CAPSTONE INFRASTRUCTURE CORPORATION ›

Financial Report for the
Quarter Ended March 31, 2013

CAPSTONE
INFRASTRUCTURE

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Earnings Measures ($000s)	Three months ended Mar 31, 2013	Three months ended Mar 31, 2012
Revenue	94,255	92,156
Net income	15,898	16,612
Basic earnings per share	0.145	0.171

Cash Flow Measures ($000s)	Three months ended Mar 31, 2013	Three months ended Mar 31, 2012
Cash flows from operating activities	30,629	31,221
Adjusted EBITDA [1]	32,342	37,211
Adjusted funds from operations ("AFFO") [1]	13,644	14,915
Payout ratio [1]	41.7%	82.5%

[1] These performance measures are not defined by International Financial Reporting Standards ("IFRS"). Please see page 5 and 6 for a definition of each measure.

Capital Structure – At Fair Value ($000s)	Mar 31, 2013	Dec 31, 2012
Long-term debt – power	302,337	305,497
Long-term debt – utilities – water [1]	262,217	259,830
Long-term debt – corporate	42,963	44,416
Common shares	308,963	291,955
Class B exchangeable units	13,808	13,093
Preferred shares	57,000	58,200
Debt to capitalization	61.5%	62.7%

[1] Calculated as 50% proportionate share based on ownership interest.

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	72,697,188
Preferred shares outstanding	3,000,000
Convertible debentures outstanding	42,749
Class B exchangeable units	3,249,390
Securities exchange and symbols	Toronto Stock Exchange: CSE, CSE.PR.A, CSE.DB.A

QUARTERLY TRADING INFORMATION

	High	Low	Closing	Average Daily Trading Volume
Common shares	$4.48	$4.10	$4.25	286,000
Preferred shares	$19.50	$18.53	$19.00	2,746
Convertible debentures	$105.00	$99.01	$100.50	374

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LEGAL NOTICE

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of Capstone Infrastructure Corporation (the “Corporation”) based on information currently available to the Corporation. Forward-looking statements and financial outlook 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 and financial outlook use forward-looking words, such as “anticipate”, “continue”, “could”, “expect”, “may”, “will”, “estimate”, “plan”, “believe” or other similar words, and include, among other things, statements found in “Results of Operations”. These statements and financial outlook are subject to 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 financial outlook and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements and financial outlook within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation (“MD&A”) for the year ended December 31, 2012 under the heading “Results of Operations”, as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's profile on www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements and financial outlook contained herein include or relate to the following: 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 the power infrastructure facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; an effective TransCanada pipeline ("TCPL") gas transportation toll of approximately $1.95 per gigajoule in 2013; that there will be no material change in the level of gas mitigation revenue historically earned by the Cardinal facility; that there will be no material changes to the Corporation's facilities, equipment or contractual arrangements, no material changes in the legislative, regulatory and operating framework for the Corporation's businesses, no delays in obtaining required approvals, no material changes in rate orders or rate structures for the power infrastructure facilities, Värmevärden or Bristol Water, no material changes in environmental regulations for the power infrastructure facilities, Värmevärden or Bristol Water and no significant event occurring outside the ordinary course of business; that the amendments to the regulations governing the mechanism for calculating the Global Adjustment (which affects the calculation of the direct customer rate ("DCR") escalator under the power purchase agreement ("PPA") for the Cardinal facility and price escalators under the PPAs for the hydro power facilities located in Ontario) will continue in force; that there will be no material change to the accounting treatment for Bristol Water's business under International Financial Reporting Standards, particularly with respect to accounting for maintenance capital expenditures; that there will be no material change to the amount and timing of capital expenditures by Bristol Water; that there will be no material changes to the Swedish Krona to Canadian dollar and British pound to Canadian dollar exchange rates; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying asset management plan 5 ("AMP5"), including, among others: real and inflationary increases in Bristol Water's revenue, Bristol Water's expenses increasing in line with inflation, and capital investment, leakage, customer service standards and asset serviceability targets being achieved.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements and financial outlook, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation's securities (dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation's securities; shareholder dilution; and convertible debentures credit risk, subordination and absence of covenant protection); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; foreign currency exchange rates; acquisitions and development; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); risks related to the Power Infrastructure Facilities (power purchase agreements; operational performance; fuel costs and supply; contract performance; land tenure and related rights; environmental; regulatory environment); risks related to Bristol Water (Ofwat price determinations; failure to deliver capital investment programs; economic conditions; operational performance; failure to deliver water leakage target; service incentive mechanism ("SIM") and the serviceability assessment; pension plan obligations; regulatory environment; competition; seasonality and climate change; and labour relations); and risks related to Värmevärden (operational performance; fuel costs and availability; industrial and residential contracts; environmental; regulatory environment; and labour relations).

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 and financial outlook. The forward-looking statements and financial outlook within this document reflect current expectations of the Corporation as at the date of this document and speak only as at the date of this document. Except as may be required by applicable law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements and financial outlook.

MESSAGE TO SHAREHOLDERS

I am pleased to report on Capstone Infrastructure's first quarter results and our outlook for the remainder of the year.

While our businesses performed well operationally, our financial results reflected the impact of our reduced ownership interest in Bristol Water, which was effective May 10, 2012, and less favourable weather conditions for our wind, hydro and solar power facilities during the quarter compared with 2012.

Total revenue increased by 2.3% over the same period last year. This growth was mostly due to a higher regulated water rate, which increases annually, at Bristol Water, and higher electricity sales at our Cardinal gas cogeneration facility. Total expenses in the first quarter increased by 3.2% over the same period last year primarily due to slightly higher operating expenses at Bristol Water and increased fuel costs at Cardinal to support higher production.

Adjusted Earnings before Interest, Taxes and Depreciation ("Adjusted EBITDA") declined by 13.1%. This mostly reflected our reduced ownership interest in Bristol Water, which was 50% in the quarter compared with a 70% interest in the first quarter last year. Notably, gross Adjusted EBITDA at Bristol Water grew by 7.9% in the quarter. The second factor affecting Capstone's Adjusted EBITDA, as described on page 11, was lower power production than in the same period last year. There was also a decline in interest income received from Värmevärden due to the lower balance outstanding on the Corporation's shareholder loan compared with 2012.

Adjusted Funds from Operations ("AFFO") was 8.5% lower than in the first quarter last year. This variance was largely due to lower overall power production, higher debt principal payments and lower interest income from Värmevärden. These factors were partially offset by the dividend we received from Bristol Water.

Our quarterly payout ratio, which is based on AFFO, was 42% compared with 82% in the same quarter last year, reflecting the common share dividend policy of $0.30 per share annually we established in June 2012. Over the long term, we expect this dividend level to result in an average payout ratio of 70% to 80%, although our payout ratio in 2013 and 2014 will be lower than this level. It may be higher in 2015 and beyond depending on the outcome at Cardinal following the expiry of its power purchase agreement ("PPA") at the end of 2014. Over the next two years, we expect to build up approximately $40 to $50 million in internally-generated cash that can be reinvested in growth initiatives.

A core element of our strategy to create value for shareholders is to maximize the performance of our businesses, which includes preventive maintenance, detailed planning for capital expenditures, and finding new ways to increase cash flow. During the quarter, our power facilities achieved high availabilities and production slightly above long-term averages although below production in the first quarter of 2012. As you will read in this report, Bristol Water continued to advance its large capital expenditure program, which will drive growth in its regulated capital value and ultimately lead to growing dividends and considerable value for our shareholders in the years ahead. Värmevärden is continuing to implement favourable retail pricing adjustments and to improve plant availability, which will contribute to cash flow growth over time.

As described on page 17, we ended the quarter in a solid financial position and a debt-to-capitalization ratio of 61.5%. Notably, our outstanding debt is almost entirely fixed rate or linked to inflation and is predominantly secured at the operating business level, which means it is non-recourse to Capstone. Of our consolidated debt, approximately 88% is either scheduled to amortize over our PPA terms or has a maturity longer than 10 years. Our capital structure at the corporate and subsidiary level aligns with the cash flow profile and duration of our businesses and gives us the flexibility to pursue new investments.

On Cardinal, during the quarter we re-engaged with various government ministries following the installment of a new Premier and Cabinet in Ontario in February. A key focus during the quarter was on meeting new personnel in various ministries and broadening awareness about Cardinal and its worth to Ontario's electricity system and economy. Cardinal's value proposition is compelling and the facility continues to enjoy broad stakeholder support. Following our outreach in the first quarter, we are actively in discussions with the Ontario Power Authority ("OPA") and pursuing a long-term solution for Cardinal that will enable us to proceed with our plans to reconfigure and expand the facility.

Another important focus for 2013 is building upon our power and utilities platforms, including in Canada, the United States, the United Kingdom, Western Europe and Australia, where we are seeking both operating infrastructure businesses and development opportunities that offer an appropriate risk-adjusted rate of return. In addition, with Capstone Power Development, our new development subsidiary, we are now better positioned to participate in earlier-stage opportunities and to create a pipeline of projects capable of generating higher returns for shareholders.

For 2013, we expect continuing stable performance from our businesses, as described on pages 12 to 16 of this report. We anticipate Adjusted EBITDA in 2013 will be approximately $110 million to $120 million, which, while consistent with our 2012 performance, represents an approximately $6 million increase in Adjusted EBITDA over 2012 on a pro forma basis had we held our 50% ownership interest in Bristol Water for the full 2012 year. The assumptions underlying this forecast are described on page 2 of this report.

While we understand that shareholders are concerned about Cardinal's future, you can be assured that Capstone is underpinned by strong fundamentals. We have:

- A high quality portfolio that is diversified by asset category and geography:
- A substantial investment in Bristol Water, a business we expect to generate perpetual, growing cash flow, which brings new organic growth potential to our portfolio;
- A solid balance sheet and access to capital for growth; and
- Multinational partners gained through our utilities investments, which demonstrates our ability to forge partnerships across borders and to cultivate relationships that can help to stimulate deal flow.

We also have a highly motivated management team that is knowledgeable, enjoys strong relationships at home and abroad, and has attained a competitive advantage through decades of combined investment and management experience across power generation and transmission businesses, utilities, transportation and toll roads, and public-private partnerships.

With your investment in Capstone, you own exceptionally high quality core infrastructure businesses that deliver essential services throughout the economic cycle, resulting in reliable cash flow. You are also poised to benefit from our company's growth as we work to build Capstone's scale and value.

We expect a bright future for our company and appreciate your continuing support.

Sincerely,

Michael Bernstein
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated operating results and cash flows for the three months ended March 31, 2013 with the comparative prior period and the Corporation's financial position as at March 31, 2013 and December 31, 2012. 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, 2013 and the financial statements and MD&A for the year ended December 31, 2012. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 21, 2013 and its Annual Report for the year ended December 31, 2012. These filings are available under the Corporation's profile 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 May 13, 2013, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

Financial information in this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRS") and amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

Amounts included in the interim consolidated financial statements of each entity in the Corporation are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The interim consolidated financial statements are presented in Canadian dollars ("presentation currency"), which is Capstone's functional currency. The exchange rates used in the translation to the presentation currency are:

	Swedish Krona (SEK)		British pound (£)	
As at and for the periods ended	**Average**	**Spot**	**Average**	**Spot**
Year ended December 31, 2012	0.148	0.153	1.584	1.618
Quarter ended March 31, 2013	0.157	0.156	1.564	1.542

CHANGES IN THE BUSINESS

No significant changes have occurred in the business during the first quarter of 2013.

NON-GAAP AND ADDITIONAL GAAP PERFORMANCE MEASURE DEFINITIONS

While the accompanying 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 and additional 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 useful since they provide additional information about the Corporation's earnings performance and cash generating capabilities and facilitate comparison of results over different periods. The non-GAAP and additional GAAP measures used in this MD&A are defined below.

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

EBITDA is net income, including that net income related to the non-controlling interest ("NCI"), interest income and net pension interest income excluding interest expense, income taxes, depreciation and amortization. EBITDA represents Capstone's continuing capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

Adjusted EBITDA

Adjusted EBITDA is calculated as revenue less operating and administrative expenses and project development costs plus interest income and dividends or distributions received from equity accounted investments. Amounts attributed to any non-controlling interest are deducted. Adjusted EBITDA for the investment in Bristol Water is included at Capstone's proportionate ownership interest. For the period from October 5, 2011 to May 10, 2012, Capstone held a 70% ownership interest. This ownership interest was reduced to 50% upon the partial sale of Bristol Water on May 10, 2012. The reconciliation of Adjusted EBITDA to EBITDA is provided below.

Adjusted Funds from Operations ("AFFO")

Capstone's definition of AFFO measures cash generated by its infrastructure businesses that is available for dividends and general corporate purposes. For wholly owned businesses, AFFO is equal to Adjusted EBITDA less interest paid, repayment of principal on debt income, taxes paid and maintenance capital expenditures. For businesses that are not wholly owned, the cash generated by the business is only available to Capstone through periodic dividends. For these businesses, AFFO is equal to dividends received. Also deducted are corporate expenses and dividends on preferred shares.

AFFO is calculated from Adjusted EBITDA by:

Deducting:

- Adjusted EBITDA generated from businesses with significant non-controlling interests

Adding:

- Dividends received from businesses with significant non-controlling interests
- Scheduled repayments of principal on loans receivable from equity accounted investments

Deducting items, for businesses without significant non-controlling interests:

- Interest paid
- Income taxes paid
- Dividends paid on the preferred shares included in shareholders' equity
- Maintenance capital expenditure payments
- Scheduled repayments of principal on debt, net of changes to the levelization liability up to repayment on June 6, 2012.

Payout Ratio

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

Reconciliation of Non-GAAP Performance measures

The following table reconciles Adjusted EBITDA and AFFO to the nearest GAAP measures:

	Three months ended	
	Mar 31, 2013	**Mar 31, 2012**
EBITDA	46,998	47,647
Foreign exchange (gain) loss	(749)	(1,104)
Other (gains) and losses, net	(2,536)	(1,403)
Equity accounted (income) loss	(585)	(1,445)
Net pension interest income	(389)	(699)
Non-controlling interest ("NCI") portion of Adjusted EBITDA	(10,397)	(5,785)
Adjusted EBITDA	32,342	37,211
Cash flow from operating activities	30,629	31,221
Bristol Water cash flow from operating activities	(16,957)	(16,363)
Bristol Water dividends paid to Capstone	1,609	—
Foreign exchange on loans receivable from Värmevärden	26	(391)
Chapais loans receivable principal repayments	263	236
Power maintenance capital expenditures	(403)	(470)
Power and corporate scheduled principal repayments	(2,686)	(1,282)
Power and corporate working capital changes	2,101	2,902
Dividends on redeemable preferred shares	(938)	(938)
AFFO	13,644	14,915

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both lower than in the first quarter of 2012, as reflected in the following table.

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
Revenue	94,255	92,156
Expenses	(52,620)	(50,992)
Interest income	1,104	1,832
Distributions from equity accounted investments	—	—
Less: non-controlling interest (“NCI”)	(10,397)	(5,785)
Adjusted EBITDA	32,342	37,211
Adjusted EBITDA of consolidated businesses with NCI	(10,381)	(13,468)
Dividends from businesses with non-controlling interests	1,609	—
Principal from loans receivable	263	236
Interest paid	(4,703)	(6,038)
Dividends paid on Capstone’s preferred shares	(938)	(938)
Income taxes (paid) recovery	(1,459)	(336)
Maintenance capital expenditures	(403)	(470)
Scheduled repayment of debt principal	(2,686)	(1,282)
AFFO	13,644	14,915
AFFO per share	0.180	0.200
Payout ratio	41.7%	82.5%
Dividends declared per share	0.075	0.165

Revenue increased by $2,099, or 2.3%, due to $2,538 of higher water sales at Bristol Water, which was primarily attributable to the annual increase in regulated water tariffs. This increase was partially offset by lower power segment revenue of $439 due to less favourable wind, hydrology and sunlight compared with the prior year, mitigated by increased production at Cardinal.

Expenses increased by $1,628, or 3.2%, for the quarter.

- Operating expenses increased by $1,524 due to increases of $783 and $741 at Bristol Water and in the power segment, respectively. Bristol Water's increase was primarily attributable to inflation on energy, consumables, wages and salaries, and sub-contracting activities. The power segment increase was attributable to a $798 increase in fuel costs at Cardinal to support higher production.
- Administrative expenses increased by $47, primarily due to $146 of higher professional fees partially offset by a $99 reduction in staff costs.
- Project development costs increased by $57 due primarily to salaries at Capstone's power development initiative.

Interest income decreased by $728, or 39.7%, primarily reflecting a $652 decline in interest resulting from a lower outstanding balance on the shareholder loan to Värmevärden. In addition, Bristol Water received $230 less interest as its average cash and short-term investment balance declined, reflecting the funding of its ongoing capital expenditure program. Interest income for the power segment partially offset these decreases by contributing $147 of higher interest income, as a discretionary interest payment on Tranche B of the loan receivable was received from Chapais.

Interest paid decreased by $1,335, or 22.1%, primarily due to $1,547 less interest following the repayment of the senior debt facility and reduction of the CPC-Cardinal debt facility in the second quarter of 2012. This was partially offset by a $493 increase in interest for the hydro facilities' bonds, which were issued in June 2012.

Interest paid by Bristol Water is excluded from Capstone’s definition of AFFO and is the primary difference between interest expense included in consolidated net income and interest paid in AFFO. The remaining difference between interest expense and interest paid is attributed to amortization of financing costs and interest accruals.

Scheduled repayment of debt principal increased by $1,404, or 109.5%, primarily due to $1,059 of debt repayments resulting from the hydro facilities' debt, which was established in June 2012.

Maintenance capital expenditures decreased by $67, or 14.3%, reflecting minor differences in the timing of maintenance work across the power segment.

Results by Segment

Capstone's results are segmented into power facilities in Canada and utilities in Europe. All remaining results relate to corporate activities. The power segment includes gas cogeneration, hydro, wind, biomass and solar power, as well as project development. The utilities segments include Capstone's 50% interest in Bristol Water, a regulated water utility in the United Kingdom, and a 33.3% interest in Värmevärden, a district heating business in Sweden.

The financial results of Bristol Water are consolidated with Capstone's other businesses before deducting the portion of Adjusted EBITDA attributable to non-controlling interests. Capstone's non-controlling interest in Värmevärden provides interest income and dividends.

Non-GAAP performance measures

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

	For the three months ended		
	Mar 31, 2013	Mar 31, 2012	Change
Power	23,362	24,560	(1,198)
Utilities – water	10,381	13,468	(3,087)
Utilities – district heating	699	1,351	(652)
Corporate	(2,100)	(2,168)	68
Adjusted EBITDA	32,342	37,211	(4,869)

	For the three months ended		
	Mar 31, 2013	Mar 31, 2012	Change
Power	16,127	18,847	(2,720)
Utilities – water	1,609	—	1,609
Utilities – district heating	699	1,351	(652)
Corporate	(4,791)	(5,283)	492
AFFO	13,644	14,915	(1,271)

Power

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2012:

Change	Explanations
(946)	Lower revenue due to less favourable wind, hydrology and sunlight than 2012.
(386)	Lower revenue attributable to lower production at Whitecourt in response to periods of lower average power pool prices and lower renewable energy credit ("REC") sales than 2012.
176	Higher electricity sales at Cardinal, partially offset by increased fuel consumption.
(42)	Various other changes.
(1,198)	Change in Adjusted EBITDA.
(1,615)	Higher debt interest and principal payments in 2013 primarily due to new debt on the hydro facilities since June 2012.
93	Various other changes.
(2,720)	Change in AFFO.

Utilities – water

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2012:

Change	Explanations
(4,163)	Impact of sale of 20% interest in Bristol Water on May 10, 2012.
1,076	Business performance increase primarily due to higher revenue as a result of annual increase in regulated water tariffs.
(3,087)	Change in Adjusted EBITDA.
3,087	Remove Bristol Water Adjusted EBITDA changes.
1,609	Impact of changing Bristol Water dividend frequency to quarterly from semi-annual in 2012.
1,609	Change in AFFO.

Utilities – district heating

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2012:

Change	Explanations
(652)	Lower interest income due to partial repayment of the shareholder loan from Värmevärden refinancing proceeds, primarily in March 2012.
(652)	Change in Adjusted EBITDA and AFFO.

Corporate

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2012:

Change	Explanations
250	Recovery of estimated project development costs accrued in 2012.
(182)	Higher 2013 project development costs and administrative expenses, partially offset by increased interest income.
68	Change in Adjusted EBITDA.
1,547	Lower debt interest primarily due to repayment of the senior debt facility and the corporate component of the CPC-Cardinal debt facility in the second quarter of 2012.
(1,123)	Higher taxes paid primarily due to the final payment of 2012 taxes for the preferred share dividends.
492	Change in AFFO.

Net income

Net income for each business segment was as follows:

	Three months ended	
Net Income	Mar 31, 2013	Mar 31, 2012
Power	12,685	13,402
Utilities – Water	7,757	9,770
Utilities – District Heating	2,055	4,595
Corporate	(6,599)	(11,155)
Total	15,898	16,612

Capstone's net income includes non-cash items required by IFRS. The major differences between net income and Adjusted EBITDA are summarized below:

	Three months ended	
($000s)	Mar 31, 2013	Mar 31, 2012
Adjusted EBITDA	32,342	37,211
Adjustment of Värmevärden distributions to equity accounted income	585	1,445
NCI portion of Adjusted EBITDA	10,397	5,785
Other gains and (losses), net	2,536	1,403
Foreign exchange gain (loss)	749	1,104
Interest expense	(11,014)	(14,864)
Net pension interest income	389	699
Depreciation and amortization	(14,659)	(14,023)
Income tax recovery (expense)	(5,427)	(2,148)
Net income	15,898	16,612

Infrastructure - Power

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

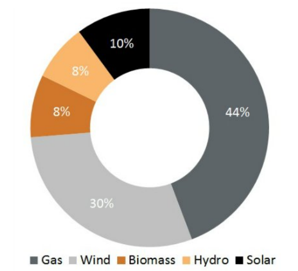
Three months ended Mar 31, 2013	Gas	Wind	Biomass(1)	Hydro	Solar	Development	Total
Power generated (GWh)	347.3	80.8	49.4	27.0	6.1	n/a	510.6
Capacity factor	101.1%	37.8%	99.3%	35.0%	14.0%	n/a	n.m.f
Availability	100.0%	98.7%	99.8%	99.0%	99.6%	n/a	n.m.f
Revenue	33,305	7,934	3,768	2,533	2,664	—	50,204
Expenses	(22,924)	(1,021)	(1,997)	(733)	(302)	(165)	(27,142)
Interest income	29	23	224	13	11	—	300
Adjusted EBITDA	10,410	6,936	1,995	1,813	2,373	(165)	23,362
Principal from loans receivable	—	—	263	—	—	—	263
Interest paid	(136)	(1,468)	—	(1,226)	(1,579)	—	(4,409)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(63)	(14)	(48)	(278)	—	—	(403)
Scheduled repayment of debt principal	(250)	(1,356)	—	(764)	(316)	—	(2,686)
AFFO	9,961	4,098	2,210	(455)	478	(165)	16,127

Three months ended Mar 31, 2012	Gas	Wind	Biomass(1)	Hydro	Solar	Development	Total
Power generated (GWh)	341.9	84.0	53.1	31.6	6.8	n/a	517.4
Capacity factor	99.9%	38.8%	99.4%	40.6%	15.5%	n/a	n.m.f
Availability	99.9%	98.8%	99.6%	99.9%	91.7%	n/a	n.m.f
Revenue	32,412	8,226	4,154	2,966	2,885	—	50,643
Expenses	(22,193)	(959)	(2,003)	(745)	(336)	—	(26,236)
Interest income	15	7	124	—	7	—	153
Adjusted EBITDA	10,234	7,274	2,275	2,221	2,556	—	24,560
Principal from loans receivable			236			—	236
Interest paid	(203)	(1,545)	(2)	(733)	(1,714)	—	(4,197)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(240)	—	(167)	(62)	—	—	(469)
Scheduled repayment of debt principal	—	(1,279)	(31)	295	(268)	—	(1,283)
AFFO	9,791	4,450	2,311	1,721	574	—	18,847

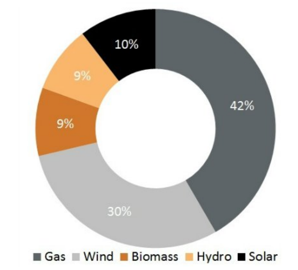
(1) Includes receipts from interest and loan receivable on Capstone's 31.3% equity interest in the Chapais facility. Statistics for power generated, capacity factors and availability do not include the Chapais facility.

The following charts show the composition of Adjusted EBITDA and AFFO for the power segment's operating businesses:

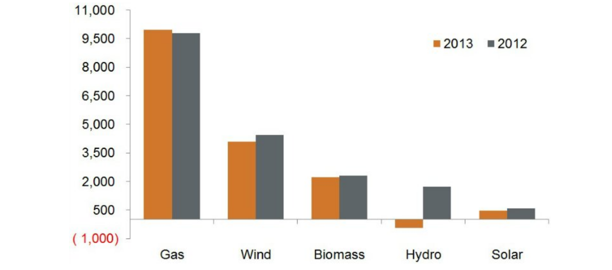
Adjusted EBITDA Q1 2013



Adjusted EBITDA Q1 2012



AFFO Q1 2013 and 2012



Revenue decreased by $439, or 0.9%, due to a 1.3% decline in power production. Lower production was primarily due to less favourable natural resources availability at the hydro facilities, Erie Shores and Amherstburg, as well as, fuel optimization at Whitecourt, partially offset by increased production at Cardinal. In addition, lower production was partially offset by higher power rates at Cardinal.

Less favourable hydrology, wind and sunlight caused a $946 decline in revenue at the hydro facilities, Erie Shores and Amherstburg. In addition, Whitecourt's revenue was $386 lower as production declined by 3.7 GWh during a period of lower average power pool prices. These variances were partially offset by $893 of higher electricity sales at Cardinal as production increased by 5.4 GWh due to cooler ambient temperatures in addition to higher power rates.

Expenses increased by $906, or 3.5%, primarily due to a $798 increase in fuel costs used to support higher production at Cardinal. In addition, $165 of development expenses, mainly salaries were incurred by Capstone's new power development subsidiary, which was established in December 2012.

Interest income increased by $147, or 96.1%, for the quarter. Biomass interest income was $100 higher as Chapais paid a semi-annual interest payment on Tranche B of the loan receivable. Interest payments on Tranche B are at the discretion of Chapais management.

Interest paid increased by $212, or 5.1%, primarily due to the hydro facilities' financing in June 2012. The increase of $493 from the hydro facilities was partially offset by $212 less interest paid on the Amherstburg and Erie Shores debts due to amortization of the outstanding balance.

Maintenance capital expenditures decreased in the first quarter by $66, reflecting minor differences in the timing of maintenance inspections across the power segment.

Scheduled repayment of debt principal increased by $1,403, or 109.4%, primarily due to a $1,059 increase for the hydro facilities and $250 for Cardinal. Both are due to the new or amended credit facilities from the second and third quarter of 2012, respectively.

Seasonality

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

			Actual	Average long-term production (GWh) (1)				
Type	Facility	PPA Expiry	Q1	Q1	Q2	Q3	Q4	Annual
Gas	Cardinal	2014	347.3	343.4	278.1	303.5	333.3	1,258.3
Wind	Erie Shores	2026	80.8	76.9	52.5	34.0	76.9	240.3
Biomass	Whitecourt	2014	49.4	50.2	45.3	50.1	49.3	194.9
Hydro	Various	2017 - 2042	27.0	31.6	57.1	29.0	40.9	158.6
Solar	Amherstburg	2031	6.1	6.4	13.7	12.5	5.9	38.5
Total			510.6	508.5	446.7	429.1	506.3	1,890.6

(1) Average long-term production is from March 2005 to March 31, 2013, except for Erie Shores, which is from June 2006, and Amherstburg, which is from July 2011.

Outlook

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

Capstone's power facilities are expected to perform consistent with long-term average production, subject to variations in wind, water flows, ambient temperatures and sunlight. Capstone expects Cardinal's production to return to its long-term average and that the facility will incur lower average fuel transportation costs due to:

- Higher power generation reflecting less planned maintenance time in 2013; and
- A lower average effective gas transportation rate in 2013 of $1.95 per GJ compared with $2.24 per GJ in 2012. On March 27, 2013, the National Energy Board ("NEB") announced its decision to fix multi-year tolls on TransCanada's Mainline and on May 1st, 2013 TransCanada submitted its compliance filing indicating the resultant tolls that take effect on July 1, 2013. Based on this new information Capstone has revised its outlook for gas transportation tolls to a blended rate of $1.95 in 2013 and $1.65 for 2014. Also on May 1st, 2013 TransCanada filed an application for review and variance. The outcome of TransCanada's application for review and variance including the toll level and the effective date for the new toll remain uncertain.

Capstone's new power development subsidiary is expected to increase costs in the power segment as Capstone pursues and develops new business opportunities.

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

Infrastructure - Utilities

Water

Capstone's water utilities segment includes a 50% investment in Bristol Water, which is located in the United Kingdom. Capstone initially acquired a 70% interest in October 2011 and subsequently sold a 20% indirect interest in Bristol Water to a subsidiary of ITOCHU Corporation.

	Three months ended	
	Mar 31, 2013	**Mar 31, 2012**
Water supplied (megalitres)	19,238	19,763
Revenue	44,051	41,513
Operating expenses	(23,367)	(22,584)
Interest income	94	324
Adjusted EBITDA before non-controlling interest	20,778	19,253
Less: non-controlling interest	(10,397)	(5,785)
Adjusted EBITDA	10,381	13,468
Adjusted EBITDA of consolidated businesses with non-controlling interests	(10,381)	(13,468)
Dividends from businesses with non-controlling interests	1,609	—
AFFO	1,609	—

Revenue increased by $2,538, or 6.1%, primarily due to the annual increase in water tariffs from April 1, 2012, partially offset by lower water demand. The decrease in water supplied of 525 megalitres, or 2.7%, was predominantly attributed to above average rainfall and reduction in network leakage.

Operating expenses increased by $783, or 3.5%, primarily attributed to inflation on energy, consumables, wages and salaries, and sub-contracting activities. Operating expenses, primarily are comprised of raw materials, labour costs and consumables, and were comparable with the prior year.

Interest income decreased by $230, or 71.0%, reflecting lower average cash and short-term investment balances due to the use of surplus cash balances to fund the ongoing capital expenditure program.

Non-controlling interest increased on May 10, 2012 following Capstone's sale of a 20% interest in Bristol Water. Capstone's Adjusted EBITDA is reduced for Agbar's 30% interest over both periods and ITOCHU's 20% interest beginning May 10, 2012.

Dividends from Bristol Water were $1,609 in the first quarter of 2013. The increase over the first quarter 2012 reflected the change in payment frequency from semi-annual in 2012 to quarterly in 2013.

Capital expenditures

The approved and planned capital expenditures for the current asset management plan ("AMP5") period, which concludes in March 2015, is approximately $440,000, or £276,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at March 31, 2013, cumulative capital expenditures incurred during AMP5 were $261,000, which was $38,000 lower than planned. Bristol Water's focus on meeting the AMP5 capital target has reduced the shortfall by 48% in the current regulatory year ended March 31, 2013. The shortfall was primarily the result of delays at the start of AMP5 as commencement of expenditures was dependent on a Competition Commission ruling. Bristol Water expects its cumulative expenditures over AMP5 to achieve the regulator-approved capital expenditure. Bristol Water made $36,563 in capital expenditures in the first quarter of 2013 as detailed on page 21 of this MD&A.

Seasonality

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

Regulatory

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

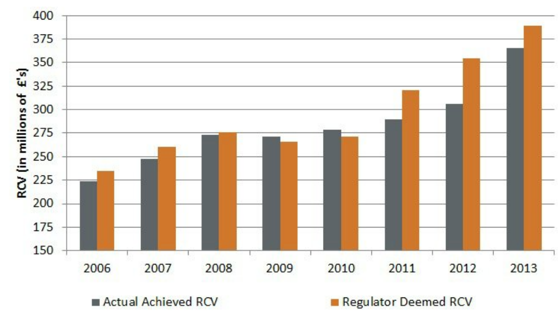
Bristol Water completed the third year of AMP5 as at March 31, 2013. Management has started planning for the company's regulatory submission for Price Review 14 ("PR14"), during which Ofwat will approve Bristol Water's capital program and set the prices Bristol Water may charge customers in the five-year AMP6 period commencing in April 2015. Bristol Water has agreed to Ofwat's proposed licence changes, which were devised as part of the introduction of competition within the retail business for non-household customers. This change may affect less than 3% of Bristol Water's business.

Management continues to focus on achieving key regulatory output targets, including leakage of less than 50 million litres of water per day ("Ml/d") in 2013/2014, and is striving for a top quartile ranking in Ofwat's Service Incentive Mechanism ("SIM") customer service measure. Strong performance on the SIM, which is measured through customer satisfaction surveys and quantitative data related to complaints, can result in an increased revenue allowance for Bristol Water in the next regulatory period.

For the regulatory year ended March 31, 2013, Bristol Water achieved leakage levels of 41* Ml/d (March 31, 2012 – 43 Ml/d) due to a mild winter, and had a SIM score of 86* (March 31, 2012 – 85).

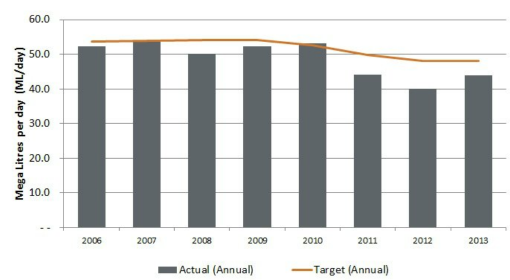
* Subject to regulatory audit.

Growth in Regulated Capital Value



Annual data above reflects fiscal years ended March 31.

Water Leakage Versus Target



Annual data above reflects fiscal years ended March 31.

Outlook

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

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

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

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

Overall, Bristol Water's Adjusted EBITDA is expected to increase, however, Capstone's share will decline due to a lower ownership interest in 2013.

Infrastructure - Utilities

District Heating

Capstone's district heating utilities segment includes a 33.3% interest in Värmevärden, located in Sweden, which was acquired on March 31, 2011. In 2012, the business was recapitalized, resulting in repayment of a portion of the loans due to shareholders.

Since acquisition, Värmevärden has focused on maintaining strong customer relationships and managing fuel costs to optimize performance.

Värmevärden has enhanced its performance by increasing plant availability to reduce the use of equipment that utilizes more expensive fuels during periods of higher demand, this was partially offset during the period by the impact of colder weather. Värmevärden has also successfully renewed contracts with industrial customers and achieved price increases in excess of inflation with the majority of residential customers.

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
Heat and steam production (GWh)	432	392
Equity accounted income (loss)	585	1,445
Interest income	699	1,351
Dividends	—	—
Adjusted EBITDA and AFFO	699	1,351

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. During the first four months of 2012, Värmevärden used the bond issuance proceeds to reduce the shareholder loan from $81,587 to $33,487. Capstone received $699 in interest income from Värmevärden during the first quarter of 2013, which was $652 lower than 2012 due to the partial repayment of the shareholder loan in March and April of 2012.

Dividends

Capstone received dividends from Värmevärden for its 33.3% ownership interest in the business. No dividends were received in either the first quarter of 2013 or 2012.

Equity accounted income

Värmevärden's equity accounted income was $585 for the first quarter of 2013 and is included in Capstone's net income. Equity accounted income in the first quarter was $860 lower than 2012. The decrease primarily reflected Värmevärden's receipt of $450 from a municipal customer for a one-time retroactive pricing settlement in 2012.

Seasonality

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

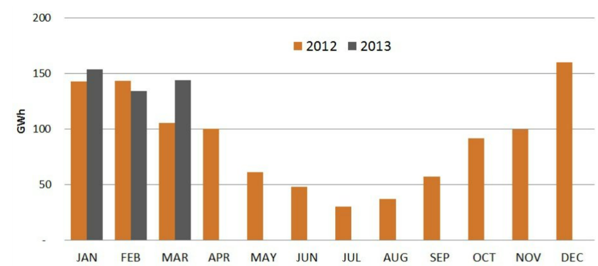
Outlook

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

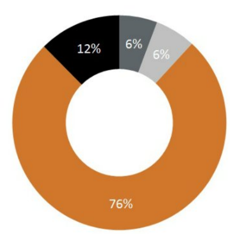
Interest income from shareholder loans receivable is expected to be lower due to a reduction in the receivable balance in the second quarter of 2012.

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

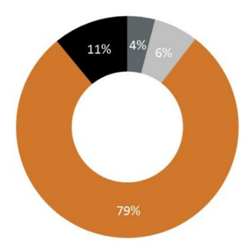
Heat and Steam Production



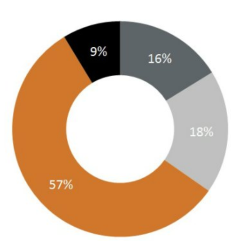
Fuel Mix Breakdown by MWh - YTD 2013



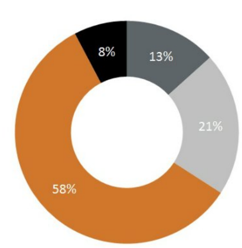
Fuel Mix Breakdown by MWh - YTD 2012



Fuel Mix Breakdown by Cost (SEK) - YTD 2013



Fuel Mix Breakdown by Cost (SEK) - YTD 2012



Electricity Fossil Fuel Bio and Waste Fuel Industrial Heat

Corporate

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

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
Administrative expenses	(2,163)	(2,116)
Project development expenses	52	(56)
Interest income	11	4
Adjusted EBITDA	(2,100)	(2,168)
Interest paid	(294)	(1,841)
Dividends paid on Capstone's preferred shares	(938)	(938)
Income taxes (paid) recovery	(1,459)	(336)
AFFO	(4,791)	(5,283)

Administrative expenses

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
Staff costs	1,281	1,380
Other administrative expenses	882	736
	2,163	2,116

Staff costs decreased by $99, or 7.2%, primarily due to the CEO taking his 2012 short-term incentive plan ("STIP") payment as a grant under the long-term incentive plan ("LTIP"). The LTIP grant is recognized in net income over the period up to vesting, whereas STIP payments are accrued in the year earned. This was partially offset by an LTIP expense for new grants in January 2013.

Other administrative expenses increased by $146, or 19.8%, for the quarter, primarily due to costs for new internal audit projects and tax advisory services. Other administrative expenses include audit fees, investor relations costs, office administration and premises costs, as well as professional fees other than for business development.

Project development expenses for 2013 included a $250 recovery against the estimated amount accrued in 2012. Excluding this recovery, project development expenses where higher in 2013 due to increased activity.

Interest income increased by $7, or 175.0%, primarily reflecting higher average cash balances in 2013.

Interest paid decreased by $1,547, or 84%, due to $112,375 less corporate debt than a year earlier. The debt was repaid from the proceeds of the Värmevärden recapitalization, new debt on the hydro facilities and sale of a 20% interest in Bristol Water.

Preferred share dividends paid and taxes paid

Dividends paid on Capstone's preferred shares relate to a quarterly fixed rate payment equivalent to 5.0% per year. Taxes paid relate to the preferred share dividends and are available to offset future tax of the Corporation. Taxes paid increased by $1,123, or 334%, due to the taxes on the preferred share dividends which includes a $1,100 one-time final installment for 2012.

Outlook

In 2013, Capstone expects business development and marketing efforts to return to a more normal level, while maintaining staffing levels consistent with 2012.

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

Overall, Capstone expects these variables to result in higher corporate administrative expenses and project development costs compared with 2012.

FINANCIAL POSITION REVIEW

Overview

As at March 31, 2013, Capstone had a consolidated working capital surplus of $20,057 compared with $30,821 at December 31, 2012. The decline of $10,764 primarily reflected changes in the utilities – water segment, were Bristol Water has been using cash reserves to fund the ongoing capital expenditure program. The total surplus comprised a $34,615 surplus for the power segment and deficits of $6,488 and $8,070 at corporate and the utilities – water segment, respectively.

Unrestricted cash and cash equivalents totaled $43,278 on a consolidated basis with the power and utilities – water segments contributing $27,630 and $11,806, respectively.

As at March 31, 2013, Capstone's debt to capitalization ratio (refer to page 18) declined from 62.7% to 61.5% on a fair value basis and from 57.6% to 56.7% on a book value basis. On a fair value basis, the decline was primarily due to a 5.5% increase in the share price since December 31, 2012. As at March 31, 2013, Capstone and its subsidiaries were in compliance with all debt covenants.

Liquidity

Working capital

As at	Mar 31, 2013	Dec 31, 2012
Power	34,615	31,041
Utilities – water	(8,070)	10,123
Corporate	(6,488)	(10,343)
Working capital	20,057	30,821

Bristol Water's deficit position primarily reflects a $19,980 reduction in cash and short term deposits to fund the capital expenditure program. Bristol Water has sufficient operating cash flow and credit availability to fund its ongoing needs. The corporate deficit was attributed to corporate accruals, including dividends to shareholders which are funded from second quarter distributions from the operating businesses.

On a consolidated basis, current assets decreased by $14,913, or 9.4%, since December 31, 2012, primarily due to Bristol Water's use of cash to fund capital expenditures. This was partially offset by a $6,689 increase in cash at the power segment. Current liabilities decreased by $4,149 or 3.2%, since December 31, 2012, primarily due to a decline in Bristol Water's accounts payable due to appreciation of the Canadian dollar against the British pound.

Cash and cash equivalents

As at	Mar 31, 2013	Dec 31, 2012
Power	27,630	20,941
Utilities – water	11,806	25,315
Corporate	3,842	3,343
Unrestricted cash and cash equivalents	43,278	49,599
Less: cash with access limitations		
Power	(11,637)	(8,386)
Utilities – water	(11,806)	(25,315)
Cash and cash equivalents available to Capstone	19,835	15,898

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The $6,321 decrease in cash from December 31, 2012 was primarily attributable to the use of cash to fund Bristol Water's capital expenditure program.

Cash and cash equivalents available to Capstone are funds available for general purposes, including payment of dividends to shareholders. Bristol Water's $11,806 of cash and cash equivalents as at March 31, 2013 are primarily earmarked for capital expenditure projects for the company's five-year asset management plan. In addition, Bristol Water has $106,377 of credit availability to fund the longer term cash requirements of the capital projects. For the power segment, $11,637 is only periodically accessible to Capstone through distributions under the terms of the credit agreements for the hydro facilities, Erie Shores and Amherstburg.

Restricted cash decreased by $708 from December 31, 2012 to $18,521 at March 31, 2013. The decrease was made up of a $419 foreign exchange translation on Bristol Water's restricted cash and a $289 draw on the hydro facilities maintenance reserve. Under the terms of the bonds, the balance in the hydro facilities' maintenance reserve is determined and funded at the end of each year. Restricted cash represents reserve accounts of $10,041 and $8,480 at the power segment and Bristol Water, respectively.

Cash flow

Capstone's cash and cash equivalents decreased by $6,321 in the first three months of 2013 compared with a decrease of $12,617 in 2012. Details of the decrease are presented in the consolidated statement of cash flows and are summarized as follows:

Three months ended	Mar 31, 2013	Mar 31, 2012
Operating activities	30,629	31,221
Investing activities	(27,600)	14,171
Financing activities (excluding dividends to shareholders)	(2,733)	(46,828)
Dividends paid to shareholders	(5,568)	(11,306)
Effect of exchange rate changes on cash and cash equivalents	(1,049)	125
Change in cash and cash equivalents	(6,321)	(12,617)

Cash flow from operating activities generated $592 less cash and cash equivalents than in first quarter of 2012. Operating cash flows declined by $2,398 at Capstone's power segment and $1,390 at Värmevärden, which was partially offset by a $594 increase at Bristol Water and $2,602 for corporate. The power segment reduction was primarily due to lower operating income. For Värmevärden, Capstone received a $1,390 interest payment in 2012 from the recapitalization.

Cash flow from investing activities was $41,771 lower in 2013, primarily due to the recapitalization of Värmevärden in 2012 which resulted in proceeds of $47,965. This decrease was partially offset by a reduction in short-term deposits at Bristol Water of $6,254 in the first quarter of 2013, which was used to fund capital expenditures.

Cash flow from financing activities was $44,095 higher in the first three months of 2013 than in the prior year primarily because Capstone repaid $45,515 of the senior debt facility from proceeds of the Värmevärden recapitalization in 2012. This was partially offset by the payment of half, or $1,609, of Bristol Water's dividend to Agbar and ITOCHU following the change in dividend frequency from semi-annual in 2012 to quarterly in 2013.

Dividends paid to shareholders were $5,738 lower in the first three months of 2013 than in the prior year following Capstone's common share dividend policy announcement in the second quarter of 2012.

Capital Structure

Capstone considers shareholders' equity and long-term debt (proportionately attributable to Capstone's shareholders), both the current and non-current portions, to be the basis of its capital structure. Capstone measures its capitalization ratio based on the fair values of long-term debt and shareholders' equity. Capstone's capitalization ratios using fair values and carrying values were as follows:

	Mar 31, 2013		Dec 31, 2012	
As at	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power	302,337	295,105	305,497	297,792
Utilities – water [1]	262,217	227,124	259,830	236,768
Corporate	42,963	40,728	44,416	40,631
Deferred financing fees	—	(7,004)	—	(7,328)
	607,517	555,953	609,743	567,863
Equity				
Shareholders' equity [2]	379,771	424,019	363,248	418,848
Total capitalization	987,288	979,972	972,991	986,711
Debt to capitalization	61.5%	56.7%	62.7%	57.6%

(1) Only 50% of the long-term debt at Bristol Water has been included in the calculation to reflect the impact of the non-controlling interest

(2) The carrying value of shareholders' equity does not include the amount attributed to the non-controlling interest.

Power

The composition of the power segment's long-term debt was as follows:

			Mar 31, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC-Cardinal credit facility	2014	4.53%	11,800	11,800	12,050	12,050
Erie Shores project debt	2016 & 2026	5.28 – 6.15%	105,249	96,346	106,538	97,703
Amherstburg Solar Park project debt	2016	7.32%	90,244	90,244	90,560	90,560
Hydro facilities senior secured bonds	2040	4.56%	75,271	76,473	76,347	77,237
Hydro facilities subordinated secured bonds	2041	7.00%	19,773	20,242	20,002	20,242
			302,337	295,105	305,497	297,792

As at March 31, 2013, approximately 95% of the power segment's long-term debt is scheduled to amortize over the lives of their respective PPAs. All of the power segment's project debt is non-recourse to Capstone.

Covenant compliance

Each of the power segment's long-term debt facilities is subject to financial covenant requirements. The CPC-Cardinal credit facility, Erie Shores project debt, hydro facilities senior secured and subordinated secured bonds, and Amherstburg project debt are individually required to maintain minimum debt service coverage ratios to allow for distributions to the Corporation.

During the first three months of 2013, Capstone's power segment complied with all covenants and expects to continue to comply for the remainder of 2013.

Utilities – Water

The composition of the utilities – water segment's long-term debt was as follows:

			Mar 31, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Bank loans	2017	1.18 - 5.73%	31,229	31,538	31,540	31,430
Term loans	2032 - 2041	5.93 – 6.79%[(1)]	463,124	395,679	457,563	413,746
Debentures	Irredeemable	3.50 – 4.25%	2,234	1,978	2,346	2,072
Cumulative preferred shares	Irredeemable	8.75%	27,847	25,053	28,211	26,289
Consolidated long-term debt			524,434	454,248	519,660	473,537
Less: non-controlling interest			(262,217)	(227,124)	(259,830)	(236,769)
Capstone share of long-term debt			262,217	227,124	259,830	236,768

(1) Certain of the term loans are index-linked debt. The effective interest rate disclosed in the table is the sum of the real interest rates on the debt (2.701-3.635%) plus the March 31, 2013 Retail Price Index ("RPI"). Bristol Water pays interest on these loans based on the real interest rate, and the principal amount of the loan is indexed to RPI.

As at March 31, 2013, approximately 92% of the utilities – water segment's long-term debt matured in greater than 10 years. The utilities – water segment has no debt maturing in the next fiscal year.

Long-term debt for the utilities – water segment is used to fund the ongoing capital expenditures to grow Bristol Water's network. As at March 31, 2013, $106,377 of undrawn credit capacity remained available to fund future capital expenditures.

The preferred shares are classified as long-term debt on the basis that they are irredeemable. All Bristol Water debt is non-recourse to Capstone.

Covenant compliance

The principal debt agreements require Bristol Water to comply with covenants relating to the minimum levels of interest coverage and net debt in relation to regulatory capital value.

During the first three months of 2013, Bristol Water complied with all its covenants and expects to comply for the remainder of 2013.

Corporate

The composition of Capstone's corporate long-term debt was as follows:

			Mar 31, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Convertible debentures	2016	6.50%	42,963	40,728	44,416	40,631
			42,963	40,728	44,416	40,631

All of the corporate debt relates to the convertible debentures and matures in December 2016.

Covenant compliance

Corporate debt has no financial covenants.

Equity

Shareholders' equity was composed of:

As at	Mar 31, 2013	Dec 31, 2012
Common shares	633,520	632,474
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	732,250	731,204
Equity portion of convertible debentures	9,284	9,284
Accumulated other comprehensive income (loss)	(8,303)	(809)
Retained earnings (deficit)	(309,212)	(320,831)
Equity to Capstone shareholders	424,019	418,848
Non-controlling interests	95,147	91,610
Total equity	519,166	510,458

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

	Three months ended Mar 31, 2013	
($000s and 000s of shares)	Shares	Amount
Opening balance	72,445	632,474
Dividend reinvestment plan (DRIP)	252	1,046
Ending balance	72,697	633,520

The composition of shareholders' equity at fair value was as follows:

As at	Mar 31, 2013			Dec 31, 2012		
($000s, except per share amounts)	Market price per share	Outstanding amount	Fair Value	Market price per share	Outstanding amount	Fair Value
Common shares	$4.25	72,697	308,963	$4.03	72,445	291,955
Class B units	$4.25	3,249	13,808	$4.03	3,249	13,093
Preferred shares	$19.00	3,000	57,000	$19.40	3,000	58,200
			379,771			363,248

Retained earnings (deficit) reflects the aggregate of Capstone's net income (loss) since formation of the Corporation less cumulative dividends paid to shareholders and cumulative distributions paid to Class B exchangeable unitholders.

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. All material changes in contractual obligations outside the normal course of operations during the first three months of 2013 were previously disclosed in the annual MD&A for the year ended December 31, 2012, or the Annual Information Form dated March 21, 2013. Additionally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business and Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

See discussion in the results of operations on page 15 of this MD&A for detailed discussion on Capstone's equity accounted investment in Värmevärden.

For Capstone's equity interest in Chapais, 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.

Capital Expenditure Program

Capstone incurred $37,026 in capital expenditures during the first quarter of 2013. Below is the breakdown of the investment by operating segment:

	Three months ended	
	Mar 31, 2013	**Mar 31, 2012**
Power	461	470
Utilities – water	36,563	42,425
Corporate	2	27
	37,026	42,922

Capital expenditures for the utilities – water segment included both growth and maintenance initiatives as planned under Bristol Water's regulatory capital expenditure program for AMP5. Overall, Bristol Water's expenditures to date are behind the five-year plan but are expected to catch up before the end of AMP5 in March 2015.

The power segment's expenditures in the first quarter of 2013 were in the normal course of operations and primarily related to the hydro facilities as they completed scheduled outages. In 2012, the capital expenditures primarily related to Cardinal, Whitecourt and the hydro facilities.

Retirement Benefit Plans

On January 1, 2013, Capstone adopted the required changes to IAS 19. Refer to note 4 "Summary of Significant Accounting Policies" to the March 31, 2013 interim consolidated financial statements for details of the nature and impact of these changes on Capstone financial statements.

Bristol Water has a defined benefit retirement plan for current and former employees. The defined benefit retirement plan is closed to new employees, who are allowed to join the defined contribution plan.

As at March 31, 2013, the defined benefit retirement plan was in a $52,476 surplus position. The surplus is subject to a number of critical accounting estimates which can materially impact the balances. The fair values included in the surplus are calculated with the assistance of an actuary and assumptions used are considered to be reasonable by management.

Bristol Water's employer contributions to the defined benefit plan for the three months ended March 31, 2013 were $797. The expense is incurred entirely at Bristol Water.

The total defined contribution pension expense recorded in the consolidated statement of income for the three months ended March 31, 2013 was $317. The expense comprised $272 for Bristol Water and $45 for Cardinal.

Income Taxes

The first quarter current income tax recovery of $918 was primarily attributable to Bristol Water.

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

As at	Mar 31, 2013	Dec 31, 2012
Deferred income tax assets	30,287	28,719
Deferred income tax liabilities	(187,366)	(181,176)
	(157,079)	(152,457)

Capstone's total deferred income tax assets include $16,876 ($14,517 at December 31, 2012) attributable to the Canadian entities and $13,411 ($14,202 at December 31, 2012) for Bristol Water. Deferred income tax assets primarily relate to financial instruments fair value adjustments,differences in the amortization of deferred financing costs for tax and accounting purposes, and tax loss carry forwards.

Deferred income tax liabilities of $69,730 ($64,704 at December 31, 2012) were attributable to Capstone's Canadian entities while $117,636 ($116,472 at December 31, 2012) was attributable to Bristol Water. Deferred income tax liabilities primarily relate to differences in the amortization of intangible and capital assets for tax and accounting purposes.

Capstone's net deferred income tax liability increased by $4,622 during the first three months of 2013. The increase was primarily attributable to the difference between accounting and tax depreciation. The deferred tax expense of $6,345 on the consolidated statement of income differs from the increase in the net deferred income tax liability due to amounts recorded in other comprehensive income, primarily related to temporary differences in Bristol Water's retirement benefit surplus.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in notes 9 (Financial Instruments) and 10 (Financial Risk Management) in the consolidated financial statements for the year ended December 31, 2012. These notes contain further details on the implicit risks and valuation methodology employed for Capstone's financial instruments.

To manage the risks inherent in the business, Capstone enters into derivative contracts to mitigate the economic impact of the fluctuations in interest rates and foreign exchange rates. The fair value of these contracts, as reported in Capstone's interim consolidated statements of financial position, were:

As at	Mar 31, 2013	Dec 31, 2012
Derivative contract assets	3,345	2,021
Derivative contract liabilities	(28,508)	(30,651)
Net derivative contract liabilities	(25,163)	(28,630)

Net derivative contract liabilities decreased by $3,467, which is included in the $2,557 gain as part of gains on derivatives in net income for the three-month period ended March 31, 2013.

The gain (loss) on derivatives in the interim consolidated statements of income and comprehensive income comprised:

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
Interest rate swap contracts	1,068	2,370
Foreign currency option contracts	21	(409)
Embedded derivative	1,468	(568)
Gains on derivatives in net income	2,557	1,393
Interest rate swap contracts in OCI	(189)	187
Gains on derivatives in comprehensive income	2,368	1,580

The gain on derivatives for the first quarter was primarily attributable to the change in value of the embedded derivative at Cardinal followed by gains on the foreign currency contracts and interest rate swap contracts.

The embedded derivative gain was primarily due to an increase in the natural gas price and the passage of time. The swap portion of the embedded derivative liability is calculated by discounting Capstone's expected cash flows from Cardinal's fuel supply agreement. Cardinal may swap gas mitigation payments at DCR for a fixed rate. As a result, higher natural gas prices increases the fair value of the liability. Additionally, as time passes, fewer net payments are included in the calculation and the liability declines.

The gain on interest rate swap contracts was primarily due to a gain of $880 on the interest rate swap on the Amherstburg debt. The fair value increased due to higher long-term interest rates.

The gain on foreign currency contracts is primarily due to $179 of gains on the sale of a portion of the British pound contracts, partially offset by losses of $158 primarily due to the net depreciation of the Swedish Krona forward-looking rates relative to the Canadian dollar.

FOREIGN EXCHANGE

The foreign exchange gains for 2013 and 2012 were primarily due to unrealized translation of Capstone's SEK - denominated shareholder loan receivable with Värmevärden. Capstone's foreign exchange gain of $749 for the first quarter of 2013 was $355, or 32%, lower than in 2012. The gain reflects the appreciation of the Swedish Krona against the Canadian dollar thereby increasing the carrying value of the loan in Canadian dollars. Repayment of more than half of the shareholder loan in early 2012 reduced foreign exchange gains resulting from Swedish Krona appreciation compared with 2012.

RISKS AND UNCERTAINTIES

Capstone is subject to a variety of risks and uncertainties, including the re-contracting of Cardinal, which has a PPA expiring at the end of 2014. These risks and uncertainties could impact future operating results and financial condition, which could adversely affect Capstone's ability to pay dividends to shareholders. For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 21, 2013 as supplemented by risk factors contained in any material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim management's discussion and analysis and information circulars filed by the Corporation with securities commissions or similar authorities in Canada, which are available on the SEDAR website at www.sedar.com.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone monitors developments with respect to environmental, health and safety regulation. Please refer to the Corporation's prior environmental, health and safety regulation disclosure in its Annual Report for the year ended December 31, 2012 and "Environmental, Health and Safety Matters" section of the Corporation's Annual Information Form dated March 21, 2013, which are available on the SEDAR website at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

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

($000s, except for per share amounts)	2013	2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4 [1]	Q3	Q2 [2, 3]
Revenue	94,255	94,654	84,951	85,849	92,156	91,663	40,361	37,028
Net income (loss) [4]	12,019	12,909	5,836	(4,184)	13,681	(4,591)	(11,783)	(30,370)
Adjusted EBITDA	32,342	31,074	24,542	27,515	37,211	31,036	13,253	(6,569)
AFFO	13,644	13,560	3,381	3,707	14,915	9,722	5,891	(13,888)
Common dividends [5]	5,696	5,579	5,655	10,231	12,299	11,569	10,225	10,217
Preferred dividends	938	938	938	938	938	1,264	—	—
Earnings Per Share – Basic	0.145	0.147	0.065	(0.068)	0.171	(0.082)	(0.190)	(0.492)
Earnings Per Share – Diluted	0.141 [6]	0.143 [6]	0.065	(0.068)	0.165 [6]	(0.082)	(0.190)	(0.492)
AFFO per share	0.180	0.179	0.045	0.049	0.200	0.136	0.096	(0.225)
Dividends declared per common share	0.075	0.075	0.075	0.135	0.165	0.165	0.165	0.165

(1) AFFO and AFFO per share have been adjusted to conform to the Corporation's revised definition of AFFO; refer to page 6 of this MD&A.

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

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

(4) Net income (loss) attributable to the shareholders of Capstone, which excludes non-controlling interests.

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

(6) Convertible debentures were dilutive during the period.

ACCOUNTING POLICIES AND INTERNAL CONTROL

Significant Changes in Accounting Standards

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2012 consolidated financial statements included in the Annual Report, except for required changes to IFRS.

Capstone has adopted the new and revised standards, along with consequential amendments, effective January 1, 2013, these changes include:

IFRS 10, Consolidated Financial Statements and IAS 27, Separate Financial Statements;
IFRS 11, Joint Arrangements and IAS 28, Investments in Associates and Joint Ventures;
IFRS 12, Disclosure of Interests in Other Entities;
IFRS 13, Fair Value Measurement;
IAS 1, Amendment, Presentation of Items of Other Comprehensive Income; and
IAS 19, Employee Benefits

Refer to note 4 "Summary of Significant Accounting Policies" to the March 31, 2013 interim consolidated financial statements for detail of the nature and impact of these changes to Capstone financial statements.

Certain comparative figures in this MD&A have been adjusted as if these accounting policies had always been applied. No adjustments were made to the periods before September 30, 2011, prior to the acquisition of Bristol Water.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any significant accounting changes that impact the Corporation since the standards described in the most recent annual financial statements for the year ended December 31, 2012.

The Corporation has to complete its assessment of the new and amended standard with an effective implementation date on January 1, 2015 as described in the most recent annual financial statements.

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 and judgements
• 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, amount and discount rate
• Impairment of trade receivables	• Probability of failing to recover amounts when they fall into arrears
• Derivative financial instruments	• Interest rate, natural gas price, and direct consumer rate
• Retirement benefits	• Future cash flows and discount rate
• Income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income
• Impairment assessments of capital assets, intangibles and goodwill	• 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 materially differ from those estimates.

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Since December 31, 2012, no material changes have occurred in Capstone's policies and procedures and other processes that comprise its internal control over financial reporting and disclosure controls and procedures.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Mar 31, 2013	Dec 31, 2012	Jan 1, 2012
			(note 4)	(note 4)
Current assets				
Cash and cash equivalents		43,278	49,599	57,587
Restricted cash		18,521	19,229	14,947
Short-term deposits		—	6,471	82,202
Accounts receivable		75,843	75,386	70,854
Other assets		5,152	7,218	7,448
Current portion of loans receivable	6	1,126	1,096	984
Current portion of derivative contract assets	7	340	174	261
		144,260	159,173	234,283
Non-current assets				
Loans receivable	6	38,390	37,909	85,824
Derivative contract assets	7	3,005	1,847	2,883
Equity accounted investments	8	17,918	16,990	15,993
Capital assets	9	1,077,936	1,086,407	977,456
Intangible assets	10	275,993	283,919	288,304
Retirement benefit surplus	11	52,476	37,575	60,104
Deferred income tax assets		30,287	28,719	32,897
Total assets		1,640,265	1,652,539	1,697,744
Current liabilities				
Accounts payable and other liabilities		101,886	106,767	81,734
Current portion of derivative contract liabilities	7	3,110	3,106	3,088
Current portion of finance lease obligations		3,378	3,502	5,256
Current portion of long-term debt	12	15,829	14,977	230,899
		124,203	128,352	320,977
Long-term liabilities				
Derivative contract liabilities	7	25,398	27,545	31,055
Electricity supply and gas purchase contracts	10	2,858	3,260	4,894
Deferred income tax liabilities		187,366	181,176	178,201
Deferred revenue		8,302	6,298	1,363
Finance lease obligations		3,579	3,699	6,727
Long-term debt	12	767,248	789,655	704,145
Liability for asset retirement obligation		2,145	2,096	2,412
Total liabilities		1,121,099	1,142,081	1,249,774
Equity attributable to shareholders' of Capstone		424,019	418,848	413,520
Non-controlling interest		95,147	91,610	34,450
Total liabilities and equity		1,640,265	1,652,539	1,697,744
Commitments and contingencies	19			

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital (1)	Convertible Debentures	AOCI (2)	Retained Earnings	NCI (3)	Total Equity
Balance, December 31, 2011		725,591	9,284	(6,729)	(314,626)	34,450	447,970
Adjustment relating to changes in accounting policy	4	—	—	—	—	—	—
Balance, January 1, 2012		725,591	9,284	(6,729)	(314,626)	34,450	447,970
Shares issued		(89)	—	—	—	—	(89)
Other comprehensive income (loss)	4	—	—	2,703	(5,773)	(2,105)	(5,175)
Net income for the period	4	—	—	—	13,681	2,931	16,612
Dividends declared to common shareholders of Capstone	13b	1,931	—	—	(12,299)	—	(10,368)
Dividends declared to preferred shareholders of Capstone	13b	—	—	—	(938)	—	(938)
Balance, March 31, 2012		727,433	9,284	(4,026)	(319,955)	35,276	448,012

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital (1)	Convertible Debentures	AOCI (2)	Retained Earnings	NCI (3)	Total Equity
Balance, December 31, 2012	4	731,204	9,284	(809)	(320,831)	91,610	510,458
Other comprehensive income (loss)	4	—	—	(7,494)	6,306	1,267	79
Net income for the period	4	—	—	—	12,019	3,879	15,898
Dividends declared to common shareholders of Capstone	13a&b	1,046	—	—	(5,696)	—	(4,650)
Dividends declared to preferred shareholders of Capstone (4)	13b	—	—	—	(1,010)	—	(1,010)
Dividends declared by Bristol Water		—	—	—	—	(1,609)	(1,609)
Balance, March 31, 2013		732,250	9,284	(8,303)	(309,212)	95,147	519,166

(1) Share capital includes common and preferred shares and class B exchangeable units.
(2) Accumulated other comprehensive income (loss) ("AOCI").
(3) Non-controlling interest ("NCI").
(4) Dividends declared to preferred shareholders of Capstone include $72 of deferred income taxes.

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Mar 31, 2013	Mar 31, 2012
			(note 4)
Revenue		94,255	92,156
Operating expenses	16	(50,344)	(48,820)
Administrative expenses	16	(2,163)	(2,116)
Project development expenses	16	(113)	(56)
Equity accounted income (loss)	8	585	1,445
Interest income		1,104	1,832
Net pension interest income		389	699
Other gains and (losses), net		2,536	1,403
Foreign exchange gain (loss)		749	1,104
Earnings before interest expense, taxes, depreciation and amortization		46,998	47,647
Interest expense		(11,014)	(14,864)
Depreciation of capital assets	9	(11,908)	(11,567)
Amortization of intangible assets	10	(2,751)	(2,456)
Income before income taxes		21,325	18,760
Income tax recovery (expense)			
Current		918	(48)
Deferred		(6,345)	(2,100)
Total income tax recovery (expense)		(5,427)	(2,148)
Net income		15,898	16,612
Net income attributable to:			
Shareholders of Capstone		12,019	13,681
Non-controlling interest		3,879	2,931
		15,898	16,612
Earnings per share	14		
Basic		0.145	0.171
Diluted		0.141	0.165

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Mar 31, 2013	Mar 31, 2012
			(note 4)
Cumulative differences on translation of foreign operations		(12,688)	2,747
Other comprehensive loss on equity accounted investments	8	343	360
Losses on financial instruments designated as cash flow hedges (net of tax in 2013 - $32; 2012 - $79)		(188)	(36)
Total of items that may be reclassified subsequently to net income		(12,533)	3,071
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2013 - ($3,767); 2012 - $3,412) - will not be reclassified to net income		12,612	(8,246)
Other comprehensive income (loss)		79	(5,175)
Net income		15,898	16,612
Total comprehensive income		15,977	11,437
Comprehensive income attributable to:			
Shareholders of Capstone		10,831	10,611
Non-controlling interest		5,146	826
		15,977	11,437

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended	Notes	Mar 31, 2013	Mar 31, 2012
Operating activities:			
Net income		15,898	16,612
Deferred income tax expense (recovery)		6,345	2,100
Depreciation and amortization		14,659	14,023
Other gains and losses (net)		(2,536)	(1,403)
Amortization of deferred financing costs and non-cash financing costs		2,316	3,483
Equity accounted (income) loss	8	(585)	(1,445)
Unrealized foreign exchange (gain) loss on loan receivable	6	(775)	(713)
Change in non-cash working capital	18	(4,693)	(1,436)
Total cash flows from operating activities		30,629	31,221
Investing activities:			
Receipt of loans receivable		263	48,201
Change in restricted cash and short term deposits		6,544	(6,278)
Investment in capital assets and computer software	9	(34,407)	(27,752)
Total cash flows from (used in) investing activities		(27,600)	14,171
Financing activities:			
Proceeds from long-term debt		1,563	—
Repayment of long-term debt and finance lease obligations		(2,687)	(46,828)
Dividends paid to common and preferred shareholders		(5,568)	(11,306)
Dividends paid to non-controlling interests		(1,609)	—
Total cash flows from (used in) financing activities		(8,301)	(58,134)
Effect of exchange rate changes on cash and cash equivalents		(1,049)	125
Increase (decrease) in cash and cash equivalents		(6,321)	(12,617)
Cash and cash equivalents, beginning of year		49,599	57,587
Cash and cash equivalents, end of period		43,278	44,970
Supplemental information:			
Interest paid		12,819	11,658
Taxes paid (recovery)		1,615	336

See accompanying notes to these interim consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone Infrastructure Corporation is incorporated and domiciled in Canada and principally located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. The mission of Capstone Infrastructure Corporation 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 our shareholders by providing reliable income and capital appreciation. Capstone's portfolio includes investments in gas cogeneration, wind, hydro, biomass and solar power generating facilities, representing approximately 370 MW of installed capacity, a 33.3% interest in a district heating business in Sweden, and a 50% interest in a regulated water utility in the United Kingdom.

2. BASIS OF PREPARATION

Statement of Compliance

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34") on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2012, except as described in note 4 "Summary of Significant Accounting Policies – Changes in Accounting Policies". Certain information and footnote disclosures included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited 2012 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on May 13, 2013.

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

3. SEASONALITY

The seasonality of wind speed and density, volume of water flows, sunlight, ambient temperatures 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.

Operating expenses of the regulated water utility in the United Kingdom can fluctuate depending on the availability of water from various sources, the quantity of water requiring treatment as a result of dry weather, and pipe bursts, which are more common in periods when freezing and thawing occur leading to higher repairs and maintenance.

Warm weather reduces demand for heat from the Swedish district heating business.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to Capstone's accounting policies during the first three months of 2013, except as noted in the following section "Changes in Accounting Policies".

Basis of Measurement

The interim consolidated financial statements have been prepared on a going concern basis of accounting and primarily under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value.

Change in Accounting Policies

Capstone has adopted the following new and revised standards, along with consequential amendments, effective January 1, 2013. These changes were required due to changes in IFRS and were made in accordance with the applicable transitional provisions and are summarized as follows.

IFRS 10, 11 and 12, Consolidated Financial Statements, Joint arrangements and Disclosure of Interests in Other Entities, establishes a common definition for control along with additional disclosure requirements. The adoption of IFRS 10, 11 and 12 did not require any changes to the existing consolidation approach for any of Capstone's subsidiaries and investees or change the accounting for investments in associates.

IAS 27, Separate Financial Statements and **IAS 28**, Investments in Associates and Joint Ventures, are consistent with the changes to IFRS 10 and 11, respectively. IAS 27, deals with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company. IAS 28, prescribes the accounting for investments in associates and sets out the requirements for use of the equity method of accounting.

IFRS 13, Fair value measurement, provides a single framework for measuring fair value along with additional disclosure requirements. The measurement of fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by Capstone to measure fair value and did not result in any measurement adjustments.

IAS 1, Amendment, presentation of items of other comprehensive income. This amendment required Capstone to group other comprehensive income items by those that will be reclassified subsequently to net income and those that will not be reclassified. The Company has classified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 19, Employee Benefits, amendments included changes affecting measurement, recognition and disclosure.The amendments only impact Bristol Water's defined benefit pension plan and the changes are summarized as follows:

- Interest on pension assets is no longer calculated based on the expected return on plan assets, IFRS now requires interest to be calculated on the net retirement benefit surplus using the discount rate based on market yields of high quality corporate bonds. Previously, interest income on plan assets was based on their long-term rate of expected return and was included in interest expense.
- Actual running costs, except investment management expenses are now recognized as current service costs included in operating expenses. Previously, these expenses were deducted from the expected return on plan assets included in interest expense.

Historical consolidated statements of financial position and the consolidated statements of cash flows were not impacted by the change in accounting policy.

The following tables summarize the impact on financial statement captions:

	Three months ended	
Adjustments to consolidated statement of income	**Mar 31, 2013**	**Mar 31, 2012**
Net pension interest income	389	699
Interest expense	208	(8)
Operating expense	(133)	(120)
Deferred income tax recovery (expense)	(107)	(143)
Change to net income	357	428
Net income before accounting change	15,541	16,184
Net income after accounting change	15,898	16,612
Net income after accounting change attributable to:		
Shareholders of Capstone	12,019	13,681
Non-controlling interest	3,879	2,931
Net income after accounting change	15,898	16,612

Capstone previously classified the net pension interest as part of interest expense in the statement of income. Subsequent to the amendment, Capstone has added a caption to the statement of income, labeled net pension interest income, which comprises:

- Interest cost on the defined benefit obligation; and
- Interest income on plan assets.

	Three months ended	
Adjustments to Earnings Per Share ("EPS")	**Mar 31, 2013**	**Mar 31, 2012**
Basic EPS before accounting change	0.143	0.167
Change to net income attributable to the shareholders' of Capstone per share	0.002	0.004
Basic EPS after accounting change	0.145	0.171
Diluted EPS before accounting change	0.138	0.161
Change to net income attributable to the shareholders' of Capstone per share	0.003	0.004
Diluted EPS after accounting change	0.141	0.165

	Three months ended	
Adjustments to consolidated statement of comprehensive income	**Mar 31, 2013**	**Mar 31, 2012**
Decrease in other comprehensive income for actuarial gains and losses recognized in respect of retirement benefit obligations	(464)	(571)
Increase in other comprehensive income for deferred income taxes	107	143
Change to net income	357	428
Change to comprehensive income	—	—
Comprehensive income before and after accounting change	15,977	11,437
Comprehensive income after accounting change attributable to:		
Shareholders of Capstone	10,831	10,611
Non-controlling interest	5,146	826
Comprehensive income after accounting change	15,977	11,437

Future Accounting Changes

The IASB has not issued any significant new accounting standards that impact the Corporation since the standards described in the most recent annual financial statements for the year ended December 31, 2012.

The Corporation must complete its assessment of the new and amended standard with an effective implementation date on January 1, 2015 as described in the most recent annual financial statements.

5. ACQUISITIONS AND DISPOSALS

Partial Sale of Interest in Bristol Water

On May 10, 2012, Capstone sold to I-Environment Investments Ltd, a subsidiary of ITOCHU Corporation, a 20% indirect interest in Bristol Water plc. I-Environment Investments Ltd acquired a 2/7^{ths} ownership interest in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone received $68,984 of net proceeds on sale. Following this sale, Capstone retained a 50% beneficial interest in Bristol Water and continues to consolidate based on retention of control. Capstone recorded the transaction as a transfer of equity to non-controlling interest holders.

6. LOANS RECEIVABLE

The following table summarizes the loans receivable from Värmevärden and Chapais:

As at	Mar 31, 2013	Dec 31, 2012
Värmevärden	35,543	34,768
Chapais	3,973	4,237
	39,516	39,005
Less: current portion	(1,126)	(1,096)
Total long-term loans receivable	38,390	37,909

The following table summarizes the change in the loan receivable from Värmevärden during the period:

	Three months ended Mar 31, 2013		Three months ended Mar 31, 2012	
	SEK	$	SEK	$
Opening balance	227,541	34,768	551,808	81,587
Principal repayment	—	—	(324,267)	(48,100)
Realized foreign exchange gain	—	—	—	136
Unrealized foreign exchange gain (loss)	—	775	—	713
Ending balance	227,541	35,543	227,541	34,336

7. FINANCIAL INSTRUMENTS

(A) Classification by Level

The following table illustrates the classification of the Corporation's financial instruments that have been recorded at fair value as at March 31, 2013, within the fair value hierarchy:

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Mar 31, 2013	Dec 31, 2012
Derivative contract assets:					
Foreign currency contracts	—	1,766	—	1,766	849
Embedded derivative asset	—	—	1,579	1,579	1,172
Less: Current portion	—	(340)	—	(340)	(174)
	—	1,426	1,579	3,005	1,847
Derivative contract liabilities:					
Interest rate swap contracts	—	14,268	—	14,268	15,337
Interest rate swap contracts for hedging	—	3,143	—	3,143	3,156
Embedded derivative liability	—	—	11,097	11,097	12,158
Less: Current portion	—	(3,110)	—	(3,110)	(3,106)
	—	14,301	11,097	25,398	27,545

No financial instruments were transferred between levels during the period.

Financial instruments that are not recorded at fair value on the balance sheet are cash and cash equivalents, accounts receivable, loans receivable, accounts payable, finance lease obligations and long-term debt. The fair values of these items approximate their carrying values, except for finance lease obligations and long-term debt, which are summarized in the following table:

	Fair value	Carrying value
Finance lease obligations	7,697	6,957
Long-term debt	869,734	783,077

(B) Fair Value Determination

The Corporation has determined the fair value of level 2 and 3 financial instruments as follows:

Foreign currency contracts	• Fair value of foreign currency contracts fluctuates with changes in the relative currencies to the Canadian dollar. • A Black-Scholes model, based on the current spot price, discount rate, volatility in the underlying currency and time to maturity, is used to determine fair value.
Interest rate swap	• The interest rate swap contracts' fair value fluctuates with changes in market interest rates. • A discounted cash flow analysis based on a forward interest rate curve was used to determine their fair value.
Embedded derivative	• The determination of the fair value of the Corporation's embedded derivatives requires the use of option pricing models involving significant judgment based on management's estimates and assumptions.

Capstone's finance department, with the assistance of third-party experts, is responsible for performing the valuation of financial instruments, including level 3 fair values. The valuation processes and results are reviewed and approved each reporting period. These critical estimates are discussed as part of the Audit Committee's quarterly review of the financial statements.

(C) Significant Assumptions

Due to the lack of observable market quotes on the Corporation's embedded derivatives, their fair values, classified as Level 3, were derived using valuation models that rely on a combination of observable and unobservable inputs, including interest rates, forward gas prices and volatility, foreign exchange curves, credit spreads, estimates on gas volumes and sales, fixed and variable gas transportation costs and a forecasted Direct Customer Rate ("DCR") curve based on historical averages.

The table summarizes the impact on fair value of changes in the unobservable inputs:

Embedded derivative	Fair value at Mar 31, 2013	Unobservable inputs	Estimated input	Relationship of input to fair value
Asset	1,579	Natural gas price	Empress gas and Dawn gas spot and forward prices. Empress spot price of 3.524 dollars and Dawn spot price of 4.494 dollars.	10% increase in gas price results in an increase in fair value of $509.
		DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $48.
Liability	(11,097)	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $1,638.
	(9,518)			

Changes in one or a combination of these estimates may have a significant impact on the fair value of the embedded derivatives given the volume of gas and length of contract involved. As new information becomes available, management may choose to revise these estimates where there is an absence of reliable observable market data.

(D) Fair Value Continuity

	Net, embedded derivative
Opening balance, December 31, 2012	(10,986)
Other gains and (losses), net included in net income	1,468
Closing balance, March 31, 2013	(9,518)

8. EQUITY ACCOUNTED INVESTMENTS

As at	Mar 31, 2013 Carrying value	Dec 31, 2012 Carrying value
Macquarie Long Term Care L.P. ("MLTCLP")	87	87
Värmevärden	17,831	16,903
Chapais	—	—
	17,918	16,990

See note 6 for detail on loans receivable with Värmevärden and Chapais.

The change in the Corporation's total equity accounted investments for the periods ended March 31 was as follows:

Three month ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Return of capital	Ending balance
March 31, 2013	16,990	585	343	—	17,918
March 31, 2012	15,993	1,445	360	—	17,798

9. CAPITAL ASSETS

	Jan 1, 2013	Additions	Disposals	Foreign exchange	Transfers	Mar 31, 2013
Cost						
Land	2,766	—	—	(119)	—	2,647
Equipment and vehicles	15,650	244	(454)	(1,060)	(2,667)	11,713
Property and plant	851,726	219	(80)	(20,242)	5,709	837,332
Infrastructure assets	346,530	16,382	—	(20,011)	19,872	362,773
Construction in progress	51,209	20,181	(9)	(2,329)	(25,946)	43,106
	1,267,881	37,026	(543)	(43,761)	(3,032)	1,257,571
Accumulated depreciation						
Equipment and vehicles	(5,160)	(479)	420	714	—	(4,505)
Property and plant	(168,416)	(10,034)	24	8,984	—	(169,442)
Infrastructure assets	(7,898)	(1,395)	9	3,596	—	(5,688)
Net carrying value	1,086,407	25,118	(90)	(30,467)	(3,032)	1,077,936

The reconciliation of capital asset additions on an accrual basis to additions on a cash basis on the consolidated statement of cash flow was:

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
Additions	37,026	42,922
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	(1,196)	(15,508)
Net foreign exchange difference	(1,423)	338
Cash additions	34,407	27,752

10. INTANGIBLES

	Jan 1, 2013	Additions	Foreign exchange	Transfers	Mar 31, 2013
Assets					
Computer software	7,544	—	(1,579)	3,032	8,997
Electricity supply and gas purchase contracts	108,048	—	—	—	108,048
Water rights	73,018	—	—	—	73,018
Licence	21,516	—	(1,012)	—	20,504
Goodwill	139,712	—	(6,559)	—	133,153
Accumulated amortization					
Computer Software	(3,269)	(750)	1,345	—	(2,674)
Electricity supply and gas purchase contracts	(50,967)	(1,881)	—	—	(52,848)
Water rights	(11,683)	(522)	—	—	(12,205)
	283,919	(3,153)	(7,805)	3,032	275,993
Provisions					
Electricity supply and gas purchase contracts	12,257	—	—	—	12,257
Utilization	(8,997)	(402)	—	—	(9,399)
	3,260	(402)	—	—	2,858

11. RETIREMENT BENEFIT PLANS

Employees of the Corporation's operating businesses participate in various retirement benefit plans as follows.

Defined Contribution Plan

The total expense recorded in the consolidated statement of income for the three months ended March 31, 2013 was $317. The expense is composed of $272 for Bristol Water and $45 for Cardinal.

Defined Benefit Plan

The retirement benefit surplus on the statements of financial position at March 31, 2013 was $52,476 (December 31, 2012 - $37,575).

Employer contributions paid in the three ended March 31, 2013 to the defined benefit plan were $797. The contributions were entirely incurred at Bristol Water.

12. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Mar 31, 2013	Dec 31, 2012
CPC-Cardinal credit facility	11,800	12,050
Erie Shores project debt	96,346	97,703
Amherstburg Solar Park project debt	90,244	90,560
Hydro facilities senior secured and subordinated bonds	96,715	97,479
Power	295,105	297,792
Bank loans	31,538	31,430
Term loans	395,679	413,746
Debentures	1,978	2,072
Irredeemable cumulative preferred shares	25,053	26,289
Utilities – water	454,248	473,537
Convertible debentures	40,728	40,631
Corporate	40,728	40,631
	790,081	811,960
Less: deferred financing costs	(7,004)	(7,328)
Long-term debt	783,077	804,632
Less: current portion	(15,829)	(14,977)
	767,248	789,655

(B) Long-term Debt Covenants

For the three months ended and as at March 31, 2013, the Corporation and its subsidiaries were in compliance with all financial and non-financial debt covenants.

13. SHAREHOLDERS' EQUITY

The share capital of the Corporation was as follows:

As at	Mar 31, 2013	Dec 31, 2012
Common shares	633,520	632,474
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	732,250	731,204

(A) Common Shares

	Three months ended Mar 31, 2013	
($000s and 000s shares)	Shares	Carrying Value
Opening balance	72,445	632,474
Dividend reinvestment plan	252	1,046
Ending balance	72,697	633,520

(B) Dividends Declared

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
Common shares	5,452	11,763
Class B exchangeable units	244	536
	5,696	12,299
Preferred shares (includes $72 of deferred income taxes)	1,010	938

14. EARNINGS PER SHARE ("EPS")

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
		(note 4)
Net income	15,898	16,612
Non-controlling interest	(3,879)	(2,931)
Dividends declared on preferred shares	(1,010)	(938)
Net income available to common shareholders	11,009	12,743
Weighted average number of common shares (including Class B exchangeable units) outstanding	75,860	74,455
Basic EPS	0.145	0.171
Net income available to common shareholders	11,009	12,743
Interest expense on convertible debt (net of tax)	514	514
Net income used to determine diluted EPS	11,523	13,257
Weighted average number of common shares (including Class B exchangeable units) outstanding	75,860	74,455
Assumed conversion of convertible debentures	6,107	6,107
Weighted average number of common shares (including Class B exchangeable units) outstanding for diluted EPS	81,967	80,562
Diluted EPS	0.141	0.165

The convertible debentures are dilutive for the three-month periods ended March 31, 2013 and March 31, 2012.

15. SHARE-BASED COMPENSATION

(A) Deferred Share Units ("DSU")

Capstone granted 6,250 DSUs during the first quarter of 2013. The five-day volume weighted average price ("VWAP") per DSU granted on January 2, 2013 was 4.00 dollars. As at March 31, 2013, the $128 carrying value of the DSUs was based on a market price of 4.25 dollars.

(B) Long-term Incentive Plan

Capstone granted 243,886 Restricted Stock Units ("RSU") and 133,917 Performance Share Units ("PSU") during the first three months of 2013. The five-day VWAP per RSU and PSU granted on January 2, 2013 was 4.00 dollars and 4.25 dollars per RSU granted on March 20, 2013. As at March 31, 2013, the carrying value of the RSUs was $760 and $444 for the PSUs based on a market price of 4.25 dollars.

16. EXPENSES – ANALYSIS BY NATURE

	Three months ended Mar 31, 2013				Three months ended Mar 31, 2012			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	21,506	—	—	21,506	20,690	—	—	20,690
Raw materials, chemicals and supplies	17,185	—	—	17,185	18,304	—	—	18,304
Wages and benefits	7,206	1,281	133	8,620	5,809	1,380	—	7,189
Maintenance	622	—	—	622	774	—	—	774
Manager fees	384	—	—	384	388	—	—	388
Insurance	490	27	—	517	482	38	—	520
Professional fees for legal, audit, tax and other advisory	451	325	(40)	736	516	311	56	883
Leases	341	—	—	341	352	—	—	352
Property taxes	291	—	—	291	313	—	—	313
Other	1,868	530	20	2,418	1,192	387	—	1,579
Total	50,344	2,163	113	52,620	48,820	2,116	56	50,992

17. 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 cash flows from operations.

Infrastructure segments consist of:	Geographical Location
Power The Corporation's investments in gas cogeneration, wind, hydro, biomass power and solar power assets.	Canada
Utilities – water The regulated water services business (Bristol Water), in which the Corporation holds a 50% indirect interest (70% October 5, 2011 – May 10, 2012).	United Kingdom
Utilities – district heating ("DH") The district heating business (Värmevärden), in which the Corporation holds a 33.3% indirect interest.	Sweden

	Three months ended Mar 31, 2013					Three months ended Mar 31, 2012				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	50,204	44,051	—	—	94,255	50,643	41,513	—	—	92,156
Depreciation of capital assets	(6,394)	(5,426)	—	(88)	(11,908)	(6,627)	(4,842)	—	(98)	(11,567)
Amortization of intangible assets	(1,992)	(740)	—	(19)	(2,751)	(2,004)	(446)	—	(6)	(2,456)
Interest income	300	94	699	11	1,104	153	324	1,351	4	1,832
Interest expense	(4,601)	(5,065)	—	(1,348)	(11,014)	(4,552)	(6,151)	—	(4,161)	(14,864)
Income tax recovery (expense)	(3,254)	(2,195)	(1)	23	(5,427)	(2,918)	1,258	—	(488)	(2,148)
Net income (loss)	12,685	7,757	2,055	(6,599)	15,898	13,402	9,770	4,595	(11,155)	16,612
Cash flow from operations	20,950	16,957	—	(7,278)	30,629	23,348	16,363	1,390	(9,880)	31,221
Additions to capital assets	461	36,563	—	2	37,026	470	42,425	—	27	42,922

	As at Mar 31, 2013					As at Dec 31, 2012				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	635,707	930,305	54,321	19,932	1,640,265	634,403	946,510	51,923	19,703	1,652,539
Total liabilities	307,110	662,261	45	151,683	1,121,099	309,004	682,740	2,245	148,092	1,142,081

18. NON-CASH WORKING CAPITAL

The change in non-cash working capital was comprised of the following:

	Three months ended	
	Mar 31, 2013	Mar 31, 2012
Accounts receivable	(727)	14,513
Other assets	(2)	(830)
Accounts payable and other liabilities	(3,964)	(15,119)
	(4,693)	(1,436)

19. 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, 2012. No material developments arose during the three months ended March 31, 2013.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

PORTFOLIO

POWER

Business	Year Built	Ownership Interest	Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Cardinal	1994	100%	156	OEFC	2014	Husky	2015	18
Erie Shores(1)	2006	100%	99	OPA	2026	n/a	n/a	10
Whitecourt	1994	100%	25	TransAlta	2014	Millar Western	2016	34
Amherstburg	2011	100%	20	OPA	2031	n/a	n/a	n/a
Sechelt	1997	100%	16	BC Hydro	2017	n/a	n/a	n/a
Wawatay	1992	100%	14	OEFC	2042	n/a	n/a	n/a
Hluey Lakes	2000	100%	3	BC Hydro	2020	n/a	n/a	n/a
Dryden(2)	Various	100%	3	OEFC	2020	n/a	n/a	n/a
Chapais(3)	1995	31.3%	28	Hydro-Québec	2015	Barrette/Chantiers/ Société en commandite Scierie Opitciwan	2015	n/a

UTILITIES

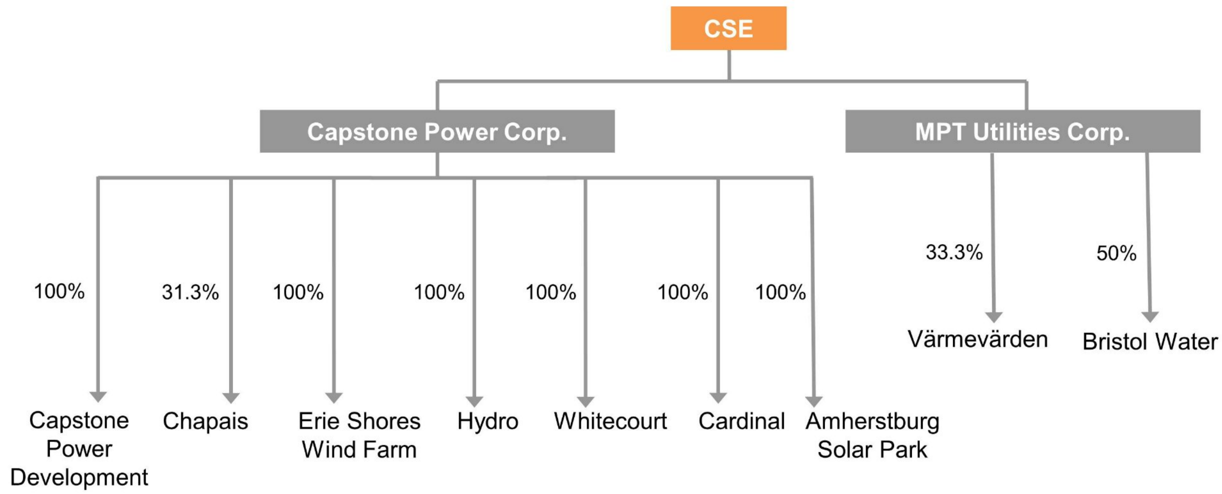
Business	Ownership Interest	Capacity	Counterparties	Length of Network	Approximate Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 639 MWth	Mix of industrial and retail customers, with industrial counterparties representing approximately 25% of revenue	317 kilometres	163,000	No	92
Bristol Water	50%	Average daily supply of 258 million litres	Domestic or residential customers represent 77% of revenue with non-domestic customers representing the balance	6,665 kilometres	1.2 million	UK Water Services Regulation Authority	536

(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.

ORGANIZATIONAL STRUCTURE



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