CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended September 30, 2012

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

	Three months ended		Nine months ended	
Earnings Measures ($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
Revenue	84,951	40,361	262,956	124,304
Net income (loss)	11,813	(11,783)	27,388	(821)
Basic earnings per share	0.061	(0.190)	0.154	(0.013)

	Three months ended		Nine months ended	
Cash Flow Measures ($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
Cash flows from operating activities	17,594	10,537	72,694	16,301
Adjusted EBITDA [(1)]	24,618	13,253	89,526	24,553
Adjusted funds from operations (“AFFO”) [(1)]	3,381	5,891	22,005	5,489
Payout ratio (before internalization costs) [(1)]	167.3%	171.4%	128.1%	122.8%

[(1)] These performance measures are not defined by International Financial Reporting Standards (“IFRS”). Please see page 6 and 7 for a definition of each measure.

Capital Structure – At Fair Value ($000s)	Sep 30, 2012	Dec 31, 2011
Long-term debt – power	309,683	314,196
Long-term debt – utilities – water [(1)]	247,495	353,135
Long-term debt – corporate	44,523	155,124
Common shares	319,656	270,346
Class B exchangeable units	14,393	12,379
Preferred shares	62,400	52,500
Debt to capitalization	60.3%	71.0%

[(1)] Calculated as 50% proportionate share based on ownership interest (December 31, 2011 - 70%).

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	72,157,802
Preferred shares outstanding	3,000,000
Convertible debentures outstanding	42,749
Class B exchangeable units	3,249,390
Securities exchange and symbols	Toronto Stock Exchange: CSE, CSE.PR.A, CSE.DB.A

QUARTERLY TRADING INFORMATION

	High	Low	Closing	Average Daily Trading Volume
Common shares	$4.69	$4.01	$4.43	186,000
Preferred shares	$21.50	$18.40	$20.80	2,070
Convertible debentures	$107.20	$102.02	$104.15	200

TABLE OF CONTENTS

LEGAL NOTICE

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of 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, forward-looking statements concerning the Corporations new dividend policy, the outlook for the Corporation's power infrastructure facilities; Swedish district heating business ("Värmevärden") and the UK water utility ("Bristol Water"). 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; the contribution from Bristol Water reflecting the Corporation's reduced ownership interest as at May 10, 2012; a TransCanada Pipelines ("TCPL") gas transportation toll of approximately $2.24 per gigajoule in 2012; no material change in 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; 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; no material change to the amount and timing of capital expenditures by Bristol Water; no material change to the Swedish Krona to Canadian dollar exchange rate; no material change to 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's 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's third quarter results and recent activities.

Overall, our portfolio is operationally sound and our power and utilities businesses continued to perform in line with expectations for the quarter and year-to-date periods. The contributions from our newest businesses, notably Bristol Water, were partially offset by lower overall production at our gas cogeneration, wind and hydro power facilities primarily due to a combination of seasonal factors and scheduled outages for maintenance activities. As a result, consolidated revenue for the quarter and first nine months of the year increased by 110% and 112%, respectively, over the comparable periods in 2011.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA) for the third quarter and first nine months of 2012 increased by 84.7% and 104%, respectively, over the same periods of 2011 (excluding internalization costs), primarily reflecting the contribution from Bristol Water and lower corporate administrative expenses. During the quarter, these drivers were partially offset by lower interest income from Värmevärden and lower revenue from the power segment attributable to poor hydrology at our hydro power facilities in Ontario and lower gas sales at Cardinal following the expiry of our gas hedge in 2011. For the year-to-date period, the increase in Adjusted EBITDA also reflected the contribution from Amherstburg, which commenced operations on June 30, 2011, and interest income and dividends received from Värmevärden in the first six months of the year.

Adjusted Funds from Operations (AFFO) (excluding internalization costs) in the third quarter decreased by 43.3% and by 11.3% in the quarter and year-to-date periods, respectively. The variance partly reflected the impact of amortizing debt, which was lower in 2011, and the payment of dividends, including applicable taxes, on the Corporation's preferred shares, which were issued on June 30, 2011. These factors alone had a $1.7 million impact on AFFO in the third quarter and a $9.1 million impact on AFFO in the first nine months of the year. Our operational and financial performance is described in detail on pages 8 to 19 of this report.

Since the start of 2012, we have taken a number of steps to reduce risk, increase the stability of our cash flow and strengthen our foundation for continuing growth, including refinancing the approximately $200 million of debt that was due in 2012. All of the debt at our power facilities and Bristol Water is secured at the asset level and is non-recourse to Capstone. In addition, our outstanding debt is mostly fixed-rate. Virtually all of the debt at our power facilities is fully amortizing over their power purchase agreement (PPA) terms with only Amherstburg requiring refinancing prior to the expiry of its PPA. This represents a significant de-risking of our balance sheet.

In June, we established a new dividend policy that we expect to provide stable income for shareholders with the potential for growth as we execute our strategy and build Capstone's scope, scale and value.

A continuing priority for our team in 2012 is to complete a new contract for Cardinal, which has a PPA expiring at the end of 2014. We have an ongoing dialogue with the Ontario Power Authority, along with other key government ministries, and we are striving to find the optimal balance between value for our industrial partner, value for Ontario ratepayers and value for our shareholders. We remain convinced Cardinal and its industrial partner, which together make a significant contribution to the province, offer a compelling value proposition from electricity, industrial, economic, social and community perspectives and will have an important role to play for years to come. However, with the current political situation in Ontario, it is unclear whether the government will be able to finalize a new contract by the end of the year.

Achieving operational excellence across our businesses is an ongoing emphasis for us, including finding improvements and opportunities with the potential to incrementally increase cash flow.

In the power segment, these initiatives include the sale of renewable energy credits (RECs) at Whitecourt, which has delivered nearly $1 million in revenue in the first nine months of 2012, which includes the sale of some RECs related to historical production.

In the utilities segment, at Bristol Water we are working closely with the management team to execute the company's capital program, which is aimed at improving and expanding Bristol Water's network of reservoirs, treatment facilities, water mains and pipes. This capital program is what will drive growth in Bristol Water's regulated capital value, and, accordingly, value for Capstone and our shareholders. In 2012, Bristol Water expects to complete capital expenditures of approximately $130 to $140 million and has delivered expenditures of approximately $106 million in the year to date. At Värmevärden, we are seeing improvements in plant availability and use of lower-cost fuels, which are key performance drivers for this business.

Growth is likewise a key imperative for Capstone. We enjoy strong footholds in traditional and renewable power and the water utility and district heating sectors and are seeking opportunities to build upon these platforms in Canada and internationally, where we are targeting Western and Northern Europe, the United States and Australia, including through acquisitions or development partnerships.

Overall, we believe that 2012 has been successful for Capstone and that we are on the right path forward. Capstone is a stronger company than it was just one year ago with longer term, more predictable cash flow. We have:

- A substantially lower risk profile in terms of our portfolio diversification and balance sheet;
- Broader international reach and two world-class partners at Bristol Water in Agbar and ITOCHU Corporation;
- An evolving utilities business segment that features perpetual and growing cash flow to complement our power generation facilities; and
- A new dividend level that is expected to result in a long-term payout ratio of 70% to 80%, which gives us the ability to retain cash that can be reinvested in growth opportunities.

With your investment in Capstone, you own exceptionally high quality core infrastructure assets that deliver essential services throughout the economic cycle, resulting in reliable, long-term cash flow. You are also poised to benefit from our company's growth as we work to capitalize on the huge infrastructure investment opportunity before us.

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

Sincerely,

Michael Bernstein
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation's" or "Capstone's") consolidated operating results for the three and nine months ended September 30, 2012 and consolidated cash flows for the nine months ended September 30, 2012 with corresponding comparative prior periods and the Corporation's financial position as at September 30, 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 and nine months ended September 30, 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 November 13, 2012, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

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

As at and for the periods ended	Swedish Krona (SEK)		Pound Sterling (£)	
($000s)	Average	Spot	Average	Spot
December 31, 2011	0.1525 (1)	0.1478	1.6075 (2)	1.5799
Quarter ended March 31, 2012	0.1483	0.1509	1.5732	1.5970
Quarter ended June 30, 2012	0.1454	0.1474	1.5986	1.5984
Quarter ended September 30, 2012	0.1476	0.1498	1.5723	1.5869

(1) Nine-month period from acquisition on March 31, 2011 to December 31, 2011.

(2) Period from acquisition on October 5, 2011 to December 31, 2011.

CHANGES IN THE BUSINESS

In 2012, Capstone completed multiple initiatives to address maturing debt and position the company for future growth. As at December 31, 2011, Capstone had $230,899 (including $23,698 at Bristol Water) of debt maturing in 2012, at September 30 all 2012 maturities had been repaid or refinanced through proceeds from the Värmevärden recapitalization, partial sale of Bristol Water, new financing at the hydro facilities and a new facility for the CPC-Cardinal loan. The Corporation also announced and implemented a new dividend policy in June 2012 reflecting the expected cash flow profile of the company post-2014 which includes the impact of lower Cardinal cash flows following expiry of its current power purchase agreement.

Värmevärden Recapitalization

In March 2012, Värmevärden, the district heating business, was recapitalized by issuing approximately $150,000 (1,000,000 SEK) of senior secured bonds to institutional investors. Värmevärden repaid a portion of the shareholder loans from the bond proceeds. Capstone received $49,400, representing its one-third interest in Värmevärden.

Capstone used these proceeds to repay a portion of its senior debt facility. As a result of the return to Capstone of the bond proceeds, Capstone's total investment in Värmevärden was reduced to $52,028, comprising $34,336 in loans receivable and $17,692 in equity accounted investment.

Partial Sale of Interest in Bristol Water

On May 10, 2012, Capstone sold to I-Environment Investments Ltd, a subsidiary of ITOCHU Corporation, a 20% indirect interest in Bristol Water plc. I-Environment Investments Ltd acquired a $2/7^{ths}$ ownership interest in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone received $68,984 of net proceeds from the sale and used the funds to repay the remaining $28,975 on the senior debt facility and $39,000 on the CPC-Cardinal credit facility, retaining cash of $1,009.

Following this sale, Capstone retained a 50% indirect interest in Bristol Water and continues to consolidate based on retention of control. In accordance with IFRS, Capstone recorded the transaction as a transfer of equity to non-controlling interest holders. The excess net proceeds of $15,726 over the value of the transfer of equity to the non-controlling interest and $850 of taxes were recorded directly to retained earnings.

Financing of Hydro Facilities

On June 6, 2012, MPT Hydro LP, an indirect wholly-owned subsidiary of Capstone, which owns the Dryden, Hluey Lakes, Sechelt and Wawatay hydro facilities (the "hydro facilities"), completed a $100,621 debt offering to capitalize the hydro facilities. The debt offering comprised $80,379 of senior secured bonds and $20,242 of subordinated secured bonds.

Proceeds from the offering were used to repay the $27,239 balance of levelization debt at the Wawatay hydro facility and to pay $1,785 of transaction costs, which were capitalized. In addition, Capstone cash funded $3,846 for debt service and maintenance reserve accounts in accordance with the bond indenture and used the $67,700 of net proceeds to repay a portion of the CPC-Cardinal credit facility.

New Dividend Policy

On June 1, 2012, the Board of Directors of the Corporation established a new dividend policy whereby the Corporation intends to pay $0.075 per common share quarterly or $0.30 per common share annually.

As negotiations with the Ontario Power Authority have progressed but not yet concluded, the Corporation's new dividend policy reflects management's view on current Ontario power market and fiscal dynamics and its expectation for the cash flow Cardinal will generate following the expiry of its current power purchase agreement at the end of 2014. The Corporation's dividend policy is determined by the Board of Directors of the Corporation and is based on the Corporation's cash flows, financial requirements, the satisfaction of solvency tests imposed under corporate law for the declaration of dividends and other relevant factors. With the implementation of the new dividend policy, the Corporation expects to retain additional cash that can be reinvested in new growth opportunities.

NON-GAAP AND ADDITIONAL GAAP PERFORMANCE MEASURE DEFINITIONS

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

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

EBITDA is net income (loss), including that net income (loss) related to the non-controlling interest ("NCI") 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 for the investment in Bristol Water is included at Capstone's proportionate ownership interest. For the period from October 5, 2011 to May 10, 2012, Capstone held a 70% ownership interest. This ownership interest was reduced to 50% upon the partial sale of Bristol Water on May 10, 2012. 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")

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

AFFO is calculated from Adjusted EBITDA by:

Deducting: - Adjusted EBITDA generated from businesses with significant non-controlling interests
Adding: - Dividends received from businesses with significant non-controlling interests
- Scheduled repayments of principal on loans receivable from equity accounted investments

Deducting items, for businesses without significant non-controlling interests:
- Interest paid
- Income taxes paid
- Dividends paid on the preferred shares included in shareholders' equity
- Maintenance capital expenditure payments and
- Scheduled repayments of principal on debt, net of changes to the levelization liability up to repayment on June 6, 2012.

Payout Ratio

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

Reconciliation of Non-GAAP Performance measures

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

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
EBITDA	36,497	412	116,499	4,594
Foreign exchange (gain) loss	(492)	(94)	(944)	539
Other (gains) and losses, net	(2,432)	11,214	(1,672)	13,824
Equity accounted (income) loss	2,145	1,721	1,302	5,596
Distributions from equity accounted investments	—	—	983	—
Non-contolling interest ("NCI") portion of Adjusted EBITDA	(11,100)	—	(26,642)	—
Adjusted EBITDA	24,618	13,253	89,526	24,553
Cash flow from operating activities	17,594	10,537	72,694	16,301
Bristol Water cash flow from operating activities	(15,174)	—	(47,058)	—
Bristol Water dividends paid to Capstone	—	—	4,868	—
Värmevärden distributions paid to Capstone	—	—	983	—
Foreign exchange on loans receivable from Värmevärden	55	(591)	(481)	42
Chapais loans receivable principal repayments	248	224	727	654
Power maintenance capital expenditures	(1,349)	(857)	(4,675)	(3,541)
Power and corporate scheduled principal repayments	(3,015)	(2,296)	(9,661)	(3,877)
Power and corporate working capital changes	5,960	(1,126)	7,421	(4,090)
Dividends on redeemable preferred shares	(938)	—	(2,813)	—
AFFO	3,381	5,891	22,005	5,489

RESULTS OF OPERATIONS

Overview

For the three and nine months ended September 30, 2012, Capstone recorded an increase in Adjusted EBITDA and a decline in AFFO from 2011, excluding internalization costs. These results are reflected in the following table.

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
Revenue	84,951	40,361	262,956	124,304
Expenses	(50,351)	(29,102)	(151,764)	(104,071)
Interest income	1,118	1,994	3,993	4,320
Distributions from equity accounted investments	—	—	983	—
Less: non-controlling interest (“NCI”)	(11,100)	—	(26,642)	—
Adjusted EBITDA	24,618	13,253	89,526	24,553
Adjusted EBITDA of consolidated businesses with NCI	(11,101)	—	(38,373)	—
Dividends from businesses with non-controlling interests	—	—	4,868	—
Principal from loans receivable	248	224	727	654
Interest paid	(4,989)	(4,433)	(17,072)	(12,292)
Dividends paid on Capstone’s preferred shares	(938)	—	(2,813)	—
Income taxes (paid) recovery	(93)	—	(522)	(8)
Maintenance capital expenditures	(1,349)	(857)	(4,675)	(3,541)
Scheduled repayment of debt principal	(3,015)	(2,296)	(9,661)	(3,877)
AFFO	3,381	5,891	22,005	5,489
Internalization costs	—	75	—	19,321
AFFO before internalization costs	3,381	5,966	22,005	24,810
Before internalization costs				
AFFO per share	0.045	0.096	0.294	0.403
Payout ratio	167.3%	171.4%	128.1%	122.8%
Dividends declared per share	0.075	0.165	0.375	0.495

Revenue for the third quarter was $44,590, or 110%, higher than in 2011 and $138,652, or 112%, higher on a year-to-date basis. The increases were primarily due to Bristol Water, which contributed $45,567 and $132,797 in the third quarter and year to date, respectively.

Expenses for the third quarter were $21,249, or 73.0%, higher than in 2011 and $47,693, or 45.8%, higher on a year-to-date basis including internalization costs incurred in 2011. Excluding these costs, expenses in the quarter were $21,324, or 73.5%, higher than in 2011 and $67,014, or 79.1%, higher on a year-to-date basis. The increase was primarily attributable to Bristol Water, which added $23,513 and $68,486 in the third quarter and year to date, respectively.

Interest income decreased by $876, or 43.9%, for the quarter and by $327, or 7.6%, on a year-to-date basis. The decreases were primarily attributable to Värmevärden, due to a $48,100 reduction in the shareholder loan balance following repayment from the new bond proceeds. In the year-to-date period, this impact was partially offset by no interest paid by Värmevärden during the first quarter of 2011 as the business was acquired on March 31, 2011. The remaining difference was attributable to interest income variances on cash balances at Bristol Water and corporate.

Interest paid increased by $556, or 12.5%, for the quarter and $4,780, or 38.9%, on a year-to-date basis. The increases were due to additional interest costs primarily at Amherstburg, the hydro power facilities due to the refinancing, and at corporate for bridge financing to fund the acquisition of Bristol Water. Interest paid by Bristol Water is excluded from Capstone’s definition of AFFO and is the primary difference between interest expense included in consolidated net income (loss) and interest paid in AFFO. The remaining difference between interest expense and interest paid is attributed to timing differences between accrual and payment basis and amortization of financing costs.

Scheduled debt repayments increased by $719, or 31.3%, for the quarter and $5,784, or 149%, on a year-to-date basis. The increases were primarily due to higher debt service payments at Amherstburg since commencement of operations on June 30, 2011 along with debt amortization at the hydro facilities since the issuance of new debt on June 6, 2012 and on tranche C of the Erie Shores debt which began amortizing in the second quarter of 2011.

Maintenance capital expenditures increased by $492, or 57.4%, for the quarter and $1,134, or 32.0%, on a year-to-date basis. The increases were primarily due to the outage at Cardinal for its scheduled hot gas path inspection, which occurs every three years.

Results by Segment

Capstone's results are segmented into power facilities across Canada, a water utility in Europe, 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 an interest in Bristol Water, a regulated water utility in the United Kingdom, and the acquisition of a 33.3% interest in Värmevärden, a district heating business in Sweden. The financial results of Bristol Water are consolidated with Capstone's other businesses before deducting the portion of Adjusted EBITDA attributable to non-controlling interests. Capstone's non-controlling interest in Värmevärden provides interest income and dividends.

Net income (loss) and non-GAAP measure results for each business segment were as follows:

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
Net Income (loss)				
Power	7,770	(7,100)	18,157	(1,813)
Utilities - Water	12,519	—	31,358	—
Utilities – District Heating	(912)	(1,721)	2,931	(5,596)
Corporate	(7,564)	(2,962)	(25,058)	6,588
Total	11,813	(11,783)	27,388	(821)
Adjusted EBITDA				
Power	15,104	16,264	55,591	51,435
Utilities - Water	11,101	—	38,373	—
Utilities – District Heating	672	1,679	3,660	3,371
Corporate	(2,259)	(4,615) [1]	(8,098)	(10,932) [1]
Total	24,618	13,328	89,526	43,874
AFFO				
Power	6,358	9,044	29,285	34,859
Utilities - Water	—	—	4,868	—
Utilities – District Heating	672	1,679	3,660	3,371
Corporate	(3,649)	(4,757) [1]	(15,808)	(13,420) [1]
Total	3,381	5,966	22,005	24,810

(1) Excludes internalization costs for the third quarter of $75 and $19,321 for the year-to-date period

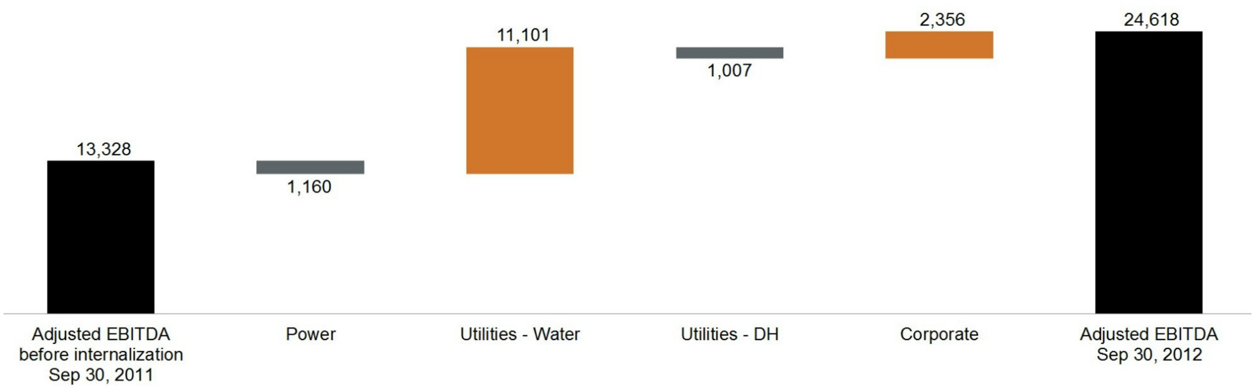
Adjusted EBITDA

Adjusted EBITDA increased by $11,290, or 85%, during the third quarter, mostly due to the addition of Bristol Water, which contributed $11,101. In addition, corporate administrative expenses declined by $2,519, reflecting lower business development expenses. These increases were partially offset by a $1,160 reduction for the power segment and a $1,007 decline in interest income from Värmevärden as the shareholder loans were partly repaid in early 2012. Lower Adjusted EBITDA at the power segment was primarily attributable to revenue declines of $900 and $812 from the hydro facilities and Cardinal due to poor hydrology in Ontario and lower gas sales, respectively. These decreases were offset by a $562 increase in Adjusted EBITDA from Amherstburg , primarily due to higher revenue arising from better availability and improved solar resource compared with 2011.

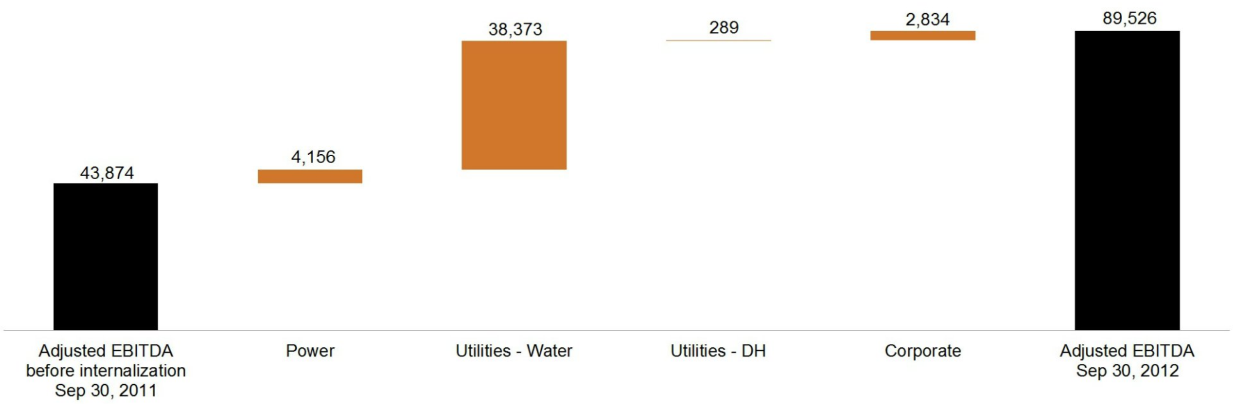
For the year-to-date period, Adjusted EBITDA before internalization costs was $45,652, or 104%, higher than in the comparable period of 2011. The addition of Bristol Water, Värmevärden and Amherstburg contributed a combined $47,431 incremental increase. In addition, corporate administrative expenses declined by $3,143, primarily reflecting lower business development expenses in 2012 as the Corporation focused on refinancing initiatives during the first half of 2012. These increases were partially offset by a $4,293 decline at Cardinal primarily a result of the second quarter scheduled outage.

The following charts show the change in Adjusted EBITDA, excluding 2011 internalization costs, for the third quarter and year to date:

Third Quarter Adjusted EBITDA



Year-To-Date Adjusted EBITDA



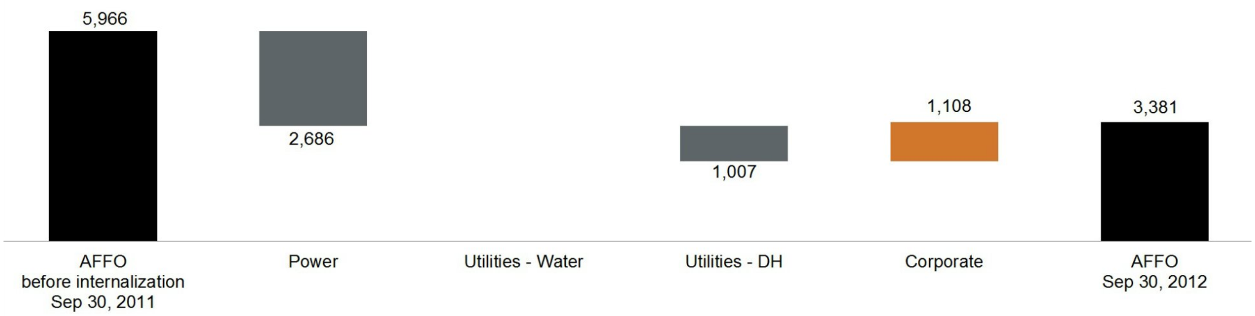
Adjusted Funds from Operations (AFFO)

AFFO was $2,585, or 43.3%, lower than in the third quarter of 2011. Lower AFFO was primarily due to $1,007 less interest income from Värmevärden, $1,101 additional debt servicing expenses and $1,031 preferred share dividends and corresponding taxes. Additional interest and principal repayments to service debt were primarily attributable to the recapitalization of the hydro power facilities and additional debt to finance the Bristol Water acquisition which has been repaid. In addition, the power segment's Adjusted EBITDA was $1,160 lower than in 2011 due mainly to Cardinal and the hydro facilities. Lower corporate administrative expenses partially offset these decreases to AFFO by $2,519, reflecting lower business development expenses.

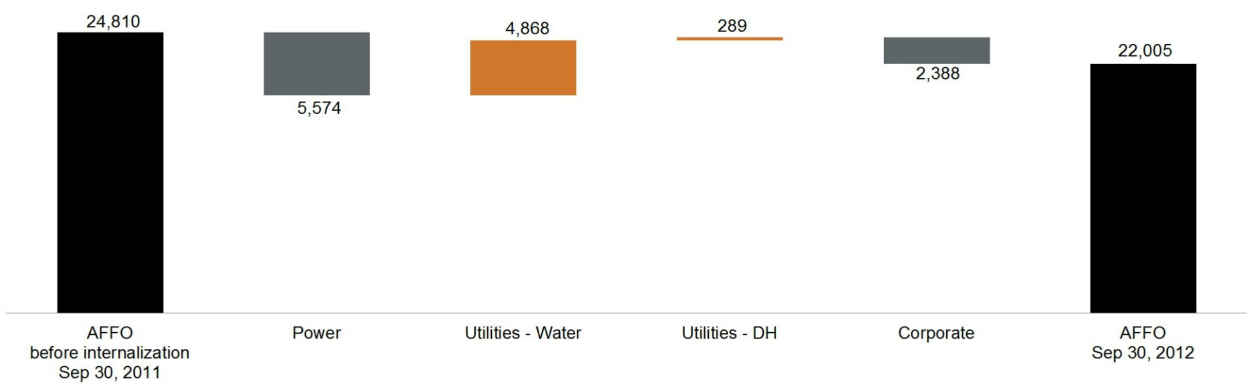
For the year-to-date period, AFFO was $2,805, or 11.3%, lower than in the comparable period of 2011, before internalization costs. Lower AFFO was primarily due to a $10,778 increase in debt service costs for interest and principal payments and $3,328 for preferred share dividends and corresponding taxes. Higher debt servicing expenses were primarily due to Amherstburg since commencing operations at the end of the second quarter of 2011, new debt on the hydro facilities and additional corporate debt to finance the Bristol Water acquisition. Offsetting these factors was $5,851 of new dividend income from Bristol Water and Värmevärden and a $3,143 decline in corporate administrative expenses primarily from lower business development. The remaining difference relates to the variances described in Adjusted EBITDA for the power segment, primarily a result of lower revenue at Cardinal and the hydro facilities, partially offset by contributions in the first six months of 2012 from Amherstburg, which did not contribute in the first six months of 2011.

The following charts show the change in AFFO, excluding internalization costs for the third quarter and year to date:

Third Quarter AFFO



Year-To-Date AFFO



Net income (loss)

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

($000s)	Three months ended Sep 30, 2012	Three months ended Sep 30, 2011	Nine months ended Sep 30, 2012	Nine months ended Sep 30, 2011
Adjusted EBITDA	24,618	13,253 (1)	89,526	24,553 (1)
Adjustment of Värmevärden distributions to equity accounted income	(2,145)	(1,721)	(2,285)	(5,596)
NCI portion of Adjusted EBITDA	11,100	—	26,642	—
Other gains and (losses), net	2,432	(11,214)	1,672	(13,824)
Foreign exchange gain (loss)	492	94	944	(539)
Interest expense	(10,660)	(6,179)	(38,523)	(16,291)
Depreciation and amortization	(14,688)	(9,228)	(42,776)	(25,029)
Income tax recovery (expense)	664	3,212	(7,812)	35,905
Net Income (loss)	11,813	(11,783)	27,388	(821)

(1) Includes internalization costs for the third quarter of $75 and $19,321 for the year-to-date period.

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 Sep 30, 2012 ($000s)	Gas	Wind	Biomass[(1)]	Hydro	Solar	Total
Power generated (GWh)	300.1	32.5	48.7	23.5	13.4	418.2
Capacity factor	96.3%	14.9%	96.4%	29.9%	30.3%	n.m.f
Availability	98.4%	96.7%	97.7%	95.1%	99.2%	n.m.f
Revenue	24,897	3,192	3,879	1,948	5,468	39,384
Operating expenses	(20,371)	(1,216)	(1,881)	(847)	(255)	(24,570)
Interest income	13	20	234	13	10	290
Adjusted EBITDA	4,539	1,996	2,232	1,114	5,223	15,104
Principal from loans receivable	—	—	248	—	—	248
Interest paid	(182)	(1,507)	—	(1,264)	(1,677)	(4,630)
Income taxes (paid) recovery	—	—	—	—	—	—
Maintenance capital expenditures	(271)	(306)	(198)	(574)	—	(1,349)
Scheduled repayment of debt principal	—	(1,317)	(33)	(151)	(1,514)	(3,015)
AFFO	4,086	(1,134)	2,249	(875)	2,032	6,358

Three months ended Sep 30, 2011 ($000s)	Gas	Wind	Biomass[(1)]	Hydro	Solar	Total
Power generated (GWh)	301.8	32.0	54.5	35.9	11.5	435.7
Capacity factor	96.8%	14.6%	99.9%	45.5%	26.1%	n.m.f
Availability	99.8%	98.1%	100%	97.5%	94.2%	n.m.f
Revenue	25,822	3,117	3,701	2,888	4,833	40,361
Operating expenses	(20,479)	(916)	(1,800)	(874)	(246)	(24,315)
Interest income	8	2	134	—	74	218
Adjusted EBITDA	5,351	2,203	2,035	2,014	4,661	16,264
Principal from loans receivable	—	—	224	—	—	224
Interest paid	(255)	(1,581)	(3)	(835)	(1,617)	(4,291)
Income taxes (paid) recovery	—	—	—	—	—	—
Maintenance capital expenditures	(72)	(109)	(136)	(540)	—	(857)
Scheduled repayment of debt principal	—	(1,242)	—	431	(1,485)	(2,296)
AFFO	5,024	(729)	2,120	1,070	1,559	9,044

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

Nine months ended Sep 30, 2012 ($000s)	Gas	Wind	Biomass[1]	Hydro	Solar	Total
Power generated (GWh)	893.5	163.9	149.5	118.2	33.8	1,358.9
Capacity factor	90.7%	25.2%	96.3%	50.4%	25.7%	n.m.f
Availability	93.8%	97.9%	97.0%	98.3%	98.8%	n.m.f
Revenue	78,750	16,069	11,431	9,859	14,050	130,159
Operating expenses	(62,128)	(3,184)	(6,469)	(2,435)	(943)	(75,159)
Interest income	42	36	475	16	22	591
Adjusted EBITDA	16,664	12,921	5,437	7,440	13,129	55,591
Principal from loans receivable	—	—	727	—	—	727
Interest paid	(475)	(4,578)	(4)	(2,539)	(5,101)	(12,697)
Income taxes (paid) recovery	—	—	—	—	—	—
Maintenance capital expenditures	(2,543)	(435)	(829)	(868)	—	(4,675)
Scheduled repayment of debt principal	—	(3,894)	(96)	(2,059)	(3,612)	(9,661)
AFFO	13,646	4,014	5,235	1,974	4,416	29,285

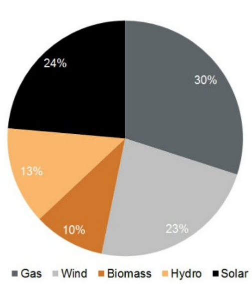
Nine months ended Sep 30, 2011 ($000s)	Gas	Wind	Biomass[1]	Hydro	Solar	Total
Power generated (GWh)	923.8	155.2	151.6	132.7	11.5	1,374.8
Capacity factor	94.2%	23.8%	96.6%	56.6%	26.1%	n.m.f
Availability	97.3%	96.3%	97.4%	98.6%	94.2%	n.m.f
Revenue	82,908	15,121	10,539	10,903	4,833	124,304
Operating expenses	(62,036)	(2,443)	(5,882)	(2,543)	(584)	(73,488)
Interest income	85	4	419	—	111	619
Adjusted EBITDA	20,957	12,682	5,076	8,360	4,360	51,435
Principal from loans receivable	—	—	654	—	—	654
Interest paid	(778)	(4,690)	(11)	(2,715)	(1,617)	(9,811)
Income taxes (paid) recovery	(1)	—	—	—	—	(1)
Maintenance capital expenditures	(1,637)	(347)	(858)	(699)	—	(3,541)
Scheduled repayment of debt principal	—	(2,869)	—	477	(1,485)	(3,877)
AFFO	18,541	4,776	4,861	5,423	1,258	34,859

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

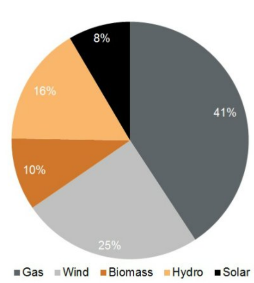
The following charts show the composition of the power segment's Adjusted EBITDA and AFFO for the nine months ended September 30, 2012 and 2011:

Adjusted EBITDA

YTD 2012

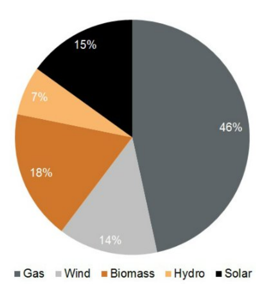


YTD 2011

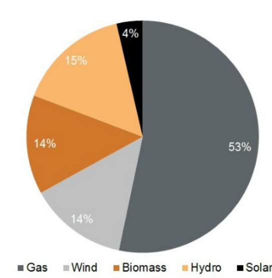


AFFO

YTD 2012



YTD 2011



Revenue

Revenue for the third quarter was $977, or 2.4%, lower than in 2011 and $5,855, or 4.7%, higher on a year-to-date basis.

Third quarter revenue was lower compared to 2011 due to a $940 decline in revenue from the hydro power facilities due to poor hydrology in Ontario as well as a decline of $925 at Cardinal due to lower gas sales.   Cardinal had previously entered into gas swaps at higher prices, with the last one expiring in 2011.   These variances were offset by revenue growth of $635 at Amherstburg due to improved solar resource and increased availability and $178 at Whitecourt due to the sale of renewable energy credits ("RECs").

Year-to-date revenue was higher compared with 2011 primarily due to Amherstburg commencing operations on June 30, 2011. For the first six months of 2012, Amherstburg contributed an additional $8,582 to revenue. Revenue growth of $892 at Whitecourt and $948 at Erie Shores was primarily due to the sale of RECs and favourable wind conditions in the first quarter of 2012, respectively. Lower revenue of $1,044 at the hydro facilities and $4,158 at Cardinal partially offset the gains.

The $4,158 decrease at Cardinal was primarily attributable to declines of $2,261 in electricity sales as a result of lower power generation and $1,837 in lower gas sales as the last gas swap expired in 2011. Cardinal's power generation was 30.3 GWh, or 3.3%, lower in the year-to-date period, reflecting the impact of the scheduled hot gas path inspection in the second quarter, which occurs every three years and requires more time than other annual outages. In addition, power production was reduced with higher ambient temperatures in 2012.

Operating expenses

Operating expenses increased by $255, or 1.0%, in the third quarter and $1,671, or 2.3%, on a year-to-date basis. Excluding Amherstburg, the increase was primarily attributable to repairs and maintenance expenditures at Erie Shores and Whitecourt, which contributed a combined increase of $381 and $1,328 in the third quarter and year-to-date period, respectively.

Interest paid

Interest paid in the third quarter was $339, or 7.9%, higher than in 2011 and $2,886, or 29.4%, higher on a year-to-date basis, primarily due to Amherstburg, which paid $60 and $3,484 more in interest in the third quarter and first nine months of 2012, respectively. In addition, the interest paid at the hydro facilities increased by $429 due to the refinancing at the end of the second quarter. Higher interest paid during 2012 was partially offset by less interest on the CPC-Cardinal credit facility, which had a lower average balance in 2012.

Maintenance capital expenditures

Maintenance capital expenditures increased in the third quarter by $492 and $1,134 on a year-to-date basis over 2011, primarily due to maintenance inspections at Cardinal.

Scheduled repayment of debt principal

Scheduled repayments of debt principal for the third quarter were $719, or 31.3%, higher and $5,784, or 149%, higher on a year-to-date basis. The increase is a result of refinancing in 2011 and 2012. All long-term debt at the power segment is now amortizing. The increase primarily relates to the hydro facilities' debt, Amherstburg debt and Erie Shores project debt.

Hydro debt repayments were $582 higher in the third quarter and $2,536 higher year to date due to new debt which was established in June 2012 while Amherstburg was $29 higher in the third quarter and $2,127 higher on a year-to-date as repayments commenced in the third quarter of 2011. Finally, Erie Shores was $75 and $1,025 higher in the third quarter and year-to-date periods, respectively, because the Tranche C debt started fully amortizing in the second quarter of 2011.

Seasonality

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

			Actual	Average long-term production (GWh) (1)				
Type	Facility	PPA Expiry	Q3	Q1	Q2	Q3	Q4	Annual
Gas	Cardinal	2014	300.1	342.9	278.1	303.5	332.6	1,257.1
Wind	Erie Shores	2026	32.5	76.3	52.5	34.0	78.1	240.9
Biomass	Whitecourt	2014	48.7	50.3	45.3	50.1	49.5	195.2
Hydro	Various	2017 - 2042	23.5	32.2	57.1	29.0	41.2	159.5
Solar	Amherstburg	2031	13.4	6.8	13.7	12.5	6.1	39.1
Total			418.2	508.5	446.7	429.1	507.5	1,891.8

(1) Average long-term production is from March 2005 to September 30, 2012, except for Erie Shores, which is from June 2006, and Amherstburg, which is from July 2011.

Outlook

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

- Lower gas mitigation revenues, primarily reflecting a lower spot gas price.
- Lower power generation due to longer scheduled maintenance inspections during the second quarter.
- 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 RECs generated by Whitecourt.

Overall, Capstone expects the net impact of these factors to result in a slightly higher Adjusted EBITDA for the power segment in 2012 compared with 2011.

Infrastructure - Utilities

Water

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

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
Water supplied (megalitres)	20,248		61,370	—
Revenue	45,567	—	132,797	—
Operating expenses	(23,513)	—	(68,486)	—
Interest income	147	—	704	—
Less: non-controlling interest[1]	(11,100)	—	(26,642)	—
Adjusted EBITDA	11,101	—	38,373	—
Adjusted EBITDA of consolidated businesses with non-controlling interests	(11,101)	—	(38,373)	—
Dividends from businesses with non-controlling interests[2]	—	—	4,868	—
AFFO	—	—	4,868	—

(1) Starting from May 10, 2012, the non-controlling interest increased to 50% from 30%.

(2) Bristol Water pays semi-annual dividends in the second and fourth quarters each year.

Revenue

Revenue in the first nine months of 2012 was over 97.0% derived from water sales.

Operating expenses

Operating expenses primarily comprised raw materials, consumables, bad debts and other charges less recoveries totaling $19,192 for the third quarter and $56,331 on a year-to-date basis. Labour costs to maintain the network and deliver water services to retail and commercial customers comprised an additional $4,321 for the third quarter and $12,155 on a year-to-date basis.

Non-controlling interest

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

Capital expenditures

The total capital expenditure approved and planned for the current asset management plan ("AMP5") period, which concludes in March 2015, is approximately $441,000, or £276,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at September 30, 2012, the cumulative capital expenditure incurred for AMP5 was $190,000, 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. Bristol Water made $32,640 in capital expenditures in the third quarter and $106,131 on a year-to-date basis as detailed on page 25 of this MD&A.

Seasonality

Bristol Water experiences little seasonal variation in demand resulting in stable revenues throughout the year. Operating expenses vary during the year depending on the availability of water from Bristol Water's various sources, 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.

Regulatory

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

Bristol Water completed the second year of AMP5 as at March 31, 2012. Management has started planning for the company's regulatory submission for Price Review 14 ("PR14"), during which Ofwat will approve Bristol Water's capital program and set the prices Bristol Water may charge customers in the five-year AMP6 period commencing in April 2015. Bristol Water also continues to participate in industry discussions and consultations with Ofwat with respect to government proposals to increase retail competition in a small portion of the water supply market.

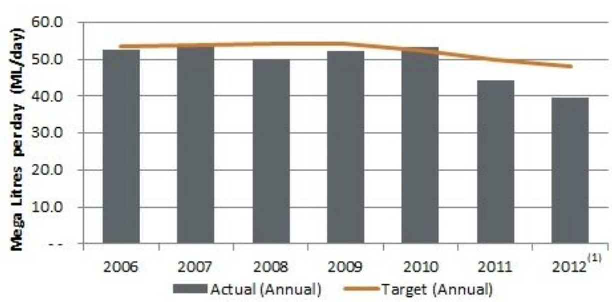
Management continues to focus on achieving key regulatory output targets, including leakage of less than 50 million litres of water per day ("Ml/d") in 2012/2013, and is striving for a top quartile ranking in Ofwat's Service Incentive Mechanism ("SIM") customer service measure. Strong performance on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

For the regulatory year ended March 31, 2012, Bristol Water achieved leakage levels of 43 Ml/d due to a mild winter, and had a SIM score of 85, which ranked second overall in the industry. For the six months ended September 30, 2012 of the current regulatory year, which is a seasonally low period for pipe bursts, Bristol Water had leakage levels of 37.8 Ml/d and is currently ranked seventh based on SIM survey scores.

Growth in Regulated Capital Value

(1) Expected position as at March 31, 2013

Water Leakage Versus Target



(1) For the nine months ended September 30, 2012

Outlook

In 2012, Bristol Water will contribute a full year of results to Capstone. Following the sale in May 2012 of an indirect 20% interest in Bristol Water, the business is expected to deliver over $7,500 in dividends to Capstone in 2012, reflecting Bristol Water's continued strong operational performance and increasing EBITDA, balanced with the reinvestment of operating cash flow into the capital expenditure program. For the current regulatory year April 2012 - March 2013, Bristol Water is benefiting from an increase of approximately 9.1% (3.9% real increase and a 5.2% inflationary increase) in its regulated water tariffs compared to the previous regulatory year, positively impacting revenue.

In 2012, Bristol Water expects to complete capital expenditures of approximately $130,000 to $140,000 (£85,000 to £90,000). Capstone expects between 9 to 10% growth in Ofwat's deemed regulated capital value (RCV) between March 31, 2012 and March 31, 2013, which is expected to lead to future revenue growth. 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.

Infrastructure - Utilities

District Heating

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

During 2012, Värmevärden has focused on maintaining strong customer relationships, managing fuel costs and recapitalizing the business, which allowed a portion of the shareholder loans to be repatriated.

As a result, Värmevärden has successfully renewed contracts with industrial customers. In addition, Värmevärden was able to pass on price increases in excess of inflation to both residential and industrial customers. Management has also enhanced plant availability, thereby minimizing the use of more expensive fuel.

	Three months ended		Nine months ended	
($000s)	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Heat production (GWh)	125	149	726	416
Equity accounted income (loss)	(2,142)	(1,721)	(1,299)	(5,609)
Interest income	672	1,679	2,677	3,371
Dividends	—	—	983	—
Adjusted EBITDA and AFFO	672	1,679	3,660	3,371

(1) The nine months ended September 30, 2011 only include six months of activity from the date of acquisition.

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. During the first four months of 2012, Värmevärden used the bond issuance proceeds to reduce the shareholder loan by $48,100 resulting in lower interest income in the third quarter of 2012. For further details, refer to the changes in the business section on page 5 of this MD&A. In 2012, Capstone received $2,677 in interest income from Värmevärden.

Dividends

In June 2012, Capstone received a $983 dividend from Värmevärden for its 33.3% ownership interest in the business.

Equity accounted income

During the third quarter, Värmevärden's equity accounted loss was $2,142, totaling a $1,299 loss on a year-to-date basis included in Capstone's net income. Third quarter results are typically lower due to the seasonality in the business. The year-to-date loss in 2011 reflects $2,414 of acquisition transaction costs.

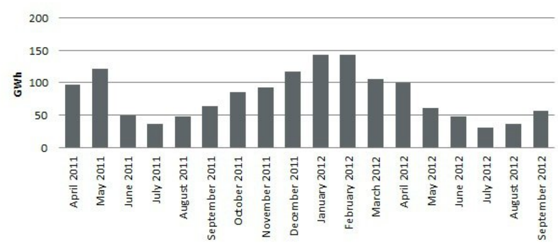
Seasonality

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

Outlook

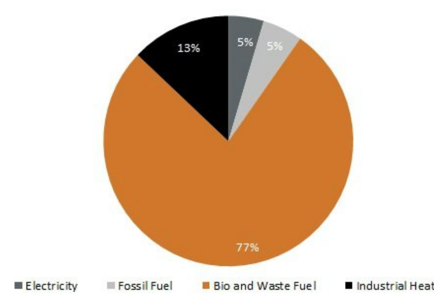
Värmevärden's performance in 2012 is expected to continue to support interest payments on Capstone's loan receivable and dividends on Capstone's equity investment. Interest income from shareholder loans receivable is expected to be lower as a result of the lower receivable balance outstanding for 2012 from the external senior debt recapitalization of Värmevärden. This is expected to be partially offset by the first equity dividend from Värmevärden which was received in June 2012. As a result, Capstone expects lower Adjusted EBITDA from the district heating segment compared with 2011.

Heat and Steam Production

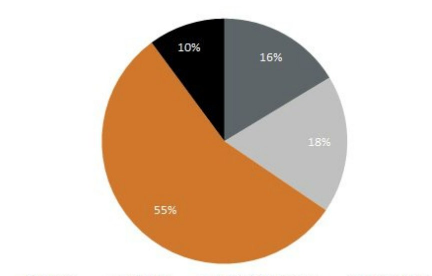


* Heat production for Värmevärden before March 31, 2011 is not included in Capstone's results.

Fuel Mix Breakdown by MWh - YTD 2012



Fuel Mix Breakdown by Cost (SEK) - YTD 2012



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		Nine months ended	
($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
Administrative expenses	(2,268)	(4,787)	(8,119)	(30,583)
Interest income	9	97	21	330
Adjusted EBITDA	(2,259)	(4,690)	(8,098)	(30,253)
Interest paid	(359)	(142)	(4,375)	(2,481)
Dividends paid on Capstone's preferred shares	(938)	—	(2,813)	—
Income taxes (paid) recovery	(93)	—	(522)	(7)
AFFO	(3,649)	(4,832)	(15,808)	(32,741)
Internalization costs	—	75	—	19,321
AFFO before internalization costs	(3,649)	(4,757)	(15,808)	(13,420)

Administrative expenses

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
Internalization expenses and manager fees	—	144	—	21,035
Salaries and benefits	1,580	1,643	4,787	2,791
Business development	4	2,294	86	3,980
Other administrative expenses	684	706	3,246	2,777
	2,268	4,787	8,119	30,583

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 along with the termination fee for the management contracts with Macquarie Group Limited ("MGL"). Accordingly, Capstone does not have any internalization expenses or manager fees payable to MGL in 2012.

Business development expenses for the third quarter were $2,290, or 99.8%, lower than in 2011 and $3,894, or 97.8%, lower on a year-to-date basis.

Other administrative expenses for the third quarter were $22, or 3.1%, lower than in 2011 and $469, or 16.9%, higher on a year-to-date basis. The increase on a year-to-date basis was primarily due to office administration and premises costs required post internalization. Other administrative expenses include audit fees, investor relations costs, office administration and premises costs and professional fees other than for business development.

Interest income

Interest income is primarily earned on surplus cash balances. Interest income for the third quarter was $88, or 90.7%, lower than in 2011 and $309, or 93.6%, lower on a year-to-date basis. The decline from 2011 for both periods primarily reflected less surplus cash in 2012.

Interest paid

Interest paid in the third quarter was $217, or 153%, higher than in 2011 and $1,894, or 76.3%, higher on a year-to-date basis. The increase on a year-to-date basis was due to higher balances on the CPC-Cardinal credit facility and the senior debt facility following the acquisition of Bristol Water. The debt to acquire Bristol Water was repaid in the second quarter of 2012. In addition, the average balance on the convertible debentures was lower in 2012 due to conversions during 2011, resulted in less interest paid on the convertible debentures.

Preferred share dividends paid and taxes paid

On June 30, 2011, Capstone issued preferred shares that pay $938 of dividends quarterly at a fixed rate of 5.0% per year. Taxes paid relate to the preferred share dividend and will be fully deductible against future taxable income of the Corporation.

FINANCIAL POSITION REVIEW

Overview

As at September 30, 2012, Capstone had a consolidated working capital surplus of $43,811 compared with a deficit of $86,694 at December 31, 2011. The improvement of $130,505 primarily reflected $218,321 of debt repayment during the first nine months of 2012. The total surplus comprises surpluses of $31,684 and $22,627 for the utilities – water and power segments, respectively, and a deficit of $10,500 at corporate.

Unrestricted cash and equivalents totaled $56,936 on a consolidated basis with the utilities – water and power segments contributing $40,726 and $14,435, respectively.

During the first nine months of 2012, Capstone's debt to capitalization ratio (refer to page 22) declined from 71.0% to 60.3% on a fair value basis and from 65.7% to 58.2% on a book value basis. On a fair value basis, the decline reflected a 16.3% increase in the share price as well as a $220,754 decrease in the fair value of debt due to the repayment of $112,375 in debt related to the acquisition of Bristol Water and a $105,640 adjustment to reflect Capstone's 50% proportionate share of Bristol Water's debt.

As at September 30, 2012, Capstone and its subsidiaries were in compliance with all debt covenants.

Liquidity

Working capital

As at ($000s)	Sep 30, 2012	Dec 31, 2011
Power	22,627	(64,566)
Utilities – water	31,684	91,864
Corporate	(10,500)	(113,992)
Working capital	43,811	(86,694)

The working capital surplus of $43,811 increased by $130,505 from December 31, 2011. The improvement primarily reflected refinanced debt at the power segment and repaid debt at corporate during the first nine months of 2012. This was partially offset by a $60,180 working capital decrease in the utilities – water segment to fund the capital expansion program.

Cash and cash equivalents

As at ($000s)	Sep 30, 2012	Dec 31, 2011
Power	14,435	13,972
Utilities – water	40,726	35,434
Corporate	1,775	8,181
Unrestricted cash and cash equivalents	56,936	57,587
Less: cash with access limitations		
Power	(5,891)	(10,135)
Utilities – water [(1)]	(40,726)	(35,434)
Cash and cash equivalents available to Capstone	10,319	12,018

(1) Cash and cash equivalents is in addition to $82,274 of short-term deposits at December 31, 2011. During the nine-month period ended September 30, 2012, Bristol Water fully used the short-term deposits to fund capital projects.

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The $651 decrease in cash from December 31, 2011 was primarily attributable to the timing of working capital requirements.

Cash and cash equivalents available to Capstone are funds available for general purposes, including payment of dividends to shareholders. Bristol Water's $40,726 of cash and cash equivalents as at September 30, 2012 are primarily earmarked for capital expenditure projects for the company's five-year asset management plan approved by the regulator. In addition, Bristol Water obtained $111,083 of credit availability during the quarter to fund the longer term cash requirements of the capital projects. For the power segment, $5,891 is only periodically accessible to Capstone through distributions under the terms of the credit agreements for the Hydro facilities, Erie Shores and Amherstburg.

Restricted cash increased by $4,609 from December 31, 2011 to $19,484 at September 30, 2012. The increase was mainly attributable to new debt service and maintenance reserve accounts required by the credit agreement for the hydro facilities. Restricted cash represents reserve accounts of $10,756 and $8,728 at the power segment and Bristol Water, respectively.

Cash flow

Capstone's cash and cash equivalents decreased by $651 in the first nine months of 2012 compared with a decrease of $73,461 in the first nine months of 2011. Details of the decrease are presented in the consolidated statement of cash flows and are summarized as follows:

Nine months ended	Sep 30, 2012	Sep 30, 2011
Operating activities	72,694	16,301
Investing activities	102,321	(207,660)
Financing activities (excluding dividends to shareholders)	(155,236)	148,057
Dividends paid to shareholders	(20,764)	(30,159)
Effect of exchange rate changes on cash and cash equivalents	334	-
Change in cash and cash equivalents	(651)	(73,461)

During the first nine months of 2012, Capstone's operating activities generated $56,393 more cash than in 2011 primarily because Bristol Water contributed $47,058. Capstone's power segment generated $12,505 less cash flow in 2012 primarily due to lower operating income and working capital requirements, partially offset by the commencement of operations at Amherstburg. In addition, corporate operating activities were $22,534 higher in the first nine months of 2012, resulting mainly from internalization costs only in 2011.

Cash flow from investing activities was $309,981 higher in 2012 than in 2011, primarily due to the recapitalization of Värmevärden and partial sale of Bristol Water. In 2011, Capstone invested $109,146, comprising shareholder loans and equity investment for a one third interest in Värmevärden. In 2012, Värmevärden repaid $48,693 of the shareholder loans from the bond issue proceeds at Sefyr Värme. On May 10, 2012, Capstone received $70,274 from ITOCHU for a 20% interest in Bristol Water before transaction costs of $1,290. Lastly, short term investments was reduced by $77,781 primarily for Bristol Water to fund capital expenditures.

Cash flow from financing activities was $303,293 lower in the first nine months of 2012 than in the prior year primarily because Capstone repaid $250,341 of debt in 2012 while adding $100,621 of long-term debt for the hydro facilities. In the first nine months of 2011, Capstone added $65,677 for the construction of Amherstburg along with raising $72,020 of preferred shares, net of costs. The remaining difference was due to reduction of principal on debt and common shares issued in 2011 to MGL related to the internalization transaction.

Capital Structure

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

	Sep 30, 2012		Dec 31, 2011	
As at ($000s)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Long-term debt				
Power	309,683	300,680	314,196	308,513
Utilities - water (1)	247,495	231,494	353,135	336,237
Corporate	44,523	40,551	155,124	152,613
Deferred financing fees	—	(7,454)	—	(6,421)
	601,701	565,271	822,455	790,942
Equity				
Shareholders' equity (2)	396,449	406,314	335,225	413,520
Total capitalization	998,150	971,585	1,157,680	1,204,462
Debt to capitalization	60.3%	58.2%	71.0%	65.7%

(1) Only 50% of the long-term debt at Bristol Water has been included at in the calculation to reflect the impact of the non-controlling interest (December 31, 2011 - 70%).

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

Power

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

			Sep 30, 2012		Dec 31, 2011	
As at ($000s)	**Maturity**	**Interest Rate**	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
CPC-Cardinal credit facility	2014	5.25%	12,300	12,300	85,000	85,000
Erie Shores project debt	2016 & 2026	5.28 – 6.15%	108,681	99,039	108,616	102,933
Amherstburg Solar Park project debt	2016	7.32%	90,656	90,656	94,267	94,267
Hydro facilities senior secured bonds	2040	4.56%	77,915	78,443	—	—
Hydro facilities subordinated secured bonds	2041	7.00%	20,131	20,242	—	—
Wawatay facility's levelization liability	2032	6.87%	—	—	26,313	26,313
			309,683	300,680	314,196	308,513

On September 17, 2012, Capstone repaid $12,300 of the old CPC-Cardinal credit facility and entered into an amended and restated facility in the aggregate amount of $27,300, comprising a $12,300 term loan and a $15,000 revolving facility. The facility has covenants that include limits on the consolidated debt-to-capitalization ratio and require CPC and certain subsidiaries to maintain a minimum EBITDA.

The $7,833 decrease in the carrying value of power segment's long-term debt in the first nine months of 2012 was:

($000s)	Dec 31, 2011	Unscheduled repayments(1)	Scheduled repayments(2)	Debt proceeds(3)	Other(4)	Sep 30, 2012
For the nine months ended	308,513	(99,672)	(9,443)	100,621	661	300,680

(1) Unscheduled debt repayments included $72,700 to settle the power portion of CPC-Cardinal credit facility along with the $27,239 to settle the Wawatay facility's levelization liability. Additionally, a $267 receivable with the OEFC as at June 30, 2012 partially offsets the Wawatay facility's levelization liability repayment.

(2) Scheduled repayments are regular repayments under the credit agreements.

(3) Debt proceeds include the issue of senior and subordinated secured bonds for the hydro facilities, net of deferred financing costs.

(4) Other includes $688 of accrued interest partially offset by a reduction in the Wawatay facility's levelization liability of $27.

Covenant compliance

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

During the first nine months of 2012, Capstone's power segment complied 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:

			Sep 30, 2012		Dec 31, 2011	
As at ($000s)	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Bank loans	2017	1.17%	15,504	15,393	39,662	38,956
Term loans	2017 - 2041	5.73 – 7.54%[1]	449,878	419,780	436,205	413,702
Debentures	Irredeemable	3.50 – 4.25%	2,234	2,028	2,125	2,008
Cumulative preferred shares	Irredeemable	8.75%	27,374	25,787	26,487	25,673
Consolidated long-term debt			494,990	462,988	504,479	480,339
Less: non-controlling interest			(247,495)	(231,494)	(151,344)	(144,102)
Capstone share of long-term debt			247,495	231,494	353,135	336,237

(1) The interest rate on certain term loans includes an index-linked component to RPI, which was 3.9% after April 1, 2012 (For January 1 to March 31, 2012 - 5%).

Long-term debt for the utilities - water segment was used to fund current and ongoing capital expenditures to grow Bristol Water's network. During the third quarter, Bristol Water repaid the $23,699 bank loan from cash on hand and closed bank loans of $31,738 and $79,345, maturing August 17, 2015 and 2017, respectively. The new loans are earmarked for long term cash requirements related to the capital expansion. As at September 30, 2012 the new bank loans have not been drawn down. The preferred shares are classified as long-term debt on the basis that they are irredeemable. All Bristol Water debt is non-recourse to Capstone.

Covenant compliance

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

			Sep 30, 2012		Dec 31, 2011	
As at ($000s)	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Senior debt facility	2012	6.73%	—	—	78,375	78,375
CPC-Cardinal credit facility	2012	5.00%	—	—	34,000	34,000
Convertible debentures	2016	6.50%	44,523	40,551	42,749	40,238
			44,523	40,551	155,124	152,613

Long-term debt decreased by $112,062 in the first nine months of 2012. Capstone repaid the full $78,375 of the senior debt facility and $34,000 of the CPC-Cardinal credit facility using funds received from the Värmevärden recapitalization, sale proceeds from the Bristol Water partial sale and financing proceeds from the hydro facilities.

Covenant compliance

During the first nine months of 2012, Capstone complied with all covenants and expects to comply for the remainder of 2012.

Shareholders' equity

Shareholders' equity was composed of:

As at ($000s)	Sep 30, 2012	Dec 31, 2011
Common shares	631,350	626,861
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	730,080	725,591
Equity portion of convertible debentures	9,284	9,284
Accumulated other comprehensive income (loss)	(4,532)	(6,729)
Retained earnings (deficit)	(328,518)	(314,626)
Equity to Capstone shareholders	406,314	413,520
Non-controlling interests	86,560	34,450
Total shareholders' equity	492,874	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 increase in common shares outstanding was as follows:

	Nine months ended Sep 30, 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[(1)]	—	(89)	12,856	77,526
Conversion of convertible debentures	—	—	1,496	11,819
Dividend reinvestment plan (DRIP)	1,200	4,578	253	1,238
Ending balance	72,157	631,350	70,957	626,861

(1) During 2012, additional transaction costs of $89 were included in share capital in relation to the November 10, 2011 common share offering.

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

As at	Sep 30, 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	$4.43	72,157	319,656	$3.81	70,957	270,346
Class B units	$4.43	3,249	14,393	$3.81	3,249	12,379
Preferred shares	$20.80	3,000	62,400	$17.50	3,000	52,500
			396,449			335,225

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

Contractual Obligations

Capstone enters into contractual commitments in the normal course of business. These contracts include leases, purchase obligations, electricity supply contracts, gas purchase contracts, wood waste agreements, operations and management agreements and guarantees. All material changes in contractual obligations outside the normal course of operations during the first nine months of 2012 were 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 18 of this MD&A for detailed discussion on Capstone's equity accounted investment in Värmevärden.

For Capstone’s equity interest in Chapais, no income has been recorded on the investment since its acquisition in 2007. Capstone does not expect to earn any future equity accounted income from this investment. Additionally, Capstone’s investment in MLTCLP had no significant activity during the nine months ended September 30, 2012.

Capital Expenditure Program

Capstone incurred $34,504 in capital expenditures during the third quarter of 2012 and $110,919 on a year-to-date basis. Below is the breakdown of the investment by operating segment:

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2012**	**Sep 30, 2011**	**Sep 30, 2012**	**Sep 30, 2011**
Power	1,847	739	4,709	86,637
Utilities – water	32,640	—	106,131	—
Corporate	17	—	79	—
	34,504	739	110,919	86,637

Capital expenditures for the power segment in the third quarter of 2012 and year to date were in the normal course of operations and primarily related to the Cardinal, Whitecourt, Erie Shores and the hydro facilities as they completed scheduled outages in the second and third quarters of 2012. In 2011, the capital expenditures primarily related to the construction of the Amherstburg facility. For the utilities – water segment, expenditures included 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 AMP5 in March 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.

As at September 30, 2012, the defined benefit retirement plan was in a $30,264 surplus position in accordance with IFRS. The surplus is subject to a number of critical accounting estimates which can materially impact the balances. The fair values included in the surplus are calculated with the assistance of an actuary and assumptions used are considered to be reasonable by management.

Bristol Water's employer contributions in the three and nine months ended September 30, 2012 to the defined benefit plan were $985 and $3,409, respectively. The expense is incurred entirely at Bristol Water.

The total defined contribution pension expense recorded in the consolidated statement of income for the three and nine months ended September 30, 2012 was $361 and $993, respectively. The expense comprised $865 for Bristol Water and $128 for Cardinal for the nine months ended September 30, 2012.

Income Taxes

Current income tax expense was $490 and $998 for the third quarter and year to date respectively. This 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)	**Sep 30, 2012**	**Dec 31, 2011**
Deferred income tax assets	30,980	32,897
Deferred income tax liabilities	(175,902)	(178,201)
	(144,922)	(145,304)

Capstone’s total deferred income tax assets include $16,819 ($16,924 at December 31, 2011) attributable to the Canadian entities and $14,161 ($15,973 at December 31, 2011) for Bristol Water. Deferred income tax assets primarily relate to financial instruments fair value adjustments and differences in the amortization of deferred financing costs for tax and accounting purposes.

Deferred income tax liabilities of $66,264 ($60,286 at December 31, 2011) were attributable to Capstone’s Canadian entities while $109,638 ($117,915 at December 31, 2011) was attributable to Bristol Water. Deferred income tax liabilities primarily relate to differences in the amortization of intangible and capital assets for tax and accounting purposes.

Capstone's net deferred income tax liability decreased by $382 during the first nine months of 2012. The decrease was primarily attributable to the difference between accounting and tax depreciation. In addition, a substantively enacted tax rate reduction in the United Kingdom from 24% to 23%, effective July 1, 2012, resulted in a recovery of $3,504. The decrease in the deferred income tax liability not attributable to the deferred income tax expense relates to amounts recorded to other comprehensive income.

The income tax recovery of $35,913 for the nine-months ended September 30, 2011 was primarily attributable 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)	Sep 30, 2012	Dec 31, 2011
Derivative contract assets	2,287	3,144
Derivative contract liabilities	(31,184)	(34,143)
Net derivative contract liabilities	(28,897)	(30,999)

The composition of derivative contracts in 2012 is consistent with 2011, aside from the expiry of the gas swap and certain interest rate swaps during 2012. The $2,102 decrease in the net derivative contract liabilities is included in the $2,588 gain apart from other gains and losses on the consolidated statement of income for the nine months period ended September 30, 2012. The unrealized gain (loss) on derivatives on the interim consolidated statements of income and comprehensive income comprised:

	Three months ended		Nine months ended	
($000s)	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Interest rate swap contracts	34	(6,493)	(91)	(6,712)
Gas swap contracts	—	(895)	—	(1,604)
Foreign currency option contracts	(427)	(91)	(884)	60
Embedded derivative	2,987	(3,735)	3,563	(5,568)
Unrealized gain (losses) on derivatives in net income	2,594	(11,214)	2,588	(13,824)
Interest rate swap contracts	(425)	—	(476)	—
Unrealized gain (losses) on derivatives in OCI	2,169	(11,214)	2,112	(13,824)

Gains on derivatives for the third quarter and year-to-date period are primarily attributable to the change in value of the embedded derivative at Cardinal. The gains on the embedded derivative were partially offset by losses on the foreign currency contracts.

The embedded derivative gain was primarily due to a decrease in the forecasted Direct Customer Rate ("DCR") and the passage of time. The swap portion of the embedded derivative liability is calculated by discounting Capstone's expected cash flows from Cardinal's fuel supply agreement. Cardinal may swap gas mitigation payments at DCR for a fixed rate. This means that declines in forecasted DCR reduce the fair value of the liability. Additionally, as time passes, fewer net payments are included in the calculation and the liability declines.

The loss on foreign currency contracts is due to the net depreciation of the Swedish Krona and British pound sterling forward-looking rates relative to the fixed Canadian dollar conversion rate.

FOREIGN EXCHANGE

The foreign exchange gains (losses) for 2012 and 2011 were primarily due to translation of Capstone's SEK-denominated shareholder loan receivable with Värmevärden. Capstone's foreign exchange gain of $492 for the third quarter of 2012 was $398, or 423%, higher than in 2011. In both periods, the Swedish Krona depreciated against the Canadian dollar thereby reducing the carrying value of the loans in Canadian dollars. The $944 foreign exchange gain for the first nine months of 2012 was attributed to appreciation of the Swedish Krona during the first quarter. Repayment of more than half of the shareholder loan reduced the impact of Swedish Krona depreciation for year-to-date results.

RISKS AND UNCERTAINTIES

Capstone is subject to a variety of risks and uncertainties, including the re-contracting Cardinal, which has a PPA expiring at the end of 2014. These risks and uncertainties could impact future operating results and financial condition, which could adversely affect Capstone's ability to pay dividends to shareholders. For a comprehensive description of these risk factors , please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 21, 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. Please refer to the Corporation's prior environmental, health and safety regulation disclosure in its Annual Report for the year ended December 31, 2011, which is available on the SEDAR website at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

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

($000s, except for per share amounts)	2012			2011				2010
	Q3	Q2	Q1	Q4 [1]	Q3	Q2 [2, 3]	Q1	Q4
Revenue	84,951	85,849	92,156	91,663	40,361	37,028	46,915	44,265
Net income (loss) [4]	5,553	(4,568)	13,381	(4,891)	(11,783)	(30,370)	41,332	(2,648)
Adjusted EBITDA	24,618	27,605	37,295	31,120	13,253	(6,570)	17,869	16,531
AFFO	3,381	3,707	14,915	9,657	5,891	(13,888)	13,484	9,795
Common dividends [5]	5,655	10,231	12,299	11,569	10,225	10,217	10,015	8,232
Preferred dividends	938	938	938	1,264	—	—	—	—
Earnings Per Share – Basic	0.061	(0.073)	0.167	(0.086)	(0.190)	(0.492)	0.685	(0.055) [6]
Earnings Per Share – Diluted	0.061	(0.073)	0.161 [7]	(0.086)	(0.190)	(0.492)	0.625 [7]	(0.055)
AFFO per share [8]	0.045	0.049	0.200	0.136	0.096	(0.225)	0.223	0.192
Dividends declared per common share	0.075	0.135	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 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 during this period as they were classified as debt.

(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.

ACCOUNTING POLICIES AND INTERNAL CONTROL

Significant Changes in Accounting Standards

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 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 has completed a preliminary assessment of the new and amended standards with effective implementation dates on or before January 1, 2013 as described in the most recent annual financial statements. Adoption of the new and amended standards is not expected to have a material impact on the Corporation's consolidated financial statements.

Accounting Estimates

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

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

Area of significant estimate	Assumptions and judgements
• Purchase price allocations	• Initial fair value of net assets
• Depreciation on capital assets	• Estimated useful lives and residual value
• Amortization on intangible assets	• Estimated useful lives
• Asset retirement obligations	• Expected settlement date, amount and discount rate
• Impairment of trade receivables	• Probability of failing to recover amounts when they fall into arrears
• Derivative financial instruments	• Interest rate, natural gas price, and direct consumer rate
• Retirement benefits	• Future cash flows and discount rate
• Income taxes	• Timing of reversal of temporary differences
• Impairment assessments of capital, assets, intangibles and goodwill	• Future cash flows and discount rate

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

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Since December 31, 2011, no material changes have occurred in Capstone's policies and procedures and other processes that comprise its internal control over financial reporting and disclosure controls and procedures.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at ($000s)	Notes	Sep 30, 2012	Dec 31, 2011
Current assets			
Cash and cash equivalents		56,936	57,587
Restricted cash		19,484	14,875
Short-term deposits		—	82,274
Accounts receivable		80,982	73,583
Other assets		3,791	4,719
Current portion of loans receivable	6	1,067	984
Current portion of derivative contract assets		132	261
		162,392	234,283
Non-current assets			
Loans receivable	6	37,511	85,824
Derivative contract assets		2,155	2,883
Equity accounted investments	7	13,926	15,993
Capital assets	8	1,051,945	977,456
Intangible assets	9	283,412	288,304
Retirement benefit surplus	10	30,264	60,104
Deferred income tax assets		30,980	32,897
Total assets		1,612,585	1,697,744
Current liabilities			
Accounts payable and other liabilities		97,700	81,734
Current portion of derivative contract liabilities		3,012	3,088
Current portion of finance lease obligations		3,333	5,256
Current portion of long-term debt	11	14,536	230,899
		118,581	320,977
Long-term liabilities			
Derivative contract liabilities		28,172	31,055
Electricity supply and gas purchase contracts	9	3,670	4,894
Deferred income tax liabilities		175,902	178,201
Deferred revenue		5,321	1,363
Finance lease obligations		3,795	6,727
Long-term debt	11	782,229	704,145
Liability for asset retirement obligation		2,041	2,412
Total liabilities		1,119,711	1,249,774
Equity attributable to shareholders' of Capstone		406,314	413,520
Non-controlling interest		86,560	34,450
Total liabilities and shareholders' equity		1,612,585	1,697,744
Commitments and contingencies	18		

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

		Equity attributable to shareholders of Capstone					
($000s)	Notes	Share Capital (1)	Convertible Debentures	AOCI (2)	Retained Earnings	NCI (3)	Total Equity
Balance, December 31, 2010		536,278	—	—	(272,183)	—	264,095
Common shares issued		6,898	—	—	—	—	6,898
Preferred shares issued		72,715	—	—	—	—	72,715
Other comprehensive income (loss)		—	—	(139)	—	—	(139)
Net income for the period		—	—	—	(821)	—	(821)
Dividends declared to common shareholders of Capstone	12b	297	—	—	(30,457)	—	(30,160)
Reclassification of debt instruments to equity on conversion to a corporation		26,710	11,554	—	—	—	38,264
Debenture conversions, net of costs		11,819	(2,270)	—	—	—	9,549
Balance, September 30, 2011		654,717	9,284	(139)	(303,461)	—	360,401

		Equity attributable to shareholders of Capstone					
($000s)	Notes	Share Capital (1)	Convertible Debentures	AOCI (2)	Retained Earnings	NCI (3)	Total Equity
Balance, December 31, 2011		725,591	9,284	(6,729)	(314,626)	34,450	447,970
Common shares issued (4)		(89)	—	—	—	—	(89)
Other comprehensive income (loss)		—	—	1,448	(12,986)	(10,483)	(22,021)
Net income for the period		—	—	—	14,366	13,022	27,388
Dividends declared to common shareholders of Capstone	12a&b	4,578	—	—	(28,185)	—	(23,607)
Dividends declared to preferred shareholders of Capstone	12b	—	—	—	(2,813)	—	(2,813)
Dividends declared by Bristol Water		—	—	—	—	(2,088)	(2,088)
Partial sale of interest in Bristol Water	5	—	—	749	15,726	51,659	68,134
Balance, September 30, 2012		730,080	9,284	(4,532)	(328,518)	86,560	492,874

(1) Share capital includes common and preferred shares and class B exchangeable units.
(2) Accumulated other comprehensive income (loss) ("AOCI").
(3) Non-controlling interest ("NCI").
(4) During 2012, additional transaction costs of $89 were included in relation to the common share offering on November 10, 2011.

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Sep 30, 2012	Three months ended Sep 30, 2011	Nine months ended Sep 30, 2012	Nine months ended Sep 30, 2011
Revenue		84,951	40,361	262,956	124,304
Operating expenses	15	(48,083)	(24,315)	(143,645)	(73,488)
Administrative expenses	15	(2,268)	(4,787)	(8,119)	(30,583)
Equity accounted income (loss)	7	(2,145)	(1,721)	(1,302)	(5,596)
Interest income		1,118	1,994	3,993	4,320
Other gains and (losses), net		2,432	(11,214)	1,672	(13,824)
Foreign exchange gain (loss)		492	94	944	(539)
Earnings before, interest expense, taxes, depreciation and amortization		36,497	412	116,499	4,594
Interest expense		(10,660)	(6,179)	(38,523)	(16,291)
Depreciation of capital assets	8	(12,083)	(7,198)	(35,238)	(19,094)
Amortization of intangible assets	9	(2,605)	(2,030)	(7,538)	(5,935)
Income before income taxes		11,149	(14,995)	35,200	(36,726)
Income tax recovery (expense)					
Current		(490)	—	(998)	(8)
Deferred		1,154	3,212	(6,814)	35,913
Total income tax recovery (expense)		664	3,212	(7,812)	35,905
Net income (loss)		11,813	(11,783)	27,388	(821)
Net income (loss) attributable to:					
Shareholders of Capstone		5,553	(11,783)	14,366	(821)
Non-controlling interest		6,260	—	13,022	—
		11,813	(11,783)	27,388	(821)
Earnings per share					
Basic and diluted	13	0.061	(0.190)	0.154	(0.013)

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($000s)	Notes	Three months ended Sep 30, 2012	Three months ended Sep 30, 2011	Nine months ended Sep 30, 2012	Nine months ended Sep 30, 2011
Cumulative differences on translation of foreign operations		(1,823)	—	1,288	—
Other comprehensive loss on equity accounted investments	7	292	(6)	218	(139)
Losses on financial instruments designated as cash flow hedges (net of tax in 2012 - $68 and $84, respectively)		(510)	—	(797)	—
Actuarial losses recognized in respect of retirement benefit obligations (net of tax in 2012 - $4,626 and $8,286, respectively)		(13,553)	—	(22,730)	—
Other comprehensive income (loss)		(15,594)	(6)	(22,021)	(139)
Net income (loss)		11,813	(11,783)	27,388	(821)
Total comprehensive income		(3,781)	(11,789)	5,367	(960)
Comprehensive income attributable to:					
Shareholders of Capstone		2,823	(11,789)	2,828	(960)
Non-controlling interest		(6,604)	—	2,539	—
		(3,781)	(11,789)	5,367	(960)

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended ($000s)	Notes	Sep 30, 2012	Sep 30, 2011
Operating activities:			
Net income		27,388	(821)
Deferred income tax expense (recovery)		6,814	(35,913)
Depreciation and amortization		42,776	25,029
Other gains and losses (net)		(1,672)	13,818
Amortization of deferred financing costs and non-cash financing costs		10,205	3,031
Equity accounted (income) loss	7	1,302	5,596
Unrealized foreign exchange (gain) loss on loan receivable	6	(463)	497
Change in non-cash working capital	17	(13,656)	5,064
Total cash flows from operating activities		72,694	16,301
Investing activities:			
Proceeds from sale of Bristol Water	5	68,984	—
Receipt of loans receivable		48,693	654
Change in restricted cash and short term investments		77,781	(9,728)
Return of capital from equity accounted investments	7	983	—
Proceeds from sale (purchase) of foreign currency contracts		38	(710)
Investment in capital assets and computer software	8	(94,158)	(87,456)
Loan to equity accounted investments		—	(84,794)
Investment in equity accounted investments		—	(25,626)
Total cash flows from (used in) investing activities		102,321	(207,660)
Financing activities:			
Proceeds from long-term debt		100,621	65,677
Repayment of long-term debt and finance lease obligations		(250,341)	(4,843)
Dividends paid to common and preferred shareholders		(20,764)	(30,159)
Dividends paid to non-controlling interests		(2,088)	—
Transaction costs on debt issuance		(3,339)	(889)
Proceeds from issuance of common and preferred shares, net of costs		(89)	79,209
Proceeds from loans payable		—	8,903
Total cash flows from (used in) financing activities		(176,000)	117,898
Effect of exchange rate changes on cash and cash equivalents		334	-
Increase (decrease) in cash and cash equivalents		(651)	(73,461)
Cash and cash equivalents, beginning of year		57,587	128,413
Cash and cash equivalents, end of period		56,936	54,952
Supplemental information:			
Interest paid		33,848	12,292
Taxes paid (recovery)		522	8

See accompanying notes to these interim consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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 50% 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 November 13, 2012, the date that the Board of Directors approved the interim consolidated financial statements.

3. SEASONALITY

The seasonality of wind speed and density, volume of water flows, sunlight, ambient temperatures and pricing provisions within the power purchase agreements ("PPA") with the Ontario Electricity Financial Corporation ("OEFC") may result in fluctuations in revenue and net income during the period.

Operating expenses of the regulated water utility in the United Kingdom can fluctuate depending on the availability of water from various sources, the quantity of water requiring treatment as a result of dry weather, and pipe bursts 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 nine 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. 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 completed a preliminary assessment of the new and amended standards with effective implementation dates on or before January 1, 2013 as described in the most recent annual financial statements. Adoption of the new and amended standards is not expected to have a material impact on the Corporation's consolidated financial statements.

5. ACQUISITIONS AND DISPOSALS

Acquisition of 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. 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 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. On acquisition, the non-controlling interest has only been calculated on the fair value of the net identifiable assets.

The purchase price allocation is preliminary and will be finalized within a year of the purchase date. The preliminary allocation of total consideration was allocated to net assets acquired and adjusted in 2012 as follows:

As at October 5, 2011 ($000s)	Original	Adjustment	Revised
Working capital	804	849	1,653
Tangible assets	506,792	—	506,792
Intangible assets – licence	21,591	—	21,591
Intangible assets – goodwill	139,255	953	140,208
Incremental deferred income tax asset on acquisition	15,285	—	15,285
Less: net financial liabilities (net of cash received £24,324, $39,487)	(375,310)	—	(375,310)
Other	(51,392)	—	(51,392)
Incremental deferred income tax liability on acquisition	(11,739)	(1,802)	(13,541)
Non-controlling interest	(31,810)	—	(31,810)
Total cash consideration	213,476	—	213,476

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

Partial Sale of Interest in Bristol Water

On May 10, 2012, Capstone sold to I-Environment Investments Ltd, a subsidiary of ITOCHU Corporation, a 20% indirect interest in Bristol Water plc. I-Environment Investments Ltd acquired a $2/7^{ths}$ ownership interest in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone received $68,984 of net proceeds on sale and used the funds to repay the remaining $28,975 on the senior debt facility and $39,000 on the CPC-Cardinal credit facility, retaining cash of $1,009.

Following this sale, Capstone retained a 50% beneficial interest in Bristol Water and continues to consolidate based on retention of control. Capstone recorded the transaction as a transfer of equity to non-controlling interest holders as follows:

As at May 10, 2012 ($000s)	$
Proceeds on sale (£43,500)	70,274
Transaction costs	(1,290)
Net proceeds on sale	68,984
Taxes payable for gain on sale	(850)
Adjustment to total equity	68,134
Non-controlling interest adjustment	(52,408)
Retained earnings adjustment	15,726

In addition, the portion of cumulative differences on translation related to Bristol Water has been adjusted to the non-controlling interest acquired by ITOCHU Corporation as follow:

($000s)	AOCI	NCI
Non-controlling interest adjustment for partial sale of interest in Bristol Water	—	52,408
Transfer of cumulative differences on translation of foreign operations	749	(749)
Non-controlling interest adjustment, net	749	51,659

6. LOANS RECEIVABLE

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

As at ($000s)	Sep 30, 2012	Dec 31, 2011
Värmevärden	34,086	81,587
Chapais	4,492	5,221
	38,578	86,808
Less: current portion	(1,067)	(984)
Total long-term loans receivable	37,511	85,824

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

	Nine months ended Sep 30,2012		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)	—	463	—	(3,241)
Ending balance	227,541	34,086	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. The distribution of $49,400 was comprised of a $48,100 shareholder loan repayment and a payment of $1,300 of accrued interest. 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

	Sep 30, 2012		Dec 31, 2011	
As at ($000s)	Ownership %	Carrying value	Ownership %	Carrying value
Macquarie Long Term Care L.P. ("MLTCLP")	45.0%	102	45.0%	106
Värmevärden	33.3%	13,824	33.3%	15,887
Chapais	31.3%	—	31.3%	—
		13,926		15,993

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

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

($000s)	Opening balance	Equity accounted income (loss)	Equity share of OCI	Return of capital	Ending balance
Three months ended September 30, 2012	15,779	(2,145)	292	—	13,926
Nine months ended September 30, 2012	15,993	(1,302)	218	(983)	13,926

8. CAPITAL ASSETS

($000s)	Jan 1, 2012	Additions	Disposals	Foreign exchange	Transfers	Sep 30, 2012
Cost						
Land	2,707	—	—	11	—	2,718
Equipment and vehicles	8,389	793	(505)	82	2,084	10,843
Property and plant	790,178	3,995	(4,159)	1,729	29,522	821,265
Infrastructure assets	271,485	47,287	—	1,675	1,496	321,943
Construction in progress	35,750	58,844	—	240	(35,293)	59,541
	1,108,509	110,919	(4,664)	3,737	(2,191)	1,216,310
Accumulated depreciation						
Equipment and vehicles	(3,568)	(1,325)	480	(64)	—	(4,477)
Property and plant	(126,465)	(30,180)	2,804	(796)	—	(154,637)
Infrastructure assets	(1,020)	(3,733)	24	(522)	—	(5,251)
Net carrying value	977,456	75,681	(1,356)	2,355	(2,191)	1,051,945

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

Nine months ended ($000s)	Sep 30, 2012	Sep 30, 2011
Additions	110,919	86,637
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	(19,056)	819
Additions to computer software (intangible assets)	2,191	—
Net foreign exchange difference	104	—
Cash additions	94,158	87,456

9. INTANGIBLES

($000s)	Jan 1, 2012	Additions	Foreign exchange	Transfers	Sep 30, 2012
Assets					
Computer software	4,220	28	138	2,191	6,577
Electricity supply and gas purchase contracts	108,048	—	—	—	108,048
Water rights	73,018	—	—	—	73,018
Licence	21,012	—	93	—	21,105
Goodwill	135,512	—	1,538	—	137,050
Accumulated amortization					
Computer Software	(550)	(1,498)	(119)	—	(2,167)
Electricity supply and gas purchase contracts	(43,395)	(5,674)	—	—	(49,069)
Water rights	(9,561)	(1,589)	—	—	(11,150)
	288,304	(8,733)	1,650	2,191	283,412
Provisions					
Electricity supply and gas purchase contracts	12,257	—	—	—	12,257
Utilization	(7,363)	(1,224)	—	—	(8,587)
	4,894	(1,224)	—	—	3,670

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 and nine months ended September 30, 2012 was $361 and $993, respectively. The expense is composed of $865 for Bristol Water and $128 for Cardinal for the nine months ended September 30, 2012.

Defined Benefit Plan

The retirement benefit surplus on the statements of financial position at September 30, 2012 was $30,264 (December 31, 2011 - $60,104).

Employer contributions paid in the three and nine months ended September 30, 2012 to the defined benefit plan were $985 and $3,409, respectively. The contributions are entirely incurred at Bristol Water.

11. LONG-TERM DEBT

(A) Components of Long-term Debt

As at ($000s)	Sep 30, 2012	Dec 31, 2011
CPC-Cardinal credit facility	12,300	85,000
Erie Shores project debt	99,039	102,933
Amherstburg Solar Park project debt	90,656	94,267
Hydro facilities senior secured and subordinated bonds	98,685	—
Wawatay facility's levelization liability	—	26,313
Power	300,680	308,513
Bank loans	15,393	38,956
Term loans	419,780	413,702
Debentures	2,028	2,008
Irredeemable cumulative preferred shares	25,787	25,673
Utilities - water	462,988	480,339
Senior debt facility	—	78,375
CPC-Cardinal credit facility	—	34,000
Convertible debentures	40,551	40,238
Corporate	40,551	152,613
	804,219	941,465
Less: deferred financing costs	(7,454)	(6,421)
Long-term debt	796,765	935,044
Less: current portion	(14,536)	(230,899)
	782,229	704,145

CPC-Cardinal credit facility

Capstone repaid $106,700 of the CPC-Cardinal credit facility. On May 10, 2012, $39,000 was repaid with proceeds from the partial sale of Bristol Water (refer to note 5 Acquisition and Disposal). Additionally, $67,700 was repaid on June 6, 2012 with proceeds from the financing of the hydro power facility.

On September 17, 2012, Capstone refinanced the CPC-Cardinal credit facility in the aggregate amount of up to $27,300, comprised of a $12,300 term loan used to repay the outstanding balance and a $15,000 revolving facility. The facility will mature on June 30, 2014 and the $12,300 term portion bears interest based on the prime rate plus 2.25% and partially amortizes during the term.

Hydro facilities senior secured and subordinated secured bonds

On June 6, 2012, MPT Hydro LP completed a $100,621 debt offering to recapitalize the Dryden, Hluey Lakes, Sechelt and Wawatay facilities (the "hydro facilities"). The debt offering comprising $80,379 of senior secured bonds and $20,242 of subordinated secured bonds. The senior secured and subordinated secured bonds are fully amortizing with terms of 28 and 29 years and bearing interest at fixed rates of 4.56% and 7.0%, respectively. The bonds are secured by the hydro facilities alone and are non-recourse to the Corporation's other businesses.

Proceeds of the bond offerings were first used to repay $27,239, the balance of the levelization debt at the Wawatay hydro facility, along with $1,785 of transaction costs, which were capitalized to the debt. In addition, Capstone cash funded $3,846 to the debt service and maintenance reserve accounts in accordance with the bond indenture which is presented as restricted cash and used $67,700 net proceeds to repay a portion of the CPC-Cardinal credit facility.

Senior debt facility

The Corporation repaid $49,400 from the proceeds of the Värmevärden bond issue (refer to note 6 Loan Receivable). On May 10, 2012, Capstone repaid the remaining $28,975 with proceeds from the partial sale of Bristol Water.

(B) Long-term Debt Covenants

For the three and nine months ended and as at September 30, 2012, the Corporation and its subsidiaries were in compliance with all financial and non-financial debt covenants.

12. SHAREHOLDERS' EQUITY

The share capital of the Corporation was as follows:

As at ($000s)	Sep 30, 2012	Dec 31, 2011
Common shares	631,350	626,861
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	730,080	725,591

(A) Common Shares

	Three months ended Sep 30, 2012		Nine months ended Sep 30, 2012	
($000s and 000s shares)	Shares	Carrying Value	Shares	Carrying Value
Opening balance	72,061	630,974	70,957	626,861
Common shares issued	—	—	—	(89)
Dividend reinvestment plan	96	376	1,200	4,578
Ending balance	72,157	631,350	72,157	631,350

(B) Dividends Declared

	Three months ended		Nine months ended	
($000s)	Sep 30, 2012	Sep 30, 2011	Sep 30, 2012	Sep 30, 2011
Common shares	5,411	9,689	26,869	28,849
Class B exchangeable units	244	536	1,316	1,608
	5,655	10,225	28,185	30,457
Preferred shares	938	—	2,813	—
	6,593	10,225	30,998	30,457

13. EARNINGS PER SHARE ("EPS")

	Three months ended		Nine months ended	
($000s)	Sep 2012	Sep 2011	Sep 2012	Sep 2011
Net income (loss)	11,813	(11,783)	27,388	(821)
Non-controlling interest	(6,260)	—	(13,022)	—
Dividends declared on preferred shares	(938)	—	(2,813)	—
Net income (loss) available to common shareholders	4,615	(11,783)	11,553	(821)
Weighted average number of common shares outstanding	75,391	61,961	74,955	61,630
Basic and Diluted EPS	0.061	(0.190)	0.154	(0.013)

The convertible debentures are anti-dilutive for the three- and nine-month periods ended September 30, 2012 and 2011.

14. SHARE-BASED COMPENSATION

(A) Deferred Share Units ("DSU")

Capstone granted 6,670 DSUs during the third quarter of 2012 and 14,138 year-to-date. The five-day volume weighted average price ("VWAP") per DSU granted on July 3, 2012 was 3.93 dollars. As at September 30, 2012, the $105 carrying value of the DSUs was based on a market price of $4.43 dollars.

(B) Long-term Incentive Plan

Capstone granted 253,959 Restricted Stock Units ("RSU") and 141,431 Performance Share Units ("PSU") during the first nine months 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 September 30, 2012, the carrying value of the RSUs was $1,550 and $856 for the PSUs based on a market price of $4.43 dollars.

15. EXPENSES – ANALYSIS BY NATURE

Three months ended Sep 30,	2012			2011		
($000s)	Operating	Administrative	Total	Operating	Administrative	Total
Fuel	18,952	—	18,952	19,379	—	19,379
Chemicals and supplies	18,017	—	18,017	329	—	329
Wages and benefits	6,237	1,580	7,817	1,923	1,643	3,566
Maintenance	1,043	—	1,043	697	—	697
Manager fees	389	—	389	485	69	554
Insurance	471	—	471	455	—	455
Professional fees for legal, audit, tax and other advisory	—	137	137	—	374	374
Leases	256	—	256	244	—	244
Property taxes	263	—	263	307	—	307
Business development	—	4	4	—	2,294	2,294
Internalization	—	—	—	—	75	75
Other	2,455	547	3,002	496	332	828
Total	48,083	2,268	50,351	24,315	4,787	29,102

Nine months ended Sep 30,	2012			2011		
($000s)	Operating	Administrative	Total	Operating	Administrative	Total
Fuel	57,342	—	57,342	57,271	—	57,271
Chemicals and supplies	54,787	—	54,787	1,009	—	1,009
Wages and benefits	18,285	4,787	23,072	5,444	2,791	8,235
Maintenance	3,261	—	3,261	3,093	—	3,093
Insurance	1,185	—	1,185	1,429	—	1,429
Manager fees	1,428	—	1,428	1,352	1,714	3,066
Professional fees for legal, audit, tax and other advisory	—	1,062	1,062	—	1,158	1,158
Leases	977	—	977	765	—	765
Property taxes	871	—	871	745	—	745
Business development	—	86	86	—	3,980	3,980
Internalization	—	—	—	—	19,321	19,321
Other	5,509	2,184	7,693	2,380	1,619	3,999
Total	143,645	8,119	151,764	73,488	30,583	104,071

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.

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

	Three months ended Sep 30, 2012					Three months ended Sep 30, 2011				
		Utilities					Utilities			
($000s)	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	39,384	45,567	—	—	84,951	40,361	—	—	—	40,361
Depreciation of capital assets	(6,736)	(5,247)	—	(100)	(12,083)	(7,198)	—	—	—	(7,198)
Amortization of intangible assets	(2,003)	(581)	—	(21)	(2,605)	(2,007)	—	—	(23)	(2,030)
Interest income	290	147	672	9	1,118	218	—	1,679	97	1,994
Interest expense	(1,257)	(4,847)	—	(4,556)	(10,660)	(5,312)	—	—	(867)	(6,179)
Income tax recovery (expense)	—	987	—	(323)	664	—	—	—	3,212	3,212
Net income (loss)	7,770	12,519	(912)	(7,564)	11,813	(7,100)	—	(1,721)	(2,962)	(11,783)
Cash flow from operations	4,541	15,174	672	(2,793)	17,594	12,576	—	1,679	(3,718)	10,537
Additions to capital assets	1,847	32,640	—	17	34,504	739	—	—	—	739

	Nine months ended Sep 30, 2012					Nine months ended Sep 30, 2011				
		Utilities					Utilities			
($000s)	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	130,159	132,797	—	—	262,956	124,304	—	—	—	124,304
Depreciation of capital assets	(20,008)	(14,937)	—	(293)	(35,238)	(19,094)	—	—	—	(19,094)
Amortization of intangible assets	(6,019)	(1,482)	—	(37)	(7,538)	(5,903)	—	—	(32)	(5,935)
Interest income	591	704	2,677	21	3,993	619	—	3,371	330	4,320
Interest expense	(13,221)	(16,669)	—	(8,633)	(38,523)	(13,578)	—	—	(2,713)	(16,291)
Income tax recovery (expense)	—	(609)	—	(7,203)	(7,812)	(339)	—	—	36,244	35,905
Net income (loss)	18,157	31,358	2,931	(25,058)	27,388	(1,813)	—	(5,596)	6,588	(821)
Cash flow from operations	42,247	47,058	2,677	(19,288)	72,694	54,752	—	3,371	(41,822)	16,301
Additions to capital assets	4,709	106,131	—	79	110,919	86,637	—	—	—	86,637

	As at Sep 30, 2012					As at Dec 31, 2011				
		Utilities					Utilities			
($000s)	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	633,878	909,285	48,835	20,587	1,612,585	656,871	913,811	97,458	29,604	1,697,744
Total liabilities	311,805	656,749	61	151,096	1,119,711	287,780	663,454	—	298,540	1,249,774

17. NON-CASH WORKING CAPITAL

The change in non-cash working capital for the nine-month period ending September 30, 2012 was composed of the following:

Nine months ended ($000s)	Sep 30, 2012	Sep 30, 2011
Accounts receivable	(6,322)	580
Other assets	(2,472)	803
Accounts payable and other liabilities	(4,862)	3,681
	(13,656)	5,064

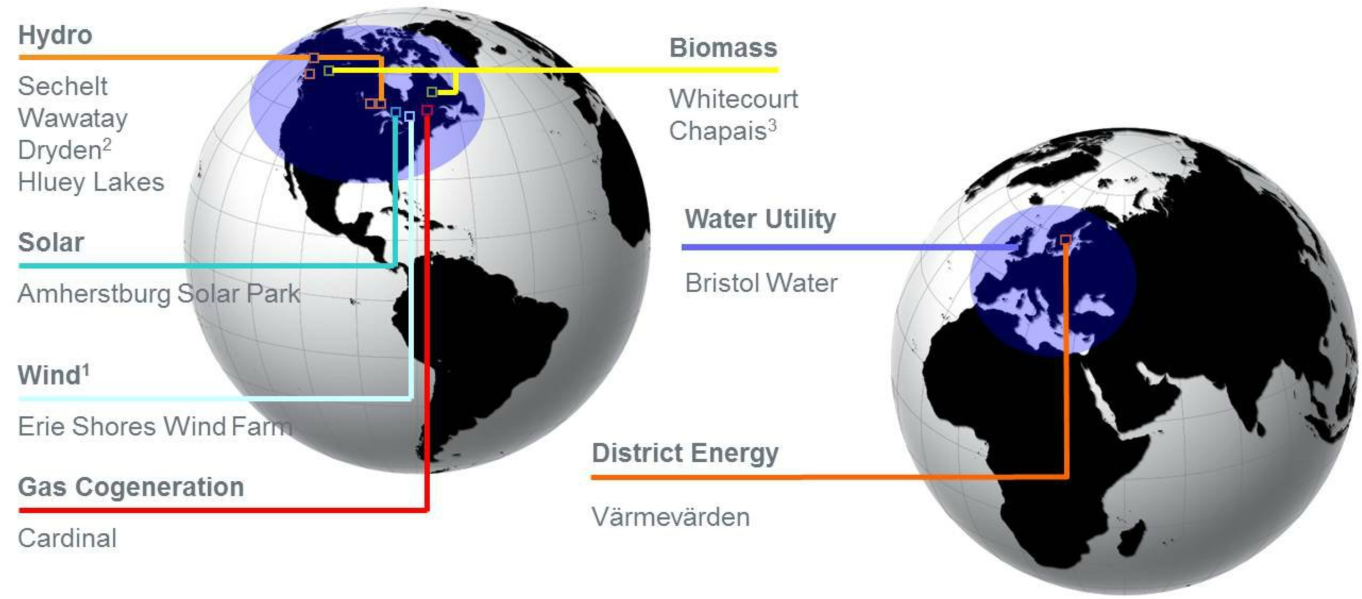
18. COMMITMENTS AND CONTINGENCIES

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 nine months ended September 30, 2012.

19. COMPARATIVE FIGURES

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

PORTFOLIO



POWER

Business	Year Built	Ownership Interest	Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Cardinal	1994	100%	156	OEFC	2014	Husky	2015	18
Erie Shores(1)	2006	100%	99	OPA	2026	n/a	n/a	10
Whitecourt	1994	100%	25	TransAlta	2014	Millar Western	2016	33
Amherstburg	2011	100%	20	OPA	2031	n/a	n/a	n/a
Sechelt	1997	100%	16	BC Hydro	2017	n/a	n/a	n/a
Wawatay	1992	100%	14	OEFC	2042	n/a	n/a	n/a
Hluey Lakes	2000	100%	3	BC Hydro	2020	n/a	n/a	n/a
Dryden(2)	Various	100%	3	OEFC	2020	n/a	n/a	n/a
Chapais(3)	1995	31.3%	28	Hydro-Québec	2015	Barrette/Chantiers/ Société en commandite Scierie Opitciwan	2015	n/a

UTILITIES

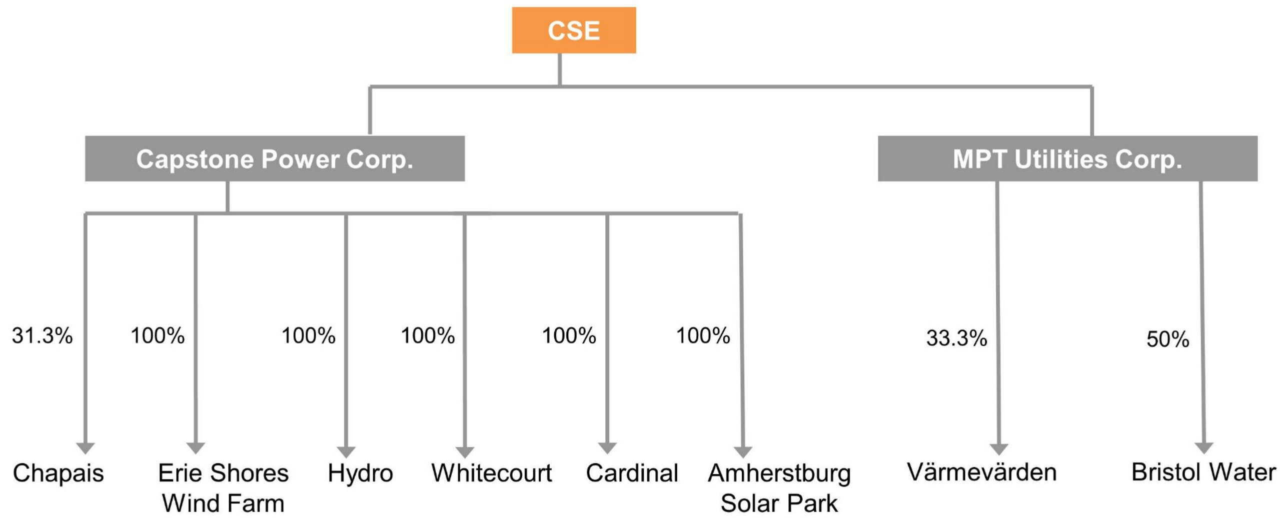
Business	Ownership Interest	Capacity	Counterparties	Length of Network	Approximate Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 786 MWth	Mix of industrial and retail customers, with industrial counterparties representing approximately one-third of revenue	317 kilometres	163,000	No	89
Bristol Water	50%	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) The Dryden facility is composed of three facilities, built in 1922 (Wainwright), 1928 (Eagle) and 1938 (McKenzie). These facilities were refurbished in 1986.

(3) CSE's investment in Chapais consists of a 31.3% interest in one of two classes of preferred shares, a 24.8% interest in Tranche A and B debt, and a 50% interest in Tranche C debt.

ORGANIZATIONAL STRUCTURE



CONTACT INFORMATION

Address:
155 Wellington Street West, Suite 2930
Toronto, ON M5V 3H1
www.capstoneinfrastructure.com
Email: info@capstoneinfrastructure.com

Contacts:

Michael Smerdon
Executive Vice President and Chief Financial Officer
Tel: 416-649-1331
Email: msmerdon@capstoneinfrastructure.com

Sarah Borg-Olivier
Senior Vice President, Communications
Tel: 416-649-1325
Email: sborg-olivier@capstoneinfrastructure.com