

## 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 incentive 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")
<b>Description</b>	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.
<b>Purpose</b>	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.
<b>Link to performance</b>	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.

(\$000s, except for per share amounts)	2012				2011			
	Q4	Q3	Q2	Q1	Q4 <sup>(1)</sup>	Q3	Q2 <sup>(2,3)</sup>	Q1
Revenue	94,654	84,951	85,849	92,156	91,663	40,361	37,028	46,915
Net income (loss) <sup>(4)</sup>	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 <sup>(5)</sup>	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 <sup>(6)</sup>	0.061	(0.073)	0.161 <sup>(6)</sup>	(0.086)	(0.190)	(0.492)	0.625 <sup>(6)</sup>
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 Värmevärdén.

(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.