenance time planned in 2013; and
- A lower average effective gas transportation rate in 2013 of $1.76 per GJ compared with $2.24 per GJ in 2012, based on the expected outcome from the National Energy Board.

Capstone's new power development subsidiary is expected to increase costs within the power segment related to the pursuit and development of new business opportunities.

Overall, Capstone expects the net impact of these factors to result in a slightly higher Adjusted EBITDA for the power segment in 2013 compared with 2012.

Infrastructure – Utilities

Water

Capstone's water utilities segment includes a 50% investment in Bristol Water, which is located in the United Kingdom. Capstone initially acquired a 70% interest on October 5, 2011, prior to which no results were reported in Capstone's comparative figures. On May 10, 2012, Capstone sold a 20% indirect interest in Bristol Water to a subsidiary of ITOCHU Corporation while retaining the remaining 50%.

	For the year ended (2)	
	Dec 31, 2012	Dec 31, 2011
Water supplied (megalitres)	**81,245**	19,700
Revenue	**178,392**	43,560
Operating expenses	**(93,400)**	(21,569)
Interest income	**751**	291
Less: non-controlling interest(1)	**(37,227)**	(6,685)
Adjusted EBITDA	**48,516**	15,597
Adjusted EBITDA of consolidated businesses with non-controlling interests	**(48,516)**	(15,597)
Dividends from businesses with non-controlling interests	**8,091**	3,971
AFFO	**8,091**	3,971

(1) Starting from May 10, 2012, the non-controlling interest increased to 50% from 30%.
(2) 2011 only includes three months of activity from the date of acquisition.

Revenue was $134,832, or 310%, higher compared with 2011, due to receiving a full year of contribution in 2012 versus one quarter in 2011. Bristol Water derived over 97% of its revenue during the year from the sale of water, consistent with 2011.

Operating expenses increased by $71,831, or 333%, primarily due to a full year of inclusion in Capstone's result. Approximately $77,455 of operating expenses related to raw materials, consumables, bad debts and other charges less recoveries. Labour costs to maintain the network and deliver water services to retail and commercial customers represented $15,945. Additionally, increases in the capital expansion program contributed to the higher proportion of operating expenses to revenue compared with 2011.

Non-controlling interest was increased on May 10, 2012 to reflect the partial sale of Bristol Water. Capstone's Adjusted EBITDA is reduced for Agbar's 30% interest over the entire period and ITOCHU's 20% interest beginning May 10, 2012.

Capital expenditures

The approved and planned capital expenditures for the current asset management plan ("AMP5") period, which concludes in March 2015, is approximately $441,000, or £276,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at December 31, 2012, the cumulative capital expenditure incurred for AMP5 was $224,000, which was $50,000 less than planned. The shortfall was primarily the result of delays at the start of AMP5 as commencement of expenditures was dependent on a Competition Commission ruling. Bristol Water expects its expenditures over the remainder of AMP5 to achieve the cumulative approved capital expenditure. Bristol Water made $140,555 in capital expenditures in 2012 as detailed on page 37 of this MD&A.

Seasonality

Bristol Water experiences little seasonal variation in demand, resulting in stable revenues throughout the year. Operating expenses vary during the year depending on the availability of water from Bristol Water's various sources and the quantity of water requiring treatment as a result of dry weather and pipe bursts, which are more common in periods when freezing and thawing occur.

Regulatory

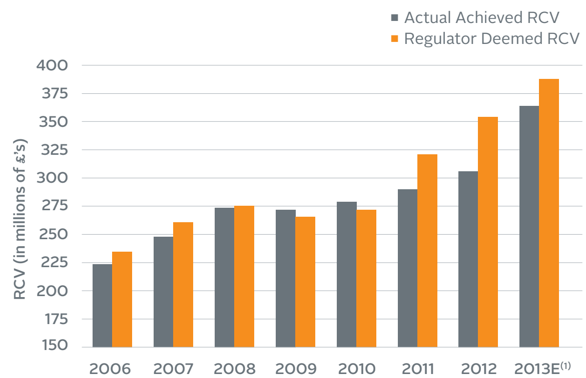
Bristol Water is a regulated business subject to supervision by the Water Services Regulation Authority ("Ofwat").

Bristol Water completed the second year of AMP5 as at March 31, 2012. Management has started planning for the company's regulatory submission for Price Review 14 ("PR14"), during which Ofwat will approve Bristol Water's capital program and set the prices Bristol Water may charge customers in the five-year AMP6 period commencing in April 2015. Bristol Water has agreed to Ofwat's proposed licence changes, which were devised as part of the introduction of competition within the retail business for non-household customers. This change affects less than 3% of Bristol Water's business.

Management continues to focus on achieving key regulatory output targets, including leakage of less than 50 million litres of water per day ("Ml/d") in 2012/2013, and is striving for a top quartile ranking in Ofwat's Service Incentive Mechanism ("SIM") customer service measure. Strong performance on the SIM, which is measured through customer satisfaction surveys and quantitative data related to complaints, can result in an increased revenue allowance for Bristol Water in the next regulatory period.

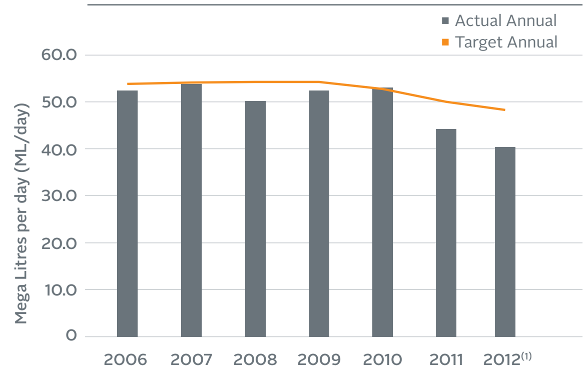
For the regulatory year ended March 31, 2012, Bristol Water achieved leakage levels of 43 Ml/d due to a mild winter, and had a SIM score of 85, which ranked second overall in the industry. For the nine months ended December 31, 2012 of the current regulatory year, which is a seasonally low period for pipe bursts, Bristol Water had leakage levels of 40 Ml/d and is currently ranked eight based on year-to-date SIM survey scores.

GROWTH IN REGULATED CAPITAL VALUE



(1) Expected position as at March 31, 2013.

WATER LEAKAGE VERSUS TARGET



(1) For the year ended December 31, 2012.

Outlook

In 2013, Capstone's results will reflect a 50% interest in Bristol Water for the full year following the partial sale of Capstone's previous 70% interest in May 2012.

Bristol Water is expected to continue its strong operational performance, which will generate cash flow for dividends and for reinvestment in the capital expenditure program. Bristol Water expects to:

- Achieve increased revenue due to an approximately 6.9% rise in the regulated water tariff from April 1 2013;
- Complete capital expenditures of approximately $115,000 (£72,000). Capstone expects between 5% and 6% growth in Ofwat's deemed regulated capital value ("RCV") in 2013, which is expected to lead to future revenue growth; and
- Incur additional expenses in preparation for the coming price review.

Bristol Water's capital program is aimed at improving and expanding Bristol Water's network of reservoirs, treatment facilities, water mains and pipes in order to continue providing high quality water to customers, reducing the amount of water lost to leakage, and positioning Bristol Water to effectively serve a growing population.

Overall, Capstone expects the net impact of these factors, primarily the reduction in ownership interest, to result in lower Adjusted EBITDA for the utilities-water segment in 2013 compared with 2012.

Infrastructure – Utilities

District heating

Capstone's district heating utilities segment includes a 33.3% interest in Värmevärden, located in Sweden, which was acquired on March 31, 2011.

During 2012, Värmevärden focused on maintaining strong customer relationships, managing fuel costs and recapitalizing its business, which led to a portion of the shareholder loans being repaid.

During the year, Värmevärden successfully renewed contracts with industrial customers. In addition, Värmevärden adjusted prices for 2013 for the majority of residential customers with increases in excess of inflation. Management has also enhanced plant availability, thereby minimizing the use of more expensive fuel.

	For the year ended (1)	
	Dec 31, 2012	Dec 31, 2011
Heat and steam production (GWh)	**1,078**	712
Equity accounted income (loss)	**2,315**	(5,270)
Interest income	**3,356**	5,024
Dividends	**2,001**	—
Adjusted EBITDA and AFFO	**5,357**	5,024

(1) 2011 only includes nine months of activity from the date of acquisition.

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. Värmevärden used the bond issuance proceeds in early 2012 to reduce the shareholder loan by $48,100 and pay accrued interest, resulting in lower interest income for Capstone for the remainder of the year. For further details, refer to the changes in the business section on page 19 of this MD&A. In 2012, Capstone received $3,356 in interest income from Värmevärden.

Dividends

In 2012, Värmevärden paid Capstone a $983 dividend in June and a $1,018 dividend in December. No dividends were paid to Capstone in 2011, the year of acquisition.

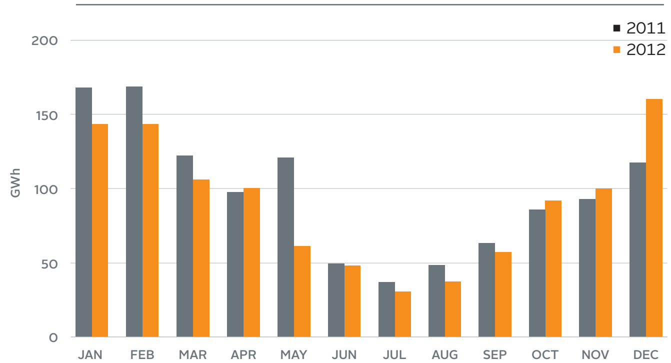
Equity accounted income

Värmevärden contributed $2,315 of equity accounted income in 2012 versus a loss of $5,270 for 2011. The loss in 2011, primarily reflected $2,414 of acquisition costs. Additionally, Capstone did not benefit from the seasonally high first quarter, as this was prior to acquisition.

Seasonality

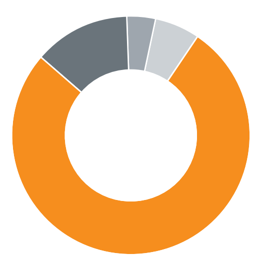
Heat production is typically highest during the first quarter of the year, which represents the coldest months of the year. The first and fourth quarters combined have historically accounted for approximately 65% of Värmevärden's annual revenue.

HEAT AND STEAM PRODUCTION



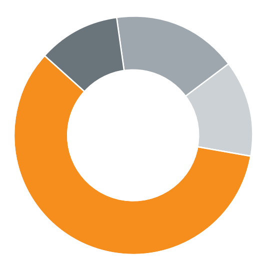
Heat production for Värmevärden before March 31, 2011 is not included in Capstone's result.

FUEL MIX BREAKDOWN BY MWh – 2012



- 4% Electricity
- 6% Fossil Fuel
- 77% Bio and Waste Fuel
- 13% Industrial Heat

FUEL MIX BREAKDOWN BY COST (SEK) – 2012



- 17% Electricity
- 13% Fossil Fuel
- 59% Bio and Waste Fuel
- 11% Industrial Heat

Outlook

In 2013, Värmevärden's performance is expected to continue to support fixed interest payments on Capstone's loan receivable and dividends on Capstone's equity investment.

Interest income from shareholder loans receivable is expected to be lower due to a reduction in the receivable balance in the second quarter of 2012.

As a result, Capstone expects lower Adjusted EBITDA from the district heating segment compared with 2012.

Corporate

Corporate activities primarily comprise growth initiatives, capital structure expenses not specifically attributed to the businesses, and costs to manage, oversee and report on the businesses.

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Administrative expenses	**(11,070)**	(29,677)
Project development costs	**(342)**	(8,289)
Interest income	**18**	341
Adjusted EBITDA	**(11,394)**	(37,625)
Interest paid	**(5,988)**	(4,945)
Dividends paid on Capstone's preferred shares	**(3,750)**	(1,264)
Income taxes (paid) recovery	**(612)**	—
AFFO	**(21,744)**	(43,834)
Internalization costs	**—**	19,675
AFFO before internalization costs	**(21,744)**	(24,159)

Administrative expenses

	For the year ended	
	Dec 31, 2012	Dec 31, 2011
Internalization expenses and manager fees	**—**	21,500
Staff costs	**6,749**	4,126
Other administrative expenses	**4,321**	4,051
	11,070	29,677

Staff costs reflect amounts paid or accrued for corporate employees beginning April 15, 2011, following the internalization of management. Staff costs were $2,623, or 63.6%, higher than in 2011, primarily reflecting three and a half additional months in 2012. Internalization expenses represented amounts paid for professional fees and other administrative costs along with the termination fee for the management contracts with MGL. Accordingly, Capstone did not incur any internalization expenses or fees to MGL in 2012.

Other administrative expenses were $270, or 6.7%, higher compared with 2011, primarily due to office administration and premises costs required post internalization. Other administrative expenses include audit fees, investor relations costs, office administration and premises costs and professional fees other than for business development.

Project development costs within corporate relate to business acquisition activities. For 2012. these costs were $7,947, or 95.9%, lower compared with 2011. This variance reflected lower business acquisition activity as the corporate focus was on completing various refinancing and asset management initiatives in 2012. In 2011, Capstone closed the acquisition of Bristol Water and Värmevärden, which incurred closing costs that did not recur in 2012.

Interest income is primarily earned on surplus cash balances. Interest income was $323, or 94.7%, lower than in 2011 reflecting lower average cash balances in 2012.

Interest paid was $1,043, or 21.1%, higher compared with 2011 due to higher balances on the CPC-Cardinal credit facility and the senior debt facility following the acquisition of Bristol Water. The debt to acquire Bristol Water was repaid in the second quarter of 2012. In addition, the average balance on the convertible debentures was lower in 2012 due to conversions during 2011 reducing the balance outstanding leading to less interest paid on the convertible debentures.

Preferred share dividends paid and taxes paid

On June 30, 2011, Capstone issued preferred shares that pay $938 of dividends quarterly at a fixed rate of 5.0% per year. Taxes paid relate to preferred share dividends and are available to offset future tax of the Corporation.

Outlook

In 2013, Capstone expects business development and marketing efforts to return to a more normal level, while maintaining staffing levels

Capstone's staff costs are expected to increase due to the accrual of an additional year of grants under the long-term incentive plan.

Overall, Capstone expects these variables to result in higher corporate expenses compared with 2012.