CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended March 31, 2012

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Earnings Measures ($000s)	Three months ended Mar 31, 2012	Three months ended Mar 31, 2011
Revenue	92,156	46,915
Net income	16,184	41,332
Basic earnings per share	0.167	0.685

Cash Flow Measures ($000s)	Three months ended Mar 31, 2012	Three months ended Mar 31, 2011
Cash flows from operating activities	31,221	14,117
Adjusted EBITDA [(1)]	37,295	17,869
Adjusted funds from operations (“AFFO”) [(1)]	14,915	13,484
Payout ratio (before internalization costs)	82.5%	70.9%

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

Capital Structure – At Fair Value ($000s)	Mar 31, 2012	Dec 31, 2011
Long-term debt – power	312,637	314,196
Long-term debt – utilities – water [(1)]	358,422	353,135
Long-term debt – corporate	110,250	155,124
Common shares	296,584	270,348
Class B exchangeable units	13,485	12,380
Preferred shares	52,800	52,500

(1) Calculated as 70% proportionate share based on ownership interest.

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	71,465,955
Preferred shares outstanding	3,000,000
Convertible debentures outstanding	42,749
Class B exchangeable units	3,249,390
Securities symbols and exchange	Toronto Stock Exchange: CSE, CSE.PR.A, CSE.DB.A

QUARTERLY TRADING INFORMATION

	High	Low	Closing	Average Daily Trading Volume
Common shares	$4.35	$3.82	$4.15	410,675
Preferred shares	$18.84	$17.00	$17.60	4,385
Convertible debentures	$104.49	$99.50	$101.50	933

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LEGAL NOTICE

This interim financial report 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 the Corporation, an investor or prospective investor 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 and financial outlook 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 concerning the outlook for the Corporation's power infrastructure facilities and the outlook for Värmevärden and Bristol Water (as defined below). 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, 2011 under the heading "Results of Operations", as updated in subsequently filed interim MD&A of the Corporation (such documents are available under the Corporation's profile on www.sedar.com).

Other 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; a full year of contribution from the Amherstburg Solar Park, Swedish district heating business ("Värmevärden") and UK water utility ("Bristol Water") adjusted for the reduced ownership interest as of May 10, 2012 and the project financing of the Corporation's hydro power facilities (that potentially include amortization profiles); a TransCanada Pipelines ("TCPL") gas transportation toll of approximately $2.24 per gigajoule in 2012; the level of gas mitigation revenue earned by the Cardinal facility; that there will be no unplanned material changes to the Corporation's facilities, equipment or contractual arrangements, no unforeseen changes in the legislative, regulatory and operating framework for the Corporation's businesses, no delays in obtaining required approvals, no unforeseen changes in rate orders or rate structures for the Corporation's power infrastructure facilities, Värmevärden or Bristol Water, no unfavourable changes in environmental regulation and no significant event occurring outside the ordinary course of business; the refinancing of the Corporation's Capstone Power Corporation-Cardinal Power credit facility; that there will be no further amendments by the Ontario government to the regulations governing the mechanism for calculating the Global Adjustment (which affects the calculation of the price escalators under each power purchase agreement (a "PPA") for the Cardinal facility and the hydro power facilities located in Ontario); the accounting treatment for Bristol Water's business under International Financial Reporting Standards, particularly with respect to accounting for maintenance capital expenditures; the amount and timing of capital expenditures by Bristol Water; the Swedish Krona to Canadian dollar exchange rate; the UK pound sterling to Canadian dollar exchange rate; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying its current asset management plan, 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 and financial outlook for various reasons, including risks related to: variability and payments of dividends on the Corporation's common shares, which are not guaranteed; volatile market price for the Corporation's securities; availability of debt and equity financing; default under credit agreements; credit risk, prior ranking indebtedness and absence of covenant protection for holders of the Corporation's convertible debentures; dependence on subsidiaries and investees; acquisitions; geographic concentration and non-diversification; foreign exchange risk; reliance on key personnel; insurance; shareholder dilution; derivatives risks; changes in legislation and administrative policy; competition; private companies and illiquid securities; operational performance; PPAs; fuel costs and supply; contract performance; Amherstburg Solar Park technology risk; land tenure and related rights; environmental, health and safety regime; regulatory regime and permits; force majeure; influence of the UK water regulator ("Ofwat") price determinations; failure of Bristol Water to deliver capital investment programs; failure of Bristol Water to deliver water leakage target; Ofwat's introduction of the Service Incentive Mechanism and the serviceability assessment; economic environment, inflation and capital market conditions; pension plan obligations; operational risks; competition; default under Bristol Water's artesian loans, bonds, debentures and credit facility; seasonality and climate change; labour relations; special administration; general risks inherent in the district heating sector; industrial and residential contracts; default under Värmevärden Bonds; and minority interest. Further information regarding these risk factors is contained in the Corporation's Annual Information Form (which is available under the Corporation's profile on www.sedar.com).

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 or financial outlook.

MESSAGE TO SHAREHOLDERS

I am pleased to report on Capstone Infrastructure Corporation's first quarter results and recent activities.

Operationally, our portfolio performed strongly in the first quarter of the year, reflecting contributions from our newest investments --- Bristol Water, Värmevärden and Amherstburg Solar Park --- as well as increased power production at Erie Shores Wind Farm and Whitecourt and the sale of renewable energy credits ("RECs") at Whitecourt. Together, these drivers resulted in a 96.4% increase in revenue and contributed to a 101.6% increase in Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") over the first three months of 2011 (excluding internalization costs). AFFO increased by 5.6% over the same period last year excluding internalization costs despite increased gas transportation tolls at Cardinal. Our operational and financial performance, which is described in detail on pages seven to 18 of this report, demonstrates the high quality and stability of our power infrastructure and utilities businesses.

During the quarter and in the weeks subsequent to March 31, 2012, we made significant progress in delivering on our strategic priorities, which included executing our financing plan and advancing negotiations on Cardinal.

First, we have significantly reduced the debt maturing in 2012, including repaying in full the $78 million that was outstanding on the senior credit facility and approximately $39 million of the $119 million outstanding on the CPC-Cardinal credit facility due on June 29, 2012. Our refinancing initiatives, which are discussed on page six of this report, included a bond financing and subsequent repatriation of approximately $49.5 million from Värmevärden and the sale of 20% of the Corporation's interest in Bristol Water to ITOCHU Corporation for net proceeds of approximately $68 million and a strong return on our investment that convincingly validates the value of our initial investment in the business. In addition to welcoming ITOCHU to Bristol Water, we have also concluded a memorandum of understanding to explore joint investment opportunities, including contracted power generation, utilities and public-private partnerships (P3s) in countries that are members of the Organization for Economic Development and Cooperation (OECD), including North America, Western Europe and Scandinavia, and Australia and New Zealand.

With the conclusion of these initiatives, we have reduced our near-term refinancing risk and gained a new international partner in ITOCHU. We also retain a 50% controlling interest in Bristol Water, which is a stable, regulated business with an attractive growth profile. We expect to address the remaining approximately $80 million in debt maturing in 2012 through a recapitalization of our hydro power facilities and the establishment of a new corporate credit facility with our existing lenders. Both of these initiatives are at a significantly advanced stage and are expected to be completed in May. In the interim, we have secured an extension on the CPC-Cardinal credit facility, which will now mature on September 28, 2012.

Second, during the quarter we continued to meet with the Ontario Power Authority with the aim of securing a fair contract for Cardinal following the expiry of its power purchase agreement at the end of 2014, holding six meetings since December 2011 compared with just one meeting between August and December 2011. While negotiations have not yet concluded, and our dialogue remains subject to a confidentiality agreement, we now have better insight into the pricing parameters for a new contract and are continuing to work for the best possible outcome.

Our management team is currently focused on the following priorities:

- First, we expect to complete our refinancing initiatives by the end of May, which will give us new balance sheet flexibility to support our growth strategy.

- Second, we will continue to strive for a new contract at Cardinal that reflects the facility's considerable electricity, economic, industrial and community value. Negotiations with the OPA remain complex but we are hopeful we can find the optimal balance between value for our industrial host, Ontario ratepayers and our shareholders.

- Third, with improved clarity on the range of outcomes at Cardinal and the completion of our refinancing initiatives, we will be in a position to determine our new dividend policy. We intend to base our dividend decision on our post-2014 cash flow expectations, with the goal of establishing a dividend that will be sustainable over the long term with the potential for growth as we continue to build the scale, scope and value of our portfolio. We continue to hold the philosophy that a majority of the total return we deliver to our shareholders will be in the form of income, reflecting the stable, long-term cash flow of our infrastructure businesses.

In addition to these priorities, we are continuing to strive for operational excellence across our businesses to find improvements and opportunities with the potential to incrementally increase cash flow. A particular emphasis in 2012 to date has been on the sale of RECs at Whitecourt, which is expected to deliver more than $450,000 in revenue in 2012. We expect to explore similar value-enhancing opportunities across our other renewable power facilities. We also expect to shift our focus in the second half of 2012 back to growth, including expanding our power infrastructure and utilities platforms and exploring new categories of infrastructure that meet our investment criteria and return requirements.

While Capstone has experienced some challenges over the past few months, it bears noting that the businesses in our portfolio have continued to perform in line with or slightly ahead of expectations and that we anticipate continuing stable operational performance from our portfolio over the balance of 2012. We expect Adjusted EBITDA in 2012 to be approximately $110 to $120 million, which is based on our current portfolio and assumptions and reflects our reduced interest in Bristol Water[1].

Capstone has three enduring strengths that equip us to deliver on our priorities and build our company into Canada's pre-eminent diversified infrastructure company. These strengths include an active management philosophy, with an emphasis on continuous improvement and stable performance, and a disciplined approach to growing our portfolio with a focus on enhancing returns. Moreover, the Capstone team has decades of experience in financing and managing infrastructure businesses along with relationships that span the infrastructure sector in Canada and globally, which positions us to capitalize on infrastructure opportunities here at home and in OECD countries.

In closing, as an asset class, infrastructure businesses have historically exhibited low volatility relative to the broader equity market, which is due to the consistent demand, high barriers to entry, inflation-linked cash flow, regulatory or contractual framework, and long life that infrastructure assets enjoy. We intend to harness these compelling attributes as we build a portfolio of high quality infrastructure businesses capable of providing our shareholders with a superior total return.

We look forward to seeing you at our upcoming annual general meeting of shareholders on June 5, 2012 in Toronto at the TMX Broadcast Centre Gallery starting at 10 a.m. where we will provide an update on our performance and strategy to create value for shareholders.

Thank you for your continuing support.

Sincerely,

Michael Bernstein
President and Chief Executive Officer

[1] Please refer to the "Caution Regarding Forward-Looking Statements" on page 2 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes the Corporation's consolidated operating results and cash flows for the three months ended March 31, 2012 compared with the corresponding three months ended March 31, 2011 and the Corporation's financial position as at March 31, 2012 and December 31, 2011. 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, 2012 and the financial statements and MD&A for the year ended December 31, 2011. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 21, 2012 and most recent Annual Report for the year ended December 31, 2011. 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 14, 2012, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

The 2012 and 2011 financial information contained herein is prepared in accordance with International Financial Reporting Standards ("IFRS"). All 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 as follow:

As at and for the three months ended	Swedish Kronor (SEK)		Pound Sterling (£)	
($000s)	Average	Spot	Average	Spot
March 31, 2012	0.1483	0.1509	1.5732	1.5970

CHANGES IN THE BUSINESS

Värmevärden Recapitalization

Capstone holds a one-third interest in a Swedish district heating ("DH") business, operating under the name Värmevärden. In March 2012, Värmevärden's parent company, Sefyr Värme AB, issued approximately $150,000 (1,000,000 SEK) of senior secured bonds to institutional investors. The bonds have a five-year term, are non-amortizing and carry a coupon of 7.0%.

As at March 31, 2012, Capstone had received $49,400 from the bond proceeds as a reduction in the loans receivable due from Sefyr Värme. Following receipt, Capstone's total investment in Sefyr Värme AB was reduced to $52,028, comprising $34,336 in loans receivable and $17,692 in equity.

The bond proceeds were used to repay a portion of the senior credit facility with $45,500 being repaid in March 2012 and $3,900 being repaid on April 3, 2012.

SUBSEQUENT EVENTS

Disposition of Partial 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$^{\text{ths}}$ ownership in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone used the $68,982 net sale proceeds to repay the $28,969 remaining amount outstanding on the senior debt facility and $39,000 on the CPC-Cardinal facility.

Following this sale, Capstone retained a 50% beneficial interest in Bristol Water and will continue to consolidate based on retention of control. In accordance with IFRS, Capstone will record the transaction as a transfer of equity to non-controlling interest holders. The excess proceeds over the value of the transfer of equity to the non-controlling interest will be recorded directly to retained earnings. Capstone will continue to consolidate Bristol Water for financial reporting purposes, but as a result of this transaction we have adjusted our AFFO definition as it relates to Bristol Water.

CPC-CARDINAL CREDIT FACILITY

As at May 14, 2012, Capstone is in the process of finalizing arrangements for the issuance of new debt at MPT Hydros LP, the net proceeds of which are expected to be approximately $70,000 following the repayment of the Wawatay facility's levelization liability. The recapitalization is expected to be completed by the end of May 2012, following receipt of the final consents.

Management expects the remaining approximately $10,000 in debt outstanding to be refinanced through a new corporate facility, or cash on hand.

To accommodate these events, the lenders of the CPC-Cardinal facility have extended the maturity from June 29, 2012 to September 28, 2012.

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 important 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 (loss), including that net income (loss) related to the non-controlling interest and 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 plus interest income and dividends or distributions received from equity accounted investments. Amounts attributed to any non-controlling interest are deducted. Adjusted EBITDA is reconciled to EBITDA by removing equity accounted income, other gains and losses (net), foreign exchange gains and losses, and adding in dividends or distributions from equity accounted investments.

Adjusted Funds from Operations (“AFFO”)

During the first quarter, Capstone modified its definition of AFFO in anticipation of the sale of a portion of Bristol Water business and to reflect the substantial amount of cash retained by the Bristol Water business for reinvestment in replacement and growth capital expenditure. The revised definition alters the measure of AFFO for Bristol Water to be the dividends received on the basis that this is more reflective of the cash flow available to Capstone from the operating activities of Bristol Water. The Corporation uses AFFO as a measure of the cash generating ability of operating activities.

The Corporation defines AFFO as Adjusted EBITDA:

Less: - Adjusted EBITDA generated from businesses with significant non-controlling interests
Plus: - Dividends received from businesses with significant non-controlling interests
- Scheduled repayments of principal on loans receivable from equity accounted investments
Less the following 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 and scheduled repayments of principal on debt, net of changes to the levelization liability.

Payout Ratio

Payout ratio measures the proportion of cash generated from operations that is paid as dividends. The payout ratio is calculated as dividends declared divided by AFFO. AFFO may not reflect actual cash movements in the form of dividends from Capstone’s infrastructure businesses in particular a portion of Bristol Water’s AFFO is reinvested in the business.

Reconciliation of Non-GAAP Performance measures

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

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
EBITDA	47,068	17,341
Foreign exchange (gain) loss	(1,104)	6
Other gains and losses (net)	(1,403)	(1,879)
Equity accounted (income) loss	(1,445)	2,401
Non-controlling interest portion of Adjusted EBITDA	(5,821)	-
Adjusted EBITDA	37,295	17,869
Cash flow from operating activities	31,221	14,117
Interest expense in excess of interest paid	4,763	600
Other working capital changes	1,436	(181)
Principal from loans receivable	236	212
Income taxes (paid) recovery	(288)	-
Foreign exchange	(390)	6
Maintenance capital expenditures	(470)	(801)
Dividends on redeemable preferred shares	(938)	-
Scheduled repayment of debt principal	(1,282)	(469)
Non-controlling interest portion of Adjusted EBITDA	(5,821)	-
Adjusted EBITDA of consolidated businesses with non-controlling interests	(13,552)	-
AFFO	14,915	13,484

RESULTS OF OPERATIONS

Overview

During the first three months of 2012, Capstone's Adjusted EBITDA increased by $19,426, or 109%, while AFFO increased by $1,431, or 10.6%. Excluding costs incurred in 2011 to internalize management, Adjusted EBITDA increased by $18,791, or 101.6%, while AFFO increased by $796, or 5.6%, over the same period in 2011.

The increase in Adjusted EBITDA was primarily attributable to a contribution of $13,552 from Bristol Water, which was acquired on October 5, 2011. In addition, Värmevärden, which was acquired on March 31, 2011, contributed $1,351 while Amherstburg, which commenced operations on June 30, 2011, contributed $2,556.

The increase in AFFO was primarily due to $1,351 of interest income received from Värmevärden. In addition, Erie Shores increased AFFO by $788 as a result of better wind conditions relative to the first quarter of 2011. Cardinal partially offset the increase with a $1,382 decline in AFFO, which reflected the impact of a larger Direct Customer Rate ("DCR") adjustment recognized in 2011 as well as $971 of higher gas prices and gas transportation tolls in the first quarter of 2012 compared with 2011.

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Revenue	92,156	46,915
Expenses	(50,872)	(29,479)
Interest income	1,832	433
Distributions from equity accounted investments	-	-
Less: non-controlling interest	(5,821)	-
Adjusted EBITDA	37,295	17,869
Adjusted EBITDA of consolidated businesses with non-controlling interests	(13,552)	-
Dividends from businesses with non-controlling interests	-	-
Principal from loans receivable	236	212
Interest paid	(6,038)	(3,327)
Dividends paid on Capstone's preferred shares	(938)	-
Income taxes (paid) recovery	(336)	-
Maintenance capital expenditures	(470)	(801)
Scheduled repayment of debt principal	(1,282)	(469)
AFFO	14,915	13,484
Internalization costs	-	635
AFFO before internalization costs	14,915	14,119
Before internalization costs		
AFFO per share	0.200	0.234
Payout ratio	82.5%	70.9%
Dividends declared per share	0.165	0.165

Consolidated revenue increased by $45,241, or 96.4%, primarily due to Bristol Water, which contributed $41,513. Power segment revenue increased by $3,728, with Amherstburg contributing $2,885 of the total increase.

Expenses increased by $21,393, or 72.6%, including internalization costs incurred in 2011. Excluding these costs, expenses in the first quarter of 2012 increased by $22,028, or 76.4%, over the same period last year. Expenses at Capstone's operating businesses increased by $23,950, or 96.8%, while corporate administrative expenses decreased $2,557, or 54.1%. Increased operating expenses were attributable to $22,464 of Bristol Water costs and a $1,486, or 6.0%, increase at the power assets. The decrease in corporate administrative expenses was primarily attributable to lower business development costs and the end of manager fees and internalization expenditures following the termination of the management contract with Macquarie Group Limited ("MGL") in April 2011. The

$2,435 decrease in manager fees and internalization expenditures was partially offset by $1,380 in corporate salaries and benefits.

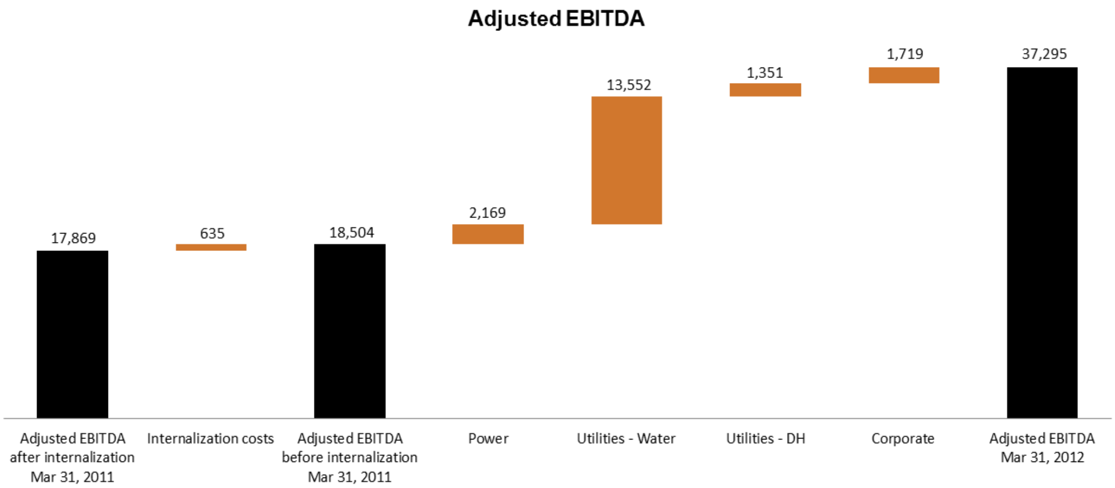
Interest income increased by $1,399, or 323%, primarily due to $1,351 of interest on the loans to Värmevärden.

Interest paid increased by $2,711, or 81.4%, and was due to additional interest within the power segment and at Corporate. The $1,416 increase for the power segment was primarily from interest on Amherstburg debt, which was paid by SunPower Energy Systems Canada Corporation prior to the start of commercial operations on June 30, 2011. Corporate interest contributed an additional $1,295 to the increase, primarily due to debt raised to finance the acquisition of Bristol Water.

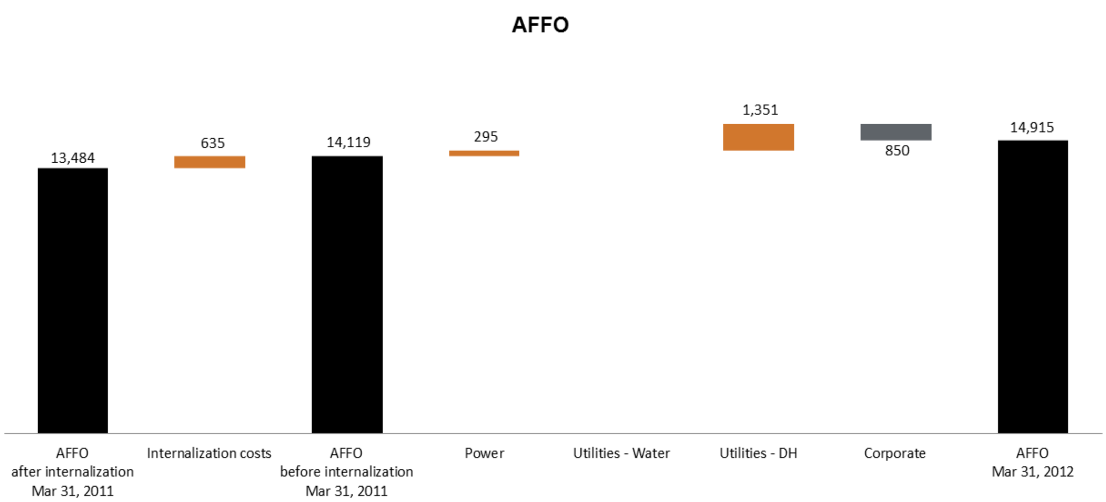
Interest paid during the first quarter was $8,818 lower than interest expense primarily due to the exclusion of Bristol Water's interest expense of $6,143 as interest paid at Bristol Water is not included in the definition of AFFO. The remaining $2,675 is made up of $1,437 of amortization and other accretion and $1,238 in changes in accrued interest.

Maintenance capital expenditures decreased by $331, or 41.3%, due to lower maintenance activities in the power segment.

The following chart shows the change in Adjusted EBITDA from the quarter ended March 31, 2011 to 2012 for each of Capstone's business segments:



The following chart shows the change in AFFO from the quarter ended March 31, 2011 to 2012 for each of Capstone's business segments:



Results by Segment

Capstone's results are segmented into power facilities across Canada, a water utility in Europe, a district heating utility in Europe, and remaining corporate activities.

The power segment includes gas cogeneration, hydro, wind, biomass and solar power. In 2011, Capstone made investments in the utilities segment through the acquisition of a 70% 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 full 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 returns interest income and dividends.

Three months ended Mar 31, 2012		**Utilities**			
($000s)	**Power**	**Water**	**DH**	**Corporate**	**Total**
Revenue	50,643	41,513	-		92,156
Expenses	(26,236)	(22,464)	-	(2,172)	(50,872)
Interest income	153	324	1,351	4	1,832
Dividends from equity accounted investments	-	-	-	-	-
Less: non-controlling interest	-	(5,821)	-	-	(5,821)
Adjusted EBITDA	24,560	13,552	1,351	(2,168)	37,295
Adjusted EBITDA of consolidated businesses with non-controlling interests	-	(13,552)	-	-	(13,552)
Dividends from businesses with non-controlling interests	-	-	-	-	-
Principal from loans receivable	236	-	-	-	236
Interest paid	(4,252)	-	-	(1,786)	(6,038)
Dividends paid on preferred shares	-	-	-	(938)	(938)
Income taxes (paid) recovery	-	-	-	(336)	(336)
Maintenance capital expenditures	(470)	-	-	-	(470)
Scheduled repayment of debt principal	(1,282)	-	-	-	(1,282)
AFFO	18,792	-	1,351	(5,228)	14,915

Three months ended Mar 31, 2011		**Utilities**			
($000s)	**Power**	**Water**	**DH**	**Corporate**	**Total**
Revenue	46,915	-	-	-	46,915
Expenses	(24,750)	-	-	(4,729)	(29,479)
Interest income	226	-	-	207	433
Dividends from equity accounted investments	-	-	-	-	-
Less: non-controlling interest	-	-	-	-	-
Adjusted EBITDA	22,391	-	-	(4,522)	17,869
Principal from loans receivable	212	-	-	-	212
Interest paid	(2,836)	-	-	(491)	(3,327)
Maintenance capital expenditures	(801)	-	-	-	(801)
Scheduled repayment of debt principal	(469)	-	-	-	(469)
AFFO	18,497	-	-	(5,013)	13,484
Internalization costs	-	-	-	635	635
AFFO before internalization costs	18,497	-	-	(4,378)	14,119

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, 2012 ($000s)	Gas	Wind	Biomass[1]	Hydro	Solar	Total
Power generated (GWh)	341.9	84.0	53.1	31.6	6.8	517.4
Capacity factor	99.9%	38.8%	99.4%	40.6%	15.5%	n.m.f
Availability	99.9%	98.8%	99.6%	99.9%	91.7%	n.m.f
Revenue	32,412	8,226	4,154	2,966	2,885	50,643
Operating 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)	(1,563)	(2)	(733)	(1,751)	(4,252)
Income taxes (paid) recovery	-	-	-	-	-	-
Maintenance capital expenditures	(240)	-	(167)	(62)	-	(470)
Scheduled repayment of debt principal	-	(1,279)	(31)	295	(268)	(1,282)
AFFO	9,791	4,432	2,311	1,721	537	18,792

Three months ended Mar 31, 2011 ($000s)	Gas	Wind	Biomass[1]	Hydro	Solar	Total
Power generated (GWh)	341.0	70.6	51.2	35.6	-	498.4
Capacity factor	98.0%	33.4%	99.5%	46.1%	-	n.m.f
Availability	99.9%	98.5%	100.0%	98.9%	-	n.m.f
Revenue	33,077	6,885	3,651	3,302	-	46,915
Operating expenses	(21,222)	(800)	(1,923)	(805)	-	(24,750)
Interest income	72	-	151	-	3	226
Adjusted EBITDA	11,927	6,085	1,879	2,497	3	22,391
Principal from loans receivable	-	-	212	-	-	212
Interest paid	(261)	(1,623)	(5)	(947)	-	(2,836)
Income taxes (paid) recovery	-	-	-	-	-	-
Maintenance capital expenditures	(493)	(10)	(191)	(107)	-	(801)
Scheduled repayment of debt principal	-	(808)	-	339	-	(469)
AFFO	11,173	3,644	1,895	1,782	3	18,497

[1] Includes interest and loan receivable receipts from Capstone's 33% equity interest in the Chapais facility. Statistics for power generated, capacity factors and availability do not include the Chapais facility.

Revenue

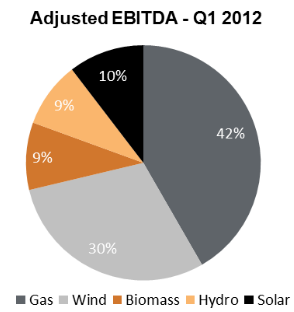
Revenue increased by $3,728, or 7.9%, while total power production increased by 19 gigawatt hours ("GWh"), or 3.8%. Higher revenue was mainly due to $2,885 at Amherstburg, which commenced operations on June 30, 2011, and $1,341 of higher revenue at Erie Shores, which achieved a 19.0% increase in power production due to better wind conditions. Both facilities also benefit from higher contractual power rates, which amplified the increase in production. In addition, Whitecourt contributed $503 to the increase in revenue.

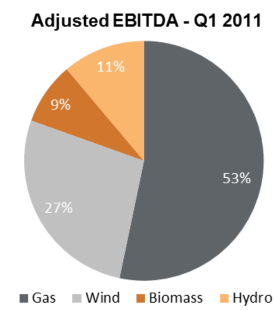
These revenue drivers were partially offset by a $665 decline in revenue at Cardinal, which reflected the impact of the DCR adjustment during the first quarter of 2011.

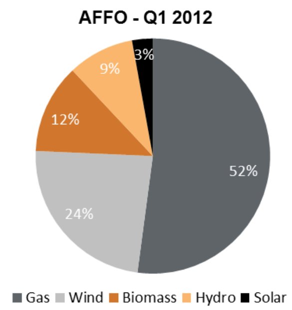
Operating Expenses

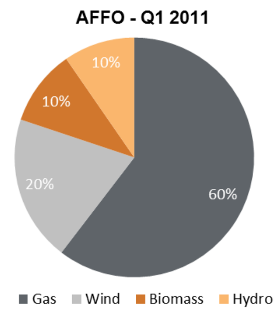
Operating expenses increased by $1,486, or 6.0%, with Cardinal contributing $971 of the increase. During 2012, Cardinal incurred both higher gas prices and a higher TransCanada Pipelines Limited ("TCPL") gas transportation toll. The TCPL toll increased to $2.24 dollars per gigajoule ("GJ") effective March 1, 2011 compared to the prior rate of $1.64.

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









Interest Paid

Interest paid increased by $1,416, or 50.0%, primarily due to Amherstburg which incurred $1,751 of interest in 2012.

Scheduled Repayment of Debt Principal

Debt principal repayments increased by $813, or 173%, primarily due to $471 of increased principal repayments at Erie Shores as Tranche C of the project debt was refinanced on April 1, 2011 and is now fully amortizing.

Seasonality

Results for Capstone's power segment fluctuate during the year due to seasonal factors that affect quarterly production of the individual facilities. The factors contributing to the fluctuation include scheduled major maintenance, seasonal electricity demands and environmental factors such as water flows, sunlight, wind speeds, temperature and humidity which affect the volume of electricity. 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	341.9	342.9	282.0	304.0	332.6	1,261.5
Wind	Erie Shores	2026	84.0	76.3	53.5	34.2	78.1	242.1
Biomass	Whitecourt	2014	53.1	50.3	45.0	50.3	49.5	195.1
Hydro	Various [(2)]	2017 - 2042	31.6	32.2	56.1	29.7	41.2	159.2
Solar	Amherstburg	2031	6.8	6.8	-	11.5	6.1	24.4
Total			517.4	508.5	436.6	429.7	507.5	1,882.3

(1) Average long-term production is from March 2005 to March 31, 2012, except for Erie Shores, which is from June 2006, and Amherstburg, which is from July 2011.
(2) The hydro power facilities include Sechelt, Hluey Lakes, Wawatay and Dryden.

Outlook

In 2012, Capstone's power infrastructure businesses are expected to perform in line with long-term average production, subject to variations in wind, water flows and sunlight. Overall steady production from the facilities, including a full year contribution from Amherstburg, is expected to be partially offset by lower revenue and higher costs at Cardinal in 2012 due to:

- Lower gas mitigation revenues, primarily reflecting a lower spot gas price.
- The implementation of Government of Ontario amendments to the allocation of the Global Adjustment Mechanism ("GAM"). The GAM previously represented a significant portion of the DCR, which is the revenue escalator contained in Cardinal's PPA. The amended GAM will result in lower growth in revenue at Cardinal in 2012.
- An interim gas transportation rate of $2.24 per GJ, which is currently expected to remain in effect for the duration of 2012.

Total maintenance capital expenditures across the power businesses are expected to be higher than in 2011.

Management is continuing to seek incremental growth opportunities to enhance the contribution of its power businesses, including the sale of renewable energy credits ("RECs").

As a result of these factors, Capstone expects the power segment's Adjusted EBITDA to be slightly higher than in 2011.

Infrastructure - Utilities

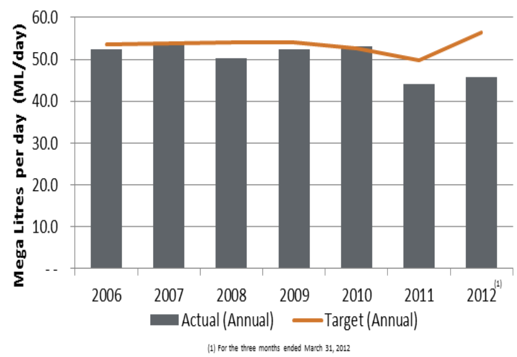
Water

Capstone's water utilities segment represents a 70% investment in Bristol Water, which was acquired on October 5, 2011 and is located in the United Kingdom. As the business was acquired in October 2011, no results were reported in Capstone's comparative figures.

Three months ended ($000s)	Mar 31, 2012
Water supplied (megalitres)	19,763
Revenue	41,513
Operating expenses	(22,464)
Interest income	324
Less: Non-controlling interest	(5,821)
Adjusted EBITDA	13,552
Adjusted EBITDA of consolidated businesses with non-controlling interests	(13,552)
Dividends from businesses with non-controlling interests[1]	-
AFFO	-

(1) Bristol Water pays semi-annual dividends in Q2 and Q4 each year, as a result no dividends were paid to Capstone in this reporting period.

Water Leakage Versus Target



Revenue

Bristol Water is a regulated business subject to supervision by the Water Services Regulation Authority ("Ofwat"). Bristol Water completed the second year of its five-year Ofwat approved asset management plan ("AMP5") as at March 31, 2012. Revenue in the first three months of 2012 was over 96.4% derived from water sales.

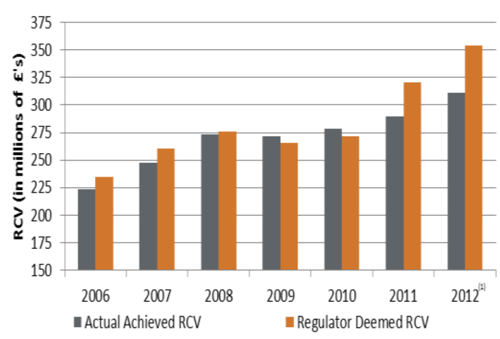
Operating expenses

Operating expenses primarily comprised raw materials, consumables, bad debts and other charges less recoveries totaling $18,823. Labour costs to maintain the network and deliver water services to retail and commercial customers comprised an additional $3,641.

Non-controlling interest

The non-controlling interest, which is held by Agbar, represents 30% of Bristol Water's Adjusted EBITDA.

Growth in Regulated Capital Value



Capital expenditures

The total capital expenditure planned for AMP5 is approximately $417,000, or £261,000. As at March 31, 2012, the cumulative capital expenditure incurred for AMP5 was $123,000, which was $59,000 less than planned. The shortfall was primarily the result of delays at the start of AMP5 as commencement of expenditures was dependent on a competition commission ruling. Bristol Water expects its expenditures over the remainder of AMP5 to achieve the cumulative approved capital expenditure.

During the first three months of 2012, actual capital expenditures were $27,239.

Seasonality

Bristol Water experiences little seasonal variation in demand resulting in stable revenues throughout the year. Operating expenses vary during the year depending on the availability of water from Bristol Water's various sources, 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. Additionally, the level of capital expenditure activity fluctuates with weather, which impacts the infrastructure renewals expenditure.

Outlook

In 2012, Bristol Water will contribute a full year of results to Capstone. Following the sale of 20% of Capstone's interest in Bristol Water, the business is expected to deliver over $7,500 in dividends to Capstone in 2012, reflecting Bristol Water's continuing stable performance. For 2012/2013, Bristol Water will benefit from an increase of approximately 9.1% (3.9% real increase and a 5.2% inflationary increase) in its regulated water tariffs, positively impacting revenue.

In 2012, Bristol Water expects to complete capital expenditures of approximately $120,000 to $130,000 (or £75,000 to £80,000). 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.

Management is also focused on achieving key regulatory output targets, including leakage of less than 51 million litres of water per day ("Ml/d") in 2012/2013, and is striving for a top quartile ranking in Ofwat's Service Incentive Mechanism ("SIM") customer service measure. Strong performance on the SIM, which is measured through customer satisfaction surveys and quantitative data related to complaints, can result in an increased revenue allowance for Bristol Water in the next regulatory period.

With a full year of results in 2012, Capstone expects the water segment to contribute increased Adjusted EBITDA over 2011.

Infrastructure - Utilities

District Heating

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

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Heat production (GWh)	392	n.a.
Equity accounted income (loss)	1,445	(2,414)
Interest income	1,351	-
Dividends	-	-
Adjusted EBITDA	1,351	-
Principal from loans receivable	-	-
AFFO	1,351	-

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. The shareholder loan receivable decreased by $48,100 during the first quarter from the proceeds of the Sefyr Värme bond issuance. For further details, refer to the changes in the business section on page 6 of this MD&A.

Equity accounted income

During the first three months of 2012, Värmevärden contributed $1,445 in equity accounted income to Capstone's net income. The loss in 2011 reflects $2,414 of transaction costs from acquisition.

Seasonality

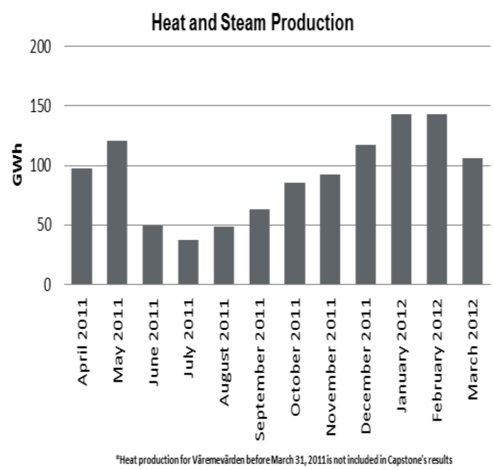
Heat production is typically highest during the first quarter of the year, which typically represents the coldest months. The first and fourth quarters combined have historically accounted for approximately 65% of Värmevärden's annual revenue.

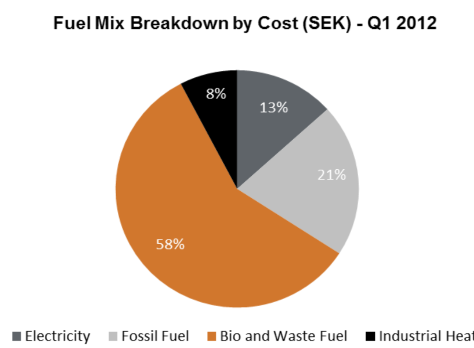
Outlook

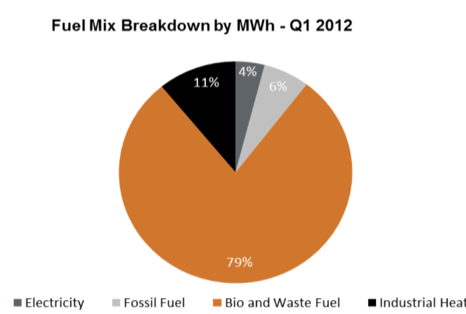
In 2012, Värmevärden will seek to enhance its operational efficiency, including exploring options to improve the cost effectiveness of its fuel mix. Another area of focus for the company will be the continuing development of residential and industrial pricing strategies and enhancing relationships with customers.

Värmevärden's performance in 2012 is expected to continue to support 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 as a result of the lower receivable balance outstanding for 2012 from the capitalization of Värmevärden.

As a result, Capstone expects lower Adjusted EBITDA from the district heating segment compared with 2011.







Corporate

Corporate activities primarily comprise business development activities, capital structure expenses not specifically attributed to the businesses, and costs to manage, oversee and report on Capstone's investments.

Three months ended ($000s)	Mar 31,2012	Mar 31, 2011
Administrative expenses	(2,172)	(4,729)
Interest income	4	207
Adjusted EBITDA	(2,168)	(4,522)
Interest paid	(1,786)	(491)
Dividends paid on Capstone's preferred shares	(938)	-
Income taxes (paid) recovery	(336)	-
Scheduled repayment of debt principal	-	-
AFFO	(5,228)	(5,013)
Internalization costs	-	635
AFFO before internalization costs	(5,228)	(4,378)

Administrative expenses

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Internalization expenses	-	635
Manager fees	-	1,800
	-	2,435
Salaries and benefits	1,380	-
Business development	56	1,309
Other administrative expenses	736	985
	2,172	4,729

Salaries and benefits reflect amounts paid to corporate employees beginning April 15, 2011 following the internalization of management. Internalization expenses represented amounts paid for professional fees and other administrative costs for the termination of the management contracts with MGL. Accordingly, Capstone does not have any internalization expenses or manager fees in 2012.

Business development expenses were $1,253, or 95.7%, lower in the first three months of 2012. Other administrative expenses were $249, or 25.3%, lower in 2012, reflecting costs incurred in 2011 for the corporate conversion and reorganization. Other administrative expenses include audit fees, investor relations costs, office administration costs and professional fees other than for business development.

Interest income

Interest income of $4 was earned on surplus cash balances in the first three months of 2012. The decline from 2011 primarily reflects lower average balances in 2012.

Dividends paid on Capstone's preferred shares and taxes paid

On June 30, 2011, Capstone issued preferred shares that pay dividends quarterly at a fixed rate of 5.0% per year. Taxes paid by Capstone on the dividends to the preferred shareholders will be fully refundable against future taxable income of the Corporation.

Interest paid

Interest paid increased $1,295, or 264%, due to higher balances on the CPC-Cardinal facility and the senior debt facility following the acquisition of Bristol Water. This was offset by a lower average balance on the convertible debentures in 2012 due to conversions during the first three months of 2011.

FINANCIAL POSITION REVIEW

Overview

As at March 31, 2012, Capstone had a consolidated working capital deficit of $61,321 ($86,694 at December 31, 2011) due primarily to $175,815 of debt maturing in 2012. The utilities - water segment had a $67,570 surplus, while the power segment and corporate had deficits of $64,463 and $64,428, respectively. Subsequent to the first quarter, Capstone has significantly advanced arrangements to repay or refinance all power segment and corporate debt maturing in 2012.

Unrestricted cash and equivalents totaled $44,970 on a consolidated basis with the power segment and water utilities segments contributing $20,936 and $18,441, respectively.

During the first quarter, Capstone's debt to capitalization ratio (as defined on page 20) improved from 71.0% to 68.3% on a fair value basis and 65.7% to 64.5% on a book value basis. On a fair value basis, the improvement reflected an 8.9% increase in the share price as well as repayment of $45,515 of the senior debt facility.

As at March 31, 2012, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at ($000s)	Mar 31, 2012	Dec 31, 2011
Power	(64,463)	(64,566)
Utilities – water	67,570	91,864
Corporate	(64,428)	(113,992)
Working capital	(61,321)	(86,694)

The working capital deficit of $61,321 included $119,000 ($85,000 included in the power segment and $34,000 included in Corporate) outstanding on the CPC-Cardinal facility, which matures on June 29, 2012, and $32,860 outstanding on the senior debt facility, which matures on October 5, 2012. During the first quarter, $45,515 was repaid on the senior debt facility from the proceeds of Värmevärden's bond issue. On April 3, 2012, subsequent to quarter end, an additional $3,900 was repaid on the senior debt facility from the remaining proceeds of the offering.

On May 10, 2012, Capstone sold a 20% indirect interest in Bristol Water to a subsidiary of ITOCHU Corporation. Capstone used the $68,982 net sale proceeds to repay the remaining $28,969 balance outstanding on the senior debt facility and $39,000 on the CPC-Cardinal credit facility.

As at May 14, 2012, Capstone is in the process of finalizing arrangements for the issuance of new debt at MPT Hydros LP, the net proceeds of which are expected to be approximately $70,000 following the repayment of the Wawatay facility's levelization liability. The recapitalization is expected to be completed by the end of May 2012, following receipt of the final consents.

Management expects the remaining approximately $10,000 in debt outstanding to be refinanced through a new corporate facility, or cash on hand.

To accommodate these events, the lenders of the CPC-Cardinal facility have extended the maturity from June 29, 2012 to September 28, 2012.

Cash and cash equivalents

As at ($000s)	Mar 31, 2012	Dec 31, 2011
Power	20,936	13,972
Utilities – water	18,441	35,434
Corporate	5,593	8,181
Unrestricted cash and cash equivalents	44,970	57,587

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The $12,617 reduction in cash from December 31, 2011 was primarily attributable to capital expenditures at Bristol Water. Bristol Water had an additional $89,499 of short-term deposits as at March 31, 2012, which, along with cash, is primarily earmarked for capital expenditure projects for the company's five-year asset management plan approved by the regulator. For the power segment, $10,561 is only periodically accessible to Capstone through distributions under the terms of the credit agreements for Erie Shores and Amherstburg. The remaining $15,968, which includes $10,375 in the power segment and $5,593 at corporate, is available for general purposes and payment of dividends to shareholders.

Restricted cash increased by $131 from December 31, 2011 to $15,006 at March 31, 2012. The increase was attributable to foreign exchange on the Bristol Water debt service reserve. Restricted cash represents debt service reserve accounts at Bristol Water and the power segment of $8,784 and $5,722 respectively.

Cash flow

Capstone's cash and cash equivalents decreased by $12,617 in the first three months of 2012 compared with a decrease of $95,584 in the first three months of 2011. Details of the decrease are presented in the consolidated statement of cash flows and are summarized as follows:

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Operating activities	31,221	14,117
Investing activities	14,171	(137,752)
Financing activities (excluding dividends to shareholders)	(46,828)	38,066
Dividends paid to shareholders	(11,306)	(10,015)
Effect of exchange rate changes on cash and cash equivalents	125	-
Change in cash and cash equivalents	(12,617)	(95,584)

During the first quarter of 2012, Capstone's operating activities generated $17,104 more cash than a year ago primarily because Bristol Water contributed $16,363. Capstone's power segment generated $2,541 higher cash flow in 2012 primarily due to the commencement of commercial operations at the Amherstburg facility in June 2011. In addition, corporate operating activities were $3,190 lower in the first quarter of 2012, resulting mainly from changes in working capital.

Investing activities were $151,923 higher in the first quarter of 2012 than in the comparable period of 2011, primarily due to transactions related to the capitalization of Värmevärden. In the first quarter of 2011, Capstone acquired Värmevärden using $109,146, for a combination of equity investment and shareholder loans. In 2012, Värmevärden returned $48,100 by repaying a portion of the shareholder loans, as part of the bond issue at Sefyr Värme. In addition, in 2012 Bristol Water invested $27,239 to expand the water network. Lastly, in the first quarter of 2011, Capstone invested $26,646 in the construction of Amherstburg.

Financing activities were $84,894 lower in the first quarter of 2012 than in the prior year primarily because Capstone repaid $45,991 of debt in 2012 while $34,039 of long-term debt was added in 2011 for the construction of Amherstburg.

Capstone's dividends were $1,291, or 12.9%, higher in 2012 because the number of shares outstanding increased due to a common share offering in November 2011, conversions of debentures into shares and participation in Capstone's dividend reinvestment plan, which began issuing shares from treasury in September 2011.

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 capital structure. Capstone measures capital structure using the 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, 2012		Dec 31, 2011	
As at ($000s)	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power	312,637	307,693	314,196	308,513
Utilities - water [(1)]	358,422	341,320	353,135	336,237
Corporate [(2)]	110,250	105,378	155,124	150,893
Deferred financing fees	-	(3,296)	-	(4,701)
	781,309	751,095	822,455	790,942
Equity				
Shareholders' equity [(1), (2)]	362,869	412,736	335,228	413,520
Total capitalization	1,144,178	1,163,831	1,157,683	1,204,462
Debt to capitalization	68.3%	64.5%	71.0%	65.7%

(1) Only 70% of the long-term debt at Bristol Water has been included at in the calculation to reflect the impact of the non-controlling interest and for consistency between periods. March 31, 2012 - fair value = $512,032 x 70% = 358,422, carrying value = $487,600 x 70% = $341,320 (December 31, 2011 - fair value = $504,479 x 70% = $353,135, carrying value = $480,339 x 70% = $336,237). The carrying value of shareholders' equity does not include the amount attributed to the non-controlling interest of March 31, 2012 - $35,276 (December 31, 2011 - $34,450).

(2) The carrying value of the equity portion as at March 31, 2012 of Capstone's convertible debentures of $9,284 (December 31, 2011 - $9,284) was excluded from total debt and included as part of shareholders' equity.

Power

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

			Mar 31, 2012		Dec 31, 2011	
As at ($000s)	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC-Cardinal credit facility	2012	4.38%	85,000	85,000	85,000	85,000
Erie Shores project debt	2016 & 2026	5.28 – 6.15%	106,598	101,654	108,616	102,933
Amherstburg Solar Park project debt	2016	7.32%	93,999	93,999	94,267	94,267
Wawatay facility's levelization liability	2032	6.87%	27,040	27,040	26,313	26,313
			312,637	307,693	314,196	308,513

During the first three months of 2012, long-term debt for the power segment decreased by $820. The decrease is primarily due to $1,547 of regular debt payments on the Erie Shores and Amherstburg Solar park project debt. The levelization liability increased by $727 primarily due to accrued interest because no payments were required in 2012 in accordance with the terms of the obligation.

With the exception of the CPC-Cardinal facility, which matures on June 29, 2012, each facility has over four years until maturity. Subsequent to March 31, 2012, the CPC-Cardinal maturity was extended to September 28, 2012 to accommodate repayment from the proceeds of new financings.

Covenant compliance

With the exception of the levelization liability, each facility has financial covenant requirement obligations. The Erie Shores and Amherstburg facilities require the Corporation to maintain minimum debt service coverage ratios to allow for distributions. The CPC-Cardinal facility requires minimum interest coverage and maximum debt to EBITDA ratios to remain in compliance and determine the interest rate on the obligation. During 2012, Capstone operated in compliance with all covenants and expects to continue to comply for the remainder of 2012.

Utilities - Water

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

			Mar 31, 2012		Dec 31, 2011	
As at ($000s)	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Bank loans	2012 & 2017	1.43 - 1.52%	39,916	39,400	39,662	38,956
Term loans	2017 - 2041	5.73 - 8.64%(1)	442,691	420,216	436,205	413,702
Debentures	Irredeemable	3.50 – 4.25%	2,076	2,033	2,125	2,008
Cumulative preferred shares	Irredeemable	8.75%	27,349	25,951	26,487	25,673
Consolidated long-term debt			512,032	487,600	504,479	480,339
Less: non-controlling interest			(153,610)	(146,280)	(151,344)	(144,102)
Capstone share of long-term debt			358,422	341,320	353,135	336,237

(1) The interest rate on certain term loans includes an index-linked component to RPI, which was 5%.

Long-term debt for the utilities - water segment was used to fund current and ongoing capital expenditures to grow the Bristol Water's network. Each long-term debt balance matures beyond one year with the exception of a $23,955 bank loan that matures in 2012. Existing undrawn credit facilities are sufficient to repay the maturing bank loan. The preferred shares are included in 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 2012, Bristol Water complied with all its covenants and expects to comply for the remainder of 2012.

Corporate

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

			Mar 31, 2012		Dec 31, 2011	
As at ($000s)	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Senior debt facility	2012	6.20%	32,860	32,860	78,375	78,375
CPC-Cardinal credit facility	2012	3.78%	34,000	34,000	34,000	34,000
Convertible debentures	2016	6.50%	43,390	38,518	42,749	38,518
			110,250	105,378	155,124	150,893

Long-term debt decreased by $45,515 in the first quarter of 2012. In March 2012, Capstone used $45,515 of the funds received from Värmevärden to repay a portion of the senior debt facility.

In 2012, $66,860, or 63.4%, of the corporate debt matures. The senior debt facility matures on October 3, 2012. Subsequent to March 31, 2012, the CPC-Cardinal maturity was extended to September 28, 2012 to accommodate repayment from the proceeds of new financings. Refer to the power segment for discussion regarding the CPC-Cardinal credit facility.

Covenant compliance

The CPC-Cardinal facility covenants were discussed above under the power segment. The senior debt facility restricts Capstone from funding power segment operations from non-power segment activities. During 2012, Capstone has complied with all covenants and expects to comply for the remainder of 2012.

Shareholders' equity

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

As at ($000s)	Mar 31, 2012	Dec 31, 2011
Common shares	628,703	626,861
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	727,433	725,591
Equity portion of convertible debentures	9,284	9,284
Accumulated other comprehensive income	(4,026)	(6,729)
Retained earnings (deficit)	(319,955)	(314,626)
Equity to Capstone shareholders	412,736	413,520
Non-controlling interests	35,276	34,450
Total shareholders' equity	448,012	447,970

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 change in common shares was as follows:

	Three months ended Mar 31, 2012		Year ended Dec 31, 2011	
($000s and 000s of shares)	Shares	Amount	Shares	Amount
Opening balance	70,957	626,861	56,352	536,278
Shares issued	-	(89)	12,856	77,526
Conversion of convertible debentures	-	-	1,496	11,819
Dividend reinvestment plan (DRIP)	509	1,931	253	1,238
Ending balance	71,466	628,703	70,957	626,861

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

As at	Mar 31, 2012			Dec 31, 2011		
($000s, except per share amounts)	Market price per share	Outstanding amount	Fair Value	Market price per share	Outstanding amount	Fair Value
Common shares	$4.15	71,466	296,584	$3.81	70,957	270,348
Class B units	$4.15	3,249	13,485	$3.81	3,249	12,380
Preferred shares	$17.60	3,000	52,800	$17.50	3,000	52,500
			362,869			335,228

Retained earnings (deficit) reflects the aggregate of Capstone's net income 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. There have been no material changes in the specified contractual obligations outside the normal course of operations during the first three months of 2012 that have not been previously disclosed in the annual MD&A for the year ended December 31, 2011, or the Annual Information Form filed March 21, 2012. Additionally, there have been no other 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 16 of this MD&A for detailed discussion on Capstone's equity accounted investments in Värmevärden.

For Capstone's equity interest in Chapais Électrique Limitée ("CHEL"), the general partner in the Chapais investment, 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. Additionally, Capstone's investment in MLTCLP had no activity during the three months ended March 31, 2012.

Capital Expenditure Program

Capstone invested $42,922 in capital expenditures during the first quarter of 2012. Below is the breakdown of the investment by operating segment:

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Power	470	44,640
Utilities – water	42,425	-
Corporate	27	-
	42,922	44,640

Capital expenditures for the power segment in the first three months of 2012 were in the normal course of operations and primarily relate to the Cardinal and Whitecourt facilities as they enter planned outages in April 2012. In 2011, the capital expenditures primarily relate to the construction of the Amherstburg facility. For the utilities – water segment, expenditures include both growth and maintenance initiatives as outlined in Bristol Water's regulatory capital expenditures program. In aggregate, Bristol Water's capital expenditure program spans the five-year AMP5 period. Overall, Bristol Water's expenditures to date are behind the five-year plan, but are expected to catch up before the end of the five years in 2015.

Retirement Benefit Plans

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.

Bristol Water made employer contributions of $1,393 during the first three months of 2012 to the defined benefit retirement plan and $253 to the defined contribution retirement plan.

As at March 31, 2011, the defined benefit retirement plan was in a $50,224 surplus position in accordance with IFRS. The surplus is subject to a number of critical accounting estimates which can materially impact the balances, refer to page 26 of this MD&A for further details. 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.

Income Taxes

The current income tax expense of $48 was entirely attributable to Bristol Water.

Deferred income tax assets and liabilities are 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 ($000s)	Mar 31, 2012	Dec 31, 2011
Deferred income tax assets	30,051	32,897
Deferred income tax liabilities	(174,803)	(178,201)
	(144,752)	(145,304)

Capstone's total deferred income tax assets include $14,895 ($16,924 at December 31, 2011) attributable to the Canadian entities and $15,156 ($15,973 at December 31, 2011) attributable to Bristol Water. The deferred income tax assets primarily relate to differences in the amortization of deferred financing costs for tax and accounting purposes.

Deferred income tax liabilities represent $61,311 ($60,286 at December 31, 2011) attributable to the Canadian entities and $113,492 ($117,915 at December 31, 2011) attributable to Bristol Water. The 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 decreased by $552 during the first quarter of 2012. The decrease was primarily attributed to the use of non-capital losses offset by timing differences between accounting and tax depreciation in the Canadian entities. In addition, during the first quarter of 2012, the UK government substantively enacted a tax rate reduction from 25% to 24%, effective April 1, 2012. The reduction resulted in a recovery of $3,647, which is offset by differences between accounting and tax depreciation at Bristol Water. The deferred income tax expense of $1,957 on the consolidated statement of income differs from the increase in the net deferred income tax liability due to amounts recorded to other comprehensive income.

The $36,990 income tax recovery in the first quarter of 2011 was primarily attributed to Capstone's conversion to a corporation. As a trust in 2010, IFRS required Capstone to use an "undistributed" tax rate to determine deferred taxes. Upon conversion to a corporation, Capstone recognized the recovery from changing tax rates from 46%, the trust rate, to 25%, the general corporate rate.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in notes 11 (Financial Instruments) and 12 (Financial Risk Management) in the consolidated financial statements for the year ended December 31, 2011. 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, the price of natural gas and foreign exchange rates. The fair value of these contracts, as reported in Capstone's interim consolidated statements of financial position was:

As at ($000s)	Mar 31, 2012	Dec 31, 2011
Derivative contract assets	2,186	3,144
Derivative contract liabilities	(31,605)	(34,143)
Net derivative contract liabilities	(29,419)	(30,999)

The composition of derivative contracts in 2012 is consistent with 2011. The $1,580 decrease in the net derivative contract liabilities is included in the $1,403 other gains and losses on the consolidated statement of income. The unrealized gain (loss) on derivatives on the interim consolidated statements of income and comprehensive income was comprised of:

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Interest rate swap contracts	2,370	2,300
Gas swap contracts	-	112
Foreign currency option contracts	(409)	-
Embedded derivative	(568)	(533)
Unrealized gain (losses) on derivatives in net income	1,393	1,879
Net gains on interest rate swap contracts included in other comprehensive income	187	-
Unrealized gain (losses) on derivatives	1,580	1,879

The unrealized gains on derivatives in 2012 were primarily attributable to the interest rate swaps with Amherstburg debt contributing $1,778. The fair value of the interest rate swaps increased primarily due to higher long-term interest rates.

The embedded derivative loss was primarily due to lower natural gas spot and forward prices, as determined at a regional gas interconnection, storage and trading hub in southwest Ontario (the Union Gas Dawn facility).

FOREIGN EXCHANGE

For the first quarter of 2012, Capstone recorded a foreign exchange gain of $1,104 compared with a $6 loss in the 2011 comparable period. The 2012 gain was primarily attributable to $713 of unrealized foreign exchange gain on Capstone's SEK denominated shareholder loan receivable with Värmevärden. During the first quarter of 2012, Capstone realized a foreign exchange gain of $136 on the repayment of $48,100 of shareholder loans.

RISKS AND UNCERTAINTIES

Capstone is subject to a variety of risks and uncertainties that could impact operating results and financial condition, which could adversely affect our ability to pay dividends to shareholders. No material changes have occurred since the Corporation's Annual Report for the year ended December 31, 2011. For a more comprehensive description of the risk factors that could affect our future results, please refer to the "Risk Factor" section of the Corporation's Annual Information Form dated March 21, 2012 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. No material changes have occurred since the Corporation's prior disclosure in its Annual Report for the year ended December 31, 2011.

SUMMARY OF QUARTERLY RESULTS

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

($000s, except for per share amounts)	2012	2011				2010		
	Q1	Q4 (1)	Q3	Q2 (2, 3)	Q1	Q4	Q3	Q2
Revenue	92,156	91,663	40,361	37,028	46,915	44,265	34,598	35,497
Net income (loss) (4)	13,381	(4,891)	(11,783)	(30,370)	41,332	(2,648)	(6,845)	(2,239)
Adjusted EBITDA	37,295	31,120	13,253	(6,569)	17,869	16,531	10,166	9,220
AFFO	14,915	9,657	5,891	(13,888)	13,484	9,795	6,223	3,353
Common dividends (5)	12,299	11,569	10,225	10,217	10,015	8,232	7,700	7,699
Preferred dividends	938	1,264	-	-	-	-	-	-
Earnings Per Share – Basic	0.167	(0.086)	(0.190)	(0.492)	0.685	(0.055) (6)	(0.147) (6)	(0.048) (6)
Earnings Per Share – Diluted	0.161 (7)	(0.086)	(0.190)	(0.492)	0.625 (7)	(0.055)	(0.163) (7)	(0.048)
AFFO per share (8)	0.200	0.136	0.095	(0.225)	0.223	0.192	0.125	0.067
Dividends declared per common share	0.165	0.165	0.165	0.165	0.165	0.165	0.165	0.165

(1) AFFO and AFFO per share have been adjusted to conform to the Corporation's revised definition of AFFO, refer to page 7 of this MD&A.
(2) Net loss, Adjusted EBITDA, AFFO, Earnings Per Share, and AFFO per share were significantly impacted by $18,611 of internalization costs incurred during the second quarter.
(3) Net loss has been adjusted by $2,409 for acquisition costs on Capstone's investment in Värmevärden.
(4) Net income (loss) attributable to the shareholders of Capstone.
(5) Common dividends include amounts declared during the periods for both the common shares of the Corporation and the Class B exchangeable units.
(6) Class B exchangeable units were not included in the weighted average shares outstanding, as they were classified as debt during this period under IFRS.
(7) Convertible debentures were dilutive during the period.
(8) 2010 includes the Class B exchangeable units to allow the non-GAAP measures to be comparative.

RELATED PARTY TRANSACTIONS

No related party transactions occurred in the three months ended March 31, 2012.

ACCOUNTING POLICIES AND INTERNAL CONTROL

Significant Changes in Accounting Standards

On January 1, 2011 Capstone transitioned to IFRS, Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2011 consolidated financial statements included in the Annual Report.

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, 2011.

The Corporation is in the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

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 assessments of capital, assets, intangibles and goodwill	• Future cash flows 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

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

No material changes occurred since December 31, 2011 to 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 ($000s)	Notes	Mar 31, 2012	Dec 31, 2011
Current assets			
Cash and cash equivalents		44,970	57,587
Restricted cash		15,006	14,875
Short-term deposits		89,499	82,274
Accounts receivable		59,505	73,583
Other assets		4,830	4,719
Current portion of loans receivable	6	1,011	984
Current portion of derivative contract assets		175	261
		214,996	234,283
Non-current assets			
Loans receivable	6	38,309	85,824
Derivative contract assets		2,011	2,883
Equity accounted investments	7	17,798	15,993
Capital assets	8	1,014,799	977,456
Intangible assets	9	287,414	288,304
Retirement benefit surplus	10	50,224	60,104
Deferred income tax assets		30,051	32,897
Total assets		1,655,602	1,697,744
Current liabilities			
Accounts payable and other liabilities		82,039	81,734
Current portion of derivative contract liabilities		3,028	3,088
Current portion of finance lease obligations		5,179	5,256
Current portion of long-term debt	11	186,071	230,899
		276,317	320,977
Long-term liabilities			
Derivative contract liabilities		28,577	31,055
Electricity supply and gas purchase contracts	9	4,488	4,894
Deferred income tax liabilities		174,803	178,201
Deferred revenue		2,487	1,363
Finance lease obligations		7,148	6,727
Long-term debt	11	711,304	704,145
Liability for asset retirement obligation		2,466	2,412
Total liabilities		1,207,590	1,249,774
Equity attributable to shareholders' of Capstone		412,736	413,520
Non-controlling interest		35,276	34,450
Total liabilities and shareholders' equity		1,655,602	1,697,744
Commitments and contingencies	18		
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See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($000s)	Notes	Share Capital [1]	Convertible Debentures	AOCI [2]	Retained Earnings	NCI [3]	Total Equity
		Equity attributable to shareholders of Capstone					
Balance, December 31, 2010		536,278	-	-	(272,183)	-	264,095
Common shares issued [4]		(102)	-	-	-	-	(102)
Reclassification of class B exchangeable units		26,710	-	-	-	-	26,710
Reclassification of convertible debentures		-	11,554	-	-	-	11,554
Debenture conversions, net of costs		11,062	(2,138)	-	-	-	8,924
Net income for the period		-	-	-	41,332	-	41,332
Dividends declared to common shareholders of Capstone		-	-	-	(10,015)	-	(10,015)
Balance March 31, 2011		573,948	9,416	-	(240,866)	-	342,498

[1] Share Capital includes Common Shares and Class B Exchangeable Units.
[2] Accumulated other comprehensive income ("AOCI").
[3] Non-controlling interest ("NCI").
[4] During 2011, additional transaction costs of $102 were included in share capital in relation to private placement on December 22, 2010.

($000s)	Notes	Share Capital [1]	Convertible Debentures	AOCI [2]	Retained Earnings	NCI [3]	Total Equity
		Equity attributable to shareholders of Capstone					
Balance, December 31, 2011		725,591	9,284	(6,729)	(314,626)	34,450	447,970
Shares issued [4]		(89)	-	-	-	-	(89)
Equity share of other comprehensive gain of equity accounted investments	7	-	-	360	-	-	360
Cumulative translation differences on translation of foreign operations		-	-	2,368	-	379	2,747
Losses on financial instruments designated as cash flow hedges (net of tax - $79)		-	-	(25)	-	(11)	(36)
Actuarial losses recognized in respect of retirement benefit obligations (net of tax - $3,269)		-	-	-	(5,473)	(2,345)	(7,818)
Net income for the period		-	-	-	13,381	2,803	16,184
Dividends declared to common shareholders of Capstone	12b	1,931	-	-	(12,299)	-	(10,368)
Dividends declared to preferred shareholders of Capstone	12b	-	-	-	(938)	-	(938)
Balance, March 31, 2012		727,433	9,284	(4,026)	(319,955)	35,276	448,012

[1] Share Capital includes Common Shares, Preferred Shares and Class B Exchangeable Units.
[2] Accumulated other comprehensive income ("AOCI").
[3] Non-controlling interest ("NCI").
[4] During 2012, additional transaction costs of $89 were included in share capital in relation to common share offering on November 10, 2011.

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

Three months ended ($000s except per share amounts)	Notes	Mar 31, 2012	Mar 31, 2011
Revenue		92,156	46,915
Operating expenses	15	(48,700)	(24,750)
Administrative expenses	15	(2,172)	(4,729)
Equity accounted income (loss)	7	1,445	(2,401)
Interest income		1,832	433
Other gains and (losses), net		1,403	1,879
Foreign exchange gain (loss)		1,104	(6)
Earnings before, interest expense, taxes, depreciation and amortization		47,068	17,341
Interest expense		(14,856)	(5,107)
Depreciation of capital assets		(11,567)	(5,949)
Amortization of intangible assets		(2,456)	(1,943)
Income before income taxes		18,189	4,342
Income tax recovery (expense)			
Current		(48)	-
Deferred		(1,957)	36,990
Total income tax recovery (expense)		(2,005)	36,990
Net income		16,184	41,332
Net income attributable to:			
Shareholders of Capstone		13,381	41,332
Non-controlling interest		2,803	-
		16,184	41,332
Earnings per share			
Basic	13	0.167	0.685
Diluted	13	0.161	0.625

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three months ended ($000s)	Notes	Mar 31, 2012	Mar 31, 2011
Net income		16,184	41,332
Equity share of other comprehensive gain of equity accounted investments	7	360	-
Cumulative translation differences on translation of foreign operations		2,747	-
Losses on financial instruments designated as cash flow hedges (net of tax - $79)		(36)	-
Actuarial gains recognized in respect of retirement benefit obligations (net of tax - $3,269)		(7,818)	-
Total comprehensive income		11,437	41,332
Comprehensive income attributable to:			
Shareholders of Capstone		10,611	41,332
Non-controlling interest		826	-
		11,437	41,332

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended ($000s)	Notes	Mar 31, 2012	Mar 31, 2011
Operating activities:			
Net income		16,184	41,332
Deferred income tax expense (recovery)		1,957	(36,990)
Depreciation and amortization		14,021	7,892
Other gains and losses (net)		(1,403)	(1,879)
Amortization of deferred financing costs and non-cash financing costs		4,056	1,180
Equity accounted (income) loss	7	(1,445)	2,401
Unrealized foreign exchange (gain) loss on loan receivable	6	(713)	-
Change in non-cash working capital	17	(1,436)	181
Total cash flows from operating activities		31,221	14,117
Investing activities:			
Receipt of loans receivable		48,201	212
Investment in capital assets	8	(27,752)	(26,646)
Change in restricted cash and short term investments		(6,278)	(942)
Loan to equity accounted investments		-	(84,828)
Investment in equity accounted investments		-	(25,548)
Total cash flows from (used in) investing activities		14,171	(137,752)
Financing activities:			
Repayment of long-term debt and finance lease obligations		(46,828)	(837)
Dividends paid to common and preferred shareholders		(11,306)	(10,015)
Proceeds from long-term debt		-	33,437
Proceeds from loans payable		-	5,466
Total cash flows from (used in) financing activities		(58,134)	28,051
Effect of exchange rate changes on cash and cash equivalents		125	-
Increase (decrease) in cash and cash equivalents		(12,617)	(95,584)
Cash and cash equivalents, beginning of year		57,587	128,413
Cash and cash equivalents, end of period		44,970	32,829
Supplemental information:			
Interest paid		11,658	3,327
Taxes paid (recovery)		336	-

See accompanying notes to these interim consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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1. CORPORATE INFORMATION

Capstone 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 70% interest in a regulated water utility in the United Kingdom.

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

2. BASIS OF PREPARATION

Statement of Compliance

The interim condensed 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, 2011. 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 2011 annual consolidated financial statements.

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and in effect as at May 14, 2012, the date that the Board of Directors approved the interim consolidated financial statements.

3. SEASONALITY

The seasonality of wind speed, volume of water flows, sunlight 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 in periods where freezing and thawing occur. As well, the level of capital expenditure activity can fluctuate with weather.

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 2012.

Basis of Measurement

The interim consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value and on a going concern basis of accounting (see note 11). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

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, 2011.

The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

5. ACQUISITIONS

Bristol Water

On October 5, 2011, Capstone acquired a 70% indirect interest in Bristol Water, a regulated water utility in the United Kingdom, from Suez Environnement through its subsidiary, Agbar (Sociedad General de Aguas de Barcelona), for $213,476. The purchase price was funded through a combination of existing credit facilities, cash on hand and a new $150,000 senior credit facility.

The acquisition was accounted for using the purchase method of accounting. IFRS requires that Capstone recognize the identifiable assets acquired and liabilities assumed at their fair values. Goodwill is then recognized for the excess of the consideration paid over the net of the identifiable assets acquired and liabilities assumed measured at their fair values. Goodwill represents Capstone’s ability to achieve financial and operational outperformance. The non-controlling interest has only been calculated on the fair value of the net identifiable assets.

Transaction costs on acquisition of $5,997 were expensed in the consolidated statement of income as part of administrative expenses for the year ended December 31, 2011.

The allocation of the purchase price is preliminary and may be revised up to 12 months after the purchase date. The preliminary allocation of total consideration is to net assets acquired.

As at October 5, 2011 ($000s)	£	$
Working capital	495	804
Tangible assets	312,179	506,792
Intangible assets – licence	13,300	21,591
Intangible assets – goodwill	85,780	139,255
Incremental deferred income tax asset on acquisition	9,416	15,285
Less: net financial liabilities (net of cash received £24,324, $39,487)	(231,188)	(375,310)
Other	(31,657)	(51,392)
Incremental deferred income tax liability on acquisition	(7,231)	(11,739)
Non-controlling interest	(19,594)	(31,810)
Total cash consideration	131,500	213,476

The amount allocated to goodwill is not deductible for income tax purposes.

6. LOANS RECEIVABLE

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

As at ($000s)	Mar 31, 2012	Dec 31, 2011
Värmevärden	34,336	81,587
Chapais	4,984	5,221
	39,320	86,808
Less: current portion	(1,011)	(984)
Total long-term loans receivable	38,309	85,824

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

	Three months ended Mar 31, 2012		Year ended Dec 31, 2011	
($000s)	SEK	$	SEK	$
Opening balance	551,808	81,587	551,808	84,828
Principal repayment	(324,267)	(48,100)	-	-
Realized foreign exchange gain	-	136	-	-
Unrealized foreign exchange gain (loss)	-	713	-	(3,241)
Ending balance	227,541	34,336	551,808	81,587

During the first quarter of 2012, Värmevärden's parent company, Sefyr Värme AB, in which Capstone holds a 33.3% indirect investment, completed an approximately $150,000 (1,000,000 SEK) offering of senior secured bonds to select institutional investors. The bonds have a five-year term, are non-amortizing and carry a coupon of 7.0%.

Proceeds from the issuance were distributed to the owners of Sefyr Värme AB, with Capstone receiving approximately $49,400 which was used to repay a portion of the senior credit facility. As at March 31, 2012, Capstone had repaid $45,500, the remaining proceeds of $3,900 were repaid on April 3, 2012.

Refer to note 11 (Long-term debt). In March 2012, the shareholder loan receivable from Värmevärden was amended. The annual interest rate is 7.944%, effective January 1, 2012. (2011 - 7.965%)

7. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

	Mar 31, 2012		Dec 31, 2011	
As at ($000s)	Ownership %	Carrying value	Ownership %	Carrying value
Macquarie Long Term Care L.P. ("MLTCLP")	45.0%	106	45.0%	106
Värmevärden	33.3%	17,692	33.3%	15,887
Chapais	31.3%	-	31.3%	-
		17,798		15,993

See also 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 are as follows:

($000s)	Associate	Three months ended Mar 31, 2012	Year ended Dec 31, 2011
Opening balance	Värmevärden / MLTCLP	15,993	54,789
Equity accounted income (loss)	Värmevärden	1,445	(5,270)
Equity share of other comprehensive gain (loss)	Värmevärden	360	(724)
Acquisition	Värmevärden	-	24,318
Capitalized transaction costs	Värmevärden	-	1,258
Return of capital	Värmevärden	-	(3,694)
Distributions received	MLTCLP	-	(54,666)
Equity accounted income (loss)	MLTCLP	-	(6)
Other	MLTCLP	-	(12)
Ending balance		17,798	15,993

8. CAPITAL ASSETS

Three months ended ($000s)	Jan 1, 2012	Additions	Disposals	Foreign exchange	Transfers	Mar 31, 2012
Cost						
Land	2,707	-	-	27	-	2,734
Equipment and vehicles	8,389	124	(20)	189	225	8,907
Property and plant	790,178	372	(116)	4,153	3,410	797,997
Infrastructure assets	271,485	16,079	-	3,942	1,488	292,994
Construction in progress	35,750	26,347	-	706	(5,287)	57,516
	1,108,509	42,922	(136)	9,017	(164)	1,160,148
Accumulated depreciation						
Equipment and vehicles	(3,568)	(428)	19	(155)	-	(4,132)
Property and plant	(126,465)	(9,803)	84	(1,908)	-	(138,092)
Infrastructure assets	(1,020)	(1,336)	-	(769)	-	(3,125)
Net carrying value	977,456	31,355	(33)	6,185	(164)	1,014,799

The reconciliation of capital asset additions to cash additions on the consolidated statement of cash flow was:

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Additions	42,922	44,640
Add: Accounts payable and accrued liabilities at the beginning of year	9,998	950
Less: Accounts payable and accrued liabilities at the end of the period	(25,522)	(18,944)
Additions to computer software (intangible assets)	16	-
Net foreign exchange difference	338	-
Cash additions	27,752	26,646

9. INTANGIBLES

Three months ended ($000s)	Jan 1, 2012	Additions	Foreign exchange	Transfers	Mar 31, 2012
Assets					
Computer software	4,220	-	320	164	4,704
Electricity supply and gas purchase contracts	108,048	-	-	-	108,048
Water rights	73,018	-	-	-	73,018
Licence	21,012	-	227	-	21,239
Goodwill	135,512	-	1,546	-	137,058
Accumulated amortization					
Computer Software	(550)	(459)	(285)	-	(1,294)
Electricity supply and gas purchase contracts	(43,395)	(1,875)	-	-	(45,270)
Water rights	(9,561)	(528)	-	-	(10,089)
	288,304	(2,862)	1,808	164	287,414
Provisions					
Electricity supply and gas purchase contracts	12,257	-	-	-	12,257
Utilization	(7,363)	(406)	-	-	(7,769)
	4,894	(406)	-	-	4,488

10. 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, 2012 was $298. The expense is composed of $253 for Bristol Water and $45 for Cardinal.

Defined benefit plan

Employer contributions paid in the three months ended March 31, 2012 to the defined benefit plan were $1,393.

11. LONG-TERM DEBT

(A) Components of Long-term Debt

As at ($000s)	Mar 31, 2012	Dec 31, 2011
CPC-Cardinal credit facility	85,000	85,000
Erie Shores project debt	101,654	102,933
Amherstburg Solar Park project debt	93,999	94,267
Wawatay facility's levelization liability	27,040	26,313
Power	307,693	308,513
Bank loans	39,400	38,956
Term loans	420,216	413,702
Debentures	2,033	2,008
Irredeemable cumulative preferred shares	25,951	25,673
Utilities - water	487,600	480,339
Senior debt facility	32,860	78,375
CPC-Cardinal credit facility	34,000	34,000
Convertible debentures	38,518	38,518
Corporate	105,378	150,893
	900,671	939,745
Less: deferred financing costs	(3,296)	(4,701)
Long-term debt	897,375	935,044
Less: current portion	(186,071)	(230,899)
	711,304	704,145

Senior debt facility

In March 2012, the Corporation repaid $45,515 in connection with the shareholder loan repayment from Värmevärden. Refer to note 6 (Loan Receivable).

(B) Long-term Debt Covenants

For the three months ended and as at March 31, 2012, the Corporation and its subsidiaries were in compliance with all financial and non-financial debt covenants.

(C) Liquidity

Working capital deficit

As at March 31, 2012, the Corporation had current assets of $214,996 and current liabilities of $276,318. The working capital deficit was primarily the result of $175,815 of long-term debt falling due in 2012.

On May 10, 2012, Capstone sold a 20% indirect interest in Bristol Water to a subsidiary of ITOCHU Corporation. Capstone used the $68,982 net sale proceeds to repay the remaining $28,969 balance outstanding on the senior debt facility and $39,000 on the CPC-Cardinal credit facility.

As at May 14, 2012, Capstone is in the process of finalizing arrangements for the issuance of new debt at MPT Hydros LP, the net proceeds of which are expected to be approximately $70,000 following the repayment of the Wawatay facility's levelization liability. The recapitalization is expected to be completed by the end of May 2012, following receipt of the final consents.

Management expects the remaining approximately $10,000 in debt outstanding to be refinanced through a new corporate facility, or cash on hand. To accommodate these events, the lenders of the CPC-Cardinal facility have extended the maturity from June 29, 2012 to September 28, 2012.

12. SHAREHOLDERS' EQUITY

The share capital of the Corporation was as follows:

As at ($000s)	Mar 31, 2012	Dec 31, 2011
Common shares	628,703	626,861
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	727,433	725,591

(A) Common Shares

	Three months ended Mar 31, 2012		Year ended Dec 31, 2011	
($000s and 000s shares)	Shares	Carrying Value	Units	Carrying Value
Opening balance	70,957	626,861	56,352	536,278
Common shares issued	-	(89)	12,856	77,526
Conversion of convertible debentures, net of cost	-	-	1,496	11,819
Dividend reinvestment plan	509	1,931	253	1,238
Ending balance	71,466	628,703	70,957	626,861

(B) Dividends Declared

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Common shares	11,763	9,479
Class B exchangeable units	536	536
Preferred shares	938	-
	13,237	10,015

13. EARNINGS PER SHARE

Basic and diluted earnings per share

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Net income	16,184	41,332
Non-controlling interest	(2,803)	-
Dividends declared on preferred shares	(938)	-
Net income available to common shareholders	12,443	41,332
Weighted average number of common shares outstanding	74,455	60,349
Basic earnings per share	0.167	0.685
Net income available to common shareholders	12,443	41,332
Interest expense on convertible debt (net of tax)	514	640
Net income used to determine diluted earnings pr share	12,957	41,972
Weighted average number of common shares outstanding	74,455	60,349
Assumed conversion of convertible debentures	6,107	6,856
Weighted average number of common shares for diluted earnings per share	80,562	67,205
Diluted earnings per share	0.161	0.625

The convertible debentures are dilutive for the three-month period ended March 31, 2012 and 2011.

14. SHARE-BASED COMPENSATION

(A) Deferred Share Units ("DSU")

Capstone granted 4,482 DSUs during the first quarter of 2012. The five-day volume weighted average price ("VWAP") per DSU granted on January 3, 2012 was 3.78 dollars. As at March 31, 2012, the carrying value of the DSUs was based on a market price of 4.15 dollars.

(B) Long-term Incentive Plan

Capstone granted 262,895 Restricted Stock Units ("RSU") and 150,367 Performance Share Units ("PSU") during the first quarter of 2012. The five-day VWAP per RSU and PSU granted on January 3, 2012 was 3.78 dollars and 4.23 dollars per RSU granted on March 23, 2012. As at March 31, 2012, the carrying value of the RSUs and PSUs was based on a market price of 4.15 dollars.

15. EXPENSES – ANALYSIS BY NATURE

Three months ended	Mar 31, 2012			Mar 31, 2011		
($000s)	Operating	Administrative	Total	Operating	Administrative	Total
Fuel	20,690	-	20,690	19,261	-	19,281
Internalization	-	-	-	-	635	635
Chemicals and supplies	18,304	-	18,304	401	-	119
Wages and benefits	5,809	1,380	7,189	1,870	-	2,012
Business development	-	56	56	-	1,309	1,309
Maintenance	774	-	774	975	-	948
Manager fees	275	-	275	486	1,800	1,800
Insurance	482	-	482	437	-	382
Property taxes	313	-	313	274	-	331
Other operating expenses	2,053	-	2,053	1,046	-	1,677
Other administrative expenses	-	736	736	-	985	985
Total	48,700	2,172	50,872	24,750	4,729	29,479

16. SEGMENTED INFORMATION

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

	Geographical Location	
Infrastructure segments consist of:	2012	2011
Power The Corporation's investments in gas cogeneration, wind, hydro, biomass power and solar power assets.	Canada	Canada
Utilities – water The regulated water services business (Bristol Water), in which the Corporation acquired a 70% indirect interest on October 5, 2011.	United Kingdom	n/a
Utilities – district heating ("DH") The district heating business (Värmevärden), in which the Corporation acquired a 33.3% indirect interest on March 31, 2011.	Sweden	n/a

As at and for the three months ended Mar 31, 2012 ($000s)	Power	Utilities Water	Utilities DH	Corporate	Total
Revenue	50,643	41,513	-	-	92,156
Depreciation of capital assets	(6,627)	(4,842)	-	(98)	(11,567)
Amortization of intangible assets	(1,426)	(446)	-	(584)	(2,456)
Interest income	(59)	324	1,351	215	1,832
Interest expense	(4,552)	(6,143)	-	(4,161)	(14,856)
Income tax recovery (expense)	-	1,401	-	(3,406)	(2,005)
Net income (loss)	13,402	9,342	4,595	(11,155)	16,184
Cash flow from operations	23,348	16,363	1,390	(9,880)	31,221
Additions to capital assets	470	42,425	-	27	42,922
Total assets	573,113	936,566	56,299	89,624	1,655,602
Total liabilities	281,253	680,552	1,388	244,397	1,207,590

As at and for the three months ended Mar 31, 2011 ($000s)	Power	Utilities Water	Utilities DH	Corporate	Total
Revenue	46,915	-	-	-	46,915
Depreciation of capital assets	(5,949)	-	-	-	(5,949)
Amortization of intangible assets	(1,938)	-	-	(5)	(1,943)
Interest income	226	-	-	207	433
Interest expense	(4,143)	-	-	(964)	(5,107)
Income tax recovery	-	-	-	36,990	36,990
Net income (loss)	11,660	-	(2,414)	32,086	41,332
Cash flow from operations	20,725	-	-	(6,608)	14,117
Additions to capital assets	44,640	-	-	-	44,640

As at Dec 31, 2011 ($000s)	Power	Utilities Water	Utilities DH	Corporate	Total
Total assets	656,871	913,811	97,458	29,604	1,697,744
Total liabilities	287,780	663,455	-	298,540	1,249,774

17. NON-CASH WORKING CAPITAL

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

Three months ended ($000s)	Mar 31, 2012	Mar 31, 2011
Accounts receivable	14,513	(3,407)
Other assets	(830)	238
Accounts payable and other liabilities	(15,119)	3,350
	(1,436)	181

18. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments as disclosed in the annual consolidated financial statements for the year ended December 31, 2011. No material developments arose during the three-month period ended March 31, 2012.

19. RELATED PARTY TRANSACTIONS

No related party transaction occurred in the three months ended March 31, 2011.

20. COMPARATIVE FIGURES

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

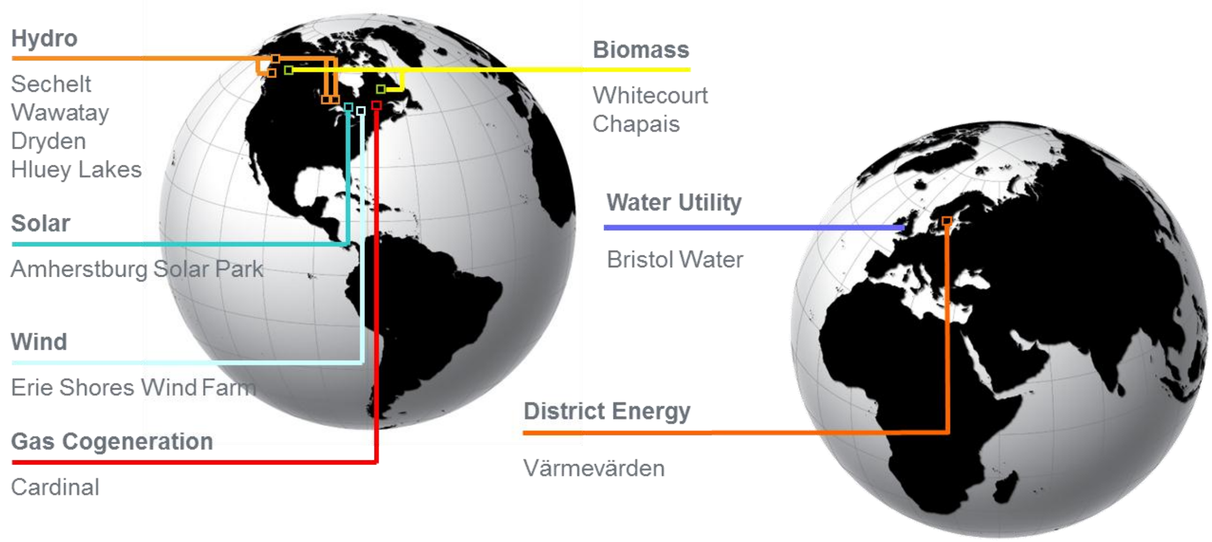
21. SUBSEQUENT EVENTS

Disposition of Partial 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 2/7ths ownership in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone used the $68,982 net sale proceeds to repay the $28,969 remaining amount outstanding on the senior debt facility and $39,000 on the CPC-Cardinal facility.

Following this sale, Capstone retained a 50% beneficial interest in Bristol Water and will continue to consolidate based on retention of control. In accordance with IFRS, Capstone will record the transaction as a transfer of equity to non-controlling interest holders. The excess proceeds over the value of the transfer of equity to the non-controlling interest will be recorded directly to retained earnings.

PORTFOLIO



POWER

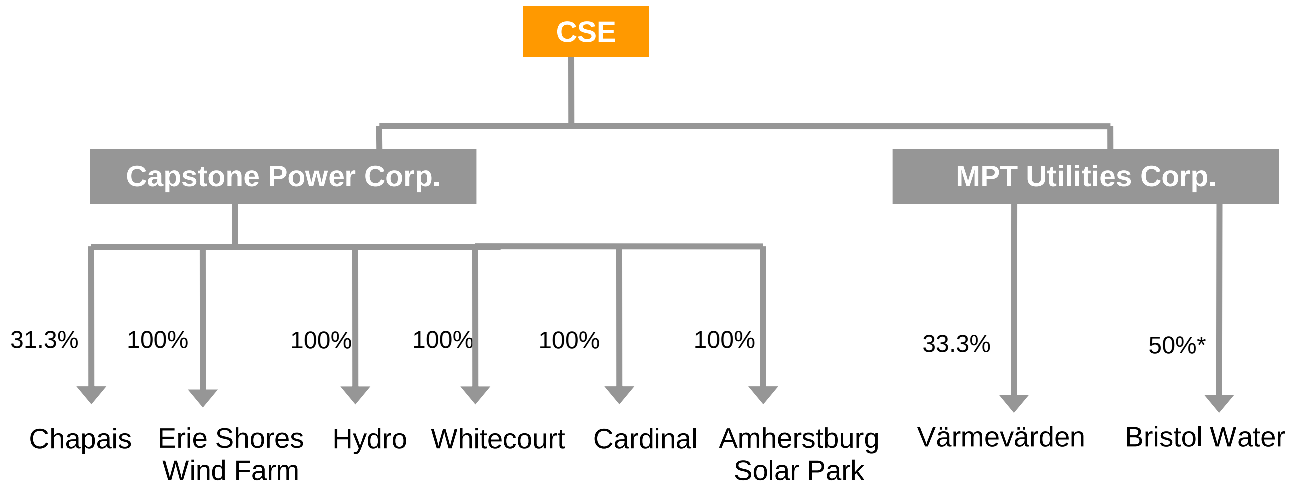
Business	Year Built	Interest	Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Cardinal	1994	100%	156	OEFC	2014	Husky	2015	18
Erie Shores[1]	2006	100%	99	OPA	2026	n/a	n/a	9
Whitecourt	1994	100%	25	TransAlta	2014	Millar Western	2016	33
Sechelt	1997	100%	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	Various	100%	3	OEFC	2020	n/a	n/a	n/a
Amherstburg	2011	100%	20	OPA	2031	n/a	n/a	n/a
Chapais[2]	1995	31.3%	28	Hydro-Québec	2015	Barrette/Chantiers/ Société en commandite Scierie Opitciwan	2015	n/a

UTILITIES

Business	Interest	Capacity	Counterparties	Length of Network	Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 786 MWth	Mix of industrial and retail customers, with industrial counterparties representing 25% of revenue	317 kilometres	163,000	No	89
Bristol Water	50%[3]	Average daily supply of 278 million litres	Domestic or residential customers represent 75% of revenue with non-domestic customers representing the balance	6,670 kilometres	1.16 million	UK Water Services Regulation Authority	510

(1) One 1.5 MW turbine is owned by a landowner.
(2) 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.
(3) On May 10, 2012, Capstone's interest was reduced from 70% to 50% following the sale of 20% to a subsidiary of ITOCHU Corporation.

ORGANIZATIONAL STRUCTURE



* On May 10, 2012, Capstone's interest was reduced from 70% to 50% following the sale of 20% to a subsidiary of ITOCHU Corporation

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