

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Dec 31, 2012	Dec 31, 2011
Current assets			
Cash and cash equivalents	4	49,599	57,587
Restricted cash	4	19,229	14,947
Short-term deposits	5	6,471	82,202
Accounts receivable	6	75,386	70,854
Other assets	7	7,218	7,448
Current portion of loans receivable	8	1,096	984
Current portion of derivative contract assets	9a	174	261
		159,173	234,283
Non-current assets			
Loans receivable	8	37,909	85,824
Derivative contract assets	9a	1,847	2,883
Equity accounted investments	11	16,990	15,993
Capital assets	12	1,086,407	977,456
Intangible assets	13	283,919	288,304
Retirement benefit surplus	14	37,575	60,104
Deferred income tax assets	15a	28,719	32,897
Total assets		1,652,539	1,697,744
Current liabilities			
Accounts payable and other liabilities	16a	106,767	81,734
Current portion of derivative contract liabilities	9a	3,106	3,088
Current portion of finance lease obligations	17	3,502	5,256
Current portion of long-term debt	18	14,977	230,899
		128,352	320,977
Long-term liabilities			
Derivative contract liabilities	9a	27,545	31,055
Electricity supply and gas purchase contracts	13	3,260	4,894
Deferred income tax liabilities	15a	181,176	178,201
Deferred revenue	16b	6,298	1,363
Finance lease obligations	17	3,699	6,727
Long-term debt	18	789,655	704,145
Liability for asset retirement obligation	19	2,096	2,412
Total liabilities		1,142,081	1,249,774
Equity attributable to shareholders of Capstone	20e	418,848	413,520
Non-controlling interest		91,610	34,450
Total liabilities and shareholders' equity		1,652,539	1,697,744
Commitments and contingencies	25		

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Equity attributable to shareholders of Capstone					Total Equity
		Share Capital ⁽¹⁾	Convertible Debentures	AOCI ⁽²⁾	Retained Earnings	NCI ⁽³⁾	
Balance, Dec 31, 2010		536,278	—	—	(272,183)	—	264,095
Common shares issued	20a	77,526	—	—	—	—	77,526
Preferred shares issued	20c	72,020	—	—	—	—	72,020
Reclassification of debt instruments to equity on conversion to a corporation		26,710	11,554	—	—	—	38,264
Debenture conversions, net of costs	20a	11,819	(2,270)	—	—	—	9,549
Other comprehensive income (loss)		—	—	(6,729)	6,559	1,866	1,696
Non-controlling interest in net assets acquired of Bristol Water	3	—	—	—	—	31,810	31,810
Net income for the period		—	—	—	(5,712)	2,449	(3,263)
Dividends declared to common shareholders of Capstone	20a,d	1,238	—	—	(42,026)	—	(40,788)
Dividends declared to preferred shareholders of Capstone	20d	—	—	—	(1,264)	—	(1,264)
Dividends declared by Bristol Water		—	—	—	—	(1,675)	(1,675)
Balance, Dec 31, 2011		725,591	9,284	(6,729)	(314,626)	34,450	447,970
Common shares issued ⁽⁴⁾	20a	(89)	—	—	—	—	(89)
Other comprehensive income (loss)		—	—	5,171	(10,538)	(5,933)	(11,300)
Net income for the period		—	—	—	26,978	16,746	43,724
Dividends declared to common shareholders of Capstone	20a,d	5,702	—	—	(33,764)	—	(28,062)
Dividends declared to preferred shareholders of Capstone ⁽⁵⁾	20d	—	—	—	(4,575)	—	(4,575)
Dividends declared by Bristol Water		—	—	—	—	(5,312)	(5,312)
Partial sale of interest in Bristol Water	3	—	—	749	15,694	51,659	68,102
Balance, Dec 31, 2012		731,204	9,284	(809)	(320,831)	91,610	510,458

(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.

(5) Dividends declared to preferred shareholders of Capstone include \$200 of deferred income taxes.

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

(\$000s, except per share amounts)	Notes	For the year ended	
		Dec 31, 2012	Dec 31, 2011
Revenue		357,610	215,967
Operating expenses	23	(195,178)	(122,086)
Administrative expenses	23	(11,070)	(29,677)
Project development costs	23	(365)	(8,289)
Equity accounted income (loss)	11a	2,294	(5,276)
Interest income	9b	4,886	6,443
Other gains and (losses), net	24	1,294	(21,742)
Foreign exchange gain (loss)		1,620	(3,274)
Earnings before interest expense, taxes, depreciation and amortization		161,091	32,066
Interest expense	9b	(49,707)	(31,668)
Depreciation of capital assets	12	(47,432)	(31,006)
Amortization of intangible assets	13	(10,120)	(8,413)
Earnings before income taxes		53,832	(39,021)
Income tax recovery (expense)			
Current		239	(187)
Deferred		(10,347)	35,945
Total income tax recovery (expense)	15d	(10,108)	35,758
Net income (loss)		43,724	(3,263)
Net income (loss) attributable to:			
Shareholders of Capstone		26,978	(5,712)
Non-controlling interest		16,746	2,449
		43,724	(3,263)
Earnings per share			
Basic and diluted	21	0.298	(0.108)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the year ended	
		Dec 31, 2012	Dec 31, 2011
Cumulative differences on translation of foreign operations		6,478	(6,890)
Other comprehensive income (loss) on equity accounted investments	11a	702	(724)
Losses on financial instruments designated as cash flow hedges (net of tax in 2012 – \$13, 2011 – \$20)		(642)	(60)
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2012 – \$6,826, 2011 – \$3,123, respectively)	14	(17,838)	9,370
Other comprehensive income (loss)		(11,300)	1,696
Net income (loss)		43,724	(3,263)
Total comprehensive income (loss)		32,424	(1,567)
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		21,611	(5,882)
Non-controlling interest		10,813	4,315
		32,424	(1,567)

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

		For the year ended	
	Notes	Dec 31, 2012	Dec 31, 2011
Operating activities:			
Net income		43,724	(3,263)
Deferred income tax expense (recovery)		10,347	(35,945)
Depreciation and amortization		57,552	39,419
Other gains and losses (net)	24	(1,294)	21,742
Amortization of deferred financing costs and non-cash financing costs		12,812	7,599
Equity accounted (income) loss	11a	(2,294)	5,276
Unrealized foreign exchange (gain) loss		(1,206)	3,241
Change in non-cash working capital	28	(4,963)	12,812
Total cash flows from operating activities		114,678	50,881
Investing activities:			
Change in restricted cash and short-term deposits		72,010	3,324
Receipt of loans receivable		48,943	884
Return of capital from equity accounted investments	11a	2,001	—
Proceeds from sale (purchase) of foreign currency contracts		38	(2,468)
Investment in capital assets and computer software	12	(127,941)	(122,385)
Business acquisitions (net of cash acquired of \$39,487)		—	(173,989)
Loan to equity accounted investments	8	—	(84,828)
Investment in equity accounted investments	11a	—	(21,882)
Total cash flows used in investing activities		(4,949)	(401,344)
Financing activities:			
Proceeds from issuance of long-term debt		100,621	249,200
Proceeds from partial sale of Bristol Water	3	68,952	—
Repayment of long-term debt and finance lease obligations		(253,311)	(76,872)
Dividends paid to common and preferred shareholders		(26,131)	(42,051)
Dividends paid to non-controlling interests		(5,312)	(1,675)
Transaction costs on debt issuance		(3,364)	(3,512)
Proceeds from issuance of common and preferred shares, net of costs		(89)	150,175
Proceeds from loans payable		—	5,466
Total cash flows from (used in) financing activities		(118,634)	280,731
Effect of exchange rate changes on cash and cash equivalents			
Decrease in cash and cash equivalents		(7,988)	(70,826)
Cash and cash equivalents, beginning of year		57,587	128,413
Cash and cash equivalents, end of year		49,599	57,587
Supplemental information:			
Interest paid		40,670	20,128
Taxes paid (recovery)		929	(538)

See accompanying notes to these consolidated financial statements