CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended March 31, 2011

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

	Three months ended	
Earnings Measures ($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Revenue	46,915	44,152
Net income	41,332	27,633
Basic earnings per share	0.685	0.592

	Three months ended	
Cash Flow Measures ($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Cash flows from operating activities	14,117	13,873
Adjusted EBITDA [(1)]	17,869	19,901
Funds from operations ("FFO") [(1)]	14,754	17,145
Adjusted funds from operations ("AFFO") [(1)]	13,218	15,105
Payout ratio	75.8%	54.5%

(1) These performance measures are not defined by International Financial Reporting Standards ("IFRS"). Please see page 6 for a definition of each measure.

Capital Structure ($000s)	Mar 31, 2011	Dec 31, 2010
CPC-Cardinal credit facility	85,000	85,000
Erie Shores project debt	106,255	107,063
Convertible debentures face value	43,370	53,221
Amherstburg Solar Park project debt	64,700	31,000
Levelization liability	24,459	23,714
Class B exchangeable units – market value	25,800	26,710
Common shares - market value	458,612	463,217

INVESTOR INFORMATION

Common shares outstanding	57,759,736
Class B exchangeable units outstanding	3,249,390
Securities symbols and exchange	Toronto Stock Exchange: CSE, CSE.DB.A
Index inclusion	S&P TSX Clean Technology Index
Ownership	Approximately 18,000 shareholders

QUARTERLY TRADING INFORMATION

	High	Low	Closing	Average Daily Trading Volume
Common share price	$8.80	$7.50	$7.94	125,861
Debenture price	$123.00	$108.50	$114.00	1,960

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LEGAL NOTICE

This quarterly financial report is not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in Capstone Infrastructure Corporation (the "Corporation" or "Capstone"), the investor or prospective investor should consider whether such investment is appropriate to their particular needs, objectives and financial circumstances and consult an investment advisor if necessary.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained in this Quarterly Financial Report are forward-looking and reflect management's expectations regarding the Corporation's future growth, results of operations, performance and business based on information currently available to the Corporation. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "estimate", "believe" or other similar words. These statements are subject to significant known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements in this Quarterly Financial Report are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions for each of the Corporation's assets set out in its fiscal 2010 Annual Report under the heading "Asset Performance" and other filings made by the Corporation with the Canadian securities regulatory authorities (such documents are available on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com). Other material factors or assumptions that were applied in formulating the forward-looking statements contained herein include the assumption that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates, that there will be no unplanned material changes to the Corporation's facilities, equipment or contractual arrangements.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including risks related to: power infrastructure (operational performance; power purchase agreements; fuel costs and supply; contract performance; development risk; technology risk; default under credit agreements; land tenure and related rights; regulatory regime and permits; and force majeure) and the Corporation (variability and payment of dividends, which are not guaranteed; geographic concentration and non-diversification; reliance on key personnel; insurance; environmental, health and safety regime; availability of financing; shareholder dilution; the volatile market price for common shares of the Corporation; changes in legislation and administrative policy; and International Financial Reporting Standards). There are also a number of risks related to the Corporation's investment in the district heating business in Sweden, including: general business risks inherent in the district heating business; fuel costs and availability; seasonality; regulatory environment; environmental matters; industrial contracts; geographic concentration; regulation; environmental health and safety; reliance on key personnel; labour relations and cost; acquisition-related risks; minority interest; and foreign exchange risk. There is also a risk that the district heating business may not achieve expected results.

For a more comprehensive description of these and other possible risks, please see the Corporation's Annual Information Form dated March 24, 2011 for the year ended December 31, 2010 and other filings made by the Corporation with the Canadian securities regulatory authorities. These filings are available on SEDAR. The assumptions, risks and uncertainties described above are not exhaustive and other events and risk factors could cause actual results to differ materially from the results and events discussed in the forward-looking statements. These forward-looking statements reflect current expectations of the Corporation as at the date of this Quarterly Financial Report and speak only as at the date of this Quarterly Financial Report. Except as may be required by applicable law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements.

LETTER TO SHAREHOLDERS

I am pleased to report on Capstone Infrastructure Corporation's first quarter results and recent activities, and to provide an update on our priorities and outlook for the balance of the year.

Operationally, our portfolio performed strongly in the first quarter of the year, with better wind conditions at Erie Shores Wind Farm and stable production from the Cardinal gas cogeneration and Whitecourt biomass facilities. We additionally benefited from higher power rates at Cardinal and higher power pool prices at Whitecourt. Combined, these factors drove a 6.3% increase in revenue from the same quarter in 2010. We also saw an improvement in hydrology at our hydro power facilities in Ontario, although the 14 megawatt (MW) Wawatay facility remained about 8.4% below its long-term average production. The main drivers of our quarterly financial performance are summarized below.

A key highlight of the quarter included the $109 million acquisition of a 33.3% ownership interest in a district heating business centrally located in Sweden, which we announced in December 2010. We are investing alongside Macquarie European Infrastructure Fund II, a private unlisted fund managed by a subsidiary of Macquarie Group Limited, which owns the remaining 66.7% interest. The district heating business, which has been re-branded as Värmevärden, consists of 11 regional facilities that include both heat production and distribution. The business has 86 employees, including a seasoned management team with extensive experience in the Swedish district heating market. This acquisition diversifies our portfolio by both infrastructure category and geography, adding a utilities segment to our mix along with an international toehold. We are delighted with the quality of this business and expect to earn an attractive return on our investment that is within our targeted 10% to 14% (post-tax, levered) range.

We also completed the refinancing of Tranche C of Erie Shores' non-recourse project financing loan, which was scheduled to mature on April 1, 2011, establishing a new $40-million fully amortizing loan that matures on April 1, 2026 and bears interest at a rate of 6.145%. We are pleased to have completed this financing on such favourable terms and are now looking ahead to the maturity of our CPC-Cardinal facility in June 2012, which we expect to refinance at the asset level over the next six months to a year.

On April 15, 2011, we completed the previously announced internalization of all management and administration functions performed by Macquarie Power Management Ltd. and its affiliates (collectively, Macquarie). With this internalization, Capstone Infrastructure Corporation is now an independent, standalone company with 80 employees, including 20 staff at head office and 60 staff across our power infrastructure businesses in Canada. The internalization of management positions our company for its next phase of growth and evolution and simplifies our structure, thereby enhancing the alignment between management and shareholders. It also ensures the continuity of an experienced management team while maintaining the key benefits of our relationship with Macquarie, including access to international growth opportunities. While the various costs, which are described in detail on page 9, related to the internalization will amount to approximately $20 million in 2011, over the long term we expect the internalization to result in lower costs compared with the former structure, particularly as we continue to grow over time.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

With this first quarter report, the Corporation has transitioned to International Financial Reporting Standards (IFRS). We have accordingly restated our fiscal 2010 financial results, which were previously reported in accordance with Canadian generally accepted accounting principles (GAAP). Under IFRS, major maintenance and other inspections that are periodically undertaken at our facilities will no longer be expensed as incurred but instead capitalized and depreciated. Additionally, business development activities and transaction costs for consolidated entities will now be expensed as incurred rather than capitalized. Further detail is provided on pages 6 to 8.

FINANCIAL HIGHLIGHTS

While the portfolio remains operationally sound, our financial results in the first quarter relative to the first quarter of 2010 continued to be affected by the sale of Leisureworld Senior Care LP (Leisureworld) in March 2010. In the first quarter of 2010, Leisureworld contributed $2.1 million in distributions. While we have now reinvested the proceeds from the sale of Leisureworld in Värmevärden, we do not anticipate receiving distributions from this new business until the second quarter.

Additionally, total costs and expenses in the quarter increased by 7.4% over the same quarter in 2010. As described on pages 10 and 11, this variance was primarily due to business development costs, certain costs related to the internalization of management and higher gas transportation costs at Cardinal. As a result, Adjusted EBITDA and funds from operations (FFO) decreased by 10.1% and 13.5%, respectively, from the first quarter of 2010. Adjusted FFO (AFFO), which reduces FFO for maintenance capital expenditures and the repayment of principal, was 12.6%

lower. AFFO per share was lower in 2011 due to the decline in AFFO as well as an increase in the number of common shares outstanding in 2011 compared with 2010 arising from the $69 million equity financing completed in December 2010 as well as the conversion of convertible debentures into common shares. As a result, the AFFO payout ratio was 75.8% compared with 54.5% in the same period last year.

Notably, Adjusted EBITDA and FFO from our core businesses, which include Cardinal, Whitecourt, Erie Shores and the hydro power facilities, in the quarter increased by 8.4% and 8.6%, respectively, over the first quarter of 2010, highlighting the underlying strength and quality of our portfolio.

As outlined on page 17 of this report, our financial position remains strong. As at March 31, 2011, we had cash and cash equivalents of $39.1 million after funding the acquisition of Värmevärden. With amounts available under our credit facility, we have access to over $50 million in capital with which to pursue growth opportunities. In addition, our debt to capitalization ratio at quarter end was 40.4%, which is conservative relative to the low risk profile of our businesses. All else being equal, our debt to capitalization ratio will increase to approximately 43% once the Amherstburg Solar Park project debt is fully drawn.

OUTLOOK

Operationally, our outlook for the balance of 2011 is positive. Our expectations for each business are described on pages 24 through 28. While we expect our operations to run smoothly, 2011 will nevertheless be another transitional year. Excluding the impact of the internalization costs, we expect Adjusted EBITDA and FFO from our portfolio to be higher than in 2010. This outlook assumes:

- Continuing stable performance from Cardinal and Whitecourt;
- The partial year cash flow from Amherstburg Solar Park and Värmevärden;
- That the more normal wind patterns and water flows experienced in the first part of the year will continue in the balance of the year; and
- That the TransCanada Pipelines Limited (TCPL) toll increase that went into effect on March 1, 2011 will continue at the current level for the remainder of 2011.

However, we expect our 2011 payout ratio, which is based on AFFO, to be approximately 110% to 120% (excluding internalization costs) compared with our previous guidance of slightly more than 100%, which was on a distributable cash basis. This revised payout ratio expectation additionally reflects the impact of a greater number of shares outstanding, including shares issued to Macquarie Group Limited under the terms of the internalization agreement as well as the conversion of convertible debentures by certain debenture holders into shares, and higher business development costs. For 2012, we currently expect to achieve a payout ratio of approximately 85% to 90%, which reflects the full year contribution from the Amherstburg Solar Park and Värmevärden as well as a return to 2010 TCPL rates. As we execute our growth strategy, which could include development projects or businesses with a strong growth profile, our payout ratio may fluctuate in any given year.

Including the one-time impact of the internalization costs, we currently expect that our fiscal 2011 Adjusted EBITDA will be approximately $40 million compared with $55.0 million in fiscal 2010. Excluding the internalization costs, Adjusted EBITDA in 2011 is expected to be approximately $60 million. For 2012, we currently expect Adjusted EBITDA to be approximately $80 million, reflecting the full year contribution from the Amherstburg Solar Park and Värmevärden.

Based on our current portfolio and outlook and barring any significant unexpected events, we expect our dividend policy of $0.66 cents per share on an annualized basis to be sustainable through 2014.

Our vision is to be Canada’s pre-eminent infrastructure company, making growth a major focus for our team in 2011. Over the long term, we intend to diversify our portfolio across core infrastructure categories, including electricity generation and distribution businesses, water or wastewater facilities, roads, hospitals and schools, among others, including investments through public-private partnerships (P3s). The parameters of our growth strategy include:

- An international scope encompassing Canada as well as countries that are members of the Organization for Economic Cooperation and Development;
- Focusing on regulated or contractually defined core infrastructure businesses;
- Seeking a blend of operating businesses as well as development opportunities that offer an appropriate risk-adjusted rate of return; and
- A preference for wholly-owned businesses with the ability to take a minority position where we are protected by a strong governance framework.

We are continuing to assess a range of opportunities in Canada, the United States and abroad. The investment required to maintain, improve and build critical infrastructure in Canada and globally is staggering, which creates a sizable opportunity for the private sector, including Capstone. Combined, our senior executives have decades of experience in infrastructure financing, development and management, which gives us the breadth and depth of expertise we need to compete and win.

Adding new businesses to our portfolio will also help to mitigate the impact of Cardinal's power purchase agreement (PPA) expiry in 2014. Securing a new PPA for Cardinal, which currently operates as a base load facility, is a top priority. We have been working for nearly two years to build stakeholder support for a new contract and are optimistic about Cardinal's future prospects as a peaking facility, for a number of reasons.

Cardinal commenced operations in 1994 and is one of the largest cogeneration facilities in Ontario. It is also the newest power generation facility on the 115 kilovolt (kV) grid in eastern Ontario, giving it an important role in maintaining the grid's stability. Cardinal delivers reliable steam, compressed air and electricity to Casco Inc., the facility's industrial host and one of Canada's principal producers and suppliers of corn-based food ingredients and industrial products. Together, Cardinal and Casco employ 230 employees, pay significant property taxes and play an active role in the local community.

For all of these reasons, we believe that Cardinal has a long economic life and a vital role in Ontario's electricity system. With a new power purchase contract, Cardinal can be reconfigured to operate as a peaking facility, which would include a 15 MW expansion to enable Cardinal to continue to serve Casco's base load requirements. The balance of the Cardinal plant would then run only when Ontario needs the electricity, thereby helping the government to meet its energy challenges and objectives. As a peaking facility, Cardinal could help to reduce surplus baseload electricity generation in the province of Ontario, which is expensive for ratepayers, while supporting the addition of more renewable sources of electricity to the grid, which requires the reliability and flexibility that only gas cogeneration can provide.

The Ontario Power Authority (OPA), which was directed by the Ministry of Energy in November 2010 to initiate negotiations with the province's non-utility generators, including Cardinal, has now engaged legal and technical advisors and recently published guidelines for the negotiation process. We are optimistic that we will be in a position to commence negotiations with the OPA within the next month or two and expect that the negotiation process could require up to six or nine months to complete.

In closing, Capstone has the critical mass of experience and relationships to execute on its strategy and mission to deliver a superior total return to shareholders. More information about our portfolio, activities and future events can is available on our new website at www.capstoneinfrastructure.com.

We greatly appreciate your continuing support.

Sincerely,

Michael Bernstein
President and Chief Executive Officer
June 9, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes the Corporation's consolidated operating results and cash flows for the three months ended March 31, 2011 and the Corporation's financial position as at that date. This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at and for the three months ended March 31, 2011. Additional information about the Corporation can also be found in its Annual Information Form ("AIF") dated March 24, 2011 and in the most recent annual report of Macquarie Power and Infrastructure Corporation ("MPIC"), the previous name of the Corporation, for the year ended December 31, 2010 and other public filings of the Corporation, all of which are available 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 June 9, 2011, the date on which this MD&A was approved by the Corporation's Board of Directors.

The 2011 and 2010 financial information contained herein is prepared in accordance with International Financial Reporting Standards ("IFRS"). On January 1, 2011, Capstone adopted IFRS and converted from Canadian generally accepted accounting principles ("GAAP"). The significant impact of the conversion to IFRS on the interim consolidated financial statements is discussed on page 6 of this MD&A.

All amounts are in Canadian thousands of dollars unless otherwise indicated.

CHANGES IN THE BUSINESS

Following changes in Canadian tax rules for specified investment flow-through ("SIFT") entities, during 2010 Macquarie Power & Infrastructure Income Fund ("MPT" or the "Fund") completed a Plan of Arrangement (the "Arrangement") under the *Business Corporations Act* (British Columbia) to convert into MPIC, a corporation (the "Conversion"). Upon completion of the Arrangement, effective January 1, 2011, MPIC became the owner, directly or indirectly, of the businesses owned by the Fund.

On April 15, 2011, MPIC terminated all management and administrative agreements with Macquarie Power Management Ltd. ("MPML" or "the Manager"), a subsidiary of Macquarie Group Limited ("MGL"), thereby internalizing its management. Following the internalization, MPIC was renamed Capstone Infrastructure Corporation ("Capstone" or the "Corporation").

NON-GAAP PERFORMANCE MEASURE DEFINITIONS

While the accompanying unaudited interim consolidated financial statements have been prepared in accordance with IFRS, this MD&A also contains figures that are performance measures not defined by IFRS. These non-GAAP performance measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. The Corporation believes that these indicators are important since they provide additional information about the Corporation's performance and cash generating capabilities and facilitate comparison of results over different periods. The non-GAAP measures used in this MD&A are defined below.

Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA")

Standardized EBITDA follows the customary definition of net income adjusted for interest expense, income tax expense (recovery), depreciation and amortization. Standardized EBITDA is provided to illustrate how Adjusted EBITDA reconciles to net income on the interim consolidated statements of income.

Adjusted EBITDA

The Corporation uses Adjusted EBITDA to measure the performance of its assets prior to the impact of financing costs, taxes and charges for depreciation and amortization. Adjusted EBITDA is calculated as revenue less operating expenses and administrative expenses plus interest and dividends/distributions received from equity accounted investments. Adjusted EBITDA is reconciled to net income by adjusting standardized EBITDA for unrealized gains and losses on derivatives, unrealized loss on Class B exchangeable units, unrealized loss on the conversion option for the convertible debentures maturing on December 31, 2016, foreign exchange gains and losses, equity accounted income and dividends/distributions from equity accounted investments.

Funds from Operations ("FFO")

The Corporation uses FFO to measure the performance of its controlled and non-controlled assets net of financing costs and income taxes paid. The Corporation defines FFO as Adjusted EBITDA less interest paid plus principal received from loans receivable on equity accounted investments, less income taxes paid.

Adjusted Funds from Operations ("AFFO")

The Corporation uses AFFO as a measure of cash generated during the period for distribution to shareholders. The Corporation defines AFFO as FFO less maintenance capital expenditures and repayment of principal on debt.

Payout Ratio

Payout ratio measures the proportion of cash generated from operations that is paid as dividends. The payout ratio is calculated as dividends declared divided by AFFO.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

On January 1, 2011, Capstone implemented IFRS as its financial reporting framework with a transition date of January 1, 2010. The transition required the Corporation to restate its 2010 financial results, which were previously prepared in accordance with Canadian GAAP. While many of the accounting principles and standards comprising IFRS are similar to Canadian GAAP, certain standards result in financial reporting differences that render financial results under Canadian GAAP and IFRS not comparable.

As previously reported, Capstone converted from a mutual fund trust to a corporation on January 1, 2011. As a result, certain differences between Canadian GAAP and IFRS only impact financial results prior to January 1, 2011 while other IFRS differences impact financial reporting periods before and after January 1, 2011.

IFRS Adjustments Impacting both Historical and Prospective Financial Reporting

The adoption of IFRS has an impact on Capstone's historical and prospective financial reporting for capital assets and business combination transaction costs.

For capital assets, under IFRS major maintenance and inspections that are periodically undertaken at each facility may not be expensed as incurred. Instead, these costs must be capitalized and depreciated until the facility's next major maintenance cycle. This change required Capstone to retroactively capitalize the major maintenance expenses for each plant and recognize the corresponding depreciation. Prospectively, each future major maintenance cycle will be capitalized and depreciated. Any historical costs and corresponding depreciation related to a corresponding previous major maintenance cycle will be derecognized as a new cycle is completed.

For business combination transaction costs, under IFRS only transaction costs related to debt or equity issuance or acquisitions of equity accounted investments are eligible to be capitalized. All other transaction costs arising for a business combination must be expensed as incurred as opposed to being capitalized to the purchase price of the business combination as allowed under Canadian GAAP. As a result, Capstone restated its 2010 results by derecognizing all deferred business development costs and charging them to the period in which they were incurred.

In addition, IFRS requires that historical business combinations must be restated to this basis unless the Corporation elects to adopt the IFRS 1 exemption limiting the application to business combinations after January 1, 2010. Capstone has elected to use this exemption and consequently has only restated the June 2010 acquisition of the Amherstburg Solar Park ("Amherstburg"). The net impact of applying IFRS was that the transaction costs capitalized on acquisition were charged against 2010 income in the quarter in which the cost was incurred. Simultaneously, Capstone recognized the fair value of the net intangible assets acquired in accordance with IFRS 3R. The net result was that the Amherstburg assets were recorded at the same value as under Canadian GAAP.

For all future business development activities, transaction costs, other than those related to the issuance of debt, or equity, will be expensed as incurred. The exception to this treatment is the investment in a business where the acquirer does not obtain control. In this circumstance, IFRS (IAS 28) requires that the directly attributable business acquisition costs be capitalized as part of the amount invested.

IFRS Adjustments Impacting only Historical Financial Reporting

Under IFRS, Capstone has additional financial reporting differences relative to Canadian GAAP that are only applicable to prior to January 1, 2011, when the Corporation operated as a trust. These differences relate to the Class B exchangeable units, the convertible debentures and deferred income taxes.

IFRS requires that the Class B exchangeable units of MPT LTC Holding LP, a subsidiary of Capstone, be classified as a financial liability and measured at fair value during the period that Capstone operated as a trust. The change in the fair value of the units and the distributions paid to the unitholders were charged to net income as a financing cost, consistent with the classification of the units as debt. Following conversion to a corporation on January 1, 2011, the Class B exchangeable units were reclassified under IFRS to the consolidated equity of the Corporation, based on the carrying value of the units at December 31, 2010.

For the convertible debentures, IFRS requires Capstone to reclassify the conversion option from equity under Canadian GAAP to a liability for 2010. This classification is due to the debentures being convertible in 2010 into trust units, which are deemed to have a limited life, and therefore the debentures need to be measured as held for trading and accounted for at fair value with changes reported in the consolidated statements of income. On January 1, 2011, the conversion option was transferred to equity on the basis that the Corporation's shares are permanent in nature. The value of the conversion option on January 1, 2011 was equal to the carrying value on December 31, 2010, which is the same as fair value, which is adjusted for future income tax consequences being offset to shareholders' equity. Prospectively, the carrying value of the conversion option will remain unchanged aside from any future conversions.

For deferred income taxes, IFRS requires that a trust use the "undistributed" income tax rate in the determination of income tax amounts for financial reporting. This requires a trust to use the applicable income tax rate assuming that no distributions were made to offset taxable income. As a result, a trust is required to use the highest marginal personal income tax rate of 46% in the calculation of deferred income taxes. For Capstone, the impact is a non-cash increase to deferred income taxes in the January 1, 2010 opening consolidated statement of financial position to reflect the rate differential between the highest marginal personal tax rate of 46% and the SIFT tax rate of 25%.

Following conversion to a corporation on January 1, 2011, the calculation of deferred income taxes is based on the appropriate corporate tax rate. The impact to Capstone was a reversal of the remaining opening consolidated statement of financial position adjustment for the income tax rate change described above. This reversal only affects Capstone's 2011 first quarter consolidated statement of income.

The impact of the above adjustments on Capstone's 2010 net income, retained earnings and non-GAAP measures is summarized in the following tables.

Adjustments to Net Income

($000s)	Year Ended Dec 31, 2010	For the Three Months Ended			
		Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010
Net income (loss) – Canadian GAAP	11,569	21,012	(6,016)	(9,400)	5,973
Major maintenance and componentization	(1,792)	(264)	(588)	(708)	(232)
Capitalized transaction costs	2,142	(15)	2,822	(84)	(581)
Class B exchangeable units	(9,001)	(4,110)	309	(1,674)	(3,526)
Equity portion of convertible debentures	(3,459)	(1,897)	160	2,591	(4,313)
Deferred income taxes	16,442	12,907	1,074	2,430	31
Net income (loss) – IFRS	15,901	27,633	(2,239)	(6,845)	(2,648)

Adjustments to Retained Earnings

($000s)	Jan 1, 2010	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010
Retained earnings – Canadian GAAP	(214,073)	(201,297)	(215,548)	(233,184)	(235,979)
Major maintenance and componentization	167	(97)	(685)	(1,393)	(1,625)
Capitalized transaction costs	(3,075)	(3,090)	(268)	(352)	(933)
Class B exchangeable units	15,647	12,073	12,916	11,779	8,790
Equity portion of convertible debentures	(4,386)	(6,283)	(6,124)	(3,533)	(7,845)
Deferred income taxes	(51,033)	(38,126)	(37,052)	(34,622)	(34,591)
Retained earnings – IFRS	(256,753)	(236,820)	(246,761)	(261,305)	(272,183)

Adjustments to Non-GAAP Measures

($000s)	Year Ended Dec 31, 2010	For the Three Months Ended			
		Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010
Adjusted EBITDA – Canadian GAAP	55,039	19,017	10,438	10,204	15,380
Accretion of asset retirement obligation	179	44	44	46	45
Capitalized transaction costs	(2,092)	(15)	(1,412)	(84)	(581)
Major maintenance and componentization	2,692	855	150	-	1,687
Adjusted EBITDA – IFRS	55,818	19,901	9,220	10,166	16,531
FFO – Canadian GAAP	40,037	16,261	5,791	7,336	10,649
Accretion of asset retirement obligation	179	44	44	46	45
Capitalized transaction costs	(2,092)	(15)	(1,412)	(84)	(581)
Major maintenance and componentization	2,692	855	150	-	1,687
FFO – IFRS	40,816	17,145	4,573	7,298	11,800
AFFO – Canadian GAAP	35,610	15,076	4,418	5,866	10,250
Accretion of asset retirement obligation	179	44	44	46	45
Capitalized transaction costs	(2,092)	(15)	(1,412)	(84)	(581)
AFFO - IFRS	33,697	15,105	3,050	5,828	9,714

SUBSEQUENT EVENTS

Internalization of Management

On March 15, 2011, the Corporation announced the independent Board of Directors' decision to internalize all management and administrative functions performed by the Corporation's manager. The internalization was completed on April 15, 2011, at which time the existing senior management team and other employees of Capstone's manager (the "Internalized Management Team") ceased to be employees of a wholly-owned subsidiary of MGL and became employees of Capstone.

On April 15, 2011, Capstone and its subsidiaries made payments totalling $14,000 to MGL as consideration for terminating all management and administration agreements between MGL and Capstone and its subsidiaries. MGL immediately used $7,000 of the $14,000 it received to subscribe for Capstone common shares issued at $8.18 per share, which MGL will hold for at least one year. Capstone also paid approximately $4,000 in contractual and other amounts to the Internalized Management Team.

As a result of renaming the corporation, Capstone's Toronto Stock Exchange symbols were changed from MPT to CSE for the common shares and CSE.DB.A for the convertible debentures.

Additional non-financial terms of the internalization include that Capstone will retain its current leadership team, which has deep expertise and broad relationships in the infrastructure sector. Further, MGL will provide a director to serve on Capstone's Board of Directors for a minimum of 12 months from the completion of the internalization. Capstone will also continue to have access to global growth opportunities available through the Macquarie Infrastructure and Real Assets division. MGL will provide transitional services to Capstone at no cost for a period up to December 15, 2011, including the provision of premises, information technology support, and tax and accounting services. Upon completion of the internalization, Capstone became a standalone infrastructure company with approximately 80 employees.

Refinancing of Erie Shores Wind Farm Debt

On April 1, 2011, Capstone completed the refinancing of Tranche C of Erie Shores' non-recourse project financing loan. Under the refinancing, Erie Shores' Tranche C loan was replaced with a fully amortizing term loan in the amount of $40,000 with a fixed rate of interest at 6.145% that matures on April 1, 2026. The $40,000 has been classified as a current liability as at March 31, 2011 while transaction costs of $803 incurred during the first quarter have been capitalized.

Under the agreement, the next six months of principal and interest payments must be funded in a debt service reserve account. As a result, $5,646 will be recorded as restricted cash on the interim consolidated statements of financial position. Additionally, Capstone Power Corp.'s ("CPC") unsecured guarantee was reduced from the March 31, 2011 guarantee of $10,000 to $5,000 on April 1, 2011.

ACQUISITIONS

On March 31, 2011, the Corporation acquired a 33.3% indirect interest in a Swedish district heating business from subsidiaries of Fortum Corporation (collectively, "Fortum"), operating under the name Värmevärden, for approximately $108,954 (or 710,000 Swedish Krona ("SEK")). The remaining 66.7% interest in Värmevärden was acquired by Macquarie European Infrastructure Fund II ("MEIF II"), a private unlisted infrastructure fund managed by a subsidiary of MGL.

The fair value of the investment in Värmevärden as at the date of acquisition is preliminary and may be adjusted as a result of obtaining additional valuation and legal clarifications along with closing adjustments. Transaction costs of $2,414 (or 15,667 SEK) were expensed in the interim consolidated statement of income as part of the equity accounted income of Värmevärden, as the entity paid the amounts to acquire the collective assets from Fortum.

RESULTS OF OPERATIONS

Overview

During the first quarter of 2011, Capstone generated lower Adjusted EBITDA than in the first three months of 2010, primarily due to the absence of distributions from Leisureworld, which was sold in March 2010. Lower Adjusted EBITDA also reflected higher administrative expenses due to other business development activities. Operationally, Capstone's assets performed better than in 2010, primarily due to better wind conditions at Erie Shores.

Revenue

	Three months ended	
($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Electricity sales	46,584	43,793
Steam sales	309	294
Gas sales	22	65
	46,915	44,152

Total revenue in the first quarter of 2011 was $2,763, or 6.3%, higher than in the prior comparable period. Revenue growth was attributable to higher total electricity production at Erie Shores and higher power rates at Cardinal due to a higher Direct Customer Rate ("DCR") than a year ago. During the first quarter of both 2011 and 2010, Cardinal benefited from a DCR adjustment which contributed $1,813 and $1,840 to revenue in 2011 and 2010 respectively. Total electricity production for the quarter was 498,410 megawatt hours ("MWh") compared with 489,956 MWh for the first quarter of 2010. Higher production in 2011 was primarily due to better wind conditions at Erie Shores than in the prior comparable period.

Cardinal produces steam that is sold to Canada Starch Operating Company Inc. ("Casco") for use in its manufacturing processes. Steam sales were slightly higher in 2011 based on higher demand for steam from Casco.

Natural gas not used by Cardinal to produce electricity is sold through a mitigation arrangement with Cardinal's gas supplier. Gas sales declined from the prior comparable period, as more gas was used in the production of electricity.

Costs and Expenses

	Three months ended	
($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Operating expenses	24,160	23,336
Administrative expenses	5,319	3,219
Depreciation on capital assets	5,949	6,297
Amortization on intangible assets	1,943	1,938
	37,371	34,790

Total costs and expenses increased by $2,581, or 7.4%, over the prior comparable period. Operating expenses increased by $824, or 3.5%, over the prior comparable period. Administrative expenses were $2,100 higher, primarily due to business developments costs and costs to internalize the management of Capstone.

Operating expenses

	Three months ended	
($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Fuel expenses	19,281	17,828
Maintenance costs	948	1,520
Labour costs	2,012	1,865
Other operating expenses	1,919	2,123
	24,160	23,336

Fuel expenses, at 79.8% and 76.4% of total operating expenses in the quarter and prior comparable period, respectively, were almost entirely attributable to Cardinal. Fuel expenses grew by $1,453, or 8.2%, reflecting higher fuel prices and a higher TransCanada Pipelines Limited (“TCPL”) gas transportation toll. Effective March 1, 2011, the transportation toll increased to $2.24 per gigajoule (“GJ”) from the previous rate of $1.64 per GJ. The volume of fuel consumed at Cardinal was slightly higher than in the prior comparable period.

Maintenance costs in the quarter were $572, or 37.6%, lower than in the prior comparable period primarily because fewer repairs and maintenance occurred in the quarter and activities related to the internalization of operations and maintenance (“O&M”) at Erie Shores in July 2010.

Labour costs increased by $147, or 7.9%, from the prior comparable quarter. Higher labour costs primarily reflected annual salary and wage increases and the addition of new employees at Erie Shores in July 2010 following the internalization of O&M as described above.

Other operating expenses decreased $204, or 9.6%, from the prior comparable period. Other operating expenses include insurance, property taxes, materials and utilities.

Administrative expenses

	Three months ended	
($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Manager fees	1,800	2,233
Business development	1,309	173
Other administrative expenses	2,210	813
	5,319	3,219

Manager fees during the quarter were $433, or 19.4%, lower than in the prior comparable period as a result of no longer earning a manager fee for Leisureworld, which was partially offset by fees for the Amherstburg Solar Park. Fees paid to the Manager, including management and administrative fees, cost reimbursement and incentive fees, are described under Related Party Transactions on page 30.

Business development expenses are primarily related to due diligence and legal costs incurred for successful and potential acquisitions by Capstone. These expenses increased by $1,136 in the quarter from the prior comparable period. The increase in expenses reflected the degree of external assistance used and the stage of the various projects under consideration.

Other administrative expenses generally include legal, audit and investor relations functions, the costs of maintaining a public company as well as other professional fees. These expenses were $1,397, or 171.8%, higher during the first quarter of 2011 due primarily to costs for the internalization of management and residual expenses for the corporate conversion and related reorganization. Furthermore, legal fees of $242 were incurred for the legacy obligation, which arose prior to the Corporation’s acquisition of Clean Power Income Fund. Other incremental professional fees account for the remaining difference from the prior comparable period.

	Three months ended	
($000s)	Mar 31, 2011	Mar 31, 2010
Internalization	636	-
Corporate conversion and reorganization	334	232
	970	232

Other Income and Expenses

	Three months ended	
($000s)	Mar 31, 2011	Mar 31, 2010
Interest income	433	173
Interest expense	(5,107)	(5,264)
Equity accounted income (loss)	(2,401)	3,468
Unrealized gain (loss) on derivatives	1,879	(4,045)
Unrealized loss on Class B exchangeable unit liability	-	(3,574)
Unrealized loss on convertible debentures	-	(1,897)
Foreign exchange gain (loss)	(6)	5
	(5,202)	(11,134)

Interest income

Capstone primarily earns interest income from its cash resources and from its investment in debt issued by Chapais Énergie, Société en commandite ("CHESEC"), the owner of the Chapais facility. Interest income was $260, or 150.3%, higher in 2011 due to a higher average cash balance up to the closing of the acquisition of Värmevärden. Interest of $146 was earned on the CHESEC debt, reflecting a $22 reduction from 2010 due to principal repayments.

Interest expense

During the quarter, interest expense was $157, or 3.0%, lower than in the prior comparable period. The decrease was due mainly to two non-recurring items. First, $580 of distributions on the Class B exchangeable units were treated as interest expense in 2010 and as dividends in 2011. Second, interest from the convertible debentures was $240 higher as unamortized transaction costs related to the convertible debentures maturing on December 31, 2010 were expensed in 2010. This was partially offset by a $563 increases in fees on the $38,092 letter of credit to support Capstone's equity commitment to Amherstburg as well as amortization of deferred financing expenses on the project debt.

Equity accounted income

Equity income arises from Capstone's share of income on its interests in equity accounted investments where Capstone has significant influence but not control, which includes Värmevärden, Chapais and, in 2010, Leisureworld.

On March 31, 2011, Capstone acquired an interest in Värmevärden. The equity accounted loss from this acquisition for the first quarter primarily reflected $2,414 of transaction costs charged to the jointly owned entity established to acquire the business.

The successful disposition of Capstone's indirect investment in Leisureworld in March 2010 also contributed to the decrease in equity accounted income. Capstone reported $3,468 of equity accounted income from Leisureworld during the first quarter of 2010.

For Capstone's equity interest in Chapais Électrique Limitée ("CHEL"), no income has been recorded on the investment since its acquisition in 2007. Capstone does not expect to earn any future equity accounted income from this investment.

Unrealized gain (loss) on derivatives

Capstone enters into derivative contracts to mitigate the economic impact of the fluctuations in interest rates and the price of natural gas. Capstone has also separately valued embedded derivatives within its gas purchase agreement. Capstone does not use hedge accounting for any of its derivative financial instruments, which are recorded at their fair value on the consolidated statements of financial position with changes in fair value between reporting periods reported as unrealized gains (losses) in the interim consolidated statements of income.

The unrealized gain (loss) on derivatives on the interim consolidated statements of income is composed of:

	Three months ended	
($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Interest rate swap contracts		
Unrealized gain on derivative assets	646	19
Unrealized gain on derivative liabilities	1,654	328
	2,300	347
Gas swap contracts		
Unrealized gain on derivative asset	112	1,385
	2,412	1,732
Embedded derivative contracts		
Unrealized loss on embedded derivative asset	(445)	(5,368)
Unrealized loss on embedded derivative liability	(88)	(409)
	(533)	(5,777)
Total unrealized (loss) gain on derivatives	1,879	(4,045)

The net unrealized gain of $1,879 on derivatives during the quarter was primarily due to the interest rate swaps which had net unrealized gains of $2,300 during the first quarter of 2011. The Amherstburg interest rate swap, which was entered into on June 23, 2010, contributed a majority of the gain with a net unrealized gain amounting to $1,907 in 2011. The increase in the fair value of the interest rate swaps was primarily due to an increase in the long-term interest rates.

Decreases in natural gas spot and forward prices, which are determined at a regional gas interconnection, storage and trading hub in southwest Ontario (the Union Gas Dawn facility), caused the net embedded derivative to incur a loss of $533.

Unrealized loss on Class B exchangeable unit liability

During 2010, the classification of the Class B exchangeable unit liability as debt under IFRS resulted in a charge to income for the increase in the fair value of the Class B exchangeable units.

Unrealized gain (loss) on convertible debentures

During 2010, the convertible debenture conversion option was classified as a liability under IFRS, resulting in a charge to income for the increase in the fair value of the conversion option.

Income Taxes

During the first quarter, Capstone recorded an income tax recovery of $36,990, entirely attributable to deferred income taxes. The recovery included a $34,809 reduction in the deferred income tax liability following conversion from a mutual fund trust to a corporation on January 1, 2011, which caused the income tax rate applied to timing differences to decrease from 46% to 26%. See page 23 of this MD&A for further details. The remaining deferred income tax recovery was primarily attributable to timing differences between depreciation and capital cost allowance.

In the first quarter of 2010, the income tax recovery included a $10,722 reduction in the deferred income tax liability attributable to the sale of Capstone's investment in Leisureworld. The remaining deferred income tax recovery was attributable to fluctuations in the fair value adjustments in financial instruments and timing differences between depreciation and capital cost allowance.

Adjusted EBITDA

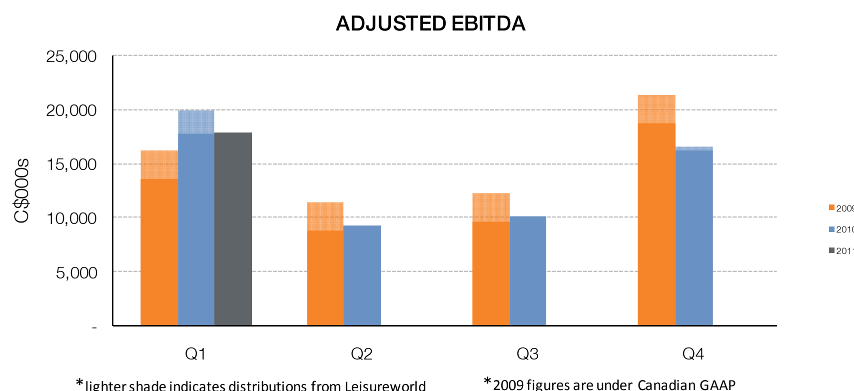
In addition to the preceding analysis for the components of net income, Capstone's management evaluates financial performance through various non-GAAP measures defined on page 6 of this report. Adjusted EBITDA measures earnings from Capstone's assets excluding any non-recurring and non-cash items. The derivation of Adjusted EBITDA from net income, as reported in the interim consolidated statements of income, is shown in the table below:

	Three months ended	
($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Net income	41,332	27,633
Depreciation and amortization	7,892	8,235
Interest expense	5,107	5,264
Income tax recovery	(36,990)	(29,405)
Standardized EBITDA	17,341	11,727
Equity accounted (income) loss	2,401	(3,468)
Unrealized (gains) or loss on derivatives financial instruments	(1,879)	4,045
Unrealized loss on Class B exchangeable unit liability	-	3,574
Unrealized loss on convertible debentures - conversion option	-	1,897
Foreign exchange (gains) or loss	6	(5)
Distributions from equity accounted investments	-	2,131
Adjusted EBITDA	17,869	19,901

Adjusted EBITDA for the quarter was $2,032, or 10.2%, lower than in first quarter of 2010. The decrease was primarily due to a $2,131 decline in distributions from Leisureworld as well as higher operating and administrative expenses. The increase in expenses included a $1,136 increase in business development costs.

These factors were offset by a $260 increase in interest income and a $1,727 overall increase in Adjusted EBITDA from Capstone's operating assets. Asset performance gains were primarily attributable to Erie Shores, where wind conditions and lower operating expenses resulted in a $1,791 increase in Adjusted EBITDA over the first quarter of 2011, and to higher DCR rates at Cardinal. Strong performance at Erie Shores was offset by higher gas transportation charges at Cardinal, resulting in a $243 decline in the plant's Adjusted EBITDA compared with 2010.

The chart illustrates the trend in Adjusted EBITDA against historical periods with and without the distributions from Leisureworld. Excluding Leisureworld, Capstone's Adjusted EBITDA improved consistently on a year-over-year basis since the first quarter of 2010 with the exception of the fourth quarter when corporate conversion and related reorganization costs of $1,187 increased administrative expenses and caused Adjusted EBITDA to fall behind the prior comparative period. In the first quarter of 2011 Adjusted EBITDA was again higher than the previous year after excluding Leisureworld.



Funds from Operations and Adjusted Funds from Operations

Capstone uses the non-GAAP measures of FFO and AFFO to evaluate cash generated from Capstone's assets. Adjusted EBITDA is increased for principal receipts on loans receivable and reduced for interest paid on debt and any income taxes paid. Adjusted FFO reduces FFO for maintenance capital expenditures and the repayment of principal. The calculation of FFO and AFFO are shown below:

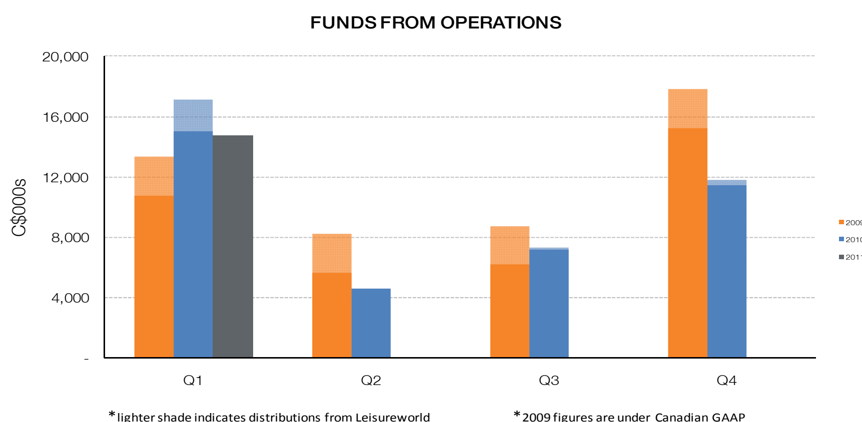
	Three months ended	
($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Adjusted EBITDA	17,869	19,901
Receipts from Chapais loan receivable	212	190
Interest paid [(1)]	(3,327)	(2,946)
Income taxes paid	-	-
Funds from operations	14,754	17,145
Maintenance capital expenditures	(728)	(1,278)
Repayment of debt principal	(808)	(762)
Adjusted funds from operations	13,218	15,105
AFFO per share [(1)]	0.217	0.303 [(1)]
Dividends declared per share	0.165	0.165
Payout ratio	75.8%	54.5% [(1)]

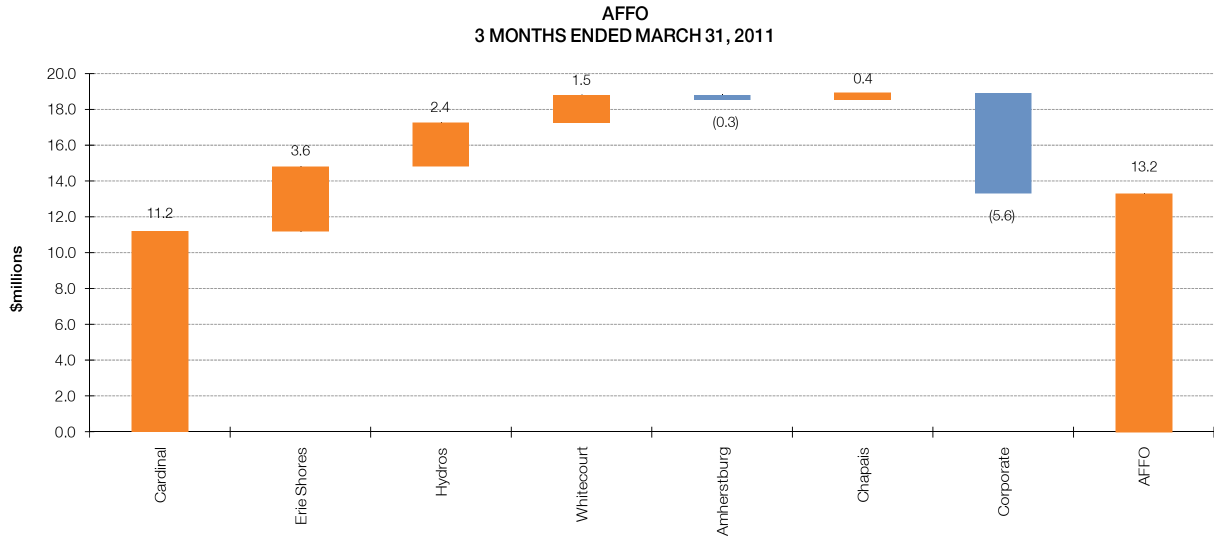
(1) For comparability, the calculation of FFO and AFFO in 2010 treats Class B exchangeable units as equity. As a result, interest paid in 2010 has been reduced and the weighted average number of shares has been increased.

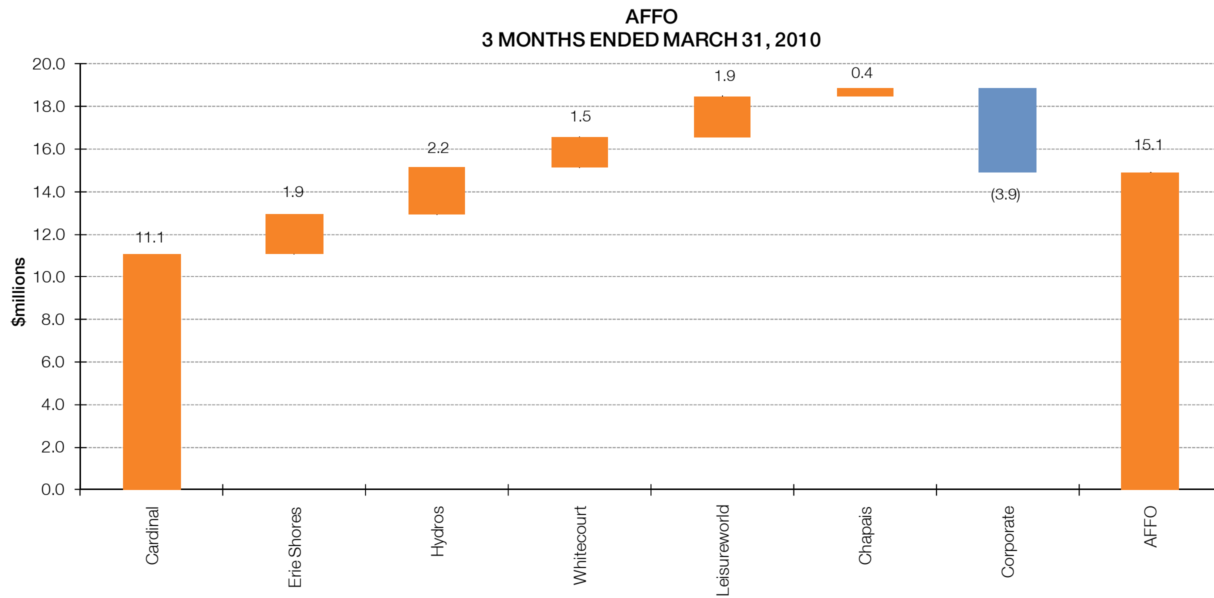
FFO was $2,391, or 13.9%, lower than in the first quarter of 2010. The decrease was primarily due to lower Adjusted EBITDA in 2011 attributable to the absence of Leisureworld distributions ($2,131 - 2010) following the sale of the investment as described in the previous section. AFFO was $1,887, or 12.5%, lower than in 2010. Lower Adjusted EBITDA was offset by lower capital expenditures in 2011 as the Cardinal plant experienced higher major maintenance expenses in 2010.

AFFO per share was lower in 2011 in part due to the decline in AFFO as well as an increase in the number of shares outstanding in 2011 compared with 2010 due to the issuance of new shares in December 2010 and the conversion of convertible debentures into equity.

The chart illustrates the year-over-year trend in FFO from 2009 with and without the Leisureworld distributions. Excluding Leisureworld, the chart shows an increasing FFO trend starting in the first quarter of 2010 with the exception of the fourth quarter of 2010, when FFO declined due to corporate conversion and reorganization costs. The first quarter of 2011 was again higher than the prior periods amount.




AFFO
3 MONTHS ENDED MARCH 31, 2011
$millions
20.0
18.0
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
11.2
3.6
2.4
1.5
(0.3)
0.4
(5.6)
13.2
Cardinal
Erie Shores
Hydros
Whitecourt
Amherstburg
Chapais
Corporate
AFFO


AFFO
3 MONTHS ENDED MARCH 31, 2010
$millions
20.0
18.0
16.0
14.0
12.0
10.0
8.0
6.0
4.0
2.0
0.0
11.1
1.9
2.2
1.5
1.9
0.4
(3.9)
15.1
Cardinal
Erie Shores
Hydros
Whitecourt
Leisureworld
Chapais
Corporate
AFFO

FINANCIAL POSITION REVIEW

Overview

As at March 31, 2011, Capstone had unrestricted cash and cash equivalents of $39,111 after funding the acquisition of Värmevärden and a working capital surplus of $17,103 after adjusting for the classification of the loan payable and Erie Shores debt as current liabilities. The cash balance, along with available credit, provides Capstone with adequate resources for committed and future acquisitions as well as with a reserve for ongoing capital expenditures and other financial obligations.

Capstone's debt to capitalization ratio (as defined on page 19) increased to 40.4% from 37.9% as at December 31, 2010. The increase was attributable to a 3.4% decline in the share price since December 31, 2010 as well as an increase in the Amherstburg project debt of $33,700. As at March 31, 2011, Capstone operated within all of its debt covenants. Management believes Capstone is well capitalized for current operations and future business development opportunities.

Liquidity

Working capital

($000s)	Mar 31, 2011	Dec 31, 2010
Cash and cash equivalents	39,111	131,440
Restricted cash	4,644	7,575
Accounts receivable	25,103	21,696
Other assets	3,314	3,552
Current portion of loans receivable	908	884
Current portion of derivative contract assets	2,030	1,918
Current assets	75,110	167,065
Accounts payable and other liabilities	49,919	28,896
Current portion of derivative contract liabilities	2,811	2,505
Loan payable	54,666	49,200
Current portion of finance lease obligation	122	120
Current portion of long-term debt	45,155	44,838
Current liabilities	152,673	125,559
Working capital	(77,563)	41,506

The working capital deficit of $77,563 was due to the classification of the $54,666 loan payable and the $40,000 Tranche C of Erie Shores' project debt as current liabilities. The loan payable relates to the Leisureworld disposition and is to be settled by a non-cash distribution. The Erie Shores debt was refinanced on April 1, 2011, at which time it was reclassified as long-term debt. Adjusting for these two items resulted in a working capital surplus of $17,103.

Cash and cash equivalents

Capstone's cash and cash equivalents and restricted cash were as follows:

($000s)	Mar 31, 2011	Dec 31, 2010
Major maintenance and capital expenditure reserve	6,581	6,576
General reserve	5,000	5,000
Total reserves	11,581	11,576
Cash and cash equivalents, not in reserves	27,530	119,864
Cash and cash equivalents, total	39,111	131,440
Restricted cash	4,644	7,575
Total cash	43,755	139,015

Total cash was $43,755, of which $27,530 was not designated for reserves or held as restricted cash. Cash and cash equivalents declined $92,329 since December 31, 2010 as the balance was significantly affected by the acquisition of Värmevärden on March 31, 2011. Capstone invests its excess cash in short-term, high quality money market instruments.

Restricted cash included $144 cash in escrow related to a legacy obligation, which arose prior to the Corporation's acquisition of Clean Power Income Fund, $500 funds in deposit and a $4,000 cash-backed letter of credit issued during the construction of Amherstburg.

Cash flow

During the first quarter of 2011, Capstone's cash and cash equivalents balance decreased by $92,329 compared with an increase of $20,237 in the same period in 2010. The details of the decrease are described in the consolidated statement of cash flows and are summarized as follows:

($000s)	Mar 31, 2011	Mar 31, 2010
Operating activities	14,117	13,873
Investing activities	(136,810)	1,044
Financing activities (excluding dividends to shareholders)	40,379	14,642
Dividends to shareholders	(10,015)	(9,322)
Change in cash and cash equivalents	(92,329)	20,237

Cash from operating activities reflects cash received from revenues less expenses as well as adjustments for non-cash items, including changes in working capital. During the first quarter of 2011, cash flow from operating activities increased primarily because Capstone's revenue was $2,763 higher in 2011. This was offset by a $2,924 increase in operating and administrative expenses in 2011.

Cash from investing activities reflects income from and monies invested by Capstone in business acquisitions or capital assets. During the first quarter of 2011, Capstone invested $108,954 in the acquisition of Värmevärden and $26,646 in capital assets for the ongoing construction of Amherstburg. Capstone also received $2,131 less in distributions from Leisureworld due to the divestment in March 2010.

Cash from financing activities includes proceeds received from the issuance of debt and equity less repayment of debt and dividends to shareholders of Capstone. During the first quarter of 2011, cash from financing activities excluding dividends to shareholders increased by $25,737, due primarily to the receipt of $33,700 under the construction facility for Amherstburg and an increase of $5,466 in the loan payable for the release of holdback funds from the Leisureworld sale. In addition, during the first quarter of 2010, $38,918 was repaid on the convertible debt for the convertible debentures maturing in 2010. This was offset by $7,500 of proceeds from the exercise of the over-allotment option on the convertible debentures and $49,200 in proceeds from the sale of Leisureworld in the form of a loan payable.

Capital Structure

Capstone manages its capital structure as shareholders' equity and long-term debt, both the current and non-current portion, and measures its capitalization ratio based on the fair values of long-term debt and shareholders' equity. The following table shows Capstone's capitalization ratio using fair values compared to the ratio calculated using the carrying values reported in Capstone's interim consolidated financial statements:

	Mar 31, 2011		Dec 31, 2010	
($000s)	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC-Cardinal credit facility	85,000	85,000	85,000	85,000
Erie Shores project debt	104,348	106,255	106,197	107,063
Amherstburg Solar Park project debt	64,700	64,700	31,000	31,000
Convertible debentures [1]	49,442	40,135	61,311	48,875
Levelization liability	24,459	24,459	23,714	23,714
Deferred financing costs	-	(5,812)	-	(5,556)
Total long-term debt	327,949	314,737	307,222	290,096
Shareholders' equity [1] and [2]	484,412	342,498	463,217	264,095
Class B unit liability [2] and [3]	-	-	26,710	26,710
Convertible debentures – conversion option [1]	-	-	12,640	12,640
	484,412	342,498	502,567	303,445
Total capitalization	812,361	657,235	809,789	593,541
Debt to capitalization	40.4%	47.9%	37.9%	48.9%

(1) The fair value of Capstone's convertible debentures as at March 31, 2011 was based on a market price of $114 (December 31, 2010 - $115.2) and debentures outstanding of $43,370 (December 31, 2010 - $53,221) aggregate principal amount. The carrying value of the equity portion as at March 31, 2011 of Capstone's convertible debentures of $9,416 (December 31, 2010 - $12,640) was excluded from total debt and included as part of shareholders' equity.

(2) The fair value of shareholders' equity reflected the Corporation's market capitalization as at March 31, 2011 based on a share price of $7.94 (December 31, 2010 - $8.22) and shares outstanding of 57,759,736 (December 31, 2010 - 56,352,461 shares). Shares outstanding include Class B exchangeable units of MPT LTC Holding LP, a subsidiary of Capstone, of which there were 3,249,390 outstanding at December 31, 2010, which were classified as a liability on the interim consolidated statements of financial position.

(3) The Class B exchangeable unit liability is treated as part of equity in the comparative figures based on its characteristics and for consistency between periods.

CPC-Cardinal credit facility

The composition of the CPC-Cardinal credit facility is as follows:

	Mar 31, 2011		Dec 31, 2010	
($000s)	Term Facility	Revolving Facility	Term Facility	Revolving Facility
Commitment	141,875	40,625	141,875	40,625
Drawn	(85,000)	-	(85,000)	-
Letters of credit [1]	-	(40,625)	-	(40,625)
Guarantees [2]	(10,000)	-	(10,000)	-
Remaining credit	46,875	-	46,875	-

(1) Three letters of credit totalling $2,533 have been authorized under the revolving credit facility for Erie Shores and one for $38,092 has been authorized against Capstone's equity commitment for Amherstburg.

(2) Effective April 1, 2011, with the refinancing of Tranche C of Erie Shores' debt, guarantee was reduced to $5,000.

Advances under the credit facility are made in the form of a series of bankers' acceptances ("BAs") and prime rate loans. Interest paid on BAs is based on the then current BA rate plus an applicable margin ("stamping fee") based on the ratio of consolidated total debt to consolidated EBITDA. Collateral for the facility is provided by first ranking security interest covering the assets of CPC, Cardinal and certain direct subsidiaries, collectively the "restricted group". The restricted group is subject to and is in compliance with certain non-financial and financial covenants, including limits on the consolidated total debt to consolidated EBITDA ratio and interest coverage ratio.

Erie Shores project debt

As at March 31, 2011, Erie Shores had a loan of $106,255 in non-recourse project financing consisting of a $61,630 fully amortizing loan ("Tranche A") maturing April 1, 2026, a $4,625 fully amortizing loan ("Tranche B") maturing April 1, 2016, and a $40,000 interest-only loan ("Tranche C") maturing April 1, 2011. Capstone refinanced Tranche C on April 1, 2011 as described previously on page 9 of this MD&A.

This project debt was borrowed by Erie Shores and is secured by the assets of Erie Shores. Capstone has provided an unsecured guarantee in the amount of $10,000 to Erie Shores' lenders in respect of the Tranche C loan, which was reduced to $5,000 on April 1, 2011.

Convertible debentures

In December 2009, Capstone issued $50,000 of 6.50% convertible unsecured subordinated debentures with a maturity date of December 31, 2016. On January 5, 2010, the underwriters exercised an over-allotment option to purchase an additional $7,500 principal amount of the convertible debentures, bringing the aggregate gross proceeds of the offering to $57,500. Interest on the convertible debentures is payable semi-annually in arrears on June 30 and December 31. The convertible debentures are convertible into common shares of Capstone at the option of the holder at a conversion price of $7.00 per share.

During the quarter, Capstone issued 1,407,275 common shares following conversion requests from various convertible debenture holders. Accordingly, the liability portion and equity portion of the convertible debentures were reduced by $8,740 and $936, respectively. As at March 31, 2011, $43,370 of face value was outstanding.

Levelization liability

As at March 31, 2011, Capstone had a levelization liability of $24,459 (December 31, 2010 - $23,714) relating to payments received from the Ontario Electricity Financial Corporation ("OEFC") in excess of the base rate as set out under the Power Purchase Agreement ("PPA") for the Wawatay hydro power facility. In accordance with the PPA, the OEFC is required to make monthly guaranteed payments as well as variable payments based on actual electricity production. To the extent these payments exceed the revenue recorded in a given month, Capstone records an increase in the levelization liability. To the extent these payments are less than the revenue recognized, Capstone records a reduction in the levelization liability. Interest on the levelization liability is accrued at a prescribed variable rate, which currently approximates 6.94% per annum.

Shareholders' equity

Shareholders' equity is the core of Capstone's capital structure and is composed of the following:

($000s)	Mar 31, 2011	Dec 31, 2010
Shareholders' capital	547,238	536, 278
Class B exchangeable units	26,710	-
Equity portion of convertible debentures	9,416	-
Accumulated other comprehensive income	-	-
Retained earnings (deficit)	(240,866)	(272,183)
Total shareholders' equity	342,498	264,095

Capstone is authorized to issue an unlimited number of common shares as well as a number of preferred shares equal to 50% of the outstanding common shares. The change in shareholders' capital was as follows:

	Three months ended Mar 31, 2011		Twelve months ended Dec 31, 2010	
($000s and 000s of shares)	Shares	Amount	Units	Amount
Opening balance	56,352	536,278	46,665	466,662
Shares issued [1]	-	(102)	9,079	65,249
Conversion of convertible debentures [2]	1,407	11,062	611	4,390
Units redeemed	-	-	(3)	(23)
Ending balance	57,759	547,238	56,352	536,278

(1) On December 22, 2010, Capstone completed a private placement (the "Offering") of 9,079,250 shares at a price of $7.60 per share for gross proceeds of approximately $69,000 before issue costs of $3,751. The net proceeds of the Offering will be used by Capstone for acquisitions and for general purposes. During 2011, the private placement transaction costs were included in share capital.
(2) $11,062 (2010 - $4,390) of the convertible debentures were converted into shares of Capstone, which is net of transaction costs incurred for the issuance the convertible debentures.

As discussed further on page 7 of this MD&A, the Class B exchangeable units were classified as debt prior to the corporate conversion in accordance with IFRS. Capstone has 3,249,390 Class B exchangeable units outstanding that were issued by a subsidiary entity at the time Leisureworld was acquired. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as shares of Capstone. Each Class B exchangeable units may be converted at the option of the unitholders into one share of Capstone any time up to October 18, 2020, which was extended by five years as part of Capstone's corporate conversion.

The equity portion of the convertible debentures pertains to the convertible debentures, which were issued in December 2009, and the over-allotment of convertible debentures issued in January 2010. Retained earnings (deficit) Capstone's aggregate net income since Capstone was formed less the aggregate dividends paid to shareholders since formation of the Corporation and distributions paid to Class B exchangeable unitholders since January 1, 2011.

Derivative Financial Instruments

The fair value of these contracts, as reported on Capstone's interim consolidated statements of financial position was:

($000s)	Mar 31, 2011	Dec 31, 2010
Derivative contract assets		
Gas swap contracts	2,030	1,918
Interest rate swap contracts	1,938	1,292
Embedded derivatives	4,842	5,287
	8,810	8,497
Current portion of derivative contract assets	(2,030)	(1,918)
	6,780	6,579
Derivative contract liabilities		
Interest rate swap contracts	6,750	8,402
Embedded derivatives	8,990	8,904
	15,740	17,306
Current portion of derivative contract liabilities	(2,811)	(2,505)
	12,929	14,801

Gas swap contracts

Cardinal has a natural gas swap contract for the seven-month period from April to October in 2011 as at March 31, 2011 and December 31, 2010. The contract requires Cardinal to make payments to the counterparties based on 62,402 MMBtu (December 31, 2010 - 436,814 MMBtu) of gas at the then market rate of natural gas in exchange for receiving payments based on 62,402 MMBtu (December 31, 2010 - 436,814 MMBtu) of gas at a fixed price per MMBtu.

Interest rate swap contracts

For the CPC-Cardinal credit facility, Capstone holds five interest rate swap contracts, all of which mature in June 2012, to mitigate interest rate risk on a notional amount of $85,000, representing the total amount drawn under the credit facility. Under each contract, Capstone pays a fixed rate in return for a floating rate equal to the then current three-month BA rate. These interest rate swaps effectively convert Capstone's floating rate obligations to a fixed rate as shown in the table below:

Maturity Date	Notional Amount ($000s)	Swap Fixed Rate	Stamping Fee	Effective Fixed Rate
June 29, 2012	11,700	3.12%	3.00%	6.12%
June 29, 2012	5,300	3.13%	3.00%	6.13%
June 29, 2012	18,000	3.13%	3.00%	6.13%
June 29, 2012	10,000	2.28%	3.00%	5.28%
June 29, 2012	40,000	2.14%	3.00%	5.14%
	85,000	2.56%	3.00%	5.56%

(1) The stamping fee represents the current applicable margin that is paid on advances from the CPC-Cardinal credit facility.

CPC also has a forward interest rate swap contract on a notional amount of $20,000 which was put in place to mitigate some of the refinancing risk associated with the Erie Shores project debt. Under the contract, CPC will pay a fixed rate of 5.63% for a period of five years following the maturity of the Erie Shores project debt from December 1, 2011 to December 1, 2016. In return, CPC will be paid a floating rate equal to the then current three-month BA rate.

On June 23, 2010, upon the acquisition of Amherstburg, Capstone entered into an interest rate swap contract to mitigate the interest rate risk on the project debt. The notional amount of the interest rate swap, initially zero, increases as the construction facility used to finance the development of the project increases until June 2011, at which time the notional amount reaches $96,200. As at quarter end the notional amount was $94,447 (December 31, 2010 - $35,803). Once the project is completed and Helios begins making payments on the debt, the notional amount of the interest rate swap will decrease as the outstanding balance on the debt amortizes.

Capstone has exposure to market risk, credit risk and liquidity risk from its use of financial instruments. Refer to Note 9 (Risk Management) in the consolidated financial statements for the year ended December 31, 2010 for further detail.

Loan payable

In March 2010, Capstone divested its interest in Leisureworld, held by Macquarie Long Term Care L.P. ("MLTCLP"), of which Capstone holds an approximate 45% interest, through an initial public offering ("IPO") of Leisureworld Senior Care Corporation. Capstone received its proportionate share of the initial net cash proceeds from MLTCLP in the form of a loan payable for $49,200, which increased by $5,466 on March 23, 2011 when the final holdback conditions were satisfied. The loan is non-interest bearing and payable on demand and had principal outstanding of $54,666 as at March 31, 2011 (December 31, 2010 - $49,200). Management expects the loan to be settled by way of a non-cash distribution from MLTCLP.

Deferred income taxes

Deferred income tax assets and liabilities are recognized on Capstone's consolidated statement of financial position based on temporary differences between the accounting and tax bases of existing assets and liabilities.

Capstone had the following deferred income tax balances:

($000s)	Mar 31, 2011	Dec 31, 2010
Deferred income tax assets	12,910	24,211
Deferred income tax liabilities	(58,046)	(105,251)
	(45,136)	(81,040)

The reduction in the deferred income tax asset and liability balances is attributable to using the undistributed income tax rate of 46% in 2010 and the general corporate rate of 26% to determine the balances in 2011.

During 2010, $1,910 of deferred income tax liability was recognized on the acquisition of Amherstburg Solar Park from SunPower Corporation ("SunPower") through the purchase equation and $831 was related to the 46% undistributed income tax rate adjustment, which was released from the deferred tax liability on January 1, 2011 upon conversion to a corporation.

Capstone also has unrecognized amounts related to net-capital and non-capital loss carry-forwards, which total $113,018 and $17,145, respectively. During the first quarter of 2011, $447 of non-capital losses was recognized as these losses will be utilized under the new corporate structure.

Contractual Obligations

Capstone enters into contractual commitments in the normal course of business. These contracts include leases, purchase obligations, electricity supply contracts, gas purchase contracts, wood waste agreements, operations and management agreements and guarantees. There have been no material changes in the specified contractual obligations outside the normal course of operations during the first three months of 2011 that have not been previously disclosed in the annual MD&A for the year ended December 31, 2010 or AIF filed March 24, 2011, except as described below:

Internalization

On March 15, 2011, Capstone entered into an agreement to terminate its management and administrative services with MGL and made a payment of $14,000 to MGL on April 15, 2011 to effect the termination. Upon completion, Capstone also paid the Internalized Management Team an aggregate amount of approximately $4,000 for contractual and other amounts.

Guarantees

See the discussion in the Capital Structure section under long-term debt on page 19 of this MD&A with respect to the terms of refinancing Tranche C of the Erie Shores project debt.

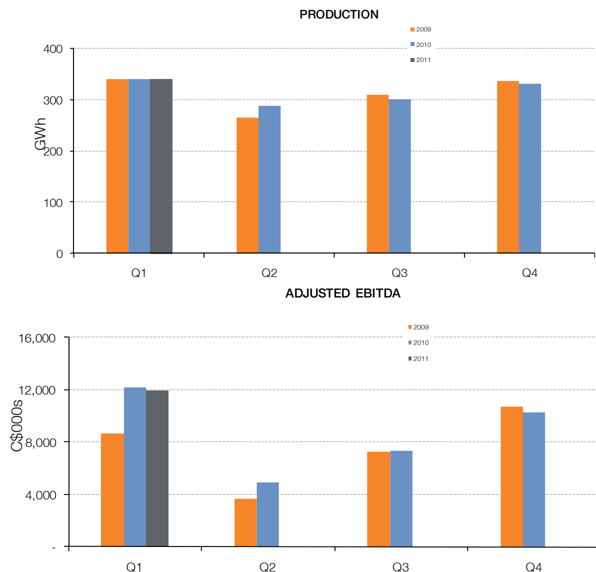
There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business. Capstone is not engaged in any off-balance sheet financing transactions.

ASSET PERFORMANCE

Gas Cogeneration Power: Cardinal

Performance highlights

($000s unless otherwise noted)	For the three months ended Mar 31, 2011	Mar 31, 2010
Revenue	33,077	31,659
Operating and administrative expenses	21,222	19,492
Adjusted EBITDA	11,927	12,170
FFO	11,666	11,927
Electricity production (MWh)	341,004	340,708
Steam production (KLbs)	194,560	185,904
Fuel consumption (MMBtu)	2,848,907	2,814,843
Capacity factors	98.0%	97.9%
Availability	99.9%	99.9%



Performance review

During the first quarter, Cardinal's revenue increased $1,418, or 4.5%, over 2010, reflecting higher electricity rates as plant production, capacity and availability were consistent with the prior year. During the first quarter of both 2011 and 2010, Cardinal benefited from a DCR adjustment which contributed $1,813 and $1,840 to revenue in 2011 and 2010, respectively. Steam production increased by 4.7% due to higher demand from Casco.

Higher revenue was offset by a $1,730, or 8.9%, increase in expenses, primarily due to higher fuel consumption and transportation costs than in the prior year. Transportation costs increased from $1.64 per gigajoule ("GJ") in 2010 to $2.24 GJ effective March 1, 2011.

The net effect on both Adjusted EBITDA and FFO was a 2.0% decrease from the prior year.

Outlook

Revenue in 2011 is expected to be higher than in 2010 due to the continuing escalation in the DCR, which results in a higher power price under Cardinal's PPA. The increase in revenue will be partially offset by planned maintenance activities and by higher TCPL gas transportation rates. Subsequent to quarter end, Cardinal successfully completed its scheduled combustion inspection and additional maintenance work in 6.5 days. Higher gas transportation rates are expected to result in approximately $5.5 million to $6 million in increased operating costs. As a result, Cardinal's Adjusted EBITDA and FFO are expected to be lower in 2011 than in 2010. Management is continuing to advance its strategy to secure a new contract for Cardinal to replace its current PPA that expires in 2014.

Wind Power: Erie Shores Wind Farm

Performance highlights

	For the three months ended	
($000s unless otherwise noted)	Mar 31, 2011	Mar 31, 2010
Revenue	6,885	5,881
Operating and administrative expenses	800	1,587
Adjusted EBITDA	6,085	4,294
FFO	4,462	2,763
Electricity production (MWh)	70,586	60,518
Capacity factors	33.4%	28.2%
Availability	98.5%	98.0%

Performance review

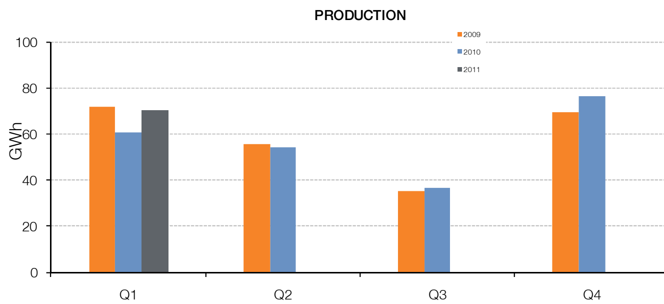
During the first quarter of 2011, higher wind speeds combined with strong availability translated into a 16.6% increase in electricity production. Revenue increased by $1,004, or 17.1%, over the same period in 2010.

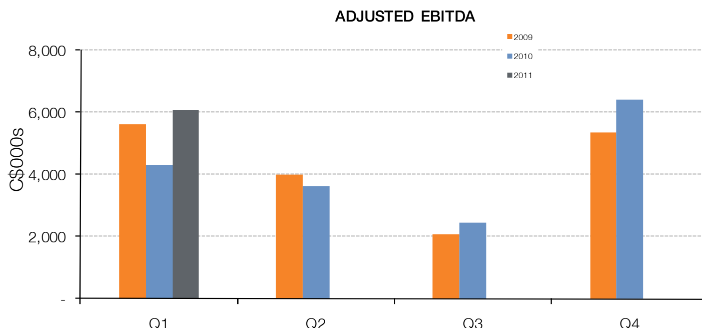
Operating and administrative expenses declined $787, or 49.6%, from 2010 due in part to activities related to the internalization of O&M services in 2010 that were previously provided by GE Canada. The remaining variance was attributable to a greater number of repairs in 2010.

These factors resulted in a $1,791, or 41.7%, increase in Adjusted EBITDA over 2010. FFO likewise benefited, improving by $1,699, or 61.5%, over 2010.

Outlook

Erie Shores is anticipated to continue to benefit from more typical wind conditions through the remainder of 2011, yielding higher production and corresponding higher revenue than in 2010. Capstone's annual long-term production target for the facility is approximately 248,000 MWh. Erie Shores is also expected to incur lower operating costs in 2011 following the O&M internalization in 2010. Due to these factors, Adjusted EBITDA and FFO are expected to be higher in 2011 than in 2010.

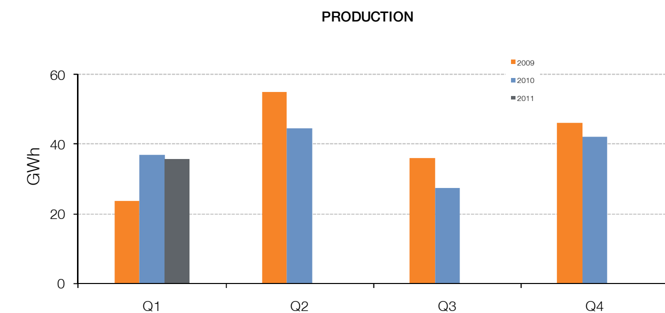


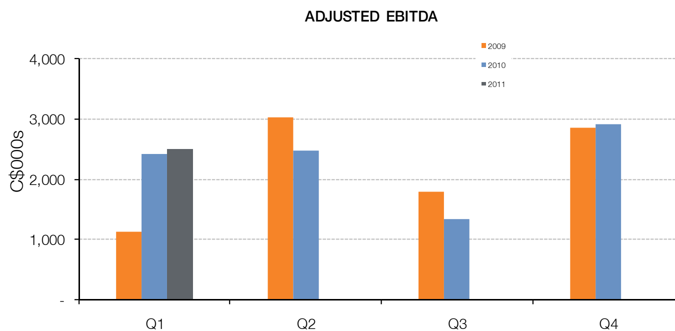


Hydro Power: Four Facilities

Performance highlights

	For the three months ended	
($000s unless otherwise noted)	**Mar 31, 2011**	**Mar 31, 2010**
Revenue	3,302	3,273
Operating and administrative expenses	805	850
Adjusted EBITDA	2,497	2,423
FFO	2,497	2,423
Electricity production (MWh)	35,572	36,816
Capacity factors	46.1%	47.8%
Availability	98.9%	97.4%





Performance review

During the first quarter of 2011, revenue for the four hydro power facilities was $29, or 0.9%, higher than in 2010. The increase in revenue reflected higher power rates offset by lower electricity production compared with the first quarter last year, reflecting the early spring run-off experienced in 2010.

Operating and administrative expenses were $45, or 5.3%, lower than in 2010. The decrease was primarily attributable to lower repairs and maintenance in 2011.

The impact on both Adjusted EBITDA and FFO was an increase of 3.1% over 2010.

Outlook

The hydro power facilities are expected to achieve their long-term average annual production of approximately 166,000 MWh due to the anticipated return to normal hydrological conditions in Ontario in 2011, resulting in higher revenue than in 2010. Higher revenue will also reflect the price escalators in certain of the facilities' PPAs. Operating costs are expected to be slightly lower than in 2010. As a result, Adjusted EBITDA and FFO from the hydro power facilities are expected to be higher in 2011 than in 2010.

Biomass Power: Whitecourt

Performance highlights

	For the three months ended	
($000s unless otherwise noted)	**Mar 31, 2011**	**Mar 31, 2010**
Revenue	3,651	3,339
Operating and administrative expenses	1,923	1,718
Adjusted EBITDA	1,728	1,623
FFO	1,724	1,617
Electricity production (MWh)	51,204	51,914
Fuel consumption (GMT) [1]	76,806	74,518
Capacity factor	99.5%	98.8%
Availability	100.0%	99.3%

[1] Green metric tonnes

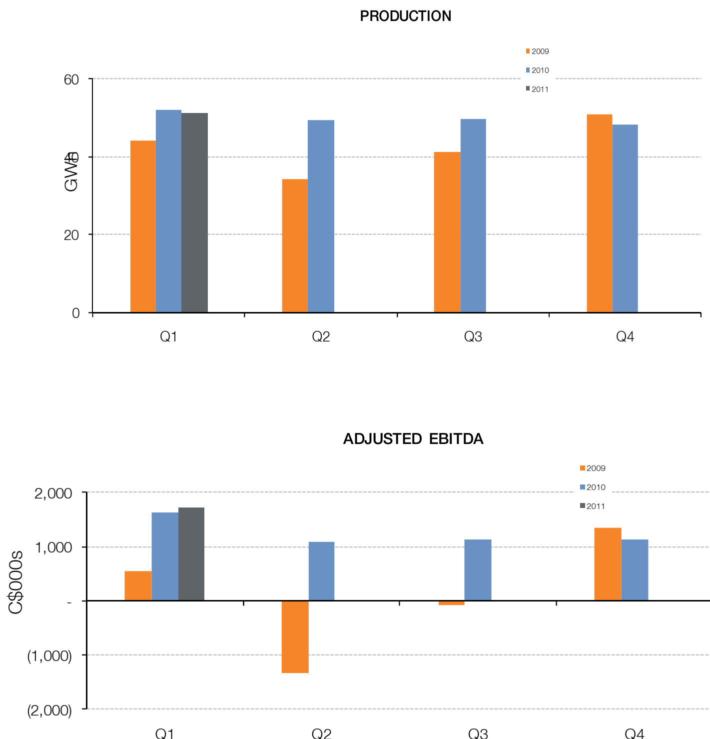
Performance review

During the first quarter of 2011, Whitecourt's revenue was $312, or 9.3%, higher than in the same period in 2010 due to higher power pool prices, which were partially offset by slightly lower electricity production than in the first quarter of 2010.

Operating and administrative expenses were $205, or 11.9%, higher than in 2010 primarily due to wastewater transportation costs during the first quarter of 2011.

The net impact on Adjusted EBITDA and FFO was an increase of 6.5% and 6.6%, respectively.

Outlook



Revenue in 2011 is expected to be consistent with 2010, primarily reflecting planned outages for maintenance and the expectation of lower merchant power prices for the remainder of 2011. Whitecourt is anticipated to incur slightly higher operating expenses for the year as a result of additional planned maintenance work, which was completed in approximately seven days in May. Adjusted EBITDA and FFO from this facility are expected to be slightly lower than in 2010. Whitecourt is anticipated to have a continuing stable and adequate supply of wood waste fuel in 2011.

Biomass Power: Chapais

Performance highlights

	For the three months ended	
($000s unless otherwise noted)	Mar 31, 2011	Mar 31, 2010
Interest income on loans receivable	146	168
Electricity production (MWh) [(1)]	61,269	60,221
Fuel consumption (GMT)	118,895	121,083
Capacity factor	101.3%	99.5%
Availability	100.0%	97.2%

[(1)] Total amount of electricity produced by the Chapais facility, in which Capstone holds a minority equity and debt interest.

Performance review

The Chapais facility's first quarter 2011 performance measures were ahead of the same period of 2010 for electricity production, availability, capacity and fuel consumption. Capstone continued to receive scheduled principal and interest income payments from the Tranche A portion of the outstanding debt of CHESEC. The fuel costs for the facility remain high and therefore the facility is only able to pay interest and principal on Tranche A of the outstanding debt. Capstone does not expect to earn income on its minority preferred equity investment.

Solar Power: Amherstburg Solar Park

Performance review

Since acquiring the development project on June 23, 2010, work on the solar park has progressed according to plan. During the first quarter of 2011, $43,911 of construction costs were incurred for a total of $78,446 through to March 31, 2011, representing 60.3% of the $130,000 total estimated project cost. Commercial operations are expected to commence at the end of June 2011.

Outlook

Upon the start of commercial operations, Amherstburg is expected to produce up to approximately 37,600 MWh of electricity annually. In 2011, Capstone is expected to benefit from six months of Adjusted EBITDA and FFO contribution from this facility.

Utilities Infrastructure: Värmevärden

On March 31, 2011, Capstone completed the acquisition of a 33.3% interest in a district heating business in Sweden operating as Värmevärden. As the business combination was completed at the end of the quarter, the first full complete quarter of operational results will be included in Capstone's results for the second quarter of 2011. First quarter earnings for Värmevärden reflect business combination transaction costs to complete the acquisition.

Social Infrastructure: Leisureworld

During the first quarter of 2011, Capstone received $5,466 from MLTCLP following expiry of the holdback established when Leisureworld was sold in March 2010. Capstone continues to use equity accounting for its residual interest in MLTCLP until such time as the wind-up of the remaining activities of MLTCLP is completed.

SEASONALITY

Capstone's operating results may fluctuate due to seasonal factors that affect quarterly production of the individual facilities. The factors contributing to these results include scheduled major maintenance, seasonal electricity demands and environmental factors such as water flows, wind speeds, temperature and humidity.

Cardinal's long-term PPA with the OEFC and gas purchase contract lead to lower fluctuations in production. Lower production during the second quarter reflects the annual scheduled maintenance cycle of the facility while low third quarter production is due to historical curtailment by the OEFC during the off-peak summer months. In addition, higher ambient temperatures in the summer months affect Cardinal's efficiency and reduce the facility's output. Further, Cardinal's PPA contains higher electricity rates during the six-month period from October to March (and lower rates from April to September), which is reflected in variations in quarterly results.

For Erie Shores, higher wind speeds and air density during the colder winter months typically result in higher production during the first and fourth quarters each year.

Production at Whitecourt is fairly consistent throughout the year with the exception of the second quarter, which is when the facility typically performs its major maintenance every seven years.

For each hydro power facility, peak production is based on the respective local watersheds, which increase the water flow for the facility. Typically, the second quarter, during the spring run-off, is the most productive period for Wawatay and Sechelt. Dryden, which has lower variability, has historically produced the most electricity during the third quarter. As with Cardinal, the PPAs for Wawatay and Dryden contain higher electricity rates during the months of October to March (and lower rates from April to September).

Amherstburg is expected to generate more power during sunnier periods, which will typically yield higher production during the second and third quarters each year. In contrast, Värmevärden is expected to produce higher revenues during colder periods in Sweden as reflected in the first and fourth quarters.

In summary, the above factors result in the portfolio generating the highest average long-term electricity production during the first and fourth quarter as shown in the following table:

Project Name	Type	Electricity Purchaser	PPA Expiry	Net Installed Capacity (MM)	Q1 2011	Average long-term production (MWh) [1]			
						Q1	Q2	Q3	Q4
Cardinal	Gas	OEFC	2014	156	341,004	343,013	282,116	304,372	332,678
Erie Shores	Wind	OPA	2026	99 [2]	70,586	74,727	53,711	34,677	77,407
Whitecourt	Biomass	TransAlta	2014	25	51,248	49,882	44,814	49,624	49,302
Sechelt	Hydro	BC Hydro	2017	16	22,496	20,308	30,546	12,411	22,044
Wawatay	Hydro	OEFC	2042	14	4,442	4,847	18,345	9,613	14,464
Hluey Lakes	Hydro	BC Hydro	2020	3	2,292	2,192	1,347	1,189	2,055
Dryden [3]	Hydro	OEFC	2020	3	6,342	4,895	5,029	5,495	4,692
Chapais [4]	Biomass	Hydro Quebec	2015	28	61,269	60,340	51,807	58,193	49,570
Total				344	559,679	560,204	487,715	475,574	552,212

(1) Average long-term production is from March 2005 to March 2011, except for Erie Shores, which is from June 2006.
(2) One 1.5 MW turbine is owned by a landowner.
(3) The Dryden facility is composed of three facilities, built in 1922 (Wainwright), 1928 (Eagle) and 1938 (McKenzie). These facilities were refurbished in 1986.
(4) Capstone's investment in the Chapais facility consists of a 31.3% interest in one of two classes of preferred shares, a 24.8% interest in Tranche A and B debt and a 50% interest in Tranche C debt.

During the quarter the total generation was within 0.1% of the long-term average. With the exception of Erie Shores, Sechelt, Wawatay and Dryden, each facility performed within 5% of its first quarter average long-term production. Erie Shores experienced an improvement in wind conditions during the quarter compared with the same period last year but was still 5.5% below its first quarter long-term average. Wawatay was 8.4% below its first quarter long-term average production as a result of a later than normal spring run-off due to prolonged winter conditions. Sechelt and

Dryden were 10.8% and 29.6%, respectively, above their first quarter long-term average production as result of above average precipitation and temperatures causing larger water flows than the long-term average.

Capstone maintains cash reserves in order to offset seasonality and other factors that may impact electricity production. Management expects that Capstone's cash reserves and free cash flow will be sufficient to maintain monthly dividends to shareholders.

SUMMARY OF QUARTERLY RESULTS

The following table provides a historical summary for the previous eight quarters of Capstone's financial performance, which illustrates the effect of seasonality on Capstone's performance.

($000s except for per share amounts)	2011	2010				2009 (Cdn GAAP)		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	46,915	44,265	34,598	35,497	44,152	42,795	32,731	32,603
Net income (loss)	41,332	(2,648)	(6,845)	(2,239)	27,633	11,501	(587)	(1,752)
Cash flows from operating activities	14,117	1,052	6,773	9,176	13,873	9,504	5,972	9,255
Adjusted EBITDA	17,869	16,531	10,166	9,220	19,901	21,360	12,232	11,429
FFO	14,754	11,800	7,298	4,573	17,145	17,797	8,756	8,234
AFFO	13,218	9,714	5,828	3,050	15,106	16,127	7,725	6,579
Dividends declared to shareholders	10,015	8,232	7,700	7,699	7,700	13,103	13,103	13,104
Earnings Per Share - Basic	0.685	(0.055)[1]	(0.147)[1]	(0.048)[1]	0.592[1]	0.230	(0.012)	(0.035)
Earnings Per Share - Diluted	0.625[2]	(0.055)	(0.163)[2]	(0.048)	0.547[2]	0.230	(0.012)	(0.035)
Cash flows from operating activities per share	0.231	0.021	0.145	0.197	0.297	0.190	0.120	0.185
AFFO per share[3]	0.217	0.183	0.117	0.061	0.303	0.346	0.166	0.141
Dividends declared per share	0.165	0.165	0.165	0.165	0.165	0.262	0.262	0.262

(1) Class B exchangeable units were not included in the weighted average shares outstanding as they were classified as debt during this period under IFRS.
(2) Convertible debentures were dilutive during the period.
(3) Included in the AFFO per share are the Class B exchangeable units to allow the non-GAAP measures to be comparative.

Dividends reflect Capstone's annualized $0.66 per share policy, which was revised effective January 1, 2010 from $1.05 per share.

RELATED PARTY TRANSACTIONS

The Corporation has various related party transactions, which range from being common routine transactions in the ordinary course of business to non-routine as described in the subsequent events section of this MD&A on page 9. These transactions are disclosed in the interim consolidated financial statements in note 16 for the quarter ended March 31, 2011.

Transactions with the Manager

Capstone's related party transactions during the quarter primarily related to those with MPML, including fees for certain administration and support functions carried out by the Manager under an administrative agreement that totalled $1,800 during the quarter ended March 31, 2011 ($2,233 - March 31, 2010).

In March 2011, due diligence and legal fees of $1,313 (8,334 SEK) were paid to a subsidiary of MGL with respect to the acquisition of Värmevärden in Sweden. This cost was expensed in the interim consolidated statement of income

for the three months ended March 31, 2011 as part of equity accounted income as it was incurred by the equity accounted investee.

In March 2011, $735 became payable to Macquarie European Infrastructure Fund II for the reimbursement of due diligence costs with respect to the acquisition of Värmevärden in Sweden. These costs were accrued in the interim consolidated statement of financial position in accounts payable and other liabilities and capitalized to equity accounted investments as at March 31, 2011.

In March 2011, a financial advisory fee of $500 was payable to a subsidiary of MGL with respect to the refinancing of Tranche C of the Erie Shores project debt. These costs were accrued in the statement of financial position in accounts payable and other liabilities and capitalized to long-term debt as at March 31, 2011.

Compensation of Key Management

In the quarter, Capstone established a deferred share unit ("DSU") plan to compensate eligible Directors of the Corporation. The DSUs are expensed over the respective vesting period and the corresponding liability is adjusted each reporting period for the fair value of the obligation based on the cash award that would be required as calculated from the fair value of the granted DSUs. As at March 31, 2011, the value of the obligation included in the interim consolidated statement on financial position was $15.

Prior to April 15, 2011, the Chief Executive Officer and Chief Financial Officer of Capstone and other employees were employed by the Manager. Accordingly, employee compensation disclosure does not include any executive compensation directly in the accompanying interim consolidated financial statements.

RISKS AND UNCERTAINTIES

Capstone is subject to a number of risks and uncertainties that could have an adverse impact on our businesses, operating results and financial condition, which could negatively affect our ability to pay dividends to shareholders. Please refer to the "Risk Factors" section of the AIF filed March 24, 2011 for the year ended December 31, 2010 as updated in subsequently filed Quarterly Financial Reports and other filings made by the Corporation with the Canadian securities regulatory authorities. These filings are available on SEDAR at www.sedar.com.

Management believes that there have been no material changes in the business environment or risks faced by the Corporation during the quarter that have not been previously disclosed in the AIF or most recent annual report for the year ended December 31, 2010.

Climate Change and the Environment

Capstone monitors developments with respect to climate change and the environment with the assistance of external legal council. No material changes have occurred since the Corporation's prior disclosure in its most recent annual report for the year ended December 31, 2010.

ACCOUNTING POLICIES AND INTERNAL CONTROL

Significant Changes in Accounting Standards

The notes to the unaudited interim consolidated financial statements as at and for the three-month period ended March 31, 2011 contain a summary of the critical accounting policies used in preparation of the unaudited interim consolidated financial statements. On January 1, 2011, Capstone transitioned to IFRS.

Future Accounting Changes

Financial instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") on October 28, 2010, and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Deferred income taxation

On December 20, 2010, the IASB published Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12. The amendments provide an exception to the general principle in IAS 12 that the measurement of deferred income tax assets and deferred income tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. This amendment applies to deferred tax assets or deferred tax liabilities that arise from investment property measured using the fair value model in IAS 40 and introduces a rebuttable presumption that the carrying value of the investment property will be recovered entirely through sale. The amendments must be applied for annual periods beginning on or after January 1, 2012.

Accounting Estimates

The interim consolidated financial statements are prepared in accordance with IFRS, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies.

The following accounting estimates included in the preparation of the interim consolidated financial statements are based on significant estimates and judgments, which are summarized as follows:

Area of significant estimate	Assumptions
• Derivative financial instruments	Interest rate, natural gas price, and direct costumer rate.
• Purchase price allocations	Initial fair value of net assets
• Depreciation on capital assets	Estimated useful lives and residual value
• Amortization on intangible assets	Estimated useful lives
• Asset retirement obligations	Expected settlement date and amount and discount rate
• Income taxes	Timing of reversal of temporary differences
• Impairment assessments	Estimated future cash flows and discount rate

Management's estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Internal Controls

Capstone's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are required by various of the provincial securities regulators to certify annually that they have designed, or caused to be designed, Capstone's disclosure controls and procedures, as defined in the Canadian Securities Administrators' Multilateral Instrument 52-109 ("MI 52-109"), and that they have evaluated the effectiveness of these controls and procedures in the applicable period. Disclosure controls are those controls and other procedures that are designed to provide reasonable assurance that the relevant information that Capstone is required to disclose is recorded, processed and reported within the timeframes specified by such securities regulators.

Capstone's management, under the supervision of and with the participation of the CEO and CFO, has designed internal controls over financial reporting, as defined in MI 52-109. The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of Capstone's financial reporting, in accordance with GAAP, focusing in particular on controls over information contained in the audited annual and unaudited interim consolidated financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

Capstone updated its internal controls and testing for changes in its operations during the three-month period ended March 31, 2011, including the construction of Amherstburg and acquisition of Värmevärden, as well as its internal controls over financial reporting specifically with respect to the transition to IFRS.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at March 31, 2011 to ensure that information required to be disclosed in reports that Capstone files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

There were no changes made in Capstone's internal controls over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, Capstone's internal controls over financial reporting.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($000s)	Notes	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Current assets				
Cash and cash equivalents	7	39,111	131,440	53,121
Restricted cash	7	4,644	7,575	5,490
Accounts receivable		25,103	21,696	16,128
Other assets		3,314	3,552	3,771
Current portion of loans receivable		908	884	794
Current portion of derivative contract assets	8	2,030	1,918	1,026
		75,110	167,065	80,330
Non-current assets				
Loans receivable	9	89,811	5,221	6,105
Derivative contract assets	8	6,780	6,579	15,476
Equity accounted investments	9	77,936	54,789	54,186
Capital assets	10	447,314	408,623	396,338
Intangible assets	11	135,301	137,646	140,866
Deferred income tax assets		12,910	24,211	18,443
Total assets		845,162	804,134	711,744
Current liabilities				
Accounts payable and other liabilities		49,919	28,896	22,977
Current portion of derivative contract liabilities	8	2,811	2,505	1,310
Loan payable	9	54,666	49,200	-
Current portion of finance lease obligations		122	120	119
Current portion of long-term debt	13	45,155	44,838	42,035
		152,673	125,559	66,441
Long-term liabilities				
Derivative contract liabilities	8	12,929	14,801	6,143
Deferred income tax liabilities		58,046	105,251	135,323
Electricity supply and gas purchase contracts	11	6,122	6,524	8,154
Finance lease obligations		97	129	248
Long-term debt	13	269,582	284,608	282,165
Liability for asset retirement obligation		3,215	3,167	3,171
Total liabilities		502,664	540,039	501,645
Shareholders' equity [(1)]	14	342,498	264,095	210,099
Total liabilities and shareholders' equity [(1)]		845,162	804,134	711,744
Commitments and contingencies	18			

[(1)] 2010 is unitholders' equity
See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($000s)	Notes	Share capital	Class B Units	Convertible debentures	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, January 1, 2010		466,662	-	-	190	(256,753)	210,099
Units redeemed	14a	(3)	-	-	-	-	(3)
Equity share of other comprehensive income (loss) of Leisureworld		-	-	-	(190)	-	(190)
Net income during the period		-	-	-	-	27,633	27,633
Distributions declared	14c	-	-	-	-	(7,700)	(7,700)
Balance, March 31, 2010		466,659	-	-	-	(236,820)	229,839
Units issued [1]	14a	65,249	-	-	-	-	65,249
Conversions of debentures, net of costs	13c	4,390	-	-	-	-	4,390
Units redeemed	14a	(20)	-	-	-	-	(20)
Net loss during the period		-	-	-	-	(11,732)	(11,732)
Distributions declared	14c	-	-	-	-	(23,631)	(23,631)
Balance, December 31, 2010		536,278	-	-	-	(272,183)	264,095
Shares issued [1]	14a	(102)	-	-	-	-	(102)
Reclassification of class B exchangeable units	5b	-	26,710	-	-	-	26,710
Reclassification of convertible debentures – conversion option	5c	-	-	11,554	-	-	11,554
Debenture conversions, net of costs	13c	11,062	-	(2,138)	-	-	8,924
Net income for the period		-	-	-	-	41,332	41,332
Dividends declared	14c	-	-	-	-	(10,015)	(10,015)
Balance, March 31, 2011		547,238	26,710	9,416	-	(240,866)	342,498

(1) On December 22, 2010, the Corporation completed a private placement (the "Offering") of 9,079,250 units at a price of $7.60 per unit for gross proceeds of approximately $69,000 before issue costs of $3,751. The net proceeds of the Offering will be used by the Corporation for acquisitions and for general purposes. During 2011, additional transaction costs of $102 were included in share capital in relation to the private placement.

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Mar 31, 2011	Mar 31, 2010
Revenue		46,915	44,152
Costs and expenses			
Operating expenses		24,160	23,336
Administrative expenses		5,319	3,219
Depreciation of capital assets	10	5,949	6,297
Amortization of intangible assets	11	1,943	1,938
		37,371	34,790
		9,544	9,362
Other income and expenses			
Interest income		433	173
Interest expense		(5,107)	(5,264)
Equity accounted income (loss)	9	(2,401)	3,468
Unrealized (loss) gain on derivative financial instruments		1,879	(4,045)
Unrealized loss on Class B exchangeable unit liability		-	(3,574)
Unrealized loss on convertible debentures - conversion option		-	(1,897)
Foreign exchange gain (loss)		(6)	5
Income (loss) before income taxes		4,342	(1,772)
Income tax recovery (expense)	12		
Current		-	-
Deferred		36,990	29,405
Total income tax recovery		36,990	29,405
Net income		41,332	27,633
Earnings per share [(1)]			
Basic		0.685	0.592
Diluted		0.625	0.547
Basic weighted average number of shares including Class B exchangeable units outstanding (2010 – excluding Class B exchangeable units)		60,349	46,665
Diluted weighted average number of shares		67,205	58,129

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($000s)	Notes	Mar 31, 2011	Mar 31, 2010
Net income		41,332	27,633
Equity share of other comprehensive loss of equity accounted investments		-	(190)
Total comprehensive income		41,332	27,443

[(1)] 2010 is earnings per unit
See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

($000s)	Notes	Mar 31, 2011	Mar 31, 2010
Operating activities:			
Net income		41,332	27,633
Depreciation and amortization		7,892	8,235
Equity accounted (income) loss		2,401	(3,468)
Unrealized loss (gain) on derivative investments		(1,879)	4,045
Deferred income tax recovery	12	(36,990)	(29,405)
Amortization of deferred financing costs		726	461
Non-cash financing costs		454	369
Unrealized loss on Class B exchangeable unit liability		-	3,574
Unrealized loss on convertible debentures		-	1,897
Change in non-cash working capital	17	181	532
Total cash flows from operating activities		14,117	13,873
Investing activities:			
Loan to equity accounted investments	9	(84,828)	-
Investment in capital assets	10	(26,646)	(1,277)
Investment in equity accounted investments	9	(25,548)	-
Receipt of loans receivable		212	190
Distributions received from equity accounted investments		-	2,131
Total cash flows from (used in) investing activities		(136,810)	1,044
Financing activities:			
Proceeds from long-term debt		34,039	298
Proceeds from loan payable		5,466	49,200
Share issue costs		(102)	-
Financing fees paid on debt issuance		(500)	(335)
Repayment of long-term debt and finance lease obligations		(837)	(797)
Change in restricted cash		2,313	(2,303)
Dividends paid		(10,015)	(9,322)
Repayment of convertible debentures		-	(31,418)
Redemption of units		-	(3)
Total cash flows from (used in) financing activities		30,364	5,320
Increase/(decrease) in cash and cash equivalents		(92,329)	20,237
Cash and cash equivalents, beginning of period		131,440	53,121
Cash and cash equivalents, end of period		39,111	73,358
Supplemental information:			
Interest paid		3,327	3,804
Taxes paid		-	-

See accompanying notes to these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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1. CORPORATE INFORMATION

Capstone is incorporated and domiciled in Canada and principally located at 181 Bay Street, Suite 3100, Toronto, Ontario, M5J 2T3. The mission of Capstone Infrastructure Corporation (formerly Macquarie Power and Infrastructure Corporation and Macquarie Power & Infrastructure Income Fund (the "Fund")) and its subsidiaries (together the "Corporation" or "Capstone") is to build and responsibly manage a high quality portfolio of infrastructure businesses in Canada and internationally in order to deliver a superior total return to shareholders. Capstone's portfolio currently includes investments in gas cogeneration, wind, hydro and biomass power generating facilities, representing approximately 350 MW of installed capacity, and a 33.3% interest in a district heating business in Sweden that was acquired on March 31, 2011. Capstone is also currently developing a 20 MW solar power facility in Ontario.

On January 1, 2011, Capstone converted into a corporation following a plan of arrangement whereby each unit of the Fund was automatically exchanged for one common share of the Corporation.

Macquarie Power Management Ltd. ("MPML" or the "Manager") is an indirect wholly-owned subsidiary of Macquarie Group Limited ("MGL"), an Australian public company listed on the Australian Securities Exchange. MPML provided administrative services to the Corporation in accordance with an administration agreement, and management services to Cardinal, Helios and Capstone Power Corp. ("CPC") (formerly Macquarie Power Corp.) in accordance with management agreements. On April 15, 2011, management of the Corporation was internalized as described in note 19.

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") as set out in The Canadian Institute of Chartered Accountants Handbook ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and to require publicly accountable enterprises to apply IFRS for years beginning on or after January 1, 2011. Consequently, the Corporation has commenced using IFRS in these consolidated financial statements. The term Canadian GAAP is used in these consolidated financial statements to refer to the GAAP applied prior to the adoption of IFRS.

Statement of Compliance

The condensed consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34") and IFRS 1 – First-time Adoption of IFRS ("IFRS 1") in initial application of IFRS as described in note 5 to these interim consolidated financial statements. Subject to certain transition elections disclosed in note 5, the Corporation has consistently applied the same accounting policies in its opening IFRS statement of financial position at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 5 discloses the impact of the transition to IFRS on the Corporation's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Corporation's consolidated financial statements for the year ended December 31, 2010.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and in effect as of June 9, 2011, the date that the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transition adjustments recognized on change-over to IFRS.

Under IFRS, additional disclosures are required in annual consolidated financial statements. These additional disclosures are provided in notes 10, 11, 12 and 16.These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited Canadian GAAP consolidated financial statements for the year ended December 31, 2010.

3. SEASONALITY

The seasonality of wind speed, density of water flows and pricing provisions within the power purchase agreements ("PPA") with the Ontario Electricity Financial Corporation ("OEFC") may result in fluctuations in revenue and net income during the period. The Corporation maintains reserve accounts and free cash in order to offset the seasonality and other factors that may impact electricity production.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are used in the preparation of these consolidated financial statements.

Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Consolidation

These unaudited consolidated financial statements include the assets and liabilities and results of operations of CPC, Cardinal Power Inc., Cardinal Power of Canada, L.P. ("Cardinal"), MPT LTC Holdings Ltd., MPT LTC Holding LP ("LTC Holding LP"), Helios Solar A-1 Partnership ("Helios"), MPT Utilities Corp., MPT Utilities Europe Ltd. and MPT District Heating Luxembourg SARL all of which are 100% owned subsidiaries controlled by the Corporation. The Corporation accounts for these investments using the consolidation method of accounting from the date control is obtained and deconsolidates from the date that control ceases. All intercompany balances and transactions have been eliminated on consolidation.

The Corporation, through its wholly-owned subsidiaries, uses the equity method to account for its interests in Macquarie Long Term Care L.P. ("MLTCLP"), Chapais Électrique Limitée ("Chapais") for all periods reported and Sefyr Heat Luxembourg SARL ("Sefyr"), which holds Capstone's 33.3% investment in Värmevärden.

Foreign Currency Translation

Functional and presentation currency

Amounts included in the financial statements of each consolidated 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.

Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates prevailing at the dates of the consolidated statement of financial position. Revenues and expenses denominated in foreign currencies are translated at the exchange rate prevailing at the dates of the respective transactions and reflect the impact of any derivative financial instruments entered into by the Corporation as hedges of the underlying transactions. The Corporation had no foreign exchange hedges for any period reported in these consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents are composed of highly liquid investments with original maturities of 90 days or less at the date of acquisition and are recorded at fair value.

Loans Receivable

The Corporation has interest-bearing financial assets that consist of a series of loans receivable from Chapais and Värmevärden. These financial assets are carried at amortized cost.

Investments in Associates

The Corporation has significant influence, but not control over its investments in MLTCLP, Chapais and Värmevärden from March 31, 2011. The equity method is used to account for these investments. Under the equity method, the cost of the investment is adjusted by the Corporation’s proportionate share of net income and other comprehensive income and reduced by any dividends paid to the Corporation. The Corporation assesses at each year-end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Corporation’s share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of income.

Capitalized Costs

Capitalized costs related to an asset under development include all eligible expenditures incurred in connection with the development and construction of the asset until it is available for its intended use. The expenditures consist of directly attributable costs related to the asset. The Corporation capitalizes interest and borrowing costs when activities that are necessary to prepare the asset for its intended use are in progress, expenditures for the asset have been used or borrowed to fund the construction or development. Capitalization of interest and borrowing costs ceases when the asset is ready for its intended use.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying value of an asset is derecognized when replaced.

Major maintenance costs are capitalized in the carrying value of the assets as incurred, and depreciated over the period to the next scheduled major maintenance. Other repair and maintenance costs are charged to the statement of income during the period incurred.

The Corporation allocates the amount initially recognized in respect of an item of capital assets to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. The major categories of capital assets are depreciated using the straight-line method as follows:

Equipment and vehicles	3 to 15 years
Property and plant	20 to 40 years

Assets included in land and construction in progress are not depreciated. Construction in progress assets will be reclassified and depreciated when they are available for use. No interest costs are being incurred as a direct result of the construction and installation of the assets.

Intangible Assets

The Corporation separately identifies acquired intangible assets including electricity supply contracts, gas purchase contracts, water rights and computer software and records each at their fair value at the date of acquisition. The initial fair value is amortized over their estimated useful lives using the straight-line method as follows:

Computer software	3 to 5 years
Electricity supply and gas purchase contracts	8 to 20 years
Water rights	10 to 35 years

The expected useful lives of intangible assets are reviewed on an annual basis and adjusted prospectively.

Impairment of Non-financial Assets

The capital assets and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units or “CGUs”). The recoverable amount is the higher of an asset’s fair value less costs to sell the assets and the value in use (being the present value of the expected future cash flows of the relevant assets or CGU). An impairment loss is recognized for the amount by which the asset’s carrying value exceeds its recoverable amount. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management’s best estimate of expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Corporation performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Asset Retirement Obligations

The Corporation recognizes a provision for the future retirement obligations associated with its operating plants. These obligations are initially measured at fair value, which is the discounted future cost of the liability. A reassessment of the expected costs associated with these liabilities is performed annually with changes in the estimates of timing or amount of cash flows added or deducted from the cost of the related asset. The liability accretes until the date of expected settlement of the retirement obligations.

Exchangeable Securities

The Class B exchangeable units issued by LTC Holding LP meet the criteria set out in IAS 32 and have been presented as equity following execution of the plan of arrangement to convert Capstone to a corporation on January 1, 2011. Previously under IFRS, the Class B exchangeable units were classified as debt as they were settled in Fund units. Prior to the Fund’s conversion to a corporation, these securities were re-measured each period at fair value with changes in fair value recorded in the consolidated statement of income. Distributions paid on these securities were recorded as interest expense.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Fund Units

Under IAS 32, the Fund units were considered a puttable financial instrument due to the holders' ability to redeem Fund units, generally at any time, subject to certain restrictions. The Corporation has classified Fund units as equity in accordance with IAS 32 paragraph 16.

Dividends

Dividends on common shares are recognized in the Corporation's consolidated financial statements in the period in which the dividends are approved by the Board of Directors of the Corporation.

Business Combinations

The acquisitions of businesses are accounted for using the purchase method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets obtained, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the acquired business. The acquired business identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3R, Business Combinations ("IFRS 3R") are recognized at their fair value at the acquisition date.

To the extent the fair value of consideration paid exceeds the fair value of the net identifiable tangible and intangible assets, goodwill is recognized. To the extent the fair value of consideration paid is less than the fair value of net identifiable tangible and intangible assets, the excess is recognized in income.

Income Taxes

Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized directly in equity, in which case, the income tax is also recognized directly in equity.

Current income tax is the expected amount payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the reporting period, and any adjustments to income tax payable or recoveries in respect of previous years.

The Corporation follows the liability method of accounting for deferred income tax whereby deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted as at the date of the consolidated statement of financial position and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the asset can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Income tax for interim periods is accrued using the tax rate that would be applicable to expected total annual earnings.

Revenue and Expense Recognition

Revenue derived from the sale of electricity, power and steam is recognized when delivered to the customer and priced in accordance with the provisions of the applicable power and steam sales agreements. Certain power purchase arrangements ("PPAs") provide for an electricity rate adjustment, which is updated periodically both for the current and prior periods. The Corporation accounts for such adjustments when a reliable estimate of the adjustment can be determined. Revenue derived from power sales of Whitecourt Power LP ("Whitecourt") to the Power Pool of Alberta in excess of the volume as stipulated in the PPA is recorded at the hourly power pool rate. Cardinal has a profit-sharing arrangement with Husky Energy Marketing Inc. ("Husky Marketing") to sell excess gas not used in its operations in the market. Net proceeds from gas mitigation are recognized as revenue when delivery has taken place.

Costs related to the purchases of fuel are recorded upon delivery. All other costs are recorded as incurred.

Basic and Diluted Earnings per Share

Basic earnings per share is established by dividing net income by the weighted average number of common shares and Class B exchangeable units of LTC Holding LP for 2011. For 2010, the Class B exchangeable units of LTC Holding LP were excluded as the units were classified as debt of the Corporation.

Diluted earnings per share is computed in a similar manner as the basic earnings per share but reflects the dilutive effect of convertible debenture shares and Class B exchangeable units of LTC Holding LP for 2010. Potential shares are excluded from the computation of diluted net income per share if their effect is anti-dilutive. The convertible debenture shares were dilutive for the periods ended March 31, 2011 and March 31, 2010.

Comprehensive Income

Other comprehensive income ("OCI") represents changes in shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale. OCI includes the effective portion of the change in fair value of designated cash flow hedges of Leisureworld less any amounts reclassified to interest and other expenses, net, in the period the underlying hedged item is also recorded in interest and other expenses, net. Accumulated other comprehensive income ("AOCI") is included as a component in the consolidated statement of shareholders' equity.

Financial Instruments

Financial assets and financial liabilities are recognized on the consolidated statements of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. The Corporation has classified the financial instruments based on the purpose for which the financial instruments were acquired or issued, their characteristics and the designation of such instruments. The Corporation has designated each of its significant categories of financial instruments outstanding as at as follows:

Designation	Significant Categories	Measurement
Held-for-trading	• Cash and cash equivalents • Restricted cash • Derivative contract assets • Derivative contract liabilities • Class B exchangeable units (pre-January 1, 2011, see note 5 (b)) • Convertible debentures – Conversion option (pre-January 1, 2011, see note 5 (b))	• At fair value with changes in fair value recognized in the consolidated statement of income
Loans and receivables	• Accounts receivable • Loans receivable	• At amortized cost using the effective interest method
Other liabilities	• Accounts payable and other liabilities • Loans payable • Finance lease obligations • Long-term debt	• At amortized cost using the effective interest method

Transaction costs relating to financial instruments classified as loans and receivables and other liabilities are deferred and amortized over the expected life of the instrument using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed as incurred.

The Corporation determines the fair value of its financial instruments based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Derivative Financial Instruments

The Corporation's derivatives are classified as held-for-trading and are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Except when designated as hedges, the change in fair value during the period is recognized in the consolidated statements of income. As at March 31, 2011, the Corporation's derivatives include gas swap contracts and interest rate swaps.

The Corporation does not have any derivatives that have been designated as hedges for accounting purposes as at March 31, 2011.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Corporation has determined that Cardinal's gas purchase contract contains embedded derivatives requiring separation and measurement at fair value. The features requiring separation include mitigation options and indexing features (see note 9).

Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Corporation recognizes an impairment loss on financial assets carried at amortized cost. The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted by using the instrument's original effective interest rate. The carrying value of the asset is reduced by the loss either directly or indirectly through the use of an allowance account. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Deferred Share Unit Plan

The Corporation has a Deferred Share Unit ("DSU") plan for eligible directors of Capstone as described in note 15(c) to these consolidated financial statements. The Corporation accounts for DSUs as an expense over the vesting period of the DSUs using the fair value of the common shares, as determined by the closing price of the Corporation's publicly traded common shares on the reporting date.

Future Accounting Changes

Financial instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the International Accounting Standards Board ("IASB") on October 28, 2010, and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss ("FVTPL") and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Deferred income taxation

On December 20, 2010, the IASB published Deferred Tax: Recovery of Underlying Assets – Amendments to IAS 12. The amendments provide an exception to the general principle in IAS 12 that the measurement of deferred income tax assets and deferred income tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. This amendment applies to deferred income tax assets or deferred income tax liabilities that arise from investment property measured using the fair value model in IAS 40 and introduces a rebuttable presumption that the carrying value of the investment property will be recovered entirely through sale. The amendments must be applied to annual periods beginning on or after January 1, 2012. The Corporation is currently evaluating the impact of IAS 12 on its consolidated financial statements.

Critical Accounting Estimates and Judgments

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying values of financial assets and financial liabilities within the next financial year.

Area of Significance	Critical Estimate	Critical Judgment
Financial instrument fair value measurements When observable prices are not available, fair values are determined by using valuation techniques that refer to observable market data. This is specifically related to Capstone's financial instruments.	• Management's valuation techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. • For embedded derivatives, fair values are determined from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate.	• Interest rate • Natural gas rate • Direct customer rate
Capital and intangible assets - Carrying values Fair value estimates are required in the determination of the net assets acquired in a business combination and in the impairment assessment process for our capital assets and the assignment of amounts to the asset retirement obligations.	• These estimates are based on assumptions that are sensitive to change, which may have a significant impact on the valuations performed. • Impairment reviews of the carrying value of capital and other long-lived assets along with the asset retirement obligations require management to make estimates of fair value, future cash flows and business performance.	• Initial fair value of net assets • Estimated useful lives and residual value • Estimated future cash flows • Expected settlement date and amount • Discount rate
Deferred income taxes Estimates in the valuation of the deferred income taxes can affect the assets and liability balances.	• The determination of the deferred income tax balances of the Corporation requires management to make estimates of the reversal of existing temporary differences between the accounting and tax bases of assets and liabilities in future periods.	• Timing of reversal of temporary differences

5. TRANSITION TO IFRS

The effect of the Corporation's transition to IFRS, described in note 2, is summarized in this note as follows.

(A) Future Accounting Changes

In preparing these consolidated financial statements, the Corporation has applied the mandatory exceptions in IFRS 1 and optional exemptions from full retrospective application in its opening consolidated statement of financial position dated January 1, 2010:

Mandatory exceptions

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under Canadian GAAP, unless there is objective evidence that those estimates were in error. The Corporation's IFRS estimates as of January 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Optional exemptions

Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3R retrospectively to business combinations that occurred prior to the date of transition to IFRS (January 1, 2010). The Corporation has elected to apply IFRS for business combinations prospectively from January 1, 2010. Assets and liabilities acquired in past business combinations have been carried forward without adjustment at the transition date. Future business combinations will be accounted for in accordance with IFRS 3R.

(B) Reconciliation of Shareholders' Equity and Comprehensive Income as Previously Reported under Canadian GAAP to IFRS

Shareholders' Equity ($000s)	Notes	Dec 31, 2010	Mar 31, 2010	Jan 1, 2010
As reported under Canadian GAAP		340,594	306,325	293,015
IFRS adjustments				
Major maintenance and componentization	i	(1,626)	(98)	168
Capitalized transaction costs	ii	(933)	(3,090)	(3,075)
Class B exchangeable units	iii	(26,710)	(23,426)	(19,854)
Equity portion of convertible debentures	iv	(12,640)	(11,747)	(9,122)
Deferred income tax – rate adjustment	v	(34,809)	(38,470)	(51,401)
Deferred income tax – other adjustments	vi	219	345	368
As reported under IFRS		264,095	229,839	210,099

Comprehensive Income ($000s)	Notes	Dec 31, 2010	Mar 31, 2010
Net income - as reported under Canadian GAAP		11,569	21,012
IFRS adjustments			
Major maintenance and componentization	i	(1,792)	(264)
Capitalized transaction costs	ii	2,142	(15)
Class B exchangeable units	iii	(9,001)	(4,110)
Equity portion of convertible debentures	iv	(3,459)	(1,897)
Deferred income tax – rate adjustment	v	16,591	12,931
Deferred income tax – other adjustment	vi	(149)	(24)
Net income as reported under IFRS		15,901	27,633
Other comprehensive loss – under Canadian GAAP and IFRS		(190)	(190)
Comprehensive income as reported under IFRS		15,711	27,443

Explanatory notes

i. Major maintenance and componentization

IFRS requires an entity to separately track components of capital assets that have shorter useful lives than the whole category of assets. Under Canadian GAAP, Capstone historically expensed major maintenance and inspection costs as they were incurred. Under IFRS, these costs must be capitalized and amortized separately over the period until the next major maintenance. For Capstone, this required a review of the historical major maintenance expenditures in order to capitalize these costs as of the date incurred and calculate the appropriate amount of depreciation. Calculations were also required for costs of previous major maintenance to appropriately amortize and derecognize the costs prior to the next major maintenance cycle.

The effect of this change is a $1,626 decrease in shareholders' equity as at December 31, 2010 (March 31, 2010 - $98 decrease and January 1, 2010 - $168 increase) and a $1,792 decrease in net income before tax for the year ended December 31, 2010 ($264 decrease for the quarter ended March 31, 2010).

ii. Capitalized transaction costs

Under IFRS, transaction costs for a business combination must be expensed as incurred. Only certain transaction costs directly related to the issuance of debt or equity are eligible to be capitalized. While business combinations before 2010 are exempt from restatement under the IFRS 1 elections, the June 2010 acquisition of

the Amherstburg Solar Park, along with other deferred business development costs have been restated to exclude the transaction costs from the purchase price.

The effect of these changes is a $933 decrease in shareholders' equity as at December 31, 2010 (March 31, 2010 - $3,090 decrease and January 1, 2010 - $3,075 decrease) and an increase in net income before tax for the year ended December 31, 2010 of $2,142 ($15 decrease for the quarter ended March 31, 2010).

All current and future transaction costs relating to acquisitions will be expensed as incurred. The exception to this treatment is the investment in a business where the acquirer does not obtain control. In this circumstance, IFRS (IAS 28) requires that the directly attributable business acquisition costs be capitalized as part of the amount invested.

Additionally in accordance with IFRS 3R, the acquisition of Helios from SunPower has been capitalized, resulting in a gain at the time of acquisition in June 2010. The effect of this change was a $6,144 increase in intangibles ($4,234, net of the increase related to the deferred tax liability), $1,910 increase in the deferred tax liability and a $4,234 increase in net income. The Corporation released $831 of deferred tax liability during the quarter ended March 31, 2011, to reflect the use of the general corporate rate as described further in note 5(b)(v).

iii. Class B exchangeable units

Until the end of 2010, the Corporation was organized as a mutual fund trust. Under this structure, IFRS requires that that the Class B exchangeable units be treated as a liability and recorded at fair value with distributions to unitholders treated as interest expense and movements in the fair value reported on the consolidated statement of income. Under Canadian GAAP, the Class B exchangeable units were treated as equity, recorded at historical cost, with the distributions being recorded in equity.

On January 1, 2011, the Trust completed its plan of arrangement and became a corporation. Under IFRS, this change required reclassification of the Class B exchangeable units as equity. This requirement is based on the Class B exchangeable units feature to convert into the share capital and their terms allow them to participate on an equal basis with the corporate shareholders in all financial respects in the earnings of the corporation. The value of the Class B exchangeable units on January 1, 2011 is equal to their carrying value on December 31, 2010 which is the same as their fair value on December 31, 2010. The carrying value of the Class B exchangeable units remain unchanged while they are classified as equity and all future distributions will be recorded in equity.

Additionally, $2,144 of distributions to unitholders were treated as interest expense for the year ended December 31, 2010. ($536 for the quarter ended March 31, 2010)

The effect of these changes is a $26,710 decrease in shareholders' equity as at December 31, 2010 (March 31, 2010 - $23,426 decrease and January 1, 2010 - $19,854 decrease) and a $9,001 decrease in net income before tax for the year ended December 31, 2010 ($4,110 for the quarter ended March 31, 2010).

iv. Equity portion of convertible debentures

The convertible debentures give the holders the right to convert into shares of the Corporation (prior to January 1, 2011 into trust units of the Fund). In accordance with IAS 32 and IAS 39 the instrument is to be separated into its financial component parts on inception, similar to Canadian GAAP.

Under Canadian GAAP, Capstone separated the $57,500 of convertible debentures into its component parts at fair value on inception of the instrument, $51,749 to debt and $5,751 to equity for the conversion option, excluding transaction costs of $2,880, which were netted against each respectively. The debt was accounted for at amortized cost and the equity portion does not change from the inception fair value, aside from conversions.

Under IFRS, the Corporation is required to account for the conversion option as a liability prior to converting to a corporation, as the debentures were convertible into trust units, which have a limited life, and therefore the instrument must be measured as held for trading and accounted for at fair value with the change recorded in the consolidated statement of income. In 2011 the conversion option is transferred to equity as it is convertible to shares of a corporation and the value of the conversion option on January 1, 2011 is equal to its carrying value on December 31, 2010 which is the same as its fair value of $12,640 on December 31, 2010, as there was a change from a trust to a corporate structure, a deferred tax liability of $1,086 was recorded and offset to shareholders' equity. The carrying value of the conversion option will remain unchanged, aside from conversions.

The effect of these changes is a $12,640 decrease in shareholders' equity as at December 31, 2010 (March 31, 2010 - $11,747 decrease and January 1, 2010 - $9,122 decrease) and a $3,459 decrease in net income before tax for the year ended December 31, 2010 ($1,897 decrease for the quarter ended March 31, 2010).

v. Deferred income taxes – rate adjustment

Prior to January 1, 2011, Capstone qualified as a mutual fund trust for income tax purposes. As a mutual fund trust, Capstone was entitled to deduct distributions to unitholders from taxable income for the determination of taxes payable. As Capstone distributed all of its taxable income, minimal current income taxes were payable.

Beginning January 1, 2011, distributions from a mutual fund trust were subject to specified investment flow-through entity ("SIFT") tax which is substantially equivalent to the general corporate income tax rate. Under Canadian GAAP, future income taxes are accounted for using the liability method. This method requires Capstone to:

- determine its temporary differences;
- determine the periods over which those temporary differences are expected to reverse; and
- apply the income tax rates enacted at the date of the consolidated statement of financial position that will apply in the periods those temporary differences are expected to reverse.

Canadian GAAP required Capstone to recognize future income taxes based on temporary differences expected to reverse after January 1, 2011 and on the basis of its structure at the current balance sheet date. As a result, under Canadian GAAP, Capstone was required to recognize future income taxes based on the SIFT tax rate.

Under IFRS, mutual fund trusts are required to use the "undistributed" rate in the determination of income tax amounts for financial reporting. Consequently a mutual fund trust must use the applicable income tax rate assuming that no distributions are made to offset taxable income As a result, mutual fund trusts are required to use the highest marginal personal income tax rate of 46% in the calculation of future income taxes. Capstone has applied this rate to the 2010 comparative financial statements.

The impact to Capstone is a $51,401 increase in deferred income tax liability in the January 1, 2010 opening IFRS consolidated statement of financial position to reflect the rate differential between the highest marginal personal income tax rate of 46% and the SIFT income tax rate of 25%. Under IFRS, this calculation will be applied to timing differences arising in 2010. On December 31, 2010 a $34,809 increase to the deferred income tax liability was recorded (March 31, 2010 - $38,470 increase).

In the first quarter of 2011, the calculation of deferred income taxes has been affected by Capstone's conversion to a corporation on January 1, 2011. Under IFRS, the deferred income tax calculation will be based on the appropriate corporate tax rate. The impact to Capstone was a reversal of the rate change adjustment described above, resulting in a one-time deferred income tax recovery, which was a $36,990 increase in Capstone's 2011 first quarter net income.

vi. Deferred income taxes – other adjustments

Deferred income tax assets and liabilities have been adjusted to give effect to IFRS adjustments as follows:

($000s)	Notes	Dec 31, 2010	Mar 31, 2010	Jan 1, 2010
Major maintenance	i	274	400	423
Capitalized transaction costs	ii	(55)	(55)	(55)
Total		219	345	368

The adjustments increased (decreased) deferred income tax expense recognized in both the consolidated statements of income and consolidated statements of comprehensive income as follows:

($000s)	Notes	Year ended Dec 31, 2010	Three months ended Mar 31, 2010
Major maintenance	i	(149)	(24)

vii. Accretion of asset retirement obligations

Under Canadian GAAP, accretion was being included as part of operating and maintenance expenses while under IFRS it is required to be classified as a financing expense. Accretion expense of $179 for the year ended December 31, 2010 ($45 for the quarter ended March 31, 2010) has been reclassified as a finance costs with other interest expenses in accordance with International Financial Reporting Interpretation Committee 1. This change does not affect net income for the year ended December 31, 2010 or the quarter ended March 31, 2010.

(C) Presentation of Cash Flows

The presentation of the consolidated statement of cash flows under IFRS differs from the presentation of the consolidated statement of cash under Canadian GAAP. The changes made to the consolidated statements of financial position and comprehensive income resulted in reclassifications of various amounts on the consolidated statements of cash flows.

The consolidated statement of cash flows were adjusted as follows:

($000s)	Major maintenance and componentization	Class B exchangeable units	Mar 31, 2010
Cash flows from operating activities	(855)	536	(319)
Cash flows from investing activities	855	-	855
Cash flows from financing activities	-	(536)	(536)
	-	-	-

6. ACQUISITIONS

All acquisitions are accounted for using the purchase method in accordance with IFRS 3R and the results of operations are included from the date of the acquisition.

On March 31, 2011, the Corporation acquired a 33.3% indirect interest in a portfolio of district heating operations from subsidiaries of Fortum Corporation (collectively, “Fortum”) located in Sweden, which is named Värmevärden, for approximately $108,954 (or 710,000 Swedish Krona (“SEK”)). The remaining 66.7% interest in Värmevärden was acquired by Macquarie European Infrastructure Fund II (“MEIF II”), a private unlisted infrastructure fund managed by a subsidiary of MGL.

The fair value of the investment in Värmevärden as at the date of acquisition is preliminary and may be adjusted as a result of obtaining additional valuation and legal clarifications along with closing adjustments. Transaction costs of $2,414 (or 15,667 SEK) were expensed in the consolidated statement of income as part of the equity accounted income of Värmevärden, as the entity paid the amounts to acquire the collective assets from Fortum.

7. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

($000s)	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Cash and cash equivalents	27,530	119,864	42,532
Reserves	11,581	11,576	10,589
Unrestricted cash and cash equivalents	39,111	131,440	53,121
Cash backed letter of credit	4,000	4,011	-
Funds in deposit	500	500	-
Cash in escrow related to CPIF legacy obligations	144	760	3,186
Debt service reserve	-	2,304	2,304
Restricted cash	4,644	7,575	5,490
	43,755	139,015	58,611

The reserves represent unrestricted cash and cash equivalents and are judgementally designated by management and the Board of Directors to maintain liquidity and provide resources for future debt service, capital expenditures and other general requirements.

The debt service reserve account represents segregated cash under the terms of the project debt agreement for Erie Shores Wind Farm LP (“Erie Shores”). Under the agreement, as of April 1, 2011, Erie Shores is required to hold restricted cash equal to the principal and interest payments for the next six months of the term facilities. Under the previous agreement, based on the debt service coverage ratio no amounts were required to be restricted as at March 31, 2011. See note 13 for further detail.

8. DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation uses gas and interest rate swap contracts to hedge the risk of gas price and interest rate volatility. Capstone has also separately valued embedded derivatives at their fair value on the statement of financial position and recognizes the change in fair value in the consolidated statements of income.

The fair values of the Corporation's derivative financial instruments are as follows:

($000s)	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Current derivative assets			
Gas swap contracts	2,030	1,918	1,026
Non-current derivative assets			
Gas swap contracts	-	-	1,105
Interest rate swap contracts	1,938	1,292	278
Embedded derivatives	4,842	5,287	14,093
	6,780	6,579	15,476
	8,810	8,497	16,502
Current derivative liabilities			
Interest rate swap contracts	2,811	2,505	1,310
Non-current derivative liabilities			
Interest rate swap contracts	3,939	5,897	1,284
Embedded derivatives	8,990	8,904	4,859
	12,929	14,801	6,143
	15,740	17,306	7,453

9. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

	Mar 31, 2011		Dec 31, 2010		Jan 1, 2010	
($000s)	Ownership %	Carrying value	Ownership %	Carrying value	Ownership %	Carrying value
MLTCLP	45.0%	54,562	45.0%	54,789	45.0%	54,186
Värmevärden	33.3%	23,374	nil	-	nil	-
Chapais	31.3%	-	31.3%	-	31.3%	-
		77,936		54,789		54,186

Capstone has loans receivable of $89,811 with its associates, $4,983 is receivable from Chapais and $84,828 is receivable from Värmevärden. (December 31, 2010 - $5,221 was due from Chapais)

The $84,828 (551,808 SEK) loan receivable from Värmevärden matures in 10 years. Interest accrues at 7.965% per annum and is paid semi-annually on June 30 and December 31. Repayments of principal will be in SEK and may be made in part or in full, on such date or dates as agreed between Värmevärden, Capstone and MEIF II from time to time.

The change in the Corporation's equity accounted and equity accounted investments is as follows:

($000s)	Mar 31, 2011	Mar 31, 2010
Opening balance	54,789	54,186
Equity accounted income (loss)	(2,401)	3,468
Equity share of other comprehensive gain (loss)	-	(190)
Dividends / distributions received	-	(2,131)
Acquisitions	25,548	-
Ending balance	77,936	55,333
Loan payable	(54,666)	(49,200)
Net investment	23,270	6,133

(B) Summarized Information for Equity Accounted Investments

The Corporation has summarized the information of its equity accounted investments at their gross values as follows:

	Mar 31, 2011		Dec 31, 2010		Jan 1, 2010	
($000s)	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
MLTCLP	121,782	-	121,754	-	119,419	-
Värmevärden	429,282	357,387	-	-	-	-
Chapais	30,858	48,235	27,888	48,612	28,134	51,245

	Mar 31, 2011			Mar 31, 2010		
($000s)	Revenue	Income	Capstone's Income	Revenue	Income	Capstone's Income
MLTCLP	-	29,833	13	-	7,707	3,468
Värmevärden	-	(7,250)	(2,414)	-	-	-
Chapais	9,731	4,516	-	9,395	4,253	-
	9,731	27,099	(2,401)	9,395	11,960	3,468

10. CAPITAL ASSETS

($000s)	Jan 1,2011	Additions	Disposals	Impairment	Mar 31, 2011
Cost					
Land	235	-	-	-	235
Equipment and vehicles	4,375	17	-	-	4,392
Property and plant	469,665	712	-	-	470,377
Construction in progress	34,535	43,911	-	-	78,446
	508,810	44,640	-	-	553,450
Accumulated depreciation					
Equipment and vehicles	(3,000)	(93)	-	-	(3,093)
Property and plant	(97,187)	(5,856)	-	-	(103,043)
Net carrying value	408,623	38,691	-	-	447,314

($000s)	Jan 1, 2010	Additions	Disposals	Impairment	Dec 31, 2010
Cost					
Land	235	-	-	-	235
Equipment and vehicles	3,665	710	-	-	4,375
Property and plant	469,935	607	(877)	-	469,665
Construction in progress	-	34,535	-	-	34,535
	473,835	35,852	(877)	-	508,810
Accumulated depreciation					
Equipment and vehicles	(2,437)	(563)	-	-	(3,000)
Property and plant	(75,060)	(22,127)	-	-	(97,187)
Net carrying value	396,338	13,162	(877)	-	408,623

Included in equipment and vehicles are assets under finance leases having a net carrying value of $127 for the quarter ended ($161 - for the year ended December 31, 2010).

When Amherstburg is available for use the construction in progress assets will be transferred to property, plant and equipment and will be amortized over their useful lives. Of the construction in progress balance, $28,421 was accrued at quarter end ($10,427 for the year ended 2010).

Total additions were $44,640, including $26,646 paid and $17,994 accrued additions, during the quarter ended March 31, 2011 ($35,852 for the year ended December 31, 2010).

11. INTANGIBLES

($000s)	Jan 1,2011	Additions	Disposals	Impairment	Mar 31, 2011
Assets					
Computer software	56	-	-	-	56
Electricity supply and gas purchase contract	108,048	-	-	-	108,048
Water rights	73,018	-	-	-	73,018
Amortization	(43,476)	(2,345)	-	-	(45,821)
	137,646	(2,345)	-	-	135,301
Provisions					
Electricity supply and gas purchase contracts	12,257	-	-	-	12,257
Utilization	(5,733)	(402)	-	-	(6,135)
	6,524	(402)	-	-	6,122

($000s)	Jan 1,2010	Additions	Disposals	Impairment	Dec 31, 2010
Assets					
Computer software	27	29	-	-	56
Electricity supply and gas purchase contract	101,902	6,146	-	-	108,048
Water rights	73,018	-	-	-	73,018
Amortization	(34,081)	(9,395)	-	-	(43,476)
Net carrying value	140,866	(3,220)	-	-	137,646
Provisions					
Electricity supply and gas purchase contracts	12,257	-	-	-	12,257
Utilization	(4,103)	(1,630)	-	-	(5,733)
Net carrying value	8,154	(1,630)	-	-	6,524

12. INCOME TAXES

Following the change in the tax status of the Corporation, the deferred income tax assets and liabilities have been recalculated. The adjustments are included in the statement of income for the period, except for the adjustments related to the convertible debentures which were recorded as part of equity on conversion to a corporation. As a result, equity decreased by $1,086 and a deferred income tax recovery of $34,808 was recognized.

The Corporation became a taxable corporation on January 1, 2011, pursuant to the reorganization of the Fund. The reconciliation of the income tax expense for the quarter ended March 31, 2010 is not comparable to the current quarter since the majority of its earnings prior to 2011 were not subject to income taxes under the Fund's structure. As a result, the comparative figures are not disclosed.

The reconciliation of the difference between the income tax expense using the statutory tax rate and the effective tax rate is as follows:

($000s)	Mar 31, 2011
Income before income taxes	4,342
Statutory income tax rate	27.8%
Income tax expense based on statutory income tax rate	1,207
Change in tax status	(34,808)
Other	(3,389)
Total income tax recovery	(36,990)
Effective income tax rate	(851.9%)

13. LONG-TERM DEBT

(A) Components of Long-term Debt

($000s)	Maturity	Interest Rates	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
CPC- Cardinal credit facility	June 29, 2012	4.35%	85,000	85,000	85,000
Erie Shores project debt – Tranche A	April 1, 2026	5.96%	61,630	62,248	64,629
Erie Shores project debt – Tranche B	April 1, 2016	5.28%	4,625	4,815	5,551
Erie Shores project debt – Tranche C	April 1, 2011	5.05%	40,000	40,000	40,000
Amherstburg Solar Park project debt	June 30, 2016	7.32%	64,700	31,000	-
Convertible debentures	December 31, 2016	6.50%	40,135	48,875	83,946
Convertible debentures – conversion option	December 31, 2016		-	12,640	9,122
Class B exchangeable units	n/a		-	26,710	19,854
Levelization liability	June 30, 2032	6.94%	24,459	23,714	21,166
			320,549	335,002	329,268
Less: Deferred financing costs			(5,812)	(5,556)	(5,068)
			314,737	329,446	324,200
Current portion of long-term debt					
Erie Shores project debt			43,349	43,302	3,117
Amherstburg Solar Park project debt			1,806	1,536	-
Convertible debentures			-	-	38,918
			45,155	44,838	42,035
Long-term debt			269,582	284,608	282,165

(B) Refinancing of Erie Shores Wind Farm Debt

On April 1, 2011, Capstone completed the refinancing of Tranche C of Erie Shores' non-recourse, project financing loan. Under the refinancing, the Erie Shores' Tranche C loan was replaced with a fully amortizing term loan in the amount of $40,000, with a fixed rate of interest at 6.145% which matures on April 1, 2026. The $40,000 has been classified as a current liability as at March 31, 2011 while transaction costs of $803 incurred during the first quarter were capitalized.

Under the agreement, the next six months of principal and interest payments must be funded in a debt service reserve account. As a result, $5,646 will be recorded as restricted cash on the consolidated statement of financial position in the second quarter. Additionally, CPC's unsecured guarantee was reduced from the March 31, 2011 guarantee of $10,000 to $5,000 on April 1, 2011.

(C) Convertible Debentures

The carrying values of the liability and the equity components of the debentures are as follows:

($000s)	Mar 31, 2011	Dec 31, 2010	Jan 1, 2010
Liability component	48,875	51,749	83,928
Conversion to shares, net of costs [1]	(8,922)	(3,721)	-
Amortization and accretion	182	847	18
	40,135	48,875	83,946
Deferred financing costs	(2,518)	(2,518)	(2,291)
	37,617	46,357	81,655
Convertible debentures	-	12,640	9,122
	37,617	58,997	90,777
Equity component [2]	11,554	-	-
Conversion to shares [1], net of costs	(2,138)	-	-
	9,416	-	-
Total carrying value	47,033	58,997	90,777

(1) $11,062 of carrying value was converted to shares of the Corporation (note 14) ($4,390 - 2010), which is net of transaction costs incurred in connection with the issuance the convertible debentures.
(2) The carrying value of the convertible debentures – conversion option was re-measured to the fair value at January 1, 2010 and December 31, 2010. On January 1, 2011, the amount is classified as equity and no longer re-measured to fair value.

The debentures are convertible as follows:

- At the holder's option, to convert any time prior to the maturity date at a price of $7 dollars, subject to certain events.
- At the Corporation's option, after December 31, 2012 and prior to December 14, 2014, to redeem at par plus accrued interest, provided that the weighted average trading prices during 20 consecutive trading days is not less than 125% of conversion price of $7 dollars. On and after December 14, 2014, the debentures will be redeemable in whole or in part at the Corporation's option at any time at par, plus accrued and unpaid interest.
- At the Corporation's option, it may satisfy the obligation and repay the principal of debentures on maturity at a price calculated by the amount of the debentures divided by 95% of the weighted average trading price of the Corporation shares on 20 days consecutive trading days period ending five days prior to maturity date.
- Upon change in control, Capstone will be required to purchase the debentures at a price equal to 101% principal amount plus accrued and unpaid interest in cash or shares at the Corporation's option.

(D) Long-term Debt Covenants

As at March 31, 2011, the Corporation and its subsidiaries were in compliance with all financial and non-financial long-term debt covenants.

Collateral for the CPC-Cardinal credit facility is provided by a first ranking priority security interest covering the assets of CPC, Cardinal and certain direct subsidiaries, collectively the "restricted group". As at March 31, 2011, the carrying value of the assets of the restricted group exceeded total amounts drawn on the facility.

The Erie Shores project debt is secured only by the assets of Erie Shores, with no recourse to the Corporation's other assets. As at March 31, 2011, the carrying value of the assets of Erie Shores exceeded the total amount of project debt outstanding.

14. SHAREHOLDERS' EQUITY

Effective January 1, 2011, the Fund converted from a mutual fund trust to a corporation whereby each unit of Macquarie Power & Infrastructure Income Fund was automatically exchanged for one common share of the Corporation.

(A) Shares

Capstone is authorized to issue an unlimited number of common shares as well as preferred shares equal to 50% of the outstanding common shares. As at March 31, 2011, there were no preferred shares outstanding.

	Three months ended Mar 31, 2011		Twelve months ended Dec 31, 2010	
($000s and 000s shares)	**Shares**	**Carrying Value**	**Units**	**Carrying Value**
Opening balance	56,352	536,278	46,665	466,662
Shares issued [1]	-	(102)	9,079	65,249
Conversion of convertible debentures, net of cost [2]	1,407	11,062	611	4,390
Units redeemed	-	-	(3)	(23)
Ending balance	57,759	547,238	56,352	536,278

(1) On December 22, 2010 the Corporation closed a private placement financing (the "Offering") of 9,079,250 units at a price of $7.60 per unit for gross proceeds of approximately $69,000 before issue costs of $3,751. The net proceeds of the Offering were used by the Corporation for acquisitions and for general purposes. During 2011, the private placement transaction costs were included in share capital.

(2) $11,062 of the convertible debentures were converted to shares of the Corporation (note 13) ($4,390 - 2010), which is net of original issuance transaction costs.

(B) Class B Exchangeable Units

LTC Holding LP had 3,249,390 Class B exchangeable units outstanding as at March 31, 2011 and December 31, 2010. Each unit is exchangeable into one share of the Corporation. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as shares of the Corporation.

The holders of the Class B exchangeable units are not permitted to acquire any additional shares of the Corporation (other than pursuant to the exchange of the Class B exchangeable units or pursuant to a distribution reinvestment plan) without the consent of the Corporation until October 18, 2020. Each Class B exchangeable unit will convert into a share of the Corporation on October 18, 2020 unless converted earlier at the option of the Class B exchangeable unitholders. The Class B exchangeable unitholders are not permitted to sell more than 5% of their aggregate outstanding shares in any four-month period and are not eligible to vote with any shares they receive on exchange of their Class B exchangeable units until they together hold 1% or less of the aggregate outstanding shares.

(C) Dividends

Dividends to shareholders are paid monthly in arrears on the 15th day of each month or the next business day. For the quarter ended March 31, 2011, dividends totaled $10,015 (for the year ended December 31, 2010 - distributions of $31,331 to unitholders and $2,144 to holders of the Class B exchangeable units).

In 2010, the distributions to the Class B exchangeable unitholders where included in interest expense in the statements of income as described in note 5(b)(iv).

The Board of Directors of the Corporation reviews the level of dividends paid to shareholders on a quarterly basis.

15. RELATED PARTY TRANSACTIONS

All related party transactions were carried out under normal arm's length commercial terms.

(A) Transactions with the Manager

MPML provided management services to Cardinal, LTC Holding LP, CPC and Helios under management agreements that were due to expire on April 30, 2024. The agreement with LTC Holding LP was terminated on March 31, 2010. MPML also provided the Corporation with certain administrative and support services under an administrative

agreement. Annual management and administrative fees charged are adjusted annually by the consumer price index. MPML also received reimbursement for reasonable costs and expenses incurred in carrying out such services as approved by the independent Directors. On an annual basis, MPML earned an incentive fee equal to 25% of the amount by which the distributable cash per share exceeds $0.95, multiplied by the weighted average number of shares of the Corporation outstanding for the relevant fiscal year or part thereof. See note 20 for relevant subsequent event disclosure.

The following table summarizes total amounts recorded with respect to services provided by MPML:

	Three months ended	
($000s)	**Mar 31, 2011**	**Mar 31, 2010**
Management fees	409	454
Administrative fees	32	29
Cost reimbursement	1,359	796
Incentive fees	-	954
	1,800	2,233

In March 2011, due diligence and legal fees of $1,313 (8,334 SEK) were paid to a subsidiary of MGL with respect to the acquisition of Värmevärden in Sweden. This cost has been expensed in the consolidated statement of income as at March 31, 2011 as part of equity accounted income as it was incurred by the equity accounted investee.

In March 2011, $735 became payable to Macquarie European Infrastructure Fund II for the reimbursement of due diligence costs with respect to the acquisition of Värmevärden in Sweden. These costs have been accrued in accounts payable and other liabilities and capitalized to equity accounted investments as at March 31, 2011.

In March 2011, a financial advisory fee of $500 was payable to a subsidiary of MGL with respect to the refinancing of Tranche C of the Erie Shores project debt. These costs have been accrued in accounts payable and other liabilities and capitalized to the long-term debt as at March 31, 2011.

(B) 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 and short-term employee benefits, which include director fees. Eligible directors of the Corporation also receive stock-based compensation as described below.

For the three-month period ended March 31, 2011, this compensation was approximately $118. (For the year-ended December 31, 2010 was approximately $586).

Prior to April 15, 2011, the CEO and CFO of Capstone and other employees were employed by the Manager. Accordingly, no employee compensation has been included directly in these consolidated financial statements.

(C) Stock-based Compensation

Effective January 1, 2011, fixed grants equivalent to 3,750 dollars are made on the first day of each quarter to eligible directors and converted to Deferred Share Units ("DSUs") at the volume weighted average price ("VWAP") on the grant date. These grants vest immediately upon the last trading day of each quarter. In addition, directors may elect to receive their quarterly trustee fees in the form of DSUs, with the same vesting as the fixed grants. Dividend equivalents are granted as of each record date for dividends on shares in accordance with Capstone's dividend policy on common shares. DSUs do not have an exercise price and can only be settled in cash at the time a director ceases to be a board member.

The volume weighted average fair value per DSU granted during the quarter ended March 31, 2011 was $8.16 dollars. As at March 31 the carrying value of the DSUs, based on a market price of $7.94 dollars as at March 31, 2011, was $14.8 and is included in accounts payable and other liabilities in the consolidated statement of financial position. The resulting DSU expense for the first quarter was $14.8 and is recorded as compensation expense in the consolidated statement of income.

($000s, except unit amounts)	Three months ended Mar 31, 2011 Number of units	Value at time of Award
Fixed quarterly grants	1,840	15.0
Dividend equivalents	24	0.2
	1,864	15.2
Unrealized gain (loss) on revaluation	-	(0.4)
	1,864	14.8

16. SEGMENTED INFORMATION

The Corporation has three reportable segments based on how management has organized the business to assess performance and for operating and capital allocation. Each reportable segment has similar economic characteristics based on the nature of the products or services, type of customers, method of distributing their products or services and regulatory environment. Management evaluates the performance of these segments primarily on revenue and operating cash flows.

Infrastructure segments consist of:	Geographical location 2011	2010
Power The Corporation's investments in gas cogeneration, wind, hydro, biomass power and solar power assets.	Canada	Canada
Utilities The district heating business (Värmevärden), in which the Corporation holds a 33.3% indirect interest acquired on March 31, 2011.	Sweden	n/a
Social The Corporation's 45% indirect interest in Leisureworld, which was sold in March 2010.	n/a	Canada

	Three months ended Mar 31, 2011				Three months ended Mar 31, 2010			
($000s)	Power	Utilities	Corporate	Total	Power	Social	Corporate	Total
Revenue	46,915	-	-	46,915	44,152	-	-	44,152
Depreciation of capital assets	(5,949)	-	-	(5,949)	(6,297)	-	-	(6,297)
Amortization of intangible assets	(1,938)	-	(5)	(1,943)	(1,933)	-	(5)	(1,938)
Interest income	221	-	212	433	168	-	5	173
Interest expense	(4,143)	-	(964)	(5,107)	(4,057)	-	(1,207)	(5,264)
Income tax recovery	-	-	36,990	36,990	-	-	29,405	29,405
Net income (loss)	11,660	(2,414)	32,086	41,332	4,030	3,239	22,364	29,633
Additions to capital assets	44,640	-	-	44,640	1,277	-	-	1,277

	As at Mar 31, 2011				As at Dec 31, 2010			
($000s)	Power	Utilities	Corporate	Total	Power	Social	Corporate	Total
Total assets	655,238	106,540	83,384	845,162	597,790	-	206,345	804,135

17. NON-CASH WORKING CAPITAL

The changes in non-cash working capital is composed of the following:

	Three months ended	
($000s)	Mar 31, 2011	Mar 31, 2010
Accounts receivable	(3,407)	379
Other assets	238	703
Accounts payable and other liabilities	3,350	(550)
	181	532

18. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments as disclosed in the annual consolidated financial statements for the year ended December 31, 2010. No material developments have arisen during the quarter ended March 31, 2011.

19. SUBSEQUENT EVENTS

Internalization of Management

On March 15, 2011, the Corporation announced that its independent Directors determined that it is in the best interests of shareholders to internalize all management and administrative functions performed by the Manager. The internalization became effective April 15, 2011 at which time the existing senior management team and other employees of Capstone's manager (the "Internalized Management Team") ceased to be employees of a wholly-owned subsidiary of MGL and became employees of Capstone.

On April 15, 2011, Capstone and its subsidiaries made termination payments totalling $14,000 to MGL as consideration for terminating all management and administration agreements between MGL and Capstone and its subsidiaries. MGL immediately used $7,000 of the $14,000 it received to subscribe for Capstone common shares issued at $8.18 per share which MGL will hold for at least one year. Capstone also paid to the Internalized Management Team approximately $4,000 in contractual and other amounts.

Capstone's securities symbols on the Toronto Stock Exchange changed to CSE for the common shares and CSE.DB.A for the convertible debentures (formerly MPT and MPT.DB.A).

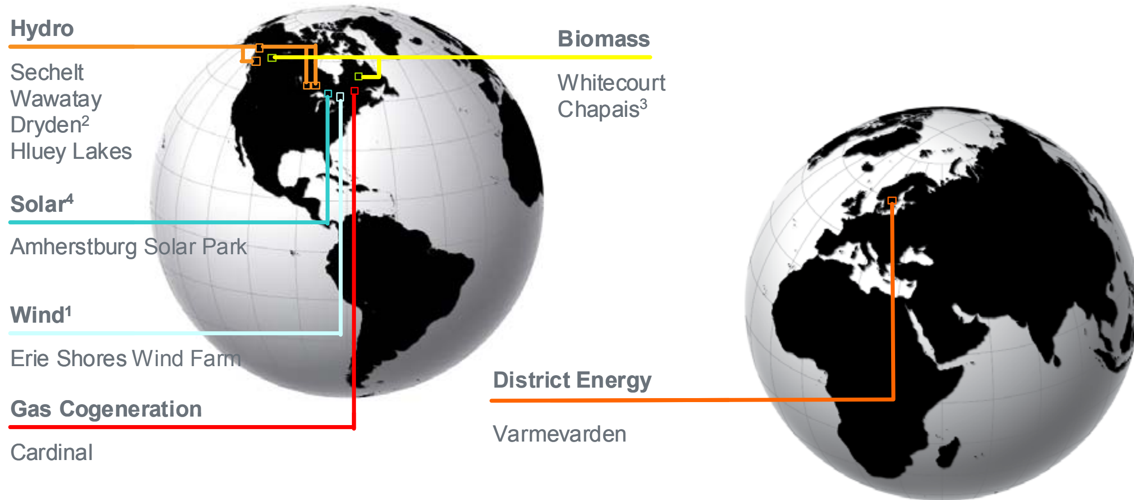
Additional non-financial terms of the internalization include that Capstone will retain its current leadership team, which has deep expertise and broad relationships in the infrastructure sector. Further, MGL will provide a director to serve on Capstone's Board of Directors for a minimum of 12 months from the completion of the internalization. Capstone will also continue to have access to global growth opportunities available through the Macquarie Infrastructure and Real Assets division. MGL will provide transitional services to Capstone at no cost for a period up to December 15, 2011, including the provision of premises, information technology support, and tax and accounting services. On completion of the internalization, Capstone became a standalone infrastructure company with approximately 80 employees.

Refinancing of Erie Shores Wind Farm Debt

On April 1, 2011, Capstone completed the refinancing of Tranche C of the Erie Shores' non-recourse, project financing loan. Under the refinancing, the Erie Shores' Tranche C loan was replaced with a fully amortizing term loan in the amount of $40,000, with a fixed rate of interest at 6.145% which matures on April 1, 2026. The $40,000 has been classified as a current liability as at March 31, 2011 while transaction costs of $803 incurred during the first quarter have been capitalized.

Under the agreement, the next six months of principal and interest payments must be funded in a debt service reserve account. As a result $5,646 will be recorded as restricted cash on the consolidated statement of financial position in the second quarter. Additionally, CPC's unsecured guarantee was reduced from the March 31, 2011 guarantee of $10,000 to $5,000 on April 1, 2011.

PORTFOLIO

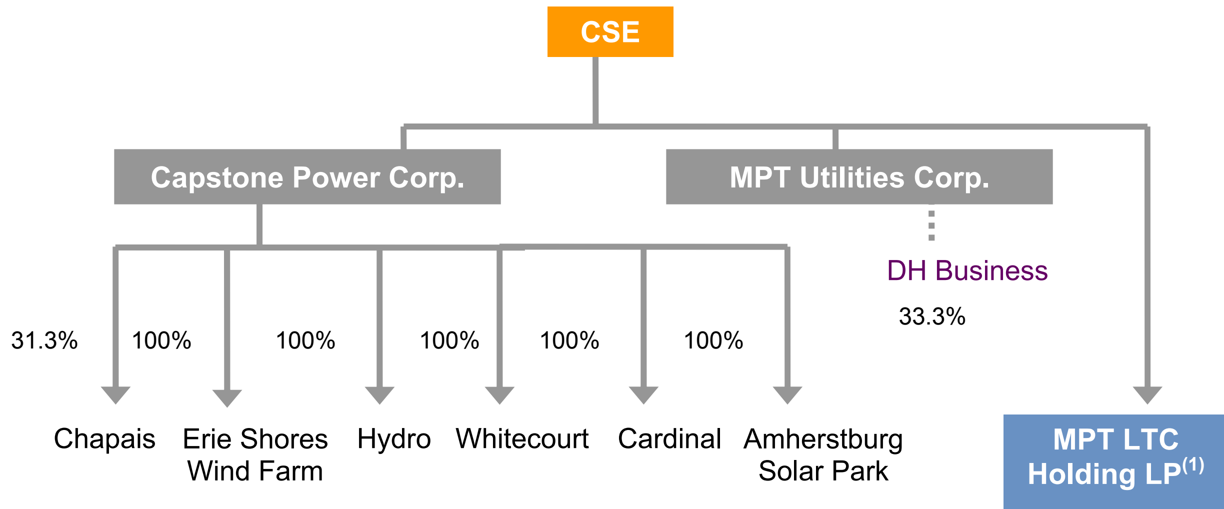


Asset	Year Built	Interest	Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry
Cardinal	1994	100%	156	OEFC	2014	Husky	2015
Erie Shores[(1)]	2006	100%	99	OPA	2026	n/a	n/a
Whitecourt	1994	100%	25	TransAlta	2014	Millar Western	2016
Sechelt	1997	100%	16	BC Hydro	2017	n/a	n/a
Wawatay	1992	100%	14	OEFC	2042	n/a	n/a
Hluey Lakes	2000	100%	3	BC Hydro	2020	n/a	n/a
Dryden[(2)]	Various	100%	3	OEFC	2020	n/a	n/a
Amherstburg Solar Park[(4)]	2011	100%	20	OPA	2031	n/a	n/a
Chapais[(3)]	1995	31.3%	28	Hydro-Québec	2015	Barrette/Chantiers/ Société en commandite Scierie Opitciwan	2015

Asset	Year Built	Interest	Heat Production Capacity (MWth)	Counterparties	Supply Points	Kilometres of Underground Pipes	2010 Heat Sales (terawatt hours)
Värmevärden	11 businesses and various facilities with an average age of 20 years	33.3%	786	Mix of industrial and retail customers, with industrial counterparties representing 25% of revenue	4,000	317	1.4

(1) One 1.5 MW turbine is owned by a landowner.
(2) The Dryden facility is composed of three facilities, built in 1922 (Wainwright), 1928 (Eagle) and 1938 (McKenzie). These facilities were refurbished in 1986.
(3) CSE's investment in Chapais consists of a 31.3% interest in one of two classes of preferred shares, a 24.8% interest in Tranche A and B debt, and a 50% interest in Tranche C debt.
(4) Expected to commence commercial operations in June 2011.

ORGANIZATIONAL STRUCTURE



(1) MPT LTC Holding LP is the issuer of 3,249,390 Class B exchangeable units, which have economic rights equivalent to CSE common shares.

CONTACT INFORMATION

Address:

Brookfield Place
181 Bay Street, Suite 3100
Toronto, ON M65J 2T3
www.capstoneinfrastructure.com
Email: info@capstoneinfrastructure.com

Contacts:

Michael Smerdon
Executive Vice President and Chief Financial Officer
Tel: 416-607-5167
Email: msmerdon@capstoneinfrastructure.com

Sarah Borg-Olivier
Vice President, Communications
Tel: 416-607-5009
Email: sborg-olivier@capstoneinfrastructure.com