CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended September 30, 2011

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

	Three months ended		Nine months ended	
Earnings Measures ($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Revenue	40,361	34,598	124,304	114,247
Net income (loss)	(11,783)	(6,845)	(821)	18,549
Basic earnings per share	(0.190)	(0.147)	(0.013)	0.398

	Three months ended		Nine months ended	
Cash Flow Measures ($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Cash flows from operating activities	10,040	6,150	15,804	27,387
Adjusted EBITDA [(1)]	13,253	10,166	24,553	39,287
Funds from operations (“FFO”) [(1)]	9,045	7,299	12,907	29,009
Adjusted funds from operations (“AFFO”) [(1)]	5,891	6,223	5,489	24,979
Payout ratio	173.6%	132.3%	555%	98.9%

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

Capital Structure ($000s)	**Sep 30, 2011**	**Dec 31, 2010**
CPC–Cardinal credit facility	85,000	85,000
Erie Shores project debt	104,193	107,063
Convertible debentures – face value	42,749	53,221
Amherstburg Solar Park project debt	94,315	31,000
Levelization liability	25,425	23,714
Class B exchangeable units – market value	20,569	26,710
Preferred shares – market value	60,300	-
Common shares – market value	371,889	463,217

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	58,750,308
Preferred shares outstanding	3,000,000
Convertible debentures outstanding	42,749
Class B exchangeable units	3,249,390
Securities symbols and exchange	Toronto Stock Exchange: CSE, CSE.PR.A, CSE.DB.A
Index inclusion	S&P TSX Clean Technology Index
Ownership	Approximately 18,000 common shareholders

QUARTERLY TRADING INFORMATION

	High	Low	Closing	Average Daily Trading Volume
Common share price	$7.85	$6.12	$6.33	154,499
Preferred share price	$24.20	$18.76	$20.10	8,136
Debenture price	$112.00	$99.05	$103.00	5,687

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LEGAL NOTICE

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding Capstone Infrastructure Corporation's (the "Corporation") future growth, results of operations, performance and business based on information currently available to the Corporation. Forward-looking statements and a financial outlook are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "estimate", "believe" or other similar words, and include, among other things, statements found in this document under the headings "Letter to Shareholders" and "Asset Performance" concerning the financial and performance outlook of the Corporation and its businesses. These statements 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, 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 for each of the Corporation's assets 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, 2010 under the heading "Asset Performance", 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 the financial outlook contained herein include the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that there will be no unplanned material changes to the Corporation's facilities, equipment or contractual arrangements, no unforeseen changes in the legislative 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 business, district heating business ("Värmevärden") or water distribution business ("Bristol Water"), no unfavourable changes in environmental regulation, and no significant event occurring outside the ordinary course of business; that there will be a stable regulatory environment and favourable decisions will be received from regulatory bodies concerning outstanding rate and other applications; that the Corporation's senior credit facility, used to partially fund the Bristol Water acquisition, will be repaid on or prior to its maturity on October 4, 2012; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying its current asset management plan ("AMP"), including, among others: a 7% increase in Bristol Water's 2011/2012 revenue (including a 4% real increase as provided by the UK Water Services Regulation Authority ("Ofwat") and an approximately 3% inflationary increase); a 3% increase in Bristol Water's 2011/2012 expenses in line with inflation; UK pound sterling to Canadian dollar exchange rate of £0.625:$1.00; and capital investment, leakage, customer service standards and asset serviceability targets.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements and the financial outlook, actual results may differ from those suggested by the forward-looking statements and financial outlook for various reasons, including risks related to: power infrastructure (operational performance; power purchase agreements; fuel costs and supply; contract performance; development risk; technology risk; default under credit agreements; land tenure and related rights; regulatory regime and permits; environmental, health and safety requirements; climate change and the environment; and force majeure) the Corporation (tax-related risks; variability and payment of dividends, which are not guaranteed; geographic concentration and non-diversification; insurance; environmental, health and safety regime; availability of financing; shareholder dilution; and the unpredictability and volatility of the common share price of the Corporation); the Corporation's investment in Värmevärden (general business risks inherent in the district heating business; fuel costs and supply; reliance on industrial customers and ability of residential customers to cancel contracts on short notice; geographic concentration; government regulation; environmental health and safety liabilities; reliance on key personnel; labour relations; enforcement of indemnities against the vendors of Värmevärden; minority interest; foreign exchange; and that Värmevärden may not achieve expected results); and Bristol Water's business (revenue is substantially influenced by price determinations made by Ofwat; failure to deliver capital investment programs; failure to deliver water leakage targets; the imposition of penalties under Ofwat's new comparative incentive mechanism; the economic downturn impacting the lending environment, as well as debt and capital markets, resulting in more costly financing and inflation negatively impacting leverage and key financial ratios, which may have a negative impact on credit ratings, as well as increasing the cost of capital expenditures; pension plan obligations may require Bristol Water to make additional contributions; failure to meet existing regulatory requirements and the potentially adverse impact of future legislative and regulatory changes; the ability for a Special Administrator to be appointed by the UK Secretary of State or Ofwat in certain circumstances (including the breach by Bristol Water of its license); foreign exchange; operational risks (including significant interruption of the provision of its services and catastrophic damage resulting in loss of life, environmental damage or economic and social disruption); development of competition within the water sector; reliance on key personnel; default under its Artesian loans, bonds, debentures or credit facility; geographic concentration; potential seasonality and climate change; labour relations; and enforcement of indemnities against the vendors of Bristol Water).

For a more comprehensive description of these and other possible risks, please see the risks set out in the annual information form of the Corporation for the year ended December 31, 2010, under the heading "Risk Factors", as updated in subsequently filed interim MD&A of the Corporation and the business acquisition report filed June 14, 2011 in respect of the Corporation's acquisition of Värmevärden (such documents are 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 Canadian law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements or financial outlook.

LETTER TO SHAREHOLDERS

I am pleased to report on Capstone Infrastructure Corporation's third quarter results, recent activities and outlook and priorities for the rest of 2011 and 2012.

Operationally, our portfolio performed strongly during the third quarter with a solid revenue contribution from the Amherstburg Solar Park, which started commercial operations on June 30, 2011, increased power production at the hydro power facilities and at the Whitecourt biomass power facility, and higher power rates at the Cardinal gas cogeneration facility. These drivers were partially offset by lower production at Erie Shores Wind Farm due to unfavourable wind conditions compared with the same period last year. Combined, these factors resulted in revenue increases of 16.7% and 8.8% in the quarter and year-to-date periods, respectively. The main drivers of our quarterly and year-to-date performance are summarized below.

We also continued to advance a number of growth initiatives, resulting in the October 5th acquisition of a 70% interest in Bristol Water, a regulated water utility in the United Kingdom, from Agbar (Sociedad General de Aguas de Barcelona), a global provider of water services that is a subsidiary of Suez Environnement. Bristol Water is responsible for the abstraction, treatment, storage and distribution of approximately 278 million litres of water every day to more than 1.1 million people in the city of Bristol and the surrounding region. We acquired this business for $214 million, and funded the transaction using a combination of available liquidity and a new $150-million senior credit facility. The enterprise value of the transaction was approximately $600 million, which makes it Capstone's largest acquisition since our inception in 2004. As described below, this is a transformative acquisition for Capstone and our shareholders.

Finally, on November 10, 2011, we completed an offering of common shares, raising net proceeds of approximately $71.6 million that were used to refinance a portion of the senior credit facility established to fund the Bristol Water transaction. As a result, this offering bolsters our balance sheet and enables us to continue evaluating attractive growth opportunities consistent with our strategy to create long-term value for shareholders.

FINANCIAL HIGHLIGHTS

While our portfolio is operationally sound, our financial results in 2011 to date reflect the impact of approximately $19.3 million in one-time costs related to the internalization of management in April 2011. This financial report presents earnings and cash flow measures both including and excluding these one-time costs. Over the long term, we expect the internalization to result in lower costs compared with our former structure, particularly as we continue to grow over time.

Total costs and expenses increased by 17.9% in the third quarter and by 26.9% on a year-to-date basis over the same periods in 2010. The variance in the quarter reflected higher business development costs while the year-to-date increase primarily reflected the one-time internalization costs. As described on page 10, excluding the internalization costs, total expenses were 8.6% higher on a year-to-date basis.

Excluding internalization costs and including the contributions from the Amherstburg Solar Park and Värmevärden, Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) increased 28.4% in the third quarter of 2011 and 9.6% on a year-to-date basis. For the quarter, the increase reflected greater revenue from the power generation facilities and interest income from our investment in Värmevärden, the district heating business in Sweden. These variables were partially offset by higher operating and administrative expenses in the quarter. The year-to-date increase in Adjusted EBITDA was additionally partially offset by the absence of distributions from Leisureworld, which we sold in March 2010.

Excluding internalization costs and including the contributions from the Amherstburg Solar Park and Värmevärden, Funds From Operations (FFO) increased by 21.4% in the third quarter and by 8.3% in the year-to-date period from the same periods in 2010. In both cases, increased Adjusted EBITDA was offset by increased interest expense at Amherstburg Solar Park since commencing operations. Adjusted Funds From Operations (AFFO), excluding internalization costs and including the contributions from the Amherstburg Solar Park and Värmevärden, were down 7.3% and 3.6% in the quarter and year-to-date periods, respectively, due to an increase in scheduled debt repayments for Amherstburg Solar Park and the Tranche C loan at Erie Shores.

As outlined on page 18 of this report, our financial position remains solid. As at September 30, 2011, we had cash and cash equivalents of $55.0 million. Following the acquisition of Bristol Water in October and subsequent common share offering, Capstone has access to approximately $30 million in capital to execute on current business development opportunities. With these two initiatives, our debt to capitalization[1] ratio, which was 44.1% as at September 30, 2011, is now approximately 59%, which is consistent with the relatively low risk profile of core infrastructure businesses.

BUILDING A DIVERSIFIED INFRASTRUCTURE COMPANY

The acquisition of Bristol Water represents the fruition of a strategy that we put in place two years ago to build long-term value for our shareholders by broadening our scope to encompass new categories of core infrastructure businesses, including international opportunities. Bristol Water enhances the ability of our portfolio to deliver long-term, sustainable cash flow and a superior total return to our shareholders. Our vision is to be the pre-eminent diversified infrastructure investment company in Canada and this acquisition brings us a step closer to that goal:

- It transforms Capstone into a diversified infrastructure company, by both asset type and geography;
- It is a regulated business with a secure competitive position in a stable OECD country, generating predictable, inflation-linked cash flow;
- As a perpetual business, it significantly extends the life of Capstone's cash flows and reduces the weighting of Cardinal within our portfolio; and
- It is expected to deliver a total return within our targeted 10 to 14% range (post tax, post foreign exchange hedging and on a levered basis), reflecting the quality, stability and longevity of Bristol Water's business.

Additionally, Bristol Water is a platform investment that could be a catalyst for additional growth opportunities in the water infrastructure sector globally, where significant capital investment is urgently needed. The Organization for Economic Cooperation and Development projects that the average annual global investment needed to repair, maintain, improve and build new water and wastewater infrastructure will be US$772 billion per year by 2015. With Bristol Water and our new partnership with Agbar, Capstone is now much more strongly positioned to be an active participant in this space.

Growth continues to be a major focus for our team. Building on the Bristol Water acquisition, we intend to continue diversifying our portfolio across core infrastructure categories, including electricity generation and distribution businesses, additional water or wastewater infrastructure assets, roads, hospitals and schools, among others, including investments through public-private partnerships (P3s). We are continuing to assess a range of opportunities in Canada, the United States and abroad.

WORKING TO SECURE A NEW CONTRACT FOR CARDINAL

In August 2011, we began to negotiate with the Ontario Power Authority (OPA) regarding Cardinal's new contract. We believe that the argument for re-contracting Cardinal is compelling:

- It is a well maintained facility;
- It provides critical stability for the grid in eastern Ontario;
- It contributes significantly to the local community and economy;
- It can be reconfigured to both provide more flexibility for the electricity system while continuing to deliver base load energy to Canada Starch Operating Company (Casco), our industrial host; and
- It is widely accepted by the local community, thereby eliminating the risk of NIMBYism --- which has proven to be an increasing challenge for several proposed new power projects.

Over the past two years, we have built strong stakeholder support for a new contract and have thoroughly prepared for our negotiations with the OPA. Over the past several months, we have advanced our initial engineering work in relation to the proposed reconfiguration and expansion of the facility, which we estimate will require an approximately

[1] The fair value of shareholders' equity reflected the Corporation's market capitalization as at September 30, 2011 based on a share price of $6.33 (December 31, 2010 - $8.22) and shares outstanding of 61,999,698 (December 31, 2010 - 56,352,461 shares). Shares outstanding include Class B exchangeable units of MPT LTC Holding LP, a subsidiary of Capstone, of which there were 3,249,390 outstanding at December 31, 2010, which were classified as a liability on the interim consolidated statements of financial position. Fair value of the preferred shares issued on September 30, 2011 is based on a share price of $20.10 and total shares outstanding of 3,000,000. Following the acquisition of Bristol Water in October and subsequent common share offering completed in November, the Corporation's current debt to capitalization ratio of approximately 59.0% reflects the impact of assuming Bristol Water's long-term debt, the implied market value of the minority interest, the issuance of 12,000,000 common shares, and the repayment of a portion of the senior credit facility used to fund the acquisition of Bristol Water.

$50 million investment. As a result, we have a clear view on how Cardinal can operate in the future, the capital expenditure that will be required and the value we can continue to deliver to Ontario's electricity grid and to local stakeholders.

We are confident that Cardinal has a long life ahead of it as a peaking facility and are continuing to work for the best possible outcome for our shareholders. We hope to be in a position to report on the outcome of our negotiations in a few months' time.

OUTLOOK[2]

Operationally, our outlook for the balance of 2011 is positive. Our expectations for each business are described on pages 24 through 28. Excluding the impact of the internalization costs, we expect Adjusted EBITDA and FFO from our portfolio to be higher than in 2010.

With the addition of Bristol Water to our portfolio, and excluding internalization costs, we expect fiscal 2011 Adjusted EBITDA to be approximately $75 million. With the recent common share offering, we expect our 2011 payout ratio, which is based on AFFO, to be in the range of 120% to 125%.

Our 2012 outlook reflects a full year of contribution from Amherstburg Solar Park, Värmevärden and Bristol Water and assumes a return to 2010 gas transportation rates. For 2012, we expect Adjusted EBITDA to be approximately $140 million. We expect our 2012 payout ratio, which is based on AFFO, to be in the range of 85% to 90%.

Bristol Water's growing regulated cash flow profile helps to support our ability to sustain our current dividend of $0.66 per share on an annualized basis through 2014, subject to any significant unexpected events or an unfavourable resolution on the terms of a new contract at Cardinal. Based on our existing portfolio, outlook and current dividend level, and barring any unexpected events, we anticipate that our payout ratio is expected to be less than 100% through 2014, subject to the continuing execution of our growth strategy, which could include development projects or businesses with a strong growth profile that may cause the payout ratio to fluctuate in any given year.

In closing, Capstone is committed to executing on its strategy and mission to deliver a superior total return to shareholders. More information about our portfolio, activities and future events is available on our website at www.capstoneinfrastructure.com.

We greatly appreciate your continuing support.

Sincerely,

Michael Bernstein
President and Chief Executive Officer
November 14, 2011

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[2] The outlook for 2011 excludes the impact of internalization costs. The outlook for both 2011 and 2012 includes the impact of the recent common share issuance and is subject primarily to the final accounting treatment for Bristol Water transaction costs and Bristol Water's business under International Financial Reporting Standards, the actual results of the business, and foreign currency rates for financial reporting purposes. Other assumptions underlying the 2012 outlook also include: (i) a full year of contribution from the Amherstburg Solar Park, Värmevärden and Bristol Water; and (ii) a return to the 2010 TransCanada Pipelines Limited gas transportation rate of $1.64 per gigajoule.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes the Corporation's consolidated operating results for the quarter and nine months ended September 30, 2011 and consolidated cash flows for the nine months ended September 30, 2011 and the Corporation's financial position as at that date. This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at and for the quarter and nine months ended September 30, 2011. Additional information about the Corporation can be found in its other public filings and in Macquarie Power and Infrastructure Corporation's ("MPIC") public filings. MPIC is the previous name of the Corporation. Specifically, see MPIC's Annual Information Form ("AIF") dated March 24, 2011 and most recent annual report for the year ended December 31, 2010. All of the Corporation's and MPIC's filings are available on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com. The information contained in this MD&A reflects all material events up to November 14, 2011, the date on which this MD&A was approved by the Corporation's Board of Directors.

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

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

CHANGES IN THE BUSINESS

Corporate Conversion

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

Internalization of Management

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

its management. On internalization, the Corporation retained its current leadership team, which has deep expertise and broad relationships in the infrastructure sector. Additionally, MPIC was renamed Capstone Infrastructure Corporation ("Capstone" or the "Corporation"). With the new corporate name, Capstone's Toronto Stock Exchange ("TSX") symbols were changed to CSE for the common shares and CSE.DB.A for the convertible debentures.

Capstone and its subsidiaries made payments to a subsidiary of MGL as consideration for terminating all management and administration agreements. MGL's subsidiary immediately used $7,000 of the $14,000 it received to subscribe for Capstone common shares, which MGL's subsidiary will hold for at least one year. MGL has provided a director to serve on Capstone's Board of Directors for a minimum of 12 months and Capstone will continue to have access to global growth opportunities available through the Macquarie Infrastructure and Real Assets division. Furthermore, MGL is providing transitional services to Capstone at no cost for a period to December 15, 2011, including the provision of premises, information technology support and tax and accounting services.

Preferred Shares

On June 30, 2011, Capstone completed an offering of 3,000 cumulative preferred shares with a five-year rate reset, at a price of 25 dollars per share for gross proceeds of $75,000 (net proceeds of approximately $72,715). The preferred shares are publicly listed for trading on the TSX under the symbol CSE.PR.A.

NON-GAAP PERFORMANCE MEASURE DEFINITIONS

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

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

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

Adjusted EBITDA

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

Funds from Operations ("FFO")

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

Adjusted Funds from Operations ("AFFO")

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

Payout Ratio

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

The Corporation's disclosure in its quarterly report for the three months ended March 31, 2011 described the financial reporting differences made during the conversion process in further detail. No additional financial reporting differences were identified for adjustment on transition during the third quarter.

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

IFRS Adjustments Impacting both Historical and Prospective Financial Reporting

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

For capital assets, under IFRS major maintenance and inspections that are periodically undertaken at each facility may not be expensed as incurred. Instead, these costs must be capitalized and depreciated until the facility's next major maintenance cycle.

For business combination transaction costs, under IFRS, only transaction costs related to debt or equity issuance or acquisitions of equity accounted investments are eligible to be capitalized. All other transaction costs arising for a business combination must be expensed as incurred as opposed to being capitalized to the purchase price of the business combination as allowed under Canadian GAAP.

IFRS Adjustments Impacting only Historical Financial Reporting

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

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

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

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

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

Adjustments to Net Income

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

Adjustments to Non-GAAP Measures

($000s)	Year Ended Dec 31, 2010	For the Three Months Ended			
		Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010
Adjusted EBITDA – Canadian GAAP	55,039	19,017	10,438	10,204	15,380
Accretion of asset retirement obligation	179	44	44	46	45
Capitalized transaction costs	(2,092)	(15)	(1,412)	(84)	(581)
Major maintenance and componentization	2,692	855	150	-	1,687
Adjusted EBITDA – IFRS	55,818	19,901	9,220	10,166	16,531
FFO – Canadian GAAP	40,030	16,261	5,784	7,336	10,649
Accretion of asset retirement obligation	179	44	44	46	45
Capitalized transaction costs	(2,092)	(15)	(1,412)	(84)	(581)
Major maintenance and componentization	2,692	855	150	-	1,687
FFO – IFRS	40,809	17,145	4,566	7,298	11,800
AFFO – Canadian GAAP	36,687	15,374	4,721	6,261	10,331
Accretion of asset retirement obligation	179	44	44	46	45
Capitalized transaction costs	(2,092)	(15)	(1,412)	(84)	(581)
AFFO – IFRS	34,774	15,403	3,353	6,223	9,795

Adjustments to Retained Earnings

($000s)	Jan 1, 2010	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010
Retained earnings – Canadian GAAP	(214,073)	(201,297)	(215,548)	(233,184)	(235,979)
Major maintenance and componentization	167	(97)	(685)	(1,393)	(1,625)
Capitalized transaction costs	(3,075)	(3,090)	(268)	(352)	(933)
Class B exchangeable units	15,647	12,073	12,916	11,779	8,790
Equity portion of convertible debentures	(4,386)	(6,283)	(6,124)	(3,533)	(7,845)
Deferred income taxes	(51,033)	(38,126)	(37,049)	(34,622)	(34,591)
Retained earnings – IFRS	(256,753)	(236,820)	(246,758)	(261,305)	(272,183)

SUBSEQUENT EVENTS

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 approximately $214,000. The purchase price was funded through a combination of existing credit facilities, cash on hand and a new $150,000 senior credit facility.

Bristol Water is a licensed monopoly provider of water services to a 2,400 square kilometre region centred on the City of Bristol, England. Regulation of the water industry is governed by the UK Water Services Regulation Authority ("Ofwat"). Bristol Water is responsible for the abstraction, treatment, storage and distribution of approximately 278 million litres of water every day, to over 1.1 million people. As at and for its fiscal year ended March 31, 2011, Bristol Water had total assets of $606,248 (£390,800), total revenue of $160,121 (£100,700) and net income of $30,529 (£19,200), all on an IFRS basis.

On November 10, 2011, Capstone completed a public offering to raise $75,000 (net proceeds of $71,625) from the issue of 12,000 common shares. The proceeds from the offering were used to repay a portion of the new $150,000 senior credit facility.

RESULTS OF OPERATIONS

Overview

For both the quarter and the nine months ended September 30, 2011, Capstone's Adjusted EBITDA was $2,951, or 28.4%, and $3,828, or 9.6% higher respectively than the prior comparable period, excluding costs to internalize management. The increase in Adjusted EBITDA was primarily attributable to revenue growth, reflecting the start of commercial operations at the Amherstburg Solar Park ("Amherstburg"), which began producing power in June 2011, and interest income from Värmevärden. The increase in Adjusted EBITDA in the quarter was partially offset by higher expenses arising from increased fuel costs at Cardinal and additional business development activities as the Corporation continued to pursue its growth strategy.

AFFO was lower for the quarter and nine months ended September 30, 2011 by $468, or 7.3%, and $928, or 3.6%, respectively, excluding costs to internalize management. The decrease in AFFO was due to higher interest paid and scheduled debt repayments resulting from the debt at Amherstburg and higher business development costs.

Revenue

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Electricity sales	38,912	33,174	121,036	111,010
Steam sales	280	278	870	847
Gas sales	1,169	1,146	2,398	2,390
	40,361	34,598	124,304	114,247

Total revenue for the third quarter was $5,763, or 16.7%, higher than in 2010 and $10,057, or 8.8%, higher on a year-to-date basis. The increase was primarily attributable to growth in electricity sales following the commencement of operations at Amherstburg in July.

Electricity sales for the third quarter were $5,738, or 17.3%, higher than in 2010 and $10,026, or 9.0%, higher on a year-to-date basis. Revenue from Amherstburg contributed $4,833 during the third quarter of 2011 while revenue at the hydro power facilities was $632 higher during the third quarter for a year-to-date variance of $1,937 due to more favourable hydrology conditions in 2011. Cardinal also contributed $2,349 to the year-to-date variance based on higher electricity rates from escalators in the direct customer rate.

Electricity production was 5.2% and 2.5% higher in the third quarter and first nine months of 2011, respectively, than in the same periods last year. In total, Capstone's power generation assets produced 435,690 megawatt hours ("MWh") of electricity in the third quarter of 2011 and 1,374,909 MWh on a year-to-date basis compared to 414,218 MWh and 1,341,535 MWh for the same periods last year, respectively.

Cardinal also produces steam that is sold to Canada Starch Operating Company Inc. ("Casco") for use in its manufacturing processes. Steam sales in the third quarter were comparable to 2010 and slightly higher on a year-to-date basis due to higher demand for steam from Casco during the first quarter.

Natural gas not used by Cardinal to produce electricity is sold through a mitigation arrangement with Cardinal's gas supplier. Gas sales were consistent with the prior comparable periods.

Costs and Expenses

	Three months ended		Nine months ended	
($000s)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Operating expenses	24,013	21,983	72,049	68,352
Administrative expenses	5,089	2,810	32,022	9,482
Depreciation on capital assets	7,198	5,724	19,094	18,048
Amortization on intangible assets	2,030	1,993	5,935	5,875
	38,330	32,510	129,100	101,757

Overall, third quarter costs and expenses were $5,820, or 17.9%, higher than in 2010 and $27,343, or 26.9%, higher on a year-to-date basis. The third quarter increase was attributable to a $1,984 increase in business development costs while the year-to-date increase was primarily due to $19,321 of internalization costs compared with $759 in the first nine months of 2010. Internalization costs include the termination of the MGL management agreements, certain one-time payments to staff and professional fees. Excluding the internalization costs, total expenses were $8,781, or 8.7%, higher on a year-to-date basis.

The year-to-date increase, excluding internalization costs, related to $3,697 in higher operating expenses attributable to higher fuel and transportation costs at the Cardinal facility; $1,288 in higher operating costs attributable to Amherstburg following the start of commercial operations in July; and $1,984 of additional business development costs during 2011, including a portion of the transaction costs for the acquisition of Bristol Water. Additional transaction costs for the Bristol Water acquisition will be incurred during the fourth quarter of 2011.

Operating expenses

	Three months ended		Nine months ended	
($000s)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Fuel expenses	19,179	16,835	57,118	51,744
Maintenance costs	691	1,553	2,786	5,865
Labour costs	1,965	1,905	6,144	5,703
Other operating expenses	2,178	1,690	6,001	5,040
	24,013	21,983	72,049	68,352

Fuel expenses, which were 79.9% and 76.6% of total operating expenses in the third quarters of 2011 and 2010, respectively, were almost entirely attributable to Cardinal. During the third quarter of 2011, fuel expenses increased by $2,344, or 13.9%, for a $5,374, or 10.4%, increase in the year-to-date, reflecting higher fuel prices and a higher TransCanada Pipelines Limited ("TCPL") gas transportation toll. Effective March 1, 2011, the TCPL transportation toll increased to $2.24 dollars per gigajoule ("GJ") from the 2010 rate of $1.64 dollars per GJ.

Maintenance costs were $862, or 55.5%, lower in the third quarter of 2011 and $3,079, or 52.5%, lower in the year-to-date. This decrease was due to lower repairs and maintenance requirements at Cardinal and Erie Shores Wind Farm ("Erie Shores") during 2011. The year-to-date savings also included the internalization of operations and maintenance ("O&M") at Erie Shores in July 2010.

Labour costs were $60, or 3.1%, higher in the third quarter of 2011 and $441, or 7.7%, higher in the year-to-date, reflecting annual salary and wage increases and the addition of employees at Erie Shores in July 2010 for the internalization of O&M as described above.

Other operating expenses were $488, or 28.9%, higher in the third quarter of 2011 and $961, or 19.1%, higher on a year-to-date basis. Other operating expenses include insurance, property taxes, materials and utilities. Higher costs in the third quarter of 2011 were due to $246 of new operating costs for Amherstburg.

Administrative expenses

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Manager fees	69	1,517	2,153	4,195
Internalization expenses	75	211	19,321	759
Business development	2,314	330	4,131	1,846
Other administrative expenses	2,631	752	6,417	2,682
	5,089	2,810	32,022	9,482

Manager fees were $1,448 lower in the third quarter of 2011 and $2,042 lower on a year-to-date basis. The decrease reflected the termination of management contracts with MGL on April 15, 2011, following which Capstone no longer incurred new management and administrative fees, cost reimbursement or incentive fees to MGL. The $69 in the third quarter of 2011 represents costs reimbursement to MGL from the period prior to April 15, 2011.

Internalization expenses represent costs to terminate the management arrangements with MGL and one-time payments to staff and professional fees.

Business development expenses were $1,984, or 601%, higher in the third quarter of 2011 and $2,285, or 124%, higher on a year-to-date basis. The year over year increases were primarily attributable to transaction costs for the Bristol Water acquisition.

Other administrative expenses were $1,879, or 250%, higher in the third quarter of 2011 and $3,735, or 139%, higher on a year-to-date basis. Other administrative expenses include corporate salaries, legal, audit, investor relations costs and other professional fees. The increase in the third quarter was primarily attributable to corporate salary expenses which Capstone has incurred directly since internalization. In addition, 2011 year-to-date results also reflect project costs such as SIFT and IFRS conversion which were minimal during the first nine months of 2010.

Other Income and Expenses

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Interest income	1,994	281	4,320	663
Interest expense	(6,179)	(5,120)	(16,291)	(15,699)
Equity accounted income (loss)	(1,721)	622	(5,596)	3,773
Amherstburg gain on acquisition	-	-	-	4,234
Unrealized loss on derivatives	(11,214)	(11,681)	(13,824)	(21,242)
Unrealized loss on Class B exchangeable unit liability	-	(1,138)	-	(3,867)
Unrealized gain on convertible debentures	-	2,591	-	854
Foreign exchange gain (loss)	94	-	(539)	(4)
	(17,026)	(14,445)	(31,930)	(31,288)

Interest income

Capstone earns interest income on its cash resources and on its loans receivable with Värmevärden and Chapais Énergie, Société en commandite (“CHESEC”), the owner of the Chapais facility.

Interest income was $1,713, or 610%, higher in the third quarter of 2011 and $3,657, or 552%, higher on a year-to-date basis. The increase was almost entirely attributable to interest on the loan to Värmevärden, which amounted to $1,679 for the third quarter and $3,371 on a year-to-date basis. Interest of $134 was earned on the CHESEC debt during the third quarter, reflecting a $23 decrease from the third quarter of 2010 due to principal repayments, resulting in a year-to-date decrease of $67. The remaining increase related to higher interest earned on cash balances during 2011.

Interest expense

Interest expense was $1,059, or 20.7%, higher in the third quarter of 2011 and $592, or 3.8%, higher in the year-to-date. The increase in both cases was primarily attributable to $1,722 of interest for Amherstburg since commercial operations began in July 2011. In addition, 2011 year-to-date results reflected $671 of higher fees on letters of credit to support Capstone's equity commitment to Amherstburg.

These items were partially offset by distributions on the Class B exchangeable units ($536 in the third quarter and $1,608 year-to-date), which were treated as interest under IFRS in 2010 when Capstone operated as an income fund trust. In addition, interest on the convertible debentures was $289 lower in the third quarter of 2011 and $819 lower on a year-to-date basis. In the first quarter of 2010, unamortized transaction costs on the debentures maturing in 2010 were charged to interest expense following their redemption and in the first nine months of 2011, as well, $14,751 of bonds converted to equity, lowering the outstanding balance of 2016 convertible debentures.

Equity accounted income

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

For Värmevärden, Capstone reported a loss of $1,721 during the third quarter of 2011 and a $5,609 loss in the year-to-date. The loss is related to the seasonality in the business as the demand for heating services are reduced during the warmer months. During the third quarter, Capstone also received $3,437 from Värmevärden in the form of a return of capital.

During the third quarter of 2011, Capstone settled the loan payable to Macquarie Long Term Care L.P. ("MLTCLP"), the entity that owned Capstone's investment in Leisureworld. The loan was settled as part of a non-cash distribution of $54,666 which extinguished the outstanding balance. Accordingly, the distribution reduced Capstone's equity accounted investment in MLTCLP. During the first nine months of 2010, Capstone reported $3,151 of equity accounted income from Leisureworld, which reflects the amounts earned up until its sale in March 2010.

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

Unrealized gain (loss) on derivatives

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

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

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Interest rate swap contracts	(6,493)	(5,006)	(6,712)	(7,989)
Gas swap contracts	(895)	(143)	(1,604)	83
Foreign currency option contracts	(91)	-	60	-
Embedded derivative contracts	(3,735)	(6,532)	(5,568)	(13,336)
Total unrealized loss on derivatives	(11,214)	(11,681)	(13,824)	(21,242)

The unrealized losses on derivatives in the quarter and year-to-date are primarily attributable to the interest rate swaps, embedded derivatives and gas swaps.

On June 23, 2010, Capstone entered into an interest rate swap contract for the Amherstburg debt. This contributed $5,677 to the loss during the third quarter. The decrease in the fair value of the interest rate swaps was primarily due to a decrease in the long-term interest rates.

Falling natural gas spot and forward prices, as determined at a regional gas interconnection, storage and trading hub in southwest Ontario (the Union Gas Dawn facility), are the primary cause of the embedded derivative loss.

The gas swap contracts value is lower as the contract expires in October 2011.

Income Taxes

Capstone recorded an income tax recovery of $35,905 on a year-to-date basis, of which $35,913 was deferred income taxes and $8 was a current income tax expense. The recovery included a $34,809 reduction in the deferred income tax liability following conversion from an income fund trust to a corporation on January 1, 2011, which caused the income tax rate applied to timing differences to decrease from 46% to 25%. The deferred income tax recovery was offset primarily by timing differences between depreciation and capital cost allowance.

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

Adjusted EBITDA

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

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Net income (loss)	(11,783)	(6,845)	(821)	18,549
Depreciation and amortization	9,228	7,717	25,029	23,923
Interest expense	6,179	5,120	16,291	15,699
Income tax recovery	(3,212)	(5,512)	(35,905)	(37,347)
Standardized EBITDA	412	480	4,594	20,824
Equity accounted (income) loss	1,721	(622)	5,596	(3,773)
Unrealized loss on derivative financial instruments	11,214	11,681	13,824	21,242
Unrealized loss on Class B exchangeable unit liability	-	1,138	-	3,867
Unrealized gain on convertible debentures - conversion option	-	(2,591)	-	(854)
Amherstburg gain on acquisition	-	-	-	(4,234)
Foreign exchange (gain) loss	(94)	-	539	4
Distributions from equity accounted investments	-	80	-	2,211
Adjusted EBITDA	13,253	10,166	24,553	39,287
Internalization expenses	75	211	19,321	759
Adjusted EBITDA before internalization costs	13,328	10,377	43,874	40,046

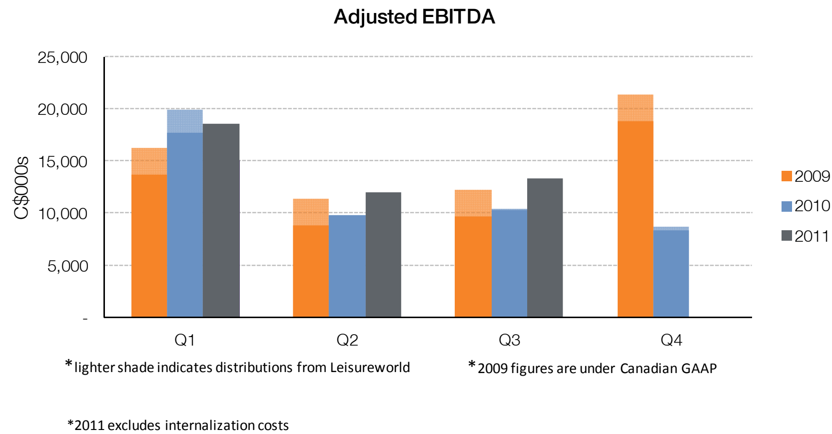
Adjusted EBITDA was $3,087 or 30.4%, higher in the third quarter of 2011 and $14,734, or 37.5%, lower on a year-to-date basis. On a year-to-date basis, the decrease was primarily attributable to $19,321 of internalization costs incurred mainly in the second quarter. Excluding internalization costs, Adjusted EBITDA was $2,951, or 28.4%, higher in the third quarter of 2011 and $3,828, or 9.6%, higher on a year-to-date basis.

The increase in third quarter Adjusted EBITDA before internalization costs was attributable to a $5,763 increase in revenue from the power assets and a $1,713 increase in interest income primarily from the Värmevärden investment. Revenue growth was primarily attributable to revenue from Amherstburg since commencing operations in July. These drivers were partially offset by a $4,309 increase in operating and other administrative expenses. Higher fuel and associated transportation costs for Cardinal primarily caused operating expenses to increase by $2,030. Business

development expenses, primarily for the Bristol Water acquisition, caused administrative expenses to increase by $2,279.

The year-to-date increase in Adjusted EBITDA before internalization costs was attributable to $10,057 higher revenue from the power assets and $3,657 higher interest income. These increases were partially offset by a $7,675 higher operating and administrative expenses and a $2,211 decline in distributions from equity accounted investments due to the sale of Leisureworld in March 2010.

The chart illustrates the Adjusted EBITDA trend starting in 2009 with and without the distributions from Leisureworld and excluding the internalization costs. With these adjustments, Capstone's Adjusted EBITDA improved consistently on a year-over-year basis with the exception of the fourth quarter of 2010 when corporate conversion and related reorganization costs of $1,187 increased administrative expenses and caused Adjusted EBITDA to fall below the prior comparative period. In the third quarter of 2011, excluding internalization costs, Adjusted EBITDA was higher than both the 2010 and 2009 comparative periods even when the Leisureworld distributions are included.



Funds from Operations and Adjusted Funds from Operations

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

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Adjusted EBITDA before internalization costs	13,328	10,377	43,874	40,046
Receipts from Chapais loan receivable	224	201	654	587
Interest paid [(1)]	(4,432)	(3,068)	(12,292)	(10,857)
Income taxes paid	-	-	(8)	(8)
Funds from operations (FFO) before internalization costs	9,120	7,510	32,228	29,768
Maintenance capital expenditures	(858)	(678)	(3,542)	(2,705)
Repayment of debt principal	(2,296)	(398)	(3,876)	(1,325)
Adjusted funds from operations (AFFO) before internalization costs	5,966	6,434	24,810	25,738
Internalization expenses	(75)	(211)	(19,321)	(759)
Adjusted funds from operations (AFFO)	5,891	6,223	5,489	24,979
Before internalization costs				
AFFO per share [(1)]	0.096	0.129 [(1)]	0.403	0.516 [(1)]
Dividends declared per share	0.165	0.165	0.495	0.495
Payout ratio	171.4%	128.0% [(1)]	122.8%	96.0% [(1)]
After internalization costs				
AFFO per share [(1)]	0.095	0.125 [(1)]	0.089	0.501 [(1)]
Dividends declared per share	0.165	0.165	0.495	0.495
Payout ratio	173.6%	132.3% [(1)]	555%	98.9% [(1)]

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

FFO before internalization costs was $1,610, or 21.4%, higher in the third quarter of 2011 and $2,460, or 8.3%, higher on a year-to-date basis. In both cases, increased Adjusted EBITDA was offset by increases of $1,364 and $1,435 in interest paid during the third quarter and year-to-date, respectively, attributable to Amherstburg since commencing operations. Interest on the debt was previously capitalized to the debt during construction.

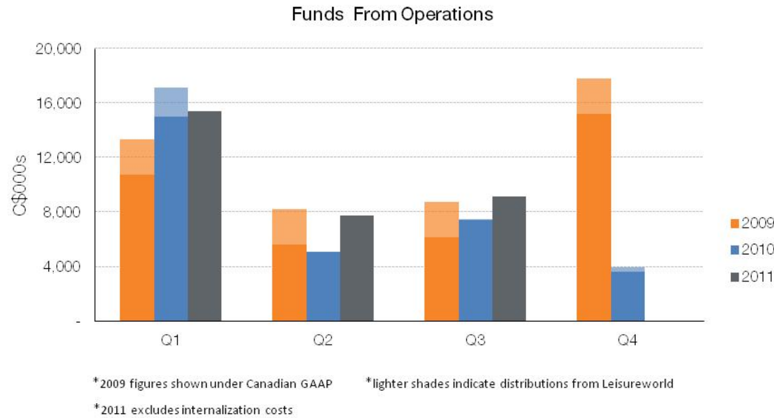
AFFO before internalization costs was $468, or 7.3%, lower in the third quarter of 2011 and $928, or 3.6%, lower on a year-to-date basis. In addition to the above factors, the decline in AFFO for the third quarter was attributable to scheduled debt repayments for Amherstburg and tranche C of the Erie Shores starting in July and April of 2011 respectively.

Excluding internalization costs, AFFO per share decreased by $0.033 in the third quarter and decreased by $0.113 on a year-to-date basis. The decline in AFFO per share was attributable to an increase in the number of shares outstanding from a year ago and a decline in AFFO. The payout ratio for the third quarter was 171.4% compared with 128.0% for the same period in 2010. For the first nine months of 2011, the payout ratio increased from 96.0% to 122.8%.

Including internalization costs, AFFO per share was $0.03 lower in the third quarter of 2011 and $0.412 lower on a year-to-date basis. The major factors contributing to the decline were internalization costs as well as an increase in

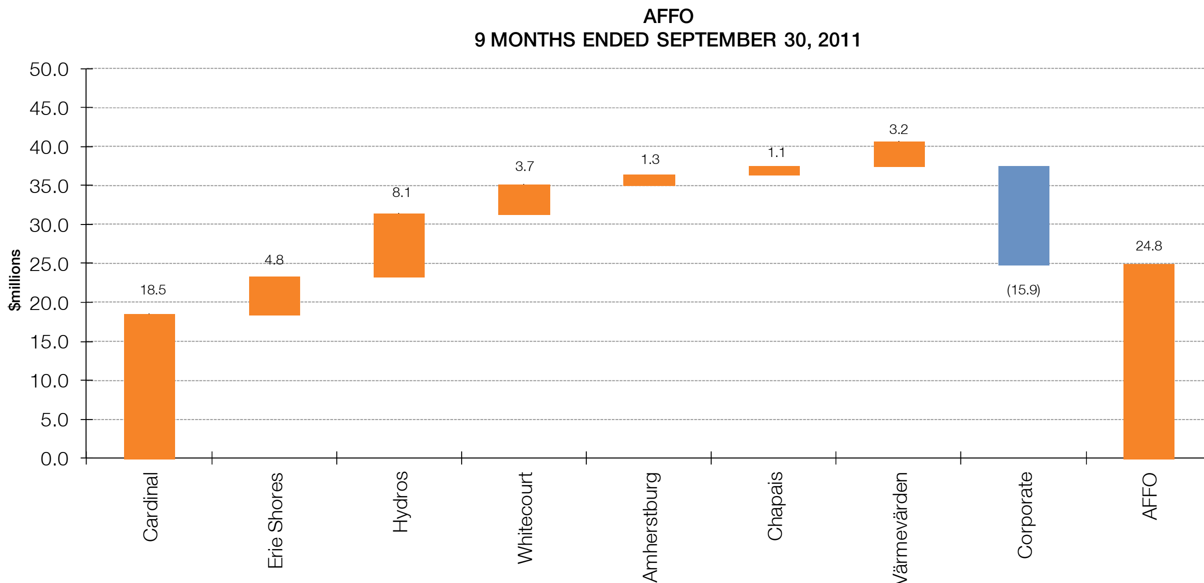
the number of shares outstanding in 2011 compared with 2010 following the issuance of shares in December 2010 and the conversion of convertible debentures into equity.

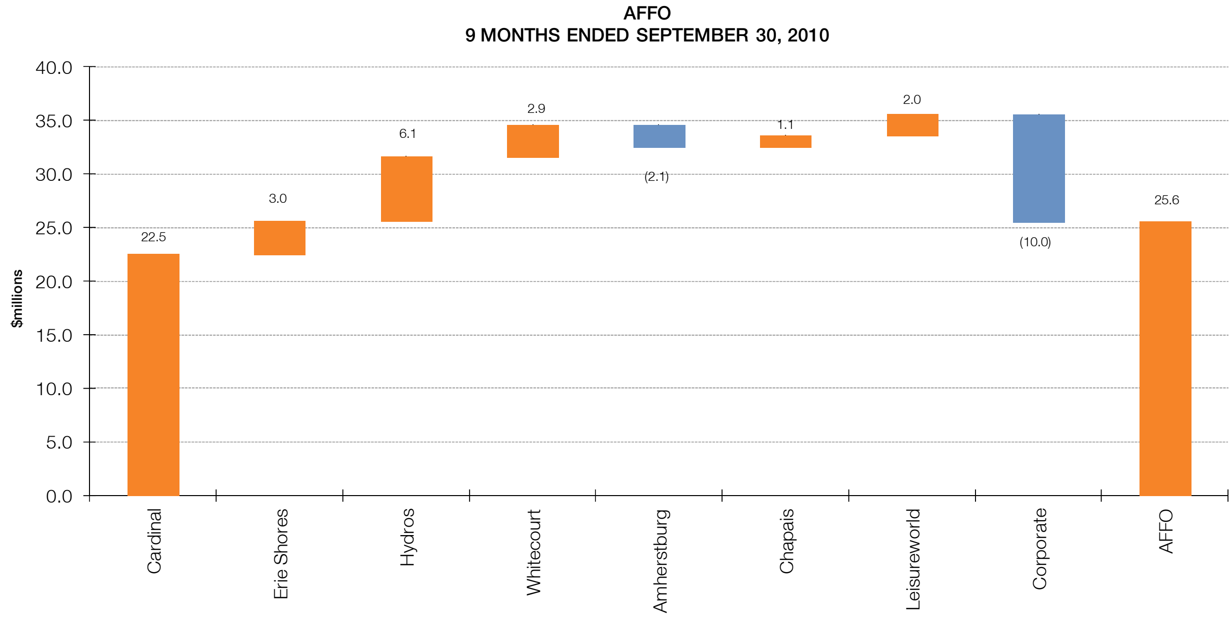
The following chart illustrates the year-over-year trend in FFO starting from 2009 with and without the Leisureworld distributions and excluding the internalization costs. Excluding these items, the chart shows an increasing FFO trend with the exception of the fourth quarter of 2010, when FFO declined due to corporate conversion and reorganization costs. The first three quarters of 2011 were again higher than the prior year amounts.



The following charts illustrate the composition of AFFO for for the first nine months of 2011 and 2010, excluding internalization expenses. For the third quarter, AFFO was slightly lower on a year-over-year basis. Favourable variances included improved water flow at the hydro power facilities; improved wind at Erie Shores; commencement of commercial operations at Amherstburg; strong production at Whitecourt; and interest income from the Värmevärden investment. Offsetting these items were lower earnings at Cardinal due to fuel costs and higher corporate administrative costs.

Similarly, for the nine months ended September 30, 2011, on a year-over-year basis, AFFO for Erie Shores, the hydro power facilities and Amherstburg improved as noted above. Offsetting these improvements were lower AFFO at Cardinal and higher costs at head office.




AFFO
9 MONTHS ENDED SEPTEMBER 30, 2010
$millions
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
22.5
3.0
6.1
2.9
(2.1)
1.1
2.0
(10.0)
25.6
Cardinal
Erie Shores
Hydros
Whitecourt
Amherstburg
Chapais
Leisureworld
Corporate
AFFO

FINANCIAL POSITION REVIEW

Overview

As at September 30, 2011, Capstone had unrestricted cash and cash equivalents of $54,952 and a working capital deficit of $29,715 attributable primarily to the $85,000 CPC-Cardinal facility that matures in June 2012. The cash balance, along with available credit, provides Capstone with adequate resources for ongoing capital expenditures and other financial obligations.

Capstone's debt to capitalization ratio (as defined on page 19) increased to 44.1% from 37.9% as at December 31, 2010. The increase was attributable to a 23% decline in the share price since December 31, 2010 as well as a $63,315 increase in the Amherstburg long-term debt. This was partially offset by the increase in shareholders' equity for the preferred shares issued on June 30, 2011. As at September 30, 2011, Capstone operated within all of its debt covenants. Management believes Capstone is well capitalized for current operations.

Liquidity

Working capital

($000s)	Sep 30, 2011	Dec 31, 2010
Cash and cash equivalents	54,952	128,413
Restricted cash	19,579	10,602
Accounts receivable	21,117	21,696
Other assets	2,762	3,552
Current portion of loans receivable	4,395	884
Current portion of derivative contract assets	485	1,918
Current assets	103,290	167,065
Accounts payable and other liabilities	32,252	28,896
Current portion of derivative contract liabilities	2,933	2,505
Loans payable	3,437	49,200
Current portion of finance lease obligation	126	120
Current portion of long-term debt	94,257	44,838
Current liabilities	133,005	125,559
Working capital	(29,715)	41,506

The working capital deficit of $29,715 included $85,000 for the CPC-Cardinal credit facility and $3,437 for the loans payable. The CPC-Cardinal facility matures on June 29, 2012; management is exploring refinancing options. The loans payable balance declined during the third quarter of 2011 following the non-cash distribution from MLTCLP to settle the outstanding balance. The remaining loan payable balance relates to Värmevärden, arising from the return of excess capital invested at the time of acquisition. This loan is expected to be settled by non-cash cancellation during 2011.

Cash and cash equivalents represent funds available for operating activities, capital expenditures and future acquisitions. Capstone invests its excess cash in short-term, high quality money market instruments. The $73,461 reduction in cash since December 31, 2011 is described below.

Restricted cash included $5,648 for the debt service reserve required under the Erie Shores project debt agreement, $500 funds in deposit and $13,431 for the construction holdback for Amherstburg.

Cash flow

Capstone's cash and cash equivalents balance decreased by $73,461 on a year-to-date basis compared with an increase of $10,268 on a year-to-date basis in 2010. The details of the decrease are described in the consolidated statement of cash flows and are summarized as follows:

	Nine months ended	
($000s)	**Sep 30, 2011**	**Sep 30, 2010**
Operating activities	15,804	27,387
Investing activities	(207,163)	(7,027)
Financing activities (excluding dividends to shareholders)	148,057	14,629
Dividends paid to shareholders	(30,159)	(24,721)
Change in cash and cash equivalents	(73,461)	10,268

During the first nine months of 2011, Capstone generated $11,583 less cash from operating activities primarily because of higher administrative expenses for internalization costs and business development expenses. These higher expenses were partially offset by higher revenue.

Investing activities were a major use of funds for Capstone in 2011 as the Corporation invested $87,456 in capital assets, primarily for the construction of Amherstburg and used $109,923 for the acquisition of Värmevärden.

Financing activities were a net source of cash due to a $65,677 increase in long-term debt, primarily for the construction of Amherstburg, and $79,209 of net proceeds from the issuance of common and preferred shares.

Capital Structure

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

	Sep 30, 2011		Dec 31, 2010	
($000s)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
CPC-Cardinal credit facility	85,000	85,000	85,000	85,000
Erie Shores project debt	108,034	104,193	106,197	107,063
Amherstburg Solar Park project debt	94,315	94,315	31,000	31,000
Convertible debentures (1)	44,031	39,859	61,311	48,875
Levelization liability	25,425	25,425	23,714	23,714
Deferred financing costs	-	(5,492)	-	(5,556)
Total long-term debt	356,805	343,300	307,222	290,096
Shareholders' equity (1) and (2)	452,758	360,401	463,217	264,095
Class B exchangeable unit liability (2) and (3)	-	-	26,710	26,710
Convertible debentures – conversion option (1)	-	-	12,640	12,640
	452,758	360,401	502,567	303,445
Total capitalization	809,563	703,701	809,789	593,541
Debt to capitalization	44.1%	48.8%	37.9%	48.9%

(1) The fair value of Capstone's convertible debentures as at September 30, 2011 was based on a market price of $103 (December 31, 2010 - $115.2) and debentures outstanding of $42,749 (December 31, 2010 - $53,221) aggregate principal amount. The carrying value of the equity portion as at September 30, 2011 of Capstone's convertible debentures of $9,284 (December 31, 2010 - $12,640) was excluded from total debt and included as part of shareholders' equity.

(2) The fair value of shareholders' equity reflected the Corporation's market capitalization as at September 30, 2011 based on a share price of $6.33 (December 31, 2010 - $8.22) and shares outstanding of 61,999,698 (December 31, 2010 - 56,352,461 shares). Shares outstanding include Class B exchangeable units of MPT LTC Holding LP, a subsidiary of Capstone, of which there were 3,249 outstanding at December 31, 2010, which were classified as a liability on the interim consolidated statements of financial position. Fair value of the preferred shares issued on September 30, 2011 is based on a share price of $20.10 and total shares outstanding of 3,000.

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

CPC-Cardinal credit facility

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

	Sep 30, 2011		Dec 31, 2010	
($000s)	Term Facility	Revolving Facility	Term Facility	Revolving Facility
Commitment	131,875	40,625	141,875	40,625
Drawn	(85,000)	-	(85,000)	-
Letters of credit [(1)]	-	(7,863)	-	(40,625)
Guarantees [(2)]	(5,000)	-	(10,000)	-
Remaining credit	41,875	32,762	46,875	-

(1) Four letters of credit totaling $7,863. Three letters of credit for $2,533 for Erie Shores have been authorized under the revolving credit facility and one letter of credit of $5,330 for Amherstburg debt service reserve. The $38,092 letter of credit for the Amherstburg project was released upon funding of Capstone's equity contribution to the project.

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

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

Erie Shores project debt

As at September 30, 2011, Erie Shores had a loan of $104,193 in non-recourse project financing consisting of a $60,367 fully amortizing loan ("Tranche A") maturing April 1, 2026, a $4,237 fully amortizing loan ("Tranche B") maturing April 1, 2016, and a $39,589 fully amortizing loan ("Tranche C") maturing April 1, 2026.

This project debt was borrowed by Erie Shores and is secured by the assets of Erie Shores. CPC has provided an unsecured guarantee in the amount of $5,000 to Erie Shores' lenders in respect of the Tranche C loan.

Amherstburg Solar Park

Under the terms of the credit agreement, there is a project construction facility and a term facility. Capstone made draws under the construction facility to finance work on the project as it was completed. All interest accruing on the construction facility during development was capitalized to the outstanding balance of the debt.

On July 8, 2011, the outstanding balance of the construction facility was converted into a term facility, which requires regular principal and interest payments amortized over 17 years, with a five year maturity. Amherstburg has entered into a swap to convert its floating interest rate obligations under the credit agreement to a fixed rate. The effective interest rate of the debt is 7.32%. The financing and the swap were arranged by Amherstburg and are secured only by the assets of Amherstburg.

Additionally, the long-term debt was reduced by $400 upon completion of the project to align the debt ratio with a lower than budgeted equity payment for cost savings during the construction phase..

Convertible debentures

In December 2009 and January 2010, Capstone issued $57,500 of 6.50% convertible unsecured subordinated debentures with a maturity date of December 31, 2016. Interest on the convertible debentures is payable semi-annually in arrears on June 30 and December 31. The convertible debentures are convertible into common shares of Capstone at the option of the holder at a conversion price of $7.00 per share.

During the quarter and nine months ended September 30, 2011, Capstone issued 2 and 1,496 common shares, respectively, following conversion requests from various convertible debenture holders. Accordingly, the liability portion and equity portion of the convertible debentures were reduced by $15 and $4, respectively, for the quarter ($9,547 and $2,270, respectively, for the nine-month period). As at September 30, 2011, $42,749 of face value was outstanding.

Levelization liability

As at September 30, 2011, Capstone had a levelization liability of $25,425 (December 31, 2010 - $23,714) relating to payments received from the Ontario Electricity Financial Corporation ("OEFC") in excess of the base rate as set out under the Power Purchase Agreement ("PPA") for the Wawatay hydro power facility. In accordance with the PPA, the OEFC is required to make monthly guaranteed payments as well as variable payments based on actual electricity production. To the extent these payments exceed the revenue recorded in a given month, Capstone records an increase in the levelization liability. To the extent these payments are less than the revenue recognized, Capstone records a reduction in the levelization liability. Interest on the levelization liability is accrued at a prescribed variable rate, which currently approximates 6.87% per annum.

Shareholders' equity

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

($000s)	Sep 30, 2011	Dec 31, 2010
Shareholders' capital	555,292	536, 278
Preferred shares	72,715	-
Class B exchangeable units	26,710	-
Equity portion of convertible debentures	9,284	-
Accumulated other comprehensive income	(139)	-
Retained earnings (deficit)	(303,461)	(272,183)
Total shareholders' equity	360,401	264,095

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

	Nine months ended Sep 30, 2011		Twelve months ended Dec 31, 2010	
($000s and 000s of shares)	Shares	Amount	Units	Amount
Opening balance	56,352	536,278	46,665	466,662
Shares issued (1), (2) and (3)	902	7,195	9,079	65,249
Conversion of convertible debentures (4)	1,496	11,819	611	4,390
Units redeemed	-	-	(3)	(23)
Ending balance	58,750	555,292	56,352	536,278

(1) On December 22, 2010, Capstone completed a private placement of 9,079 shares at a price of $7.60 per share for gross proceeds of approximately $69,000 before issue costs of $3,751. The net proceeds will be used by Capstone for acquisitions and for general purposes. During 2011, $102 of the private placement transaction costs were included in share capital.
(2) On April 15, 2011 the Corporation issued 856 common shares subscribed to by MGL as part of the management internalization at $8.18 dollars per share for gross proceeds of approximately $7,000.
(3) During the third quarter of 2011, 46 common shares at an aggregate value of $297 were issued by the Corporation under the Dividend Re-Investment Plan (DRIP).
(4) $11,819 (2010 - $4,390) of the convertible debentures were converted into shares of Capstone, which is net of transaction costs incurred to issue the convertible debentures.

On June 30, 2011, Capstone issued 3,000 cumulative 5-year reset preferred shares at a price of 25 dollars per share for gross proceeds of $75,000 before issue costs of $2,285.

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

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

Derivative Financial Instruments

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

($000s)	Sep 30, 2011	Dec 31, 2010
Derivative contract assets		
Foreign currency contracts	770	-
Gas swap contracts	314	1,918
Interest rate swap contracts	62	1,292
Embedded derivatives	3,113	5,287
	4,259	8,497
Derivative contract liabilities		
Interest rate swap contracts	13,884	8,402
Embedded derivatives	12,298	8,904
	26,182	17,306

Foreign currency contracts

Capstone has purchased options to sell a total of 90,500 Swedish Kroner (SEK) over the next five years. As of September 30, 2011 65,800 SEK was outstanding. These option contracts effectively allow Capstone to convert a portion of the interest received on the shareholder loans with Värmevärden from SEK to Canadian dollars at a fixed exchange rate of 6.5165.

Gas swap contracts

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

Interest rate swap contracts

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

Maturity Date	Notional Amount ($000s)	Swap Fixed Rate	Stamping Fee[1]	Effective Fixed Rate
June 29, 2012	11,700	3.12%	2.50%	5.62%
June 29, 2012	5,300	3.13%	2.50%	5.63%
June 29, 2012	18,000	3.13%	2.50%	5.63%
June 29, 2012	10,000	2.28%	2.50%	4.78%
June 29, 2012	40,000	2.14%	2.50%	4.64%
	85,000	2.56%	2.50%	5.06%

(1) The stamping fee represents the margin that was paid on advances from the CPC-Cardinal credit facility in the most recent quarter.

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

On June 23, 2010, upon the acquisition of Amherstburg, Capstone entered into an interest rate swap contract to mitigate the interest rate risk on the project debt. The notional amount of the interest rate swap, initially zero, increased as the construction facility was used to finance the development of the project until June 30, 2011, at which time the notional amount reached $96,200 (December 31, 2010 - $35,803).

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

Loans payable

In March 2010, Capstone divested its interest in Leisureworld, held by MLTCLP, of which Capstone held an approximate 45% interest. Capstone received its proportionate share of the initial net cash proceeds from MLTCLP in the form of a loan payable for $49,200, which increased by $5,466 on March 23, 2011 when the final holdback conditions were satisfied. In September 2011, the loans were settled by way of a non-cash distribution from MLTCLP.

On June 22, 2011, a loan payable between Värmevärden and Capstone was entered into for the return of surplus capital invested at the time of acquisition. The loan is non-interest bearing and payable on demand and had $3,437 of principal outstanding (22,500 SEK) as at September 30, 2011. Management expects the loan to be settled by a non-cash cancellation of existing share capital during 2011.

Deferred income taxes

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

($000s)	Sep 30, 2011	Dec 31, 2010
Deferred income tax assets	18,212	24,211
Deferred income tax liabilities	(63,760)	(105,251)
	(45,548)	(81,040)

The reduction in the deferred income tax asset and liability balances was primarily attributable to moving from the undistributed income tax rate of 46% prior to conversion to a corporation to the general corporate rate of 25% to determine the balances in 2011.

Capstone has $70,557 net-capital and $18,329 non-capital loss carry-forwards that are not recognized as deferred income tax assets. Capstone used $19,366 of net-capital loss carry-forwards during the third quarter from the non-cash distribution from MLTCLP.

Contractual Obligations

Capstone enters into contractual commitments in the normal course of business. These contracts include leases, purchase obligations, electricity supply contracts, gas purchase contracts, wood waste agreements, operations and management agreements and guarantees. There have been no material changes in the specified contractual obligations outside the normal course of operations during the first nine months of 2011 that have not been previously disclosed in the annual MD&A for the year ended December 31, 2010, AIF filed March 24, 2011 or interim financial statements for the quarter ended June 30, 2011 aside from items related to the acquisition of Bristol Water as disclosed in the short form prospectus filed November 3, 2011. 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.

ASSET PERFORMANCE

Gas Cogeneration Power: Cardinal

Performance highlights

	Three months ended		Nine months ended	
($000s unless otherwise noted)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Revenue	25,822	25,566	82,908	80,540
Operating and administrative expenses [(1)]	20,478	18,277	62,036	56,206
Adjusted EBITDA [(1)]	5,351	7,307	20,956	24,362
FFO [(1)]	5,096	7,038	20,163	23,602
Electricity production (MWh)	301,784	300,259	923,765	929,914
Steam production (KLbs)	175,517	175,612	546,866	535,833
Fuel consumption (MMBtu)	2,584,233	2,558,539	7,856,082	7,855,806
Capacity factors	96.8%	96.3%	94.2%	94.8%
Availability	99.8%	100.0%	97.3%	97.8%

[(1)] Operating and administrative expenses and Non-GAAP measures exclude internalization costs.

Performance review

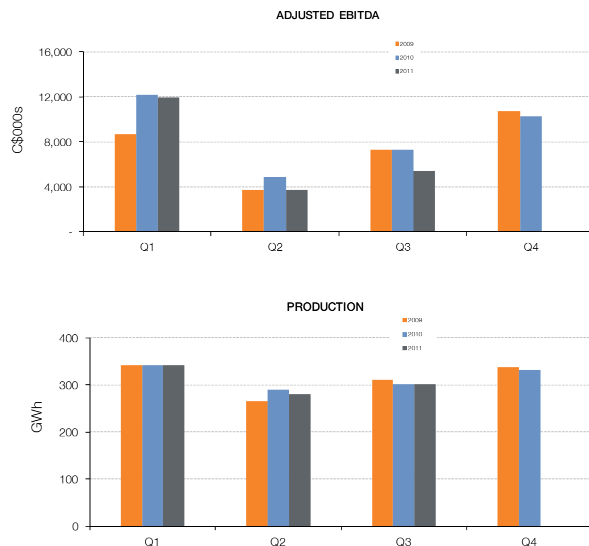
During the third quarter, Cardinal's revenue was $256, or 1.0%, higher than 2010. Year-to-date revenue was $2,368, or 2.9%, higher. In both cases, higher revenue reflected higher electricity rates arising from an increase in the direct customer rate as electricity production was only slightly higher than the third quarter in 2010 and fell on a year-to-date basis.

Higher revenue was offset by $2,201, or 12.0%, in higher expenses during the third quarter of 2011 and $5,830, or 10.4%, in higher expenses on a year-to-date basis due to higher fuel consumption and transportation costs than in the prior year. TCPL's gas transportation rate increased from $1.64 per GJ in 2010 to $2.24 GJ effective March 1, 2011.

As a result, adjusted EBITDA and FFO were 26.8% and 27.6%, lower, respectively, in the third quarter of 2011. On a year-to-date basis, adjusted EBITDA and FFO decreased by 14.0% and 14.6%, respectively.

Outlook

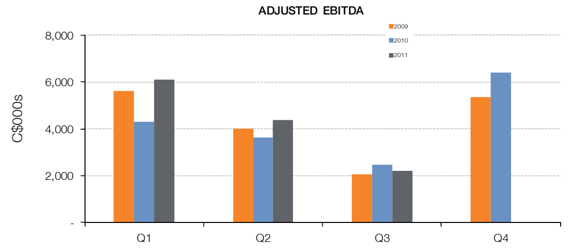
Revenue in 2011 is expected to be higher than in 2010 due to projected escalation in the DCR. The increase in revenue will be offset primarily by higher TCPL gas transportation rates. Higher gas transportation rates are expected to result in approximately $5.5 million in increased operating costs. As a result, Cardinal's Adjusted EBITDA and FFO are expected to be lower in 2011 than in 2010. Management continues to implement its strategy to secure a new contract for Cardinal to replace its current PPA that expires in 2014. Negotiations with the OPA began in the third quarter of 2011.

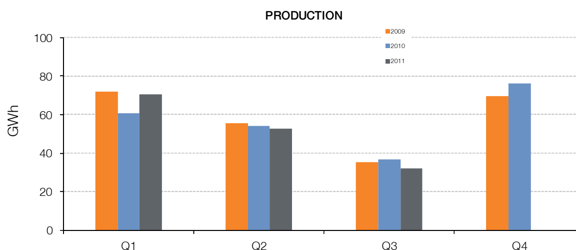


Wind Power: Erie Shores Wind Farm

Performance highlights

	Three months ended		Nine months ended	
($000s unless otherwise noted)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Revenue	3,117	3,597	15,121	14,739
Operating and administrative expenses	916	1,130	2,443	4,348
Adjusted EBITDA	2,204	2,467	12,683	10,390
FFO	602	959	7,973	5,833
Electricity production (MWh)	31,987	36,783	155,154	151,382
Capacity factors	14.6%	16.8%	23.8%	23.3%
Availability	98.1%	97.3%	96.3%	97.6%





Performance review

During the third quarter, Erie Shores' revenue was $480, or 13.3%, lower than in 2010 due to less favourable wind conditions in 2011. Year-to-date revenue was $382, or 2.6%, higher based on higher wind speeds combined with strong availability during the first quarter of 2011.

Operating and administrative expenses were $214, or 18.9%, lower in the third quarter of 2011 primarily due to fewer repairs in 2011. Year-to-date expenses were $1,905, or 43.8%, lower based on savings since internalizing the O&M services in July 2010.

Lower revenue resulted in a $263, or 10.7%, decrease in adjusted EBITDA during the third quarter of 2011 and a $357, or 37.2%, decrease in FFO. For the year-to-date period, higher revenue combined with cost savings resulted in a $2,293, or 22.1%, increase in adjusted EBITDA and a $2,140, or 36.7%, increase in FFO.

Outlook

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

Hydro Power: Four Facilities

Performance highlights

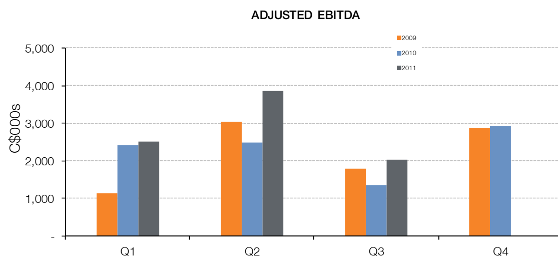
	Three months ended		Nine months ended	
($000s unless otherwise noted)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Revenue	2,888	2,256	10,903	8,966
Operating and administrative expenses	874	914	2,543	2,716
Adjusted EBITDA	2,014	1,341	8,360	6,249
FFO	2,014	973	8,360	5,471
Electricity production (MWh)	35,890	27,431	132,676	108,947
Capacity factors	45.5%	34.8%	56.6%	46.6%
Availability	97.5%	98.4%	98.6%	98.3%

Performance review

During the third quarter, revenue for the four hydro power facilities was $632, or 28%, higher in 2011 and $1,937, or 21.6%, higher on a year-to-date basis. Higher revenue was the result of higher electricity production in 2011 based on strong water flows from the snow accumulation over the winter compared with poor hydrological conditions in 2010.

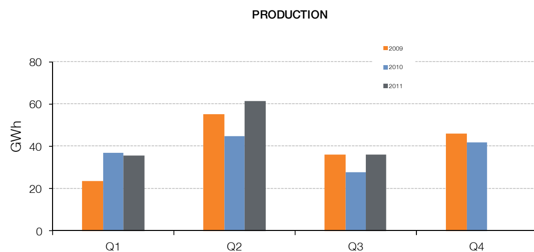
Operating and administrative expenses were $40, or 4.4%, lower during the third quarter of 2011 and $173, or 6.4%, lower on a year-to-date basis. The decrease was primarily attributable to fewer repairs and maintenance in 2011.

As a result, Adjusted EBITDA and FFO were 50.2% and 107% higher, respectively, for the third quarter of 2011, and 33.8% and 52.8% higher, respectively, on a year-to-date basis.



Outlook

The hydro power facilities are now expected to generate electricity slightly below their long-term average annual production of approximately 166,000 MWh, primarily reflecting lower hydrology than forecast at the Wawatay facility in Ontaio, which has offset strong water flows at Sechelt. Overall, performance for the hydro power facilities in 2011 is substantially improved over 2010. Higher revenue in 2011 will also reflect the price escalators in certain of the facilities' PPAs. Operating costs are expected to be lower than in 2010. As a result, Adjusted EBITDA and FFO from the hydro power facilities are expected to be higher in 2011 than in 2010.

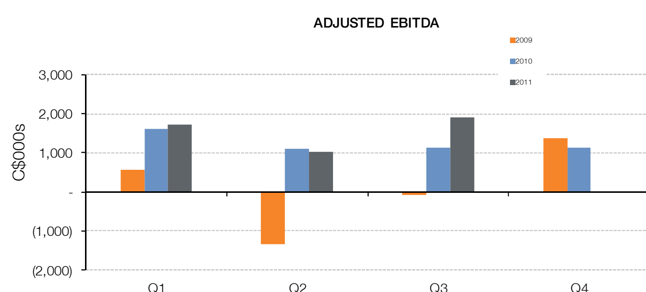


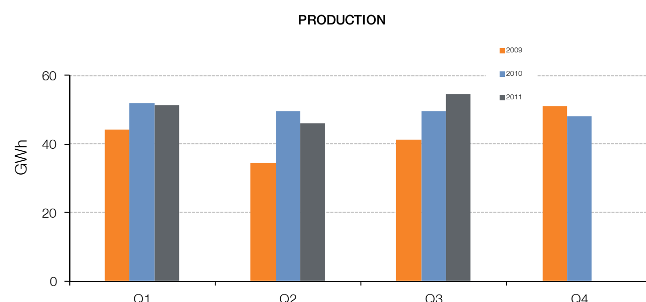
Biomass Power: Whitecourt

Performance highlights

	Three months ended		Nine months ended	
($000s unless otherwise noted)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Revenue	3,701	3,179	10,539	10,003
Operating and administrative expenses	1,800	2,041	5,883	6,145
Adjusted EBITDA	1,901	1,138	4,656	3,858
FFO	1,898	1,133	4,645	3,841
Electricity production (MWh)	54,517	49,746	151,584	151,186
Fuel consumption (GMT) [(1)]	81,775	74,333	227,375	223,273
Capacity factor	99.9%	92.8%	96.6%	94.9%
Availability	100.0%	93.0%	97.4%	95.1%

[(1)] Green metric tonnes





Performance review

During the third quarter, Whitecourt's revenue was $522, or 16.4%, higher than in 2010 and $536, or 5.4% higher on a year-to-date basis. The increase was the result of higher electricity production based on exceptional availability as well as slightly higher Alberta power pool prices.

Operating and administrative expenses were $241, or 11.8%, lower in the third quarter of 2011 and $262, or 4.3%, lower on a year-to-date basis, primarily attributable to lower maintenance costs in 2011.

As a result, Adjusted EBITDA and FFO increased by 67.0% and 67.5%, respectively, in the third quarter of 2011 from the same period last year. Adjusted EBITDA and FFO were 20.7% and 20.9% higher, respectively, on a year-to-date basis.

Outlook

Revenue in 2011 is now expected to be slightly higher than in 2010, primarily reflecting higher merchant power prices for the remainder of 2011 and strong availability compared with 2010. As a result, Adjusted EBITDA and FFO from this facility are expected to be slightly higher than in 2010. Whitecourt continues to have a stable and adequate supply of wood waste fuel.

Solar Power: Amherstburg Solar Park

Performance highlights

	Three months ended		Nine months ended	
($000s unless otherwise noted)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Revenue	4,833	-	4,833	-
Operating and administrative expenses	246	162	584	2,052
Adjusted EBITDA	4,661	(162)	4,360	(2,052)
FFO	3,044	(162)	2,743	(2,052)
Electricity production (MWh)	11,512	-	11,512	-
Capacity factor	26.1%	-	26.1%	-
Availability	94.2%	-	94.2%	-

(1) Operating and administrative expenses and Non-GAAP measures exclude internalization costs.

Performance review

On June 30, 2011, Amherstburg successfully achieved commercial operations. During the third quarter, the facility generated $4,833 of revenue, resulting in $4,661 of Adjusted EBITDA and $3,044 of FFO during the third quarter of 2011. Availability of 94.2% reflected outages during the third quarter as Hydro One completed work to upgrade network connectivity.

Outlook

Amherstburg is currently expected to initially produce approximately 37,600 MWh of electricity annually with production in future years subject to the inherent gradual degradation typical of all solar panels. In 2011, Capstone will benefit from the contribution of six months of Adjusted EBITDA and FFO from this facility.

Biomass Power: Chapais

Performance highlights

	Three months ended		Nine months ended	
($000s unless otherwise noted)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Interest income on loans receivable	134	157	420	487
Electricity production (MWh) (1)	59,784	60,161	181,201	175,464
Fuel consumption (GMT)	107,869	109,581	341,938	330,417
Capacity factor	96.7%	97.3%	95.0%	96.4%
Availability	98.3%	96.0%	95.1%	94.8%

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

Performance review

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

Utilities Infrastructure: Värmevärden

Performance highlights

	Three months ended		Nine months ended	
($000s unless otherwise noted)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Interest income on loans receivable	1,679	-	3,371	-
Adjusted EBITDA	1,597	-	3,214	-
FFO	1,597	-	3,214	-
Heat and steam production (MWh) [(1)]	193,950	-	440,450	-
Fuel consumption (MWh)	216,290	-	516,890	-

[(1)] Total amount of heat and steam produced by Värmevärden, in which Capstone holds a minority equity interest.

Performance review

On March 31, 2011, Capstone completed its acquisition of a 33.3% interest in a district heating business in Sweden operating as Värmevärden. The year-to-date results included in Capstone's equity accounted income are made up of the net losses from Värmevärden during the seasonally slower second and third quarters along with the transaction costs incurred by Värmevärden to complete the acquisition. Värmevärden experiences lower production during the summer months due to the seasonal nature of customer demand for heating.

Outlook

The winter months are typically the strongest period for this business due to the increased need for heating in the winter. In 2011, Capstone is expected to benefit from nine months of Adjusted EBITDA and FFO contribution from this investment.

Social Infrastructure: Leisureworld

During the third quarter of 2011, MLTCLP made a $54,666 non-cash distribution to settle the outstanding loan payable, this simultaneously reduced Capstone's equity accounted investment in MLTCLP. Capstone continues to use equity accounting for its residual interest in MLTCLP until such time as the wind-up of the remaining activities of MLTCLP is completed.

SEASONALITY

Capstone's operating results may fluctuate due to seasonal factors that affect quarterly production of the individual facilities. The factors contributing to these results include scheduled major maintenance, seasonal electricity and heat demands and environmental factors such as water flows, wind speeds, temperature and humidity. For further information on asset specific seasonality considerations see the Corporation's most recent annual report for the year ended December 31, 2010 as no material changes have occurred to the nature of Capstone's operating assets, aside from our recent investment in Värmevärden, which is described further below.

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

Project Name	Type	Electricity Purchaser	PPA Expiry	Net Installed Capacity (MW)	Q3 2011	Average long-term production (MWh) [1]			
						Q1	Q2	Q3	Q4
Cardinal	Gas	OEFC	2014	156	301,784	343,013	281,953	304,002	332,678
Erie Shores	Wind	OPA	2026	99 [2]	31,987	74,727	53,480	34,229	77,407
Whitecourt	Biomass	TransAlta	2014	25	54,517	49,882	44,964	50,323	49,302
Sechelt	Hydro	BC Hydro	2017	16	26,502	20,308	30,560	14,424	22,044
Wawatay	Hydro	OEFC	2042	14	3,728	4,847	18,995	8,772	14,464
Hluey Lakes	Hydro	BC Hydro	2020	3	1,199	2,192	1,348	1,190	2,055
Dryden [3]	Hydro	OEFC	2020	3	4,461	4,895	5,238	5,347	4,692
Amherstburg [4]	Solar	OPA	2031	20	11,512	-	-	11,512	-
Chapais [5]	Biomass	Hydro Quebec	2015	28	59,784	60,340	52,998	58,420	49,570
Total				364	495,474	560,204	489,536	488,219	552,212

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

During the quarter, total power generated was 1.6% higher than the long-term average. With the exception of Erie Shores, Whitecourt, Sechelt, Wawatay and Dryden, each facility performed within 5% of its third quarter average long-term production.

Erie Shores, Wawatay and Dryden were 6.6%, 57.5% and 16.6%, respectively, below their third quarter long-term average production as a result of poor wind and water conditions, respectively. Whitecourt and Sechelt were 8.3% and 83.7%, respectively, above their third quarter production due to exceptional availability and strong water flows from the snow accumulation over the winter, respectively.

For Amherstburg, which generates power based on sunlight, longer, sunnier days result in more electricity production. As a result, Capstone anticipates the power production during the second and third quarter each year to approximate 65% of the annual production, which is expected to be 37,600 MWh.

For the Värmevärden investment, which generates heat for consumption in buildings, demand is higher in the colder months of the year. As a result, Värmevärden's contribution to Capstone's net income (loss) is expected to be more favourable in the first and fourth quarters of the year. The first and fourth quarters are expected to account for approximately 65% of the energy sold during the year.

Capstone maintains cash reserves in order to offset seasonality and other factors that may impact electricity and heat production.

SUMMARY OF QUARTERLY RESULTS

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

($000s, except for per share amounts)	2011			2010				2009[4]
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	40,361	37,028	46,915	44,265	34,598	35,497	44,152	42,795
Net income (loss)	(11,783)	(30,370)[6]	41,332	(2,648)	(6,845)	(2,239)	27,633	11,501
Cash flows from operating activities	10,040	(8,353)	14,117	1,626	6,150	7,364	13,873	9,504
Adjusted EBITDA	13,253	(6,569)	17,869	16,531	10,166	9,220	19,901	21,360
FFO	9,045	(10,893)	14,754	11,800	7,298	4,566	17,145	17,797
AFFO	5,891	(13,886)	13,484	9,795	6,223	3,353	15,403	16,046
Common dividends [3]	10,225	10,217	10,015	8,232	7,700	7,699	7,700	13,103
Earnings Per Share – Basic	(0.190)	(0.492)[6]	0.685	(0.055)[1]	(0.147)[1]	(0.048)[1]	0.592[1]	0.230
Earnings Per Share – Diluted	(0.190)	(0.492)[6]	0.625[2]	(0.055)	(0.163)[2]	(0.048)	0.547[2]	0.230
Cash flows from operating activities per share	0.162	(0.135)	0.231	0.021	0.145	0.158	0.297	0.190
AFFO per share [5]	0.095	(0.225)	0.221	0.184	0.125	0.067	0.309	0.344
Dividends declared per share	0.165	0.165	0.165	0.165	0.165	0.165	0.165	0.262

(1) Class B exchangeable units were not included in the weighted average shares outstanding, as they were classified as debt during this period under IFRS.
(2) Convertible debentures were dilutive during the period.
(3) Common dividends include amounts declared during the periods for both the common shares of the Corporation and the Class B exchangeable units.
(4) Canadian GAAP.
(5) Included in the AFFO per share are the Class B exchangeable units to allow the non-GAAP measures to be comparative.
(6) Net loss has been adjusted by $2,409 for acquisition costs on Capstone's investment in Värmevärden.

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

RELATED PARTY TRANSACTIONS

On April 15, 2011, Capstone and MGL terminated the management and administration agreements that established the related party relationship between Capstone and MGL. As such, all transactions during the third quarter with MGL and its subsidiaries are considered to be at arm's length.

Compensation of Key Management

Aside from amounts paid as part of the management internalization the disclosure of compensation of key management has remained consistent with the previous quarter ended and can be found in note 16 to the interim financial statements for the period ended September 30, 2011.

Prior to April 15, 2011, the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") of Capstone and other employees were employed by the Manager. Accordingly, employee compensation disclosure only includes executive compensation since the internalization of management.

RISKS AND UNCERTAINTIES

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

In addition, shareholders should be aware of the following risks and uncertainties related to Bristol Water, which was acquired on October 5, 2011:

Risks Related to Bristol Water and the Water Distribution Business in the United Kingdom

Bristol Water's revenue is substantially influenced by Ofwat's price determinations

Bristol Water operates in an industry that is substantially influenced by the service levels, regulatory targets and periodic price determinations set by its economic regulator, the UK Water Services Regulation Authority ("Ofwat"), as well as Ofwat's assessment of its delivery against these targets. Under the terms of Bristol Water's Instrument of Appointment, Ofwat is required to review Bristol Water's price limits periodically (currently every five years). Ofwat's price determinations, which limit the prices Bristol Water can charge its customers, may be appealed to the Competition Commission ("CC"). The price limits were last reviewed and reset by Ofwat in 2009 for the five-year period from April 2010 ("AMP5") and, following the rejection by Bristol Water, were subsequently amended by the CC. The conditions of Bristol Water's Instrument of Appointment can be modified by Ofwat either with Bristol Water's agreement, or following reference to the CC, on public interest grounds. Implicit within the most recent price limits set by Ofwat (as amended by the CC) are assumptions concerning Bristol Water's future operating expenditures and the achievement of operating cost savings. The failure to achieve these efficiencies may be reflected in less favourable outcomes in future profitability and cash flows or in Ofwat's future price determinations.

Failure to deliver capital investment programs

Bristol Water's regulated business requires significant capital expenditures, including investment in new or replacement water distribution networks and treatment facilities. Historically, Bristol Water has financed these capital expenditures using operating cash flows, external debt, an issue of irredeemable preference shares and retained profits. If operating cash flows decline or external debt financing and other sources of capital are not available or at a similar cost to that assumed by Ofwat, Bristol Water may not be able to meet future capital expenditure requirements. The delivery of capital investment programs could also be affected by a number of other factors, including adverse legacy effects of earlier capital investments, such as increased maintenance or enhancement costs, and the failure to adequately deliver specified outputs or amounts funded in regulatory capital investment programs proving insufficient to meet the actual amount required. This may affect Bristol Water's ability to meet regulatory and other environmental performance standards, which may result in Bristol Water's regulators imposing sanctions, including fines of an amount of up to 10% of its revenue for each infringement.

Failure to deliver water leakage target

Bristol Water is required to meet an annual target for water leakage. If Bristol Water does not achieve this target by a significant margin in any one year or by a small margin over a number of years, Ofwat may impose a fine or a reduced revenue allowance at the next price setting review. In addition, if performance were to decline, Bristol Water may incur additional operating or capital expenditure to restore performance.

Ofwat's introduction of the Service Incentive Mechanism ("SIM") and the serviceability assessment

For the 2010-2015 period, Ofwat introduced the SIM, a new comparative incentive mechanism to reward or penalize water companies' service performance. The SIM, which replaced the Overall Performance Assessment, compares companies' quality of customer service. The SIM comprises both a quantitative measure of complaints and unwanted contacts, and a qualitative measure, based on survey evidence, that looks at how satisfied customers are with the quality of service that they receive. The SIM will be measured over the period 2011/12 to 2013/14. Depending upon Bristol Water's relative performance under the SIM, it could receive a reduced or increased revenue allowance when price limits are next reset in November 2014. Bristol Water is required to maintain the serviceability of its water assets, ensuring they continue to deliver a level of service and performance at least as good as in the past. Where serviceability falls below required reference levels of performance, Ofwat may impose a reduced revenue allowance at the next price-setting review. In addition, if performance were to decline, Bristol Water may incur additional operating or capital expenditure to restore performance.

Economic environment, inflation and capital market conditions

In recent years, the global financial crisis and economic downturn have impacted the bank lending environment as well as the debt and equity capital markets. As a result, the financing arrangements available to Bristol Water are potentially more expensive and difficult to secure. Another challenge arises from the relationship between the regulated capital value ("RCV") of Bristol Water and the retail price index ("RPI"). The RCV is adjusted annually for inflation so, if RPI decreases, the RCV would be adjusted downward to reflect this. This may lead to pressure on leverage and other key financial ratios, which may have an adverse impact on the credit ratings of Bristol Water, and increase the cost or limit the availability of credit. In the extreme, Bristol Water may be required to increase its equity base by either reducing its dividend payments or raising new equity capital. The global economic environment continues to present difficult trading and financing conditions for customers, contractors and suppliers of materials and/or services to Bristol Water. The movement of the Construction Price Index (''COPI'') relative to RPI will influence the calculation of RCV at the next price review. If the COPI decreases relative to RPI, then the initial RCV at the start of the next regulatory period will be lower, potentially adversely impacting financial leverage. Given the significant investments Bristol Water is set to undertake over the remainder of AMP5, it will have to be mindful of any such movement relative to RPI in the determination of dividends.

Pension plan obligations may require Bristol Water to make additional contributions

Bristol Water operates both defined benefit and defined contribution pension arrangements. Pension arrangements for the majority of Bristol Water's employees are provided through Bristol Water's membership in the Water Companies' Pension Scheme (''WCPS''), which provides defined benefits based on final pensionable pay. Bristol Water's pension assets and liabilities are managed within a separate section of WCPS. Bristol Water's section was closed to new employees in 2002. Since that closure, all new employees are offered membership in a stakeholder pension plan outside of the WCPS. Estimates of the amount and timing of future funding for Bristol Water's defined benefits plan are based on various actuarial assumptions and other factors including, among other things, the actual and projected market performance of the plan assets, future long-term bond yields, average life expectancies and relevant legal requirements. The impact of these assumptions and other factors may require Bristol Water to make additional contributions to its pension plan which, to the extent they are not recoverable under the regulatory price determination process, could materially adversely affect Bristol Water's results of operations and financial condition.

Legal and regulatory risks

Bristol Water is subject to various laws and regulations of the UK and the EU. Regulatory authorities may, from time to time, make enquiries of companies within their jurisdiction regarding compliance with regulations. In addition to regulatory compliance proceedings, Bristol Water could become involved in a range of third-party proceedings related to, for example, land use, environmental protection, and water quality. These proceedings may include civil actions by third parties for infringement of rights, nuisance claims or other matters or criminal liability. Furthermore, it is difficult to predict the impact of future changes in laws or regulations or the introduction of new laws or regulations that affect the business. In addition, the interpretation of existing laws or regulations may also change over time, or the approach to their enforcement may become more rigorous. The UK Government is currently developing a White Paper, expected to be published later in 2011, that may result in new legislation, including in relation to water charging, Ofwat and increased competition. If Bristol Water fails to comply with applicable law or regulations, in particular in relation to its Instrument of Appointment, or has not successfully undertaken corrective action, regulatory action could be taken. This regulatory action could include a financial penalty (of up to 10% of relevant revenue for each infringement) or an enforcement order requiring Bristol Water to incur additional capital or operating expenditure to remedy its non-compliance. In extreme cases, non-compliance may lead to revocation of Bristol Water's Instrument of Appointment or the appointment of an administrator to manage the affairs, business and property of the company.

Special Administration

The UK Water Industry Act ("WIA") contains provisions enabling the Secretary of State for Ofwat (with the permission of the Secretary of State) to secure the general continuity of water supply by petitioning the UK High Court for the appointment of a Special Administrator in certain circumstances. Examples of such circumstances include a situation where Bristol Water is in breach of its principal duties under its Instrument of Appointment, or in breach of the provisions of a final or confirmed provisional enforcement order (and in either case, the breach is serious enough to make it inappropriate for Bristol Water to continue to hold its Instrument of Appointment or is a serious breach of the provisions of a final or confirmed provisional enforcement order) or Bristol Water is unable, or is unlikely to be able, to pay its debts.

In addition, a petition by a creditor of Bristol Water to the UK High Court for the winding up of Bristol Water would be appropriate to make such a winding-up order if the company were not a company holding an appointment under the WIA. The duties and functions of a Special Administrator differ in certain important respects to those of an administrator of a non-regulated company. During the period of the Special Administration Order, Bristol Water would be managed by the Special Administrator for the purposes of the order and in a manner protecting the interest of

shareholders and creditors. As noted above, while an order is in force, no steps may be taken to enforce any security over the property of Bristol Water except with the consent of the Special Administrator or the leave of the court. A Special Administrator would be able to dispose of assets free of any floating charge existing in relation to them. On such a disposal, however, the proceeds would be treated as if subject to a floating charge which has the same priority as that afforded to the original security. A Special Administrator may not dispose of property which is the subject of fixed charge without the agreement of the relevant creditor except under an order of the court. On such a disposal, the Special Administrator must account for the proceeds to the chargee, although the disposal proceeds to which the chargee is entitled are determined by reference to “the best price which is reasonably available on a sale which is consistent with the purposes of the Special Administration Order” as opposed to an amount not less than “open market value”, which would apply in a conventional administration for a company which is not a regulated company under English insolvency legislation.

Due to the statutory purposes of a Special Administration Order, it is not open to a Special Administrator to accept an offer to purchase the assets on a break-up basis in circumstances where the purchaser would be unable properly to carry out the relevant functions of a regulated company. Where the Special Administrator determines that the business of the regulated company should be transferred to one or more different companies as a going concern, the transfer is effected by a transfer scheme which the Special Administrator puts in place, subject to the approval of the Secretary of State of Ofwat on behalf of the existing regulated company. The transfer scheme may provide for the transfer of the property, rights and liabilities of the existing regulated company to the new regulated company(ies) and may also provide for the transfer of the existing regulated company’s Instrument of Appointment (with modifications as set out in the transfer scheme) to the new regulated company(ies).

Foreign exchange risk

Through its investment in Bristol Water, the Corporation is exposed to foreign exchange risk through exchange rate movements attributable to future cash flows (transaction exposure) and in the revaluation of net assets in foreign subsidiaries (translation or balance sheet exposure) as the revenue generated by Bristol Water and its assets is denominated in pound sterling. As a result, fluctuations in the Canadian dollar and the pound sterling could materially affect the performance of the Corporation’s investment in Bristol Water. The Corporation’s foreign exchange hedging policy seeks to reduce foreign exchange risk by selecting an appropriate hedging strategy that accounts for hedging costs and tax implications. However, an imperfect hedging arrangement could expose the Corporation to losses under various circumstances.

Operational risks

Bristol Water controls and operates a water network and maintains the associated assets with the objective of providing a continuous service. Bristol Water faces a number of risks in its operations that could have an adverse impact on its business, operating costs and results, future profitability, and financial condition. These risks include:

- A significant interruption of service or catastrophic damage, which could result in significant loss of life, environmental damage, or economic and social disruption. These circumstances could arise in a variety of ways, including: energy shortages; the failure of an asset or an element of a network or supporting plant and equipment; human error; unavailability of access to critical sites or key staff; malicious intervention; failure by a supplier; labour disputes; pollution or contamination; or naturally-occurring events. In these circumstances, the company could be fined for breaches of statutory obligations or held liable to third parties, or be required to provide an alternative water supply of equivalent quality. Insurance coverage may be inadequate or unobtainable;
- Dependence upon access to and use of remote communication via electronic software applications mounted upon corporate information technology hardware and communicating through internal and external networks. The ownership, maintenance and recovery of such applications, hardware and networks are not wholly under Bristol Water’s control;
- Limited control over future energy or chemical costs, abstraction charges, levels of customer bad debt or taxes;
- Debt collection costs and bad debt write offs, as domestic customers cannot be disconnected from their supply for failure to pay their bill. An allowance for bad debts is included when Ofwat sets price limits; and
- Dependence upon suitable weather conditions supplying raw water as inflow for its abstraction points. The company has a drought contingency plan in place should there be a lack of such rainfall.

Risk of increased competition

In April 2009, a review of competition and innovation in the UK water sector was published (the “Cave Review”), supporting the objective to introduce greater competition in the water industry and recommending a number of reforms. If these recommendations are implemented, they could eventually expand the competitive market allowing

retail competition to all non-household customers as an initial step in opening markets to competition. The Cave Review also proposed that the retail divisions of regulated companies such as Bristol Water should be made legally independent from the remainder of their regulated businesses, and included recommendations for reform in respect of abstraction and discharge, upstream activities and water industry structure. The UK Government has stated that its proposed White Paper will set out its conclusions on the Cave Review and other potential developments in the water sector. In addition, Ofwat and the UK Environment Agency are considering introducing reforms to the regulation of water abstraction licences that would allow trading of licences. Ofwat is also examining the scope for upstream competition in treated water supply and has recently consulted on future price limits. Ofwat has taken steps to introduce competition into the water supply market through inset appointments, which is made when an existing regulated company is replaced by another as the supplier of water and services for one or more customers within a particular licenced area, and the water supply licencing regime. Prior to 2007, with one exception, inset appointees had all been granted to existing regulated companies. Since 2007, Ofwat has granted more inset appointments, none of which are within Bristol Water's water supply area. Further inset appointments may be made in the future, resulting in increased competition. In addition, take steps that lead to other changes in the structure of the water industry with potentially adverse consequences to the financial position of Bristol Water.

Reliance on key personnel

Bristol Water's success depends heavily on its ability to attract, retain and motivate key employees, including senior management. If Bristol Water loses the services of some or all of its key executives and cannot replace them in a timely manner, its ability to develop and pursue its business strategy may be adversely affected, which could materially and negatively affect Bristol Water's business, operating results, financial condition and cash flow.

Default under Bristol Water's Artesian loans, bonds, debentures and credit facility

A portion of Bristol Water's cash flow is devoted to servicing its debt. There can be no assurance that Bristol Water will continue to generate sufficient cash flow from operations to meet the required interest and principal payments on its Artesian loans, bonds, debentures or drawings under its credit facility. If Bristol Water were unable to meet such interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. If this were to occur, it could have an impact upon the business, operating results and financial condition of Bristol Water which could adversely affect the Corporation's results and its ability to pay dividends on its common shares. In addition, the Artesian loans, bonds, debentures and Bristol Water's credit facility contain a number of customary financial and other covenants. A failure by Bristol Water to comply with its obligations under these instruments could result in a default, which, if not cured or waived, could result in the termination of dividends by Bristol Water and permit acceleration of the relevant indebtedness and a possible sale of Bristol Water by its lenders pursuant to their security rights in relation to the Artesian loans and/or bonds. Such a default could have an impact upon the business, operating results and financial condition of Bristol Water, which could adversely affect the Corporation's results and its ability to pay dividends on its common shares.

Geographic concentration

Bristol Water's operations are all located in the Bristol area of the UK. If the Bristol market was to generally experience a severe decline in financial performance as a result of changes in local or regional economic conditions or an adverse change to the regulatory environment, the market value of Bristol Water, the income generated from its operations and the overall financial performance of the Corporation could be negatively affected.

Seasonality and Climate Change

Although there is little seasonal variation in demand, the proportion of water used from each type of Bristol Water's sources of water varies on a daily and seasonal basis according to the availability of water, the relative costs and other operational constraints. Additionally, the quantity of treated water supplies fluctuates owing to a variety of seasonal factors, such as dry weather and burst pipes due to freeze/thaw cycles affecting the ground during winter months. In addition, climate or weather pattern changes may adversely affect the availability of water resources or demand by customers.

Labour Relations

Approximately 33% of Bristol Water's employees are represented by unions. While Bristol Water has traditionally maintained positive labour relations, there can be no assurance that it will not, either in connection with a renegotiation process or otherwise, experience strikes, labour stoppages or any other type of conflict with unions or employees in the future.

Assumption of liabilities

In connection with the acquisition of Bristol Water, there may be liabilities that the Corporation failed to discover or did not appropriately quantify during the due diligence process that occurred prior to the closing of the transaction. As a

result, the Corporation may not be fully indemnified for some or all of these liabilities. Any such liabilities could materially and adversely affect Bristol Water's financial performance and future prospects.

Climate Change and the Environment

Capstone monitors developments with respect to climate change and the environment with the assistance of external legal council. Since the Corporation's prior disclosure in its fiscal 2010 annual report, the Province of Québec has published a draft regulation to facilitate the implementation of its cap-and-trade system under the Western Climate Initiative. The draft regulation, which was published in July 2011 and will apply to industrial facilities emitting 25,000 or more tones of carbon dioxide equivalent per year, will be adopted following a 60-day consultation period. Québec has indicated that its cap-and-trade system will come into force on January 1, 2013. This regulation is not expected to have a material effect on our existing operations.

In addition, shareholders should be aware that Bristol Water is subject to substantial UK and EU regulation. Bristol Water has a number of obligations with respect to the quality of treated water supplied, the environment, biodiversity and human health and safety. All water companies have general duties to conserve and enhance biodiversity and natural beauty and to promote efficient use of water. Environmental regulation is primarily the responsibility of the UK Secretary of State for Environment, Food and Rural Affairs together with:

- The UK Environment Agency, which is responsible for conserving and redistributing water resources and securing their proper use, including the licencing of water abstraction from, and the consenting of discharges to controlled waters, as well as the preservation and improvement of the quality of rivers, estuaries, coastal waters and groundwaters, through pollution control powers;
- The UK Drinking Water Inspectorate, which enforces drinking water quality standards and is involved in ensuring that water companies are fulfilling their statutory duty as regards the supply of wholesome drinking water, and in prosecuting any regulated company that commits the offence of supplying water unfit for human consumption; and
- Natural England, an independent public body responsible for the protection of designated sites for nature conservation. There is a statutory requirement to manage these sites to conserve or improve biodiversity.

EU directives, including the EU Water Framework Directive and the EU Drinking Water Directive, have been implemented in the UK. The EU Water Framework Directive, which includes a requirement that EU member states ensure that their waters achieve at least "good status" by 2015, has a number of requirements that may result in increased limitations on abstraction licences and restrictions on discharge consents. Any pollution of controlled waters or other environmental harm caused by Bristol Water may result in liability for remedial or compensatory works under a number of statutory liability regimes, including under the EU Environmental Liability Directive.

Energy use in water treatment and other activities carried out by Bristol Water results in indirect emissions of greenhouse gases. Bristol Water is subject to the UK Climate Change Levy and the UK CRC Energy Efficiency Scheme, a mandatory UK emissions trading scheme for significant consumers of energy.

ACCOUNTING POLICIES AND INTERNAL CONTROL

Significant Changes in Accounting Standards

The notes to the unaudited interim consolidated financial statements as at and for the three-month period ended March 31, 2011 contain a summary of the critical accounting policies used in preparation of the unaudited interim consolidated financial statements. On January 1, 2011, Capstone transitioned to IFRS. New significant accounting policies are disclosed in the financial statements as at September 30, 2011.

Future Accounting Changes

The Corporation's disclosure in its quarterly report for the three-month period ended March 31, 2011 has described the relevant future accounting standards expected to materially impact on Capstone future reporting, additionally significant developments to IFRS that have occurred during the third quarter are as follows:

In May 2011, the International Accounting Standards Board ("IASB") issued the following standards which have not yet been adopted by the Corporation: IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

Accounting Estimates

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

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

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

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

Internal Controls

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

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

Capstone updated its internal controls and testing for changes in its operations during the three-month period ended September 30, 2011, including the construction of Amherstburg and acquisition of Värmevärden, as well as its internal controls over financial reporting specifically with respect to the transition to IFRS.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at September 30, 2011 to ensure that information required to be disclosed in reports that Capstone files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

There were no changes made in Capstone's internal controls over financial reporting during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, Capstone's internal controls over financial reporting.

CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($000s)	Notes	Sep 30, 2011	Dec 31, 2010
Current assets			
Cash and cash equivalents	7	54,952	128,413
Restricted cash	7	19,579	10,602
Accounts receivable		21,117	21,696
Other assets		2,762	3,552
Current portion of loans receivable	9	4,395	884
Current portion of derivative contract assets	8	485	1,918
		103,290	167,065
Non-current assets			
Loans receivable	9	88,790	5,221
Derivative contract assets	8	3,774	6,579
Equity accounted investments	9	16,564	54,789
Capital assets	10	476,030	408,623
Intangible assets	11	130,492	137,646
Deferred income tax assets		18,212	24,211
Total assets		837,152	804,134
Current liabilities			
Accounts payable and other liabilities		32,252	28,896
Current portion of derivative contract liabilities	8	2,933	2,505
Loans payable	9	3,437	49,200
Current portion of finance lease obligations		126	120
Current portion of long-term debt	13	94,257	44,838
		133,005	125,559
Long-term liabilities			
Derivative contract liabilities	8	23,249	14,801
Deferred income tax liabilities		63,760	105,251
Electricity supply and gas purchase contracts	11	5,305	6,524
Finance lease obligations		33	129
Long-term debt	13	249,043	284,608
Liability for asset retirement obligation		2,356	3,167
Total liabilities		476,751	540,039
Shareholders' equity [1]	14	360,401	264,095
Total liabilities and shareholders' equity [1]		837,152	804,134
Commitments and contingencies	19		
Subsequent events	20		

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

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

($000s)	Notes	Share Capital [1]	Preferred shares	Class B Units	Convertible debentures	Accumulated Other Comprehensive Income	Retained Earnings	Total
Balance, January 1, 2010		466,662	-	-	-	190	(256,753)	210,099
Units redeemed	14a	(23)	-	-	-	-	-	(23)
Equity share of other comprehensive income (loss) of Leisureworld		-	-	-	-	(190)	-	(190)
Net income during the period		-	-	-	-	-	18,548	18,548
Distributions declared	14d	-	-	-	-	-	(23,098)	(23,098)
Balance, Sep. 30, 2010		466,639	-	-	-	-	(261,303)	205,336
Units issued	14a	65,249	-	-	-	-	-	65,249
Conversions of debentures, net of costs	13d	4,390	-	-	-	-	-	4,390
Net loss during the period		-	-	-	-	-	(2,647)	(2,647)
Distributions declared	14d	-	-	-	-	-	(8,233)	(8,233)
Balance, Dec. 31, 2010		536,278	-	-	-	-	(272,183)	264,095
Shares issued	14a and c	6,898	72,715	-	-	-	-	79,613
Reclassification of class B exchangeable units	5a	-	-	26,710	-	-	-	26,710
Reclassification of convertible debentures – conversion option	13d	-	-	-	11,554	-	-	11,554
Debenture conversions, net of costs	13d	11,819	-	-	(2,270)	-	-	9,549
Equity share of other comprehensive income (loss) of Värmevärden	9a	-	-	-	-	(139)	-	(139)
Net income for the period		-	-	-	-	-	(821)	(821)
Dividends declared	14a and d	297	-	-	-	-	(30,457)	(30,160)
Balance, Sep. 30, 2011		555,292	72,715	26,710	9,284	(139)	(303,461)	360,401

[1] 2010 is units

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Sep 30, 2011	Three months ended Sep 30, 2010	Nine months ended Sep 30, 2011	Nine months ended Sep 30, 2010
Revenue		40,361	34,598	124,304	114,247
Costs and expenses					
Operating expenses		24,013	21,983	72,049	68,352
Administrative expenses		5,089	2,810	32,022	9,482
Depreciation of capital assets	10	7,198	5,724	19,094	18,048
Amortization of intangible assets	11	2,030	1,993	5,935	5,875
		38,330	32,510	129,100	101,757
		2,031	2,088	(4,796)	12,490
Other income and expenses					
Interest income		1,994	281	4,320	663
Interest expense		(6,179)	(5,120)	(16,291)	(15,699)
Equity accounted income (loss)	9	(1,721)	622	(5,596)	3,773
Amherstburg gain on acquisition		-	-	-	4,234
Unrealized loss on derivative financial instruments		(11,214)	(11,681)	(13,824)	(21,242)
Unrealized loss on Class B exchangeable unit liability		-	(1,138)	-	(3,867)
Unrealized gain on convertible debentures - conversion option		-	2,591	-	854
Foreign exchange gain (loss)		94	-	(539)	(4)
Loss before income taxes		(14,995)	(12,357)	(36,726)	(18,798)
Income tax recovery (expense)	12				
Current		-	-	(8)	(8)
Deferred		3,212	5,512	35,913	37,355
Total income tax recovery		3,212	5,512	35,905	37,347
Net income (loss)		(11,783)	(6,845)	(821)	18,549
Earnings per share [1]					
Basic		(0.190)	(0.147)	(0.013)	0.398
Diluted		(0.190)	(0.163)	(0.013)	0.350
Basic weighted average number of shares including Class B exchangeable units outstanding (2010 – excluding Class B exchangeable units)		61,961	46,662	61,630	46,663
Diluted weighted average number of shares		61,961	54,876	61,630	54,878

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($000s)	Notes	Three months ended Sep 30, 2011	Three months ended Sep 30, 2010	Nine months ended Sep 30, 2011	Nine months ended Sep 30, 2010
Net income (loss)		(11,783)	(6,845)	(821)	18,549
Equity share of other comprehensive loss of equity accounted investments		(6)	-	(139)	(190)
Total comprehensive income (loss)		(11,789)	(6,845)	(960)	18,359

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

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

($000s)	Notes	Nine months ended Sep 30, 2011	Sep 30, 2010
Operating activities:			
Net income		(821)	18,549
Depreciation and amortization		25,029	23,923
Equity accounted (income) loss		5,596	(3,773)
Unrealized loss on derivative investments		13,824	21,242
Deferred income tax recovery		(35,913)	(37,355)
Amortization of deferred financing costs		1,647	1,057
Non-cash financing costs		1,384	1,605
Amherstburg gain on acquisition		-	(4,234)
Loss on disposal of capital assets		(6)	-
Unrealized loss on Class B exchangeable unit liability		-	3,867
Unrealized gain on convertible debentures		-	(854)
Change in non-cash working capital	18	5,064	3,360
Total cash flows from operating activities		15,804	27,387
Investing activities:			
Loan to equity accounted investments	9	(84,297)	-
Investment in capital assets	10	(87,456)	(2,703)
Investment in equity accounted investments	9	(25,626)	-
Purchase of foreign exchange options		(710)	-
Receipt of loans receivable		654	587
Change in restricted cash		(9,728)	(6,304)
Transaction costs		-	(818)
Distributions received from equity accounted investments		-	2,211
Total cash flows used in investing activities		(207,163)	(7,027)
Financing activities:			
Proceeds from long-term debt		65,677	-
Proceeds from loans payable		8,903	49,200
Proceeds from issuance of common and preferred shares, net of costs		79,209	-
Financing fees paid on debt issuance		(889)	(1,710)
Repayment of long-term debt and finance lease obligations		(4,843)	(1,420)
Dividends paid		(30,159)	(24,721)
Repayment of convertible debentures		-	(31,418)
Redemption of units		-	(23)
Total cash flows from (used in) financing activities		117,898	(10,092)
Increase (decrease) in cash and cash equivalents		(73,461)	10,268
Cash and cash equivalents, beginning of period		128,413	53,121
Cash and cash equivalents, end of period		54,952	63,389
Supplemental information:			
Interest paid		12,292	10,857
Taxes paid		8	8

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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1. CORPORATE INFORMATION

Capstone is incorporated and domiciled in Canada and principally located at 181 Bay Street, Suite 3100, Toronto, Ontario, M5J 2T3. The mission of Capstone Infrastructure Corporation (formerly Macquarie Power and Infrastructure Corporation and Macquarie Power & Infrastructure Income Fund (the "Fund")) and its subsidiaries (together the "Corporation" or "Capstone") is to build and responsibly manage a high quality portfolio of infrastructure businesses in Canada and internationally in order to deliver a superior total return to our investors through stable dividends 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, and a 33.3% interest in a district heating business in Sweden that was acquired on March 31, 2011.

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

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

2. BASIS OF PREPARATION AND ADOPTION OF IFRS

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

Statement of Compliance

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

The policies applied in these interim condensed consolidated financial statements are based on IFRS issued and in effect as at November 14, 2011, the date that the Board of Directors approved the financial statements. Any subsequent changes to IFRS that are given effect in the Corporation's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including transitional adjustments recognized on change-over to IFRS.

3. SEASONALITY

The seasonality of wind speed, density of water flows, solar availability 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 (loss) during the period. In addition, warmer weather reduces the demand for heat from the Swedish district heating business. The Corporation maintains surplus cash in order to offset the seasonality and other factors that may impact electricity production and demand for heat.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited Canadian GAAP consolidated financial statements for the year ended December 31, 2010, and Capstone's interim financial statements for the quarters ended March 31 and June 30, 2011, which are prepared in accordance with IFRS applicable to interim financial statements and disclose Capstone's significant accounting policies. There have been no material changes to Capstone's accounting policies during the third quarter of 2011, except an addition to Capstone's revenue recognition policy summarized as follows; Capstone follows Accounting for Government Grants and disclosure of Government Assistance (IAS 20) with respect to certain power contracts with provincial jurisdiction.

Future Accounting Changes

In May 2011, the International Accounting Standards Board ("IASB") issued the following standards which have not yet been adopted by the Corporation: IFRS 10, Consolidated Financial Statements (IFRS 10), IFRS 12, Disclosure of Interests in Other Entities (IFRS 12), IAS 27, Separate Financial Statements (IAS 27), IFRS 13, Fair Value Measurement (IFRS 13) and amended IAS 28, Investments in Associates and Joint Ventures (IAS 28). Each of the new standards is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

5. TRANSITION TO IFRS

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

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

Shareholders' Equity ($000s)	Notes	Dec 31, 2010	Sep 30, 2010
As reported under Canadian GAAP		340,594	274,418
IFRS adjustments			
Major maintenance and componentization	i	(1,626)	(1,393)
Capitalized transaction costs	ii	(933)	(352)
Class B exchangeable units	iii	(26,710)	(23,721)
Equity portion of convertible debentures	iv	(12,640)	(8,993)
Deferred income tax – rate adjustment	v	(34,809)	(34,982)
Deferred income tax – other adjustments	vi	219	359
As reported under IFRS		264,095	205,336

Comprehensive Income ($000s)	Notes	Dec 31, 2010	Three months ended Sep 30, 2010	Nine months ended Sep 30, 2010
Net income (loss)- under Canadian GAAP		11,569	(9,400)	5,596
IFRS adjustments				
Major maintenance and componentization	i	(1,792)	(708)	(1,559)
Capitalized transaction costs	ii	2,142	(84)	2,722
Class B exchangeable units	iii	(9,001)	(1,674)	(5,475)
Equity portion of convertible debentures	iv	(3,459)	2,591	854
Deferred income tax – rate adjustment	v	16,591	2,414	16,419
Deferred income tax – other adjustment	vi	(149)	16	(8)
Net income (loss)- under IFRS		15,901	(6,845)	18,549
Other comprehensive loss – under Canadian GAAP and IFRS		(190)	-	(190)
Comprehensive income - under IFRS		15,711	(6,845)	18,359

Explanatory notes

i. Major maintenance and componentization

IFRS requires an entity to separately track components of capital assets that have shorter useful lives than the whole category of assets. Under Canadian GAAP, Capstone historically expensed major maintenance and inspection costs as they were incurred. Under IFRS, these costs must be capitalized and amortized separately over the period until the next major maintenance.

The effect of this change is a $1,626 decrease in shareholders' equity as at December 31, 2010 (September 30, 2010 – $1,393 decrease) and a $1,792 decrease in net income (loss) before tax for the year ended December 31, 2010 ($708 and $1,559 decrease, respectively, for the three and nine months ended September 30, 2010).

ii. Capitalized transaction costs

Under IFRS, transaction costs for a business combination must be expensed as incurred. Only certain transaction costs directly related to the issuance of debt or equity are eligible to be capitalized. While business combinations before 2010 are exempt from restatement under the IFRS 1 elections, the June 2010 acquisition of the Amherstburg Solar Park, along with other deferred business development costs have been restated to exclude the transaction costs from the purchase price.

The effect of these changes is a $933 decrease in shareholders' equity as at December 31, 2010 (September 30, 2010 - $352 decrease) and an increase in net income (loss) before tax for the year ended December 31, 2010 of $2,142 ($84 decreased and $2,722 increase, respectively, for the three and nine months ended September 30, 2010).

Additionally in accordance with IFRS 3R, the acquisition of the Amherstburg Solar Park from SunPower has been capitalized, resulting in a gain at the time of acquisition in June 2010. The effect of this change was a $6,144 increase in intangibles ($4,234, net of the increase related to the deferred tax liability), $1,910 increase in the deferred tax liability and a $4,234 increase in net income. The Corporation released $831 of deferred tax liability for the six months ended September 30, 2010, to reflect the use of the general corporate rate as described further in note 5(a)(v).

iii. Class B exchangeable units

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

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

Additionally, $2,144 of distributions to unitholders were treated as interest expense for the year ended December 31, 2010 ($536 and $1,608, respectively, for the three and nine months ended September 30, 2010).

The effect of these changes is a $26,710 decrease in shareholders' equity as at December 31, 2010 (September 30, 2010 - $23,721 decrease) and a $9,001 decrease in net income (loss) before tax for the year ended December 31, 2010 (decrease of $1,674 and decrease of $5,475, respectively, for the three and nine months ended September 30, 2010).

iv. Equity portion of convertible debentures

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

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

The effect of these changes is a $12,640 decrease in shareholders' equity as at December 31, 2010 (September 30, 2010 - $8,993 decrease) and a $3,459 decrease in net income (loss) before tax for the year ended December 31, 2010 ($2,591 increase and $854 increase, respectively, for the three and nine months ended September 30, 2010).

v. Deferred income taxes – rate adjustment

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

Under IFRS, income fund trusts are required to use the "undistributed" rate in the determination of income tax amounts for financial reporting. Consequently an income fund trust must use the applicable income tax rate

assuming that no distributions are made to offset taxable income. As a result, income fund trusts are required to use the highest marginal personal income tax rate of 46% in the calculation of future income taxes. Capstone has applied this rate to the 2010 comparative financial statements.

The impact to Capstone is a $51,401 increase in deferred income tax liability in the January 1, 2010 opening IFRS consolidated statement of financial position to reflect the rate differential between the highest marginal personal income tax rate of 46% and the SIFT income tax rate of 25%. Under IFRS, this calculation will be applied to timing differences arising in 2010. On December 31, 2010, a $34,809 increase to the deferred income tax liability was recorded (September 30, 2010 - $34,982 increase).

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

vi. Deferred income taxes – other adjustments

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

($000s)	Notes	Dec 31, 2010	Sep 30, 2010
Major maintenance	i	274	414
Capitalized transaction costs	ii	(55)	(55)
Total		219	359

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

($000s)	Notes	Dec 31, 2010	Three months ended Sep 30, 2010	Nine months ended Sep 30, 2010
Major maintenance	i	(149)	16	(8)

vii. Accretion of asset retirement obligations

Under Canadian GAAP, accretion was being included as part of operating and maintenance expenses while under IFRS it is required to be classified as a financing expense. Accretion expense of $179 for the year ended December 31, 2010 ($45 and $133 for the three and nine months ended September 30, 2010 respectively) has been reclassified as a finance cost with other interest expense. This change does not affect net income (loss) for the year ended December 31, 2010 or the three and nine months ended September 30, 2010.

(B) Presentation of Cash Flows

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

	Nine months ended Sep 30, 2010			
($000s)	Transaction costs	Major maintenance and componentization	Class B exchangeable units	Total
Operating activities	1,512	(1,005)	1,608	2,115
Investing activities	(1,512)	1,005	-	(507)
Financing activities	-	-	(1,608)	(1,608)
	-	-	-	-

6. ACQUISITIONS

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

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

7. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

($000s)	Sep 30, 2011	Dec 31, 2010
Cash backed letter of credit	-	4,011
Funds in deposit	500	500
Cash in escrow related to legacy obligations	-	760
Debt service reserve	5,648	2,304
Construction holdbacks	13,431	3,027
Restricted cash	19,579	10,602
Unrestricted cash and cash equivalents	54,952	128,413
	74,531	139,015

The debt service reserve represents segregated cash under the terms of the project debt agreement for Erie Shores Wind Farm LP (“Erie Shores”). Under the agreement, as of April 1, 2011, Erie Shores is required to hold restricted cash equal to the principal and interest payments for the next six months of the term facilities. See note 13 for further detail. Construction holdbacks relate to the construction of the Amherstburg Solar Park and will be released upon completion of scheduled contractual milestones.

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

($000s)	Sep 30, 2011	Dec 31, 2010
Current derivative contract assets		
Gas swap contracts	314	1,918
Foreign currency contracts	171	-
	485	1,918
Non-current derivative contract assets		
Foreign currency contracts	600	-
Interest rate swap contracts	62	1,292
Embedded derivatives	3,112	5,287
	3,774	6,579
	4,259	8,497
Current derivative contract liabilities		
Interest rate swap contracts	2,933	2,505
Non-current derivative contract liabilities		
Interest rate swap contracts	10,952	5,897
Embedded derivatives	12,297	8,904
	23,249	14,801
	26,182	17,306

9. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

	Sep 30, 2011		Dec 31, 2010	
($000s)	Ownership %	Carrying value	Ownership %	Carrying value
Macquarie Long Term Care L.P. ("MLTCLP")	45.0%	123	45.0%	54,789
Värmevärden	33.3%	16,441	Nil	-
Chapais	31.3%	-	31.3%	-
	N/A	16,564	N/A	54,789

Capstone has loans receivable of $93,185, of which $5,451 is receivable from Chapais and $87,734 is receivable from Värmevärden (December 31, 2010 - $6,105 was due from Chapais).

The $87,734 from Värmevärden includes $84,297 (551,808 SEK) loan receivable which matures in 10 years. Interest accrues at 7.965% per annum and is due semi-annually on June 30 and December 31. Repayments of principal will be in SEK and may be made in part or in full, on such date or dates as agreed between Värmevärden, Capstone and MEIF II from time to time. The loan receivable is denominated in SEK and accordingly is re-measured at each reporting date. The change is recorded in the consolidated statement of income as part of unrealized foreign exchange. A one per cent increase or decrease in the SEK to Canadian exchange rate has an approximately $843 decrease or increase on net income. During the third quarter of 2011, Capstone decreased its investment in Värmevärden by way of a non-cash return of capital which resulted in an additional $3,437 (22,500 SEK) of loan receivable from Värmevärden, which is classified in the current portion and is expected to be settled against the loan payable.

The change in the Corporation's equity accounted investments for the nine-month period ended September 30, 2011 and the year ended December 31, 2010 are as follows:

($000s)	Sep 30, 2011	Dec 31, 2010
Opening balance	54,789	54,186
Equity accounted income (loss)	(5,596)	3,332
Equity share of other comprehensive loss	(139)	(190)
Distribution - MLTCLP	(54,666)	-
Dividends / distributions received	-	(2,541)
Return of capital	(3,437)	2
Acquisition - Värmevärden	25,626	-
Other	(13)	-
Ending balance	16,564	54,789
Loans payable	(3,437)	(49,200)
Net investment	13,127	5,589

The loans payable of $3,437 (22,500 SEK) is with Värmevärden as at September 30, 2011. The loan payable is non-interest bearing and payable on demand. During the third quarter of 2011, $54,666 of loans payable with MLTCLP were settled by a non-cash distribution.

(B) Summarized Information for Equity Accounted Investments

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

	Sep 30, 2011		Dec 31, 2010	
($000s)	Assets	Liabilities	Assets	Liabilities
MLTCLP	273	-	121,754	-
Värmevärden	413,672	361,991	-	-
Chapais	28,650	46,550	27,888	48,612

	Three months ended Sep 30, 2011			Three months ended Sep 30, 2010		
($000s)	Revenue	Income	Capstone's Income	Revenue	Income	Capstone's Income
MLTCLP	-	-	-	-	1,343	622
Värmevärden	15,909	(5,153)	(1,721)	-	-	-
Chapais	3,912	34	-	3,822	(40)	-
	19,821	(5,119)	(1,721)	3,822	1,303	622

	Nine months ended Sep 30, 2011			Nine months ended Sep 30, 2010		
($000s)	Revenue	Income	Capstone's Income	Revenue	Income	Capstone's Income
MLTCLP	-	-	13	-	8,345	3,773
Värmevärden	38,184	(16,820)	(5,609)	-	-	-
Chapais	17,033	3,934	-	16,716	3,539	-
	55,217	(12,886)	(5,596)	16,716	11,884	3,773

10. CAPITAL ASSETS

($000s)	Jan 1, 2011	Additions	Disposals	Transfers	Sep 30, 2011
Cost					
Land	235	-	-	-	235
Equipment and vehicles	4,375	203	(116)	-	4,462
Property and plant	469,665	1,143	(256)	119,826	590,378
Construction in progress	34,535	85,291	-	(119,826)	-
	508,810	86,637	(372)	-	595,075
Accumulated depreciation					
Equipment and vehicles	(3,000)	(233)	116	-	(3,117)
Property and plant	(97,187)	(18,861)	120	-	(115,928)
Net carrying value	408,623	67,543	(136)	-	476,030

Included in equipment and vehicles are assets under finance leases having a net carrying value of $59 for the quarter ended ($161 for the year ended December 31, 2010).

As Amherstburg is available for use, the construction in progress assets were transferred to property, plant and equipment and are amortized over their useful lives. No additions of capital assets were accrued at quarter end ($10,427 for the year ended December 31, 2010).

Total additions were $86,637, made up of $87,599 of cash additions during 2011 and non-cash adjustments. ($35,852 for the year ended December 31, 2010) Non-cash adjustments include the asset retirement obligation adjustment of $962 during the nine months ended September 30, 2011.

11. INTANGIBLES

($000s)	Jan 1, 2011	Additions	Disposals	Impairment	Sep 30, 2011
Assets					
Computer software	56	-	-	-	56
Electricity supply and gas purchase contract	108,048	-	-	-	108,048
Water rights	73,018	-	-	-	73,018
Amortization	(43,476)	(7,154)	-	-	(50,630)
	137,646	(7,154)	-	-	130,492
Provisions					
Electricity supply and gas purchase contracts	12,257	-	-	-	12,257
Utilization	(5,733)	(1,219)	-	-	(6,952)
	6,524	(1,219)	-	-	5,305

12. INCOME TAXES

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

The Corporation became a taxable corporation on January 1, 2011, pursuant to the reorganization of the Fund. The reconciliation of the income tax expense for the quarter and nine-month period ended September 30, 2010 is not

comparable to the current quarter since the majority of its earnings prior to 2011 were not subject to income taxes under the Fund's structure. As a result, the comparative figures are not disclosed.

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

($000s)	Nine months ended Sep 30, 2011
Loss before income taxes	(36,726)
Statutory income tax rate	27.8%
Income tax expense based on statutory income tax rate	(10,210)
Permanent differences	2,810
Loss of tax attributes as a result of SIFT reorganization	4,140
Unrecognized non-capital losses accrued within Capstone	4,241
Change in tax status	(34,808)
Other	(2,078)
Total income tax recovery	(35,905)

13. LONG-TERM DEBT

(A) Components of Long-term Debt

($000s)	Maturity	Interest Rates	Sep 30, 2011	Dec 31, 2010
CPC – Cardinal credit facility	June 29, 2012	4.34%	85,000	85,000
Erie Shores project debt – Tranche A	April 1, 2026	5.96%	60,367	62,248
Erie Shores project debt – Tranche B	April 1, 2016	5.28%	4,237	4,815
Erie Shores project debt – Tranche C	April 1, 2026	6.15%	39,589	40,000
Amherstburg Solar Park project debt	June 30, 2016	7.32%	94,315	31,000
Convertible debentures	December 31, 2016	6.50%	39,859	48,875
Convertible debentures – conversion option	December 31, 2016		-	12,640
Class B exchangeable units	n/a		-	26,710
Levelization liability	June 30, 2032	6.87%	25,425	23,714
			348,792	335,002
Less: Deferred financing costs			(5,492)	(5,556)
			343,300	329,446
Current portion of long-term debt				
Erie Shores project debt			5,154	43,302
Amherstburg Solar Park project debt			3,675	1,536
CPC – Cardinal debt			85,000	-
Levelization			427	-
			94,257	44,838
Long-term debt			249,043	284,608

(B) Erie Shores Wind Farm

On April 1, 2011, Capstone completed the refinancing of Tranche C of Erie Shores' non-recourse, project financing loan. Under the refinancing, the Erie Shores' Tranche C loan was replaced with a fully amortizing term loan in the amount of $40,000, with a fixed rate of interest at 6.145% which matures on April 1, 2026. Transaction costs of $889 have been capitalized.

Under the agreement, the next six months of principal and interest payments must be funded in a debt service reserve account. As a result, $5,648 has been recorded as restricted cash on the consolidated statement of financial position. Additionally, CPC has an unsecured guarantee of $5,000.

(C) Amherstburg Solar Park

Under the terms of the credit agreement, there is a project construction facility and a term facility. During the project development, Amherstburg made draws under the construction facility to finance work as it was completed on the project.

In July 2011, the outstanding balance of the construction facility was converted into a non-recourse term facility, which requires regular principal and interest payments, amortized over 17 years, with a five-year maturity. The effective interest rate of the debt is 7.32%. Amherstburg has entered into a swap to convert its floating interest rate obligations under the credit agreement to a fixed rate. The financing and the swap were arranged by Amherstburg and are secured only by the assets of Amherstburg.

(D) Convertible Debentures

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

($000s)	Sep 30, 2011	Dec 31, 2010
Liability component	48,875	51,749
Conversion to shares, net of costs [1]	(9,547)	(3,721)
Amortization and accretion	531	847
	39,859	48,875
Deferred financing costs	(2,518)	(2,518)
	37,341	46,357
Convertible debentures – conversion option	-	12,640
	37,341	58,997
Equity component [2]	11,554	-
Conversion to shares [1], net of costs	(2,270)	-
	9,284	-
Total carrying value	46,625	58,997

(1) $11,819 of carrying value was converted to shares of the Corporation (note 14) ($4,390 - 2010), which is net of transaction costs incurred in connection with the issuance the convertible debentures.
(2) The carrying value of the convertible debentures – conversion option was re-measured to the fair value at January 1, 2010 and December 31, 2010. On January 1, 2011, the amount is classified as equity and no longer re-measured to fair value.

The face values of the debentures as of September 30, 2011 were $42,749 (December 31, 2010 - $53,221).

(E) Long-term Debt Covenants

As at September 30, 2011, the Corporation and its subsidiaries were in compliance with all financial and non-financial debt covenants.

Collateral for the CPC-Cardinal credit facility is provided by a first ranking priority security interest covering the assets of CPC, Cardinal and certain direct subsidiaries, collectively the "restricted group". As at September 30, 2011, the carrying value of the assets of the restricted group exceeded total amounts drawn on the facility.

The Erie Shores project debt is secured only by the assets of Erie Shores, with no recourse to the Corporation's other assets. As at September 30, 2011, the carrying value of the assets of Erie Shores exceeded the total amount of project debt outstanding.

14. SHAREHOLDERS' EQUITY

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

(A) Shares

Capstone is authorized to issue an unlimited number of common shares.

	Three months ended Sep 30, 2011		Nine months ended Sep 30, 2011		Twelve months ended Dec 31, 2010	
($000s and 000s shares)	Shares	Carrying Value	Shares	Carrying Value	Units	Carrying Value
Opening balance	58,702	554,976	56,352	536,278	46,665	466,662
Shares issued [(1) and (2)]	-	-	856	6,898	9,079	65,249
Dividend reinvestment plan [(3)]	46	297	46	297	-	-
Conversion of convertible debentures, net of cost [(4)]	2	19	1,496	11,819	611	4,390
Units redeemed	-	-	-	-	(3)	(23)
Ending balance	58,750	555,292	58,750	555,292	56,352	536,278

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

(2) On April 15, 2011 the Corporation issued 856 common shares subscribed to by MGL as part of the management internalization at $8.18 dollars per share for gross proceeds of approximately $7,000.

(3) During the third quarter of 2011, 46 common shares at an aggregate value of $297 were issued by the Corporation under the Dividend Re-Investment Plan (DRIP).

(4) $11,819 of the convertible debentures were converted to shares of the Corporation (note 13(d)) ($4,390 - 2010), which is net of original issuance transaction costs.

(B) Class B Exchangeable Units

LTC Holding LP had 3,249 Class B exchangeable units outstanding as at September 30, 2011 and December 31, 2010. At December 31, 2010 the Class B exchangeable units were classified as a liability. On conversion to a Corporation these units were reclassified to equity. Each unit is exchangeable into one share of the Corporation. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as shares of the Corporation.

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

(C) Preferred Shares

Capstone is authorized to issue preferred shares equal to 50% of the outstanding common shares. As at September 30, 2011, there were 3,000 series A preferred shares outstanding.

The series A preferred shares have a 5% cumulative dividend which resets on each 5-year anniversary. The shares are non-voting and redeemable at the Corporation's discretion. Subsequent to the initial 5-year fixed rate period, the issuer will determine the annual dividend for the next 5-year period based on the 5-year Government of Canada Bond Yield plus 2.71%. After September 30, 2016, the series A preferred shares are convertible on a one to one basis to series B cumulative, floating rate first preferred shares at the holders option. The series B preferred shares are

redeemable at the Corporation's discretion after June 20, 2021 and every 5 years thereafter at 25 dollars per share plus accrued and unpaid dividends.

(D) Dividends

Dividends to shareholders are paid monthly in arrears on the 15th day of each month or the next business day. For the quarter and nine months ended September 30, 2011, dividends declared totaled $10,225 and $30,457, respectively (for the year ended December 31, 2010 - distributions of $31,331 to unitholders and $2,144 to holders of the Class B exchangeable units).

Dividends on the series A preferred shares are payable quarterly.

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

15. SHARE-BASED COMPENSATION

(A) Deferred Share Units

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

The VWAP per DSU granted during the quarter ended September 30, 2011 was 8.01 dollars. As at September 30 the carrying value of the DSUs, based on a market price of 6.33 dollars, was $36.9 and is included in accounts payable and other liabilities in the consolidated statement of financial position. The resulting DSU expense for the third quarter was $7 and is recorded as compensation expense in the consolidated statement of income and totals $37 on a year-to-date basis.

	Three months ended Sep 30, 2011		Nine months ended Sep 30, 2011	
($000s, except unit amounts)	Number of units	Fair Value	Number of units	Fair Value
Outstanding at beginning of period	3,823	30	-	-
Fixed quarterly grants during the period	1,877	15	5,597	45
Dividend equivalents	134	1	237	2
	5,834	46	5,834	47
Unrealized gain (loss) on revaluation	-	(9)	-	(10)
	5,834	37	5,834	37

(B) Long-Term Incentive Plan

On June 17, 2011, 63 Restricted Stock Units ("RSUs") and 63 Performance Share Units ("PSUs") were granted at the five day VWAP to the senior management of the Corporation. These grants cliff vest on December 31, 2013. Dividend equivalents are granted as of each record date for dividends on shares in accordance with Capstone's dividend policy on common shares. RSUs and PSUs do not have an exercise price and can be settled in shares or cash at the Board's discretion. Additionally, the valuation also takes into consideration that the amount of the PSUs is subject to Capstone's total return relative to a peer group.

The VWAP per RSU and PSU granted on June 17, 2011 was 7.87 dollars. As at September 30, the carrying value of the RSUs and PSUs, based on a market price of 6.33 dollars, was $92.6 and is included in accounts payable and other liabilities in the consolidated statement of financial position. The RSU and PSU compensation expense of $78.8 and $92.6 are recorded as compensation expense in the consolidated statement of income for the third quarter and year-to-date, respectively.

	Three months ended Sep 30, 2011		Nine months ended Sep 30, 2011	
($000s, except unit amounts)	Notional number of units	Fair Value	Notional number of units	Fair Value
Outstanding at beginning of period	126,266	987	-	-
Grants during the period	-	-	126,266	1,000
Dividend equivalents	2,976	21	2,976	21
	129,242	1,008	129,242	1,021
Unrealized loss on revaluation		(190)		(203)
	129,242	818	129,242	818

16. RELATED PARTY TRANSACTIONS

In the second quarter, the management and administration agreements that established the related party relationship with Macquarie Power Management Ltd. ("MPML" or "the Manager") a subsidiary of MGL was terminated. As such, after April 15, 2011 all transactions with MGL and its subsidiaries are not considered to be related. All amounts included in the third quarter of 2011 are related to the period before April 15, 2011.

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

(A) Transactions with MGL

Included in the table below are the related party transactions with MPML:

	Three months ended		Nine months ended	
($000s)	Sep 30, 2011	Sep 30, 2010	Sep 30, 2011	Sep 30, 2010
Management fees [(1)]	69	416	13,890	1,201
Administrative fees [(2)]	-	32	1,053	90
Cost reimbursement	-	1,069	1,546	2,904
Incentive fees	-	-	-	-
	69	1,517	16,489	4,195

(1) Includes $13,101 paid to MGL to terminate the management and administration agreements and $220 as reimbursement for staff vacation pay.
(2) Includes $1,016 paid to MGL to terminate the administrative agreement.

In addition to the above amounts, in March 2011, due diligence and legal fees of $1,313 (8,334 SEK) were reimbursed to a subsidiary of MGL with respect to the acquisition of Värmevärden in Sweden. This cost has been expensed in the consolidated statement of income as at September 30, 2011 as part of equity accounted income as it was incurred by the equity accounted investee.

In March 2011, $646 became payable to MEIF II for the reimbursement of due diligence costs with respect to the acquisition of Värmevärden in Sweden. These costs have been accrued in accounts payable and other liabilities and capitalized to equity accounted investments as at September 30, 2011.

In March 2011, a financial advisory fee of $500 was payable to a subsidiary of MGL with respect to the refinancing of Tranche C of the Erie Shores project debt. These costs have been accrued in accounts payable and other liabilities and capitalized to the long-term debt as at September 30, 2011.

On April 15, 2011, upon the internalization of management, Capstone and its subsidiaries paid MGL $14,117 as consideration for terminating all management and administration agreements and $220 as reimbursement for vacation payments to staff who joined Capstone. MGL immediately used $7,000 of the money it received to subscribe for Capstone common shares.

(B) Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Compensation awarded to key management consisted of salaries, directors fees and short-term employee benefits, which include fees paid to directors. Eligible directors and senior management of the Corporation also receive forms of stock-based compensation as described in note 15.

The following table summarizes key management compensation:

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2011**	**Sep 30, 2010**	**Sep 30, 2011**	**Sep 30, 2010**
Salaries, directors' fees and short-term employee benefits	264	177	2,673	418
Share based compensation	11	-	41	-
	275	177	2,714	418

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

17. SEGMENTED INFORMATION

The Corporation has two reportable segments (the Social segment pertains to comparative information when Capstone held an interest in Leisureworld) based on how management has organized the business to assess performance and for operating and capital allocation. Each reportable segment has similar economic characteristics based on the nature of the products or services, type of customers, method of distributing their products or services and regulatory environment. Management evaluates the performance of these segments primarily on revenue and operating cash flows.

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

	Three months ended Sep 30, 2011				Three months ended Sep 30, 2010			
($000s)	**Power**	**Utilities**	**Corporate**	**Total**	**Power**	**Social**	**Corporate**	**Total**
Revenue	40,361	-	-	40,361	34,598	-	-	34,598
Depreciation of capital assets	(7,198)	-	-	(7,198)	(5,724)	-	-	(5,724)
Amortization of intangible assets	(2,007)	-	(23)	(2,030)	(1,988)	-	(5)	(1,993)
Interest income	218	1,679	97	1,994	157	-	124	281
Interest expense	(5,312)	-	(867)	(6,179)	(3,927)	(14)	(1,179)	(5,120)
Income tax recovery	-	-	3,212	3,212	88	-	5,424	5,512
Net income (loss)	(7,100)	(1,721)	(2,962)	(11,783)	(11,511)	603	4,063	(6,845)
Additions to capital assets	432	-	-	432	1,427	-	-	1,427

	Nine months ended Sep 30, 2011				Nine months ended Sep 30, 2010			
($000s)	Power	Utilities	Corporate	Total	Power	Social	Corporate	Total
Revenue	124,304	-	-	124,304	114,247	-	-	114,247
Depreciation of capital assets	(19,094)	-	-	(19,094)	(18,048)	-	-	(18,048)
Amortization of intangible assets	(5,903)	-	(32)	(5,935)	(5,860)	-	(15)	(5,875)
Interest income	620	3,371	329	4,320	487	-	176	663
Interest expense	(13,578)	-	(2,713)	(16,291)	(12,121)	(14)	(3,564)	(15,699)
Income tax recovery	(339)	-	36,244	35,905	205	-	37,142	37,347
Net income (loss)	(1,813)	(5,596)	6,588	(821)	14,543	(3,505)	(29,587)	(18,549)
Additions to capital assets	87,446	-	-	87,446	2,703	-	-	2,703

	As at Sep 30, 2011				As at Dec 31, 2010			
($000s)	Power	Utilities	Corporate	Total	Power	Social	Corporate	Total
Total assets	667,060	106,531	63,562	837,153	597,790	-	206,344	804,134

18. NON-CASH WORKING CAPITAL

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

	Nine months ended	
($000s)	Sep 30, 2011	Sep 30, 2010
Accounts receivable	580	2,603
Other assets	803	3,218
Accounts payable and other liabilities	3,681	(2,461)
	5,064	3,360

19. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments as disclosed in the annual consolidated financial statements for the year ended December 31, 2010. No material developments arose during the nine-month period ended September 30, 2011.

20. SUBSEQUENT EVENTS

On October 5, 2011, Capstone acquired a 70% 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 approximately $214,000. The purchase price was funded through a combination of existing credit facilities, cash on hand and a new $150,000 senior credit facility.

The senior debt facility carries a term of 12 months and initially bears monthly interest at an annual rate equal to the Canadian Dealer Offered Rate ("CDOR") plus a specified margin. The annual interest rate payable on the senior debt facility is approximately 4.75% initially and it will increase to a maximum rate of approximately 7.25% after nine months, assuming no change in CDOR during that period. Future sources of capital to refinance the new senior debt facility include a potential offering of the Corporation's securities, proceeds from a future recapitalization of Värmevärden, internally-generated cash flows and the addition of holding company debt at Bristol Water, or any combination thereof.

Bristol Water is a licenced monopoly provider of water services to a 2,400 square kilometer region centred on the City of Bristol, England. Regulation of the water industry is governed by UK Water Services Regulation Authority (“Ofwat”).

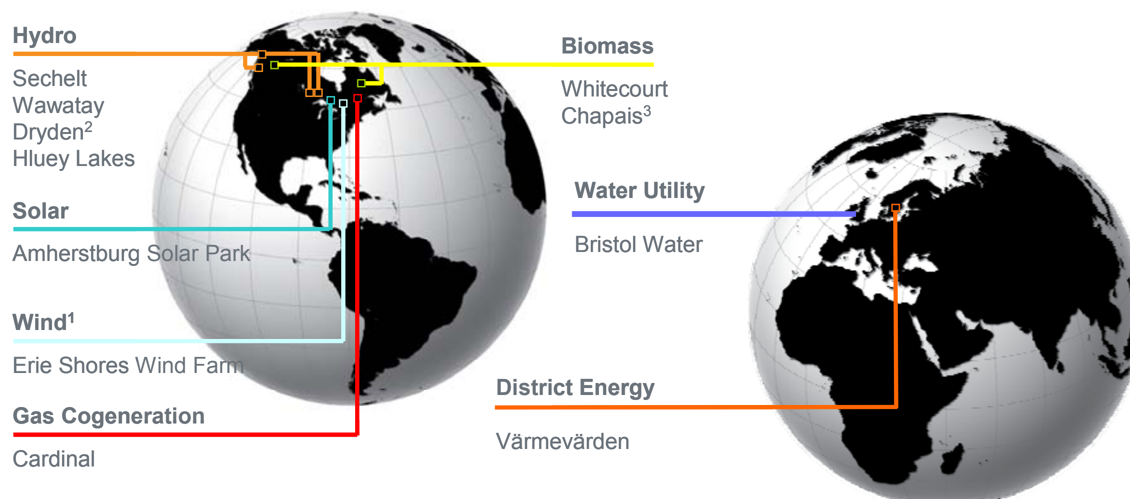
Bristol Water is responsible for the abstraction, treatment, storage and distribution of approximately 278 million litres of water every day, to over 1.1 million people.

On November 10, 2011, Capstone completed a public offering to raise $75,000 (net proceeds of $71,625) from the issue of 12,000 common shares. The proceeds from the offering were used to repay a portion of the new $150,000 senior credit facility.

21. COMPARATIVE FIGURES

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

PORTFOLIO



POWER

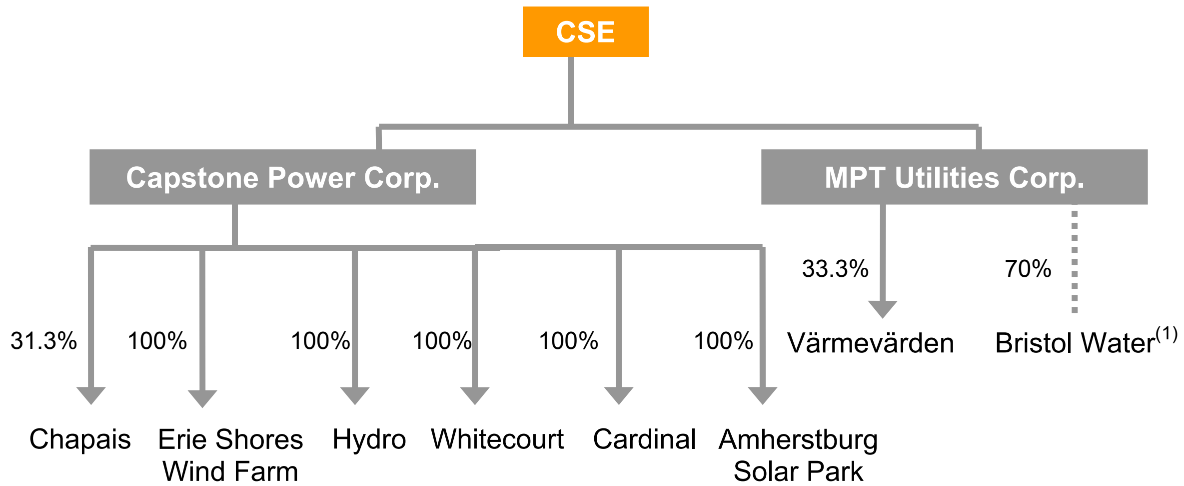
Business	Year Built	Interest	Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Cardinal	1994	100%	156	OEFC	2014	Husky	2015	18
Erie Shores[(1)]	2006	100%	99	OPA	2026	n/a	n/a	9
Whitecourt	1994	100%	25	TransAlta	2014	Millar Western	2016	33
Sechelt	1997	100%	16	BC Hydro	2017	n/a	n/a	n/a
Wawatay	1992	100%	14	OEFC	2042	n/a	n/a	n/a
Hluey Lakes	2000	100%	3	BC Hydro	2020	n/a	n/a	n/a
Dryden[(2)]	Various	100%	3	OEFC	2020	n/a	n/a	n/a
Amherstburg	2011	100%	20	OPA	2031	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	Interest	Capacity	Counterparties	Length of Network	Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 786 MWth	Mix of industrial and retail customers, with industrial counterparties representing 25% of revenue	317 kilometres	163,000	No	84
Bristol Water[(4)]	70%	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	441 – FTE's

(1) One 1.5 MW turbine is owned by a landowner.
(2) The Dryden facility is composed of three facilities, built in 1922 (Wainwright), 1928 (Eagle) and 1938 (McKenzie). These facilities were refurbished in 1986.
(3) CSE's investment in Chapais consists of a 31.3% interest in one of two classes of preferred shares, a 24.8% interest in Tranche A and B debt, and a 50% interest in Tranche C debt.
(4) Bristol Water was acquired on October 5, 2011.

ORGANIZATIONAL STRUCTURE



(1) Bristol Water was acquired on October 5, 2011.

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