CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended June 30, 2016

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LEGAL NOTICE

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of Capstone Infrastructure Corporation (the "Corporation") based on information currently available to the Corporation. Forward-looking statements 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", "intend", "estimate", "plan", "believe" or other similar words, and include, among other things, statements found in "Results of Operations" and "Financial Position Review". 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 within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation ("MD&A") for the year ended December 31, 2015 under the headings "Changes in the Business","Results of Operations"and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that the preferred shares will remain outstanding and that dividends will continue to be paid on the preferred shares; that there will be no further material delays in the Corporation's wind development projects achieving commercial operation; that the Corporation's power infrastructure facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no material changes to the Corporation's facilities, equipment or contractual arrangements; that there will be no material changes in the legislative, regulatory and operating framework for the Corporation's businesses; that there will be no material delays in obtaining required approvals for the Corporation's power infrastructure facilities, or Värmevärden; that there will be no material changes in rate orders or rate structures for Bristol Water; that there will be no material changes in environmental regulations for the power infrastructure facilities, Värmevärden or Bristol Water; that there will be no significant event occurring outside the ordinary course of the Corporation's businesses; the refinancing on similar terms of the Corporation's and its subsidiaries' various outstanding credit facilities and debt instruments which mature during the period in which the forward-looking statements relate; market prices for electricity in Ontario and the amount of hours that Cardinal is dispatched; the price that Whitecourt will receive for its electricity production considering the market price for electricity in Alberta, the impact of renewable energy credits, and Whitecourt's agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by the facility; the re-contracting of the power purchase agreement ("PPA") for Sechelt; that there will be no material change from the expected amount and timing of capital expenditures by Bristol Water; that there will be no material changes to the Swedish krona to Canadian dollar and UK pound sterling to Canadian dollar exchange rates; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying the Competition and Market Authority's ("CMA") final determination, including, among others: real and inflationary changes in Bristol Water's revenue, Bristol Water's expenses changing in line with inflation and efficiency measures, and capital investment, leakage, customer service standards and asset serviceability targets being achieved.

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

For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 29, 2016, as supplemented by disclosure of risk factors contained in any subsequent annual information form, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim management's discussion and analysis and information circulars filed by the Corporation with the securities commissions or similar authorities in Canada (which are available under the Corporation's SEDAR profile at 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. The forward-looking statements within this document reflect current expectations of the Corporation as at the date of this document and speak only as at the date of this document. Except as may be required by applicable law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated operating results for the three and six months ended June 30, 2016 and cash flows for the six months ended with the comparative prior periods and the Corporation's financial position as at June 30, 2016 and December 31, 2015. This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at, and for the three and six months ended June 30, 2016, and the financial statements and MD&A for the year ended December 31, 2015. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 29, 2016 and its Annual Report for the year ended December 31, 2015. These filings are available under the Corporation's profile on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com. This MD&A is dated August 4, 2016, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

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

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the periods ended	Average	Spot	Average	Spot
Year ended December 31, 2015	0.1516	0.1638	1.9540	2.0407
Quarter ended March 31, 2016	0.1624	0.1602	1.9648	1.8652
Quarter ended June 30, 2016	0.1569	0.1526	1.8484	1.7225

CHANGES IN THE BUSINESS

During the first six months of 2016, Capstone had changes to its ownership and key management and completed a refinancing at Värmevärden. In addition, the power segment received notification that the Ontario Electricity Financial Corporation ("OEFC") applied for leave to appeal the Supreme Court the judgment of the Court of Appeal, completed several financing changes and progressed the wind development projects.

Acquisition of Capstone by iCON III

On April 29, 2016, Capstone completed the previously announced arrangement agreement under which Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund managed by London, UK-based iCON Infrastructure LLP ("iCON"), acquired all the issued and outstanding common shares of Capstone and all the Class B exchangeable units of Capstone's subsidiary MPT LTC Holding LP ("Class B units") for $4.90 cash per share or unit, as applicable ("iCON III acquisition"). Pursuant to the arrangement agreement, the outstanding 2016 convertible debentures were redeemed by Capstone and the 2017 convertible debentures were converted into common shares prior to being acquired by Irving. As part of the transaction, Capstone issued a demand interest-free promissory note to Irving for $316,225 and Capstone Power Corp. ("CPC") entered into a credit agreement for $125,000 in part to fund the convertible debenture redemption. Upon completion, the common shares, Class B units, and 2016 and 2017 convertible debentures were delisted from the Toronto Stock Exchange and ceased trading. Capstone also settled all outstanding share-based compensation.

Key Management Changes

On June 24, 2016, the President & Chief Executive Officer and a director of Capstone, Michael Bernstein, left Capstone subsequent to the iCON III acquisition. Paul Malan, the chairman of Capstone's board of directors and Senior Partner of iCON, was appointed as interim Executive Chairman and Michael Smerdon, Capstone's Executive Vice President and Chief Financial Officer, was appointed to the board of Capstone.

Värmevärden Refinancing

On May 26, 2016, Värmevärden made an in-kind distribution of 1,095,000 SEK to its shareholders, representing gains recognized from a restructuring, of which Capstone's portion was 365,000 SEK. Capstone subsequently reinvested these gains back to Värmevärden in return for a new shareholder loan. As a result of the immediate reinvestment, IFRS requires these gains to be deferred as a contra-asset against the new loan receivable. This resulted in a nil balance on the statement of financial position and statement of income for the new loan receivable and distribution, respectively.

On June 30, 2016, Värmevärden completed a third-party financing raising 1,425,000 SEK, which was used to repay the 1,000,000 SEK senior secured bonds. The excess proceeds were used to repay the early call premium, transaction costs as well as a portion of the pre-existing shareholder loan. The net excess proceeds, including operating cash flows generated from the business were used to repay, in aggregate, 153,333 SEK of the pre-existing shareholder loan at June 30, 2016.

Contingent Asset

On June 23, 2016, the OEFC filed an application with the Supreme Court of Canada to appeal the April 19, 2016 decision of the Ontario Court of Appeal and gave notice that it also intends to seek a stay of the retroactive payments owing to Capstone and the other power producers involved in the litigation pending the Supreme Court's determination.

The Court of Appeal's April 19, 2016 decision upheld an earlier March 12, 2015 decision of the Ontario Superior Court of Justice, as disclosed in the Annual Information Form dated March 29, 2016. The Corporation estimates that the Court's decision would result in a net receipt of approximately $23,000 representing retroactive adjustments for revenue claimed from OEFC.

Capstone does not recognize contingent assets such as this claim until it is virtually certain that the asset is recoverable.

Financing Changes - Corporate facility, Cardinal, Grey Highlands Clean and CPC

On April 29, 2016, Capstone reached financial close on the CPC Credit Agreement for an aggregate amount of $125,000, consisting of an $85,000 non-revolving facility, a $5,000 revolving facility, and a $35,000 revolving letter of credit facility. The proceeds drawn on the non-revolving facility were used to repay the outstanding convertible debentures and to replace the existing corporate credit facility. The CPC Credit Agreement matures on April 29, 2019 and bears interest at a variable rate plus an applicable margin. In addition, fixed annual minimum repayments are required, which are paid quarterly by excess cash as determined in accordance with the credit agreement.

In the first quarter of 2016, Capstone, through wholly owned subsidiaries, closed an $83,000 financing for the Cardinal gas cogeneration plant and a financing that provides up to $55,100 to construct the Grey Highlands Clean wind project. The Cardinal debt matures in 2023 and based on the interest rate swap contract entered into at inception, has an effective fixed interest rate of 2.87% to maturity. The Grey Highlands Clean construction facility is expected to convert into a term facility in the fourth quarter of 2016 and based on the interest rate swap contract entered into at inception, has an effective fixed interest rate on the loan of 2.68% during the period.

Grey Highlands ZEP and Ganaraska Achieved Commercial Operations

The Grey Highlands ZEP and Ganaraska wind development projects ("GHG") achieved commercial operations ("COD") on February 26, 2016 and May 6, 2016, respectively.

SUBSEQUENT EVENTS

Preferred Shares Dividend Rate Reset

On July 4, 2016, Capstone announced to preferred shareholders the applicable fixed and floating dividend rates for its cumulative five-year rate reset preferred shares, which took effect on July 31, 2016. Shareholders were given the option of choosing Series A fixed rate shares or Series B floating rate shares by July 15, 2016. In accordance with the share agreement, an insufficient number of shareholders selected Series B shares, and consequently all shareholders retained Series A shares. The Series A shareholders accrue dividends at a fixed rate of 3.271% per annum and preferred dividends are paid quarterly.

Financing Changes - Snowy Ridge

On July 8, 2016, Capstone, through a subsidiary that controls the Snowy Ridge wind project, entered into a credit agreement that provides up to $35,805 for the construction of the project. The construction term of the facility is expected to mature in the fourth quarter of 2016 and has a variable interest rate based on CDOR plus 1.625%. Upon maturity, the facility will convert to a term loan, which matures no later than 2022 with a five-year variable annual interest rate of CDOR plus 1.625% (which increases to CDOR plus 1.875% commencing on the day following the third anniversary of the term conversion date). Snowy Ridge has entered into swap contracts to convert its floating interest rate obligations under the credit agreement to a fixed rate. The effective fixed interest rate on the loan will be 2.68% pre-term conversion, stepping up to 2.75% for the first three years of the term loan, and to 3.00% for years four and five. Interest during construction is capitalized to projects under development.

ADDITIONAL GAAP AND NON-GAAP PERFORMANCE MEASURES

While the accompanying interim consolidated financial statements have been prepared in accordance with IFRS, this MD&A also contains figures that are performance measures not defined by IFRS. These additional GAAP and 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 useful since they provide additional information about the Corporation's earnings performance and cash generating capabilities and facilitate comparison of results over different periods. The additional GAAP and non-GAAP measures used in this MD&A are defined below.

Additional GAAP Measure

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

EBITDA is an additional GAAP financial measure defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest ("NCI"), interest income and net pension interest. EBITDA represents Capstone's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. EBITDA is presented on the unaudited consolidated statement of income.

Non-GAAP Measures

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that assists management and stakeholders in evaluating Capstone's operating performance. Adjusted EBITDA is an indicator of results generated by business activities, prior to how these operations are financed or taxed and excludes capitalized expenditures and amortization.

Adjusted EBITDA is calculated as revenue less operating and administrative expenses and project development costs plus interest income, contractual settlements included in other gains and (losses) and dividends or distributions received from equity accounted investments. Adjusted EBITDA for investments in subsidiaries with non-controlling interests is included at Capstone's proportionate ownership interest by deducting amounts attributed to any non-controlling interest. The reconciliation of Adjusted EBITDA to EBITDA is provided below on page 5.

Adjusted Funds from Operations ("AFFO")

AFFO is a non-GAAP financial measure that assists management and stakeholders in analyzing the cash flow available for future growth capital investments, acquisitions and dividends available to the preferred shareholders and Capstone's common shareholder.

AFFO is calculated from Adjusted EBITDA by:

Deducting:	Adding:	Deducting items for corporate and businesses without significant NCI:
• Adjusted EBITDA generated from businesses with significant NCI	• Distributions received from businesses with significant NCI • Scheduled repayments of principal on loans receivable from equity accounted investments	• Interest paid • Income taxes paid • Dividends paid on the preferred shares included in shareholders' equity • Maintenance capital expenditure payments • Scheduled repayments of principal on debt

Reconciliation of GAAP and Non-GAAP Performance Measures

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

	Three months ended		Six months ended	
	Jun 30, 2016	Jun 30, 2015	Jun 30, 2016	Jun 30, 2015
Net income	(20,815)	(5,555)	(18,355)	(118)
Interest expense	13,585	14,109	29,540	28,437
Depreciation and amortization	21,849	20,325	43,638	40,002
Income tax recovery (expense)	1,723	527	1,484	1,320
EBITDA	16,342	29,406	56,307	69,641
Foreign exchange (gain) loss	1,796	(837)	2,646	(575)
Other (gains) and losses, net	(4,345)	9,424	1,604	12,857
Contractual settlements in other gains and (losses)	2,071	8	3,952	899
Equity accounted (income) loss	(120)	1,539	(712)	687
Distributions from equity accounted investments	4,657	3,272	5,735	4,742
Net pension interest income	(818)	(754)	(1,702)	(1,505)
NCI portion of Adjusted EBITDA	(7,382)	(13,290)	(25,700)	(28,429)
Adjusted EBITDA	12,201	28,768	42,130	58,317
Cash flow from operating activities	14,910	32,723	22,704	74,986
Cash flow from operating activities of businesses with NCI	(17,191)	(26,924)	(29,305)	(50,474)
Distributions paid to Capstone from businesses with NCI	2,382	557	3,989	3,109
Distributions from equity accounted investments	4,657	3,272	5,735	4,742
Foreign exchange on loans receivable from Värmevärden	101	(41)	132	(75)
Loans receivable principal repayments	—	335	—	661
Power maintenance capital expenditures	(1,417)	(1,061)	(1,931)	(1,701)
Power and corporate scheduled principal repayments	(7,264)	(5,991)	(11,613)	(9,657)
Power and corporate working capital changes	(4,856)	(1,000)	4,806	(12,319)
Dividends on redeemable preferred shares	(938)	(938)	(1,876)	(1,876)
AFFO	(9,616)	932	(7,359)	7,396

RESULTS OF OPERATIONS

Overview

In 2016, Capstone's Adjusted EBITDA and AFFO were both lower for the second quarter and year to date.

Capstone's Adjusted EBITDA performance reflected:

- Higher corporate expenses, which primarily reflect costs associated with the acquisition of Capstone by iCON III, including professional fees and staff costs;
- Lower results from Bristol Water, reflecting higher operating expenses, primarily due to fees accrued for the notice of termination of the operations and maintenance ("O&M") agreement, and lower revenues, primarily attributable to a rate decrease in AMP 6; partially offset by
- Higher power segment results, primarily attributable to Capstone's operating wind and hydro facilities. These facilities generally experienced favourable wind and hydrology conditions producing higher revenue. In addition, Goulais, Grey Highlands ZEP and Ganaraska, which commenced operations after May 21, 2015, contributed favourably.

Capstone's AFFO was also affected by:

- Higher distribution from Värmevärden; and
- Lower year to date and higher quarter to date dividends from Bristol Water.

	Three months ended		Six months ended	
	Jun 30, 2016	Jun 30, 2015	Jun 30, 2016	Jun 30, 2015
Revenue	83,115	81,403	171,584	171,642
Expenses	(71,480)	(43,683)	(115,552)	(92,676)
Interest income	1,220	1,058	2,111	2,139
Contractual settlements in other gains and (losses)	2,071	8	3,952	899
Distributions from equity accounted investments	4,657	3,272	5,735	4,742
Less: NCI	(7,382)	(13,290)	(25,700)	(28,429)
Adjusted EBITDA	12,201	28,768	42,130	58,317
Adjusted EBITDA of consolidated businesses with NCI	(7,467)	(13,347)	(25,886)	(28,539)
Distributions from businesses with NCI	2,382	557	3,989	3,109
Principal from loans receivable	—	335	—	661
Interest paid	(6,738)	(7,502)	(11,422)	(12,654)
Dividends paid on Capstone's preferred shares	(938)	(938)	(1,876)	(1,876)
Income taxes (paid) recovery	(375)	111	(750)	(264)
Maintenance capital expenditures	(1,417)	(1,061)	(1,931)	(1,701)
Scheduled repayment of debt principal	(7,264)	(5,991)	(11,613)	(9,657)
AFFO	(9,616)	932	(7,359)	7,396

Revenue for the quarter was $1,712, or 2%, higher in 2016 and $58 lower year to date. For both periods, revenue was higher for all of the power assets, except Whitecourt and Cardinal, and lower for Bristol Water.

Power segment revenue increased by $3,143 for the quarter and $8,568 year to date primarily due to contributions of $3,360 and $6,498 from the new wind facilities, for the quarter and year to date respectively. In addition, revenue increased by $2,084 and $2,527 from the hydro and solar facilities for the quarter and year to date, respectively, due to production because of better resources. This was partially offset by $2,145 lower revenue at Whitecourt for the quarter and $2,638 year to date due to lower power rates and a year-to-date decrease of $619 for Cardinal.

Bristol Water's revenue decreased by $1,431 for the quarter and $8,626 year to date, due to lower regulated water tariffs since April 1, 2015.

Expenses for the quarter were $27,797, or 64%, higher in 2016 and $22,876, or 25%, higher year to date.

- **Operating expenses** increased by $14,021 during the quarter and $3,662, year to date. This was primarily due to $12,877 higher Bristol Water expenses for the quarter and $2,169 year to date, primarily due to $13,941 of costs accrued for the termination of the O&M agreement. This was partially offset year to date by a $6,050 recovery of past service costs on closing the defined benefit pension plan and $5,152 of 2015 one-time costs, mainly for the restructuring and participating in the CMA process. In addition, power segment expenses were $1,144 higher for the quarter and $1,493, year to date. This was mainly because $1,425 of costs were incurred for tower repairs in the quarter for the Ferndale site, for which Capstone has submitted an insurance claim.
- **Administrative expenses** increased by $7,057 during the quarter and $9,341, year to date. The quarter and year-to-date increases of $7,060 and $8,872, respectively, primarily reflect higher staff costs because of the iCON III acquisition, including long-term incentive plan payments and employee separation costs.
- **Project development costs** increased by $6,719 for the quarter and $9,873, year to date. The year-to-date increase consisted of $10,350 of non-recurring corporate development costs related to the iCON III acquisition, partially offset by lower acquisition due diligence costs, and $477 of expenses to advance the wind development projects.

Contractual settlements in other gains and (losses) increased by $2,063 for the quarter and $3,053 year to date, primarily due to revenue sharing receipts in Whitecourt's fuel supply agreement with Millar Western.

Distributions from equity accounted investments for the quarter were $1,385, or 42%, higher in 2016 and $993, or 21%, higher year to date, due to $1,630 higher distributions from Värmevärden in the second quarter, partially offset by lower distributions from the Glen Dhu wind facility.

Distributions from businesses with non-controlling interests for the quarter were $1,825, or 328%, higher in 2016, and $880, or 28%, higher year to date. The year-to-date increase primarily reflects higher distributions of $2,212 from the power segment, mainly from the new wind facilities, partially offset by lower dividends from Bristol Water.

Interest paid decreased by $764, or 10%, during the quarter and $1,232, or 10%, year to date. The year-to-date decrease was primarily due to the Amherstburg refinancing, completed in the third quarter of 2015, and lower corporate interest, resulting from the settlement of the convertible debentures and corporate credit facility on April 29, 2016. These were partially offset by higher interest at CPC and Cardinal due to the financings completed in 2016.

Interest paid by Bristol Water, Amherst, Saint-Philémon, Goulais and the Wind Works development projects are excluded from Capstone's definition of AFFO and represent the primary difference between interest expense included in consolidated net income and interest paid in AFFO. The remaining difference between interest expense and interest paid was attributable to amortization of financing costs and accrued interest to June 30, 2016.

Scheduled repayment of debt principal increased by $1,273, or 21%, during the quarter and $1,956, or 20%, year to date. These variances are primarily due to payments on Cardinal's new debt which was completed in March 2016 as well as increases on the amortizing debt of Amherstburg, the hydro facilities, Erie Shores, SkyGen and Glace Bay.

Results by Segment

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

Performance measures

Performance measures results for each business segment were:

	Net income			Adjusted EBITDA			AFFO		
Three months ended Jun 30,	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Power	3,774	(8,972)	12,746	20,574	17,133	3,441	5,247	4,202	1,045
Utilities – water	(5,751)	7,192	(12,943)	4,230	11,347	(7,117)	660	—	660
Utilities – district heating	627	(554)	1,181	5,186	3,195	1,991	5,186	3,195	1,991
Corporate	(19,465)	(3,221)	(16,244)	(17,789)	(2,907)	(14,882)	(20,709)	(6,465)	(14,244)
	(20,815)	(5,555)	(15,260)	12,201	28,768	(16,567)	(9,616)	932	(10,548)

Six months ended Jun 30,	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**	**2016**	**2015**	**Change**
Power	3,337	(8,889)	12,226	43,949	37,207	6,742	18,099	14,219	3,880
Utilities – water	7,755	17,050	(9,295)	19,391	24,728	(5,337)	660	1,992	(1,332)
Utilities – district heating	1,360	833	527	5,917	3,858	2,059	5,917	3,858	2,059
Corporate	(30,807)	(9,112)	(21,695)	(27,127)	(7,476)	(19,651)	(32,035)	(12,673)	(19,362)
	(18,355)	(118)	(18,237)	42,130	58,317	(16,187)	(7,359)	7,396	(14,755)

(1) See page 5 for a reconciliation of Adjusted EBITDA and AFFO to GAAP measures.

Infrastructure - Power

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

Three months ended June 30,	Gas	Wind(1)	Biomass(1)	Hydro	Solar	Development & Corporate(2)	2016 Total	2015 Total	Change
Power generated (GWh)	4.9	136.5	45.4	62.6	13.1	n/a	262.5	231.1	31.4
Capacity factor	1.6%	24.9%	85.8%	80.1%	30.0%	n/a	n.m.f	n.m.f	n.m.f
Availability	98.9%	98.8%	88.6%	99.8%	99.4%	n/a	n.m.f	n.m.f	n.m.f
Revenue	5,032	15,349	933	5,706	5,472	—	32,492	29,349	3,143
Expenses	(2,548)	(4,311)	(2,992)	(1,138)	(283)	(128)	(11,400)	(11,394)	(6)
Interest income	2	34	2	1	1	18	58	357	(299)
Contractual settlements (3)	—	—	2,071	—	—	—	2,071	8	2,063
Distributions from equity accounted investments	—	490	—	—	—	—	490	735	(245)
Less: NCI	—	(3,146)	—	—	—	9	(3,137)	(1,922)	(1,215)
Adjusted EBITDA	2,486	8,416	14	4,569	5,190	(101)	20,574	17,133	3,441
Adjusted EBITDA of consolidated businesses with NCI	—	(3,246)	—	—	—	9	(3,237)	(2,000)	(1,237)
Distributions from businesses with NCI	—	1,682	—	—	—	40	1,722	557	1,165
Principal from loans receivable	—	—	—	—	—	—	—	335	(335)
Interest paid	(570)	(1,883)	—	(1,074)	(794)	(810)	(5,131)	(4,771)	(360)
Maintenance capital expenditures	(31)	(1,245)	(84)	(57)	—	—	(1,417)	(1,061)	(356)
Scheduled repayment of debt principal	(842)	(2,528)	—	(1,792)	(2,102)	—	(7,264)	(5,991)	(1,273)
AFFO	1,043	1,196	(70)	1,646	2,294	(862)	5,247	4,202	1,045

Six months ended June 30,	Gas	Wind(1)	Biomass(1)	Hydro	Solar	Development & Corporate(2)	2016 Total	2015 Total	Change
Power generated (GWh)	6.1	322.7	95.3	109.2	20.0	n/a	553.3	468.7	84.6
Capacity factor	1.0%	30.4%	90.2%	69.9%	22.9%	n/a	n.m.f	n.m.f	n.m.f
Availability	99.5%	98.5%	94.3%	98.9%	99.3%	n/a	n.m.f	n.m.f	n.m.f
Revenue	9,857	35,720	2,125	10,577	8,388	—	66,667	58,099	8,568
Expenses	(5,044)	(7,500)	(5,473)	(2,067)	(581)	(1,408)	(22,073)	(21,057)	(1,016)
Interest income	4	59	3	3	4	34	107	716	(609)
Contractual settlements (3)	—	—	3,952	—	—	—	3,952	899	3,053
Distributions from equity accounted investments	—	1,568	—	—	—	—	1,568	2,205	(637)
Less: NCI	—	(6,307)	—	—	—	35	(6,272)	(3,655)	(2,617)
Adjusted EBITDA	4,817	23,540	607	8,513	7,811	(1,339)	43,949	37,207	6,742
Adjusted EBITDA of consolidated businesses with NCI	—	(6,530)	—	—	—	35	(6,495)	(3,811)	(2,684)
Distributions from businesses with NCI	—	3,289	—	—	—	40	3,329	1,117	2,212
Principal from loans receivable	—	—	—	—	—	—	—	661	(661)
Interest paid	(649)	(3,919)	—	(2,167)	(1,595)	(810)	(9,140)	(9,597)	457
Maintenance capital expenditures	(72)	(1,566)	(140)	(153)	—	—	(1,931)	(1,701)	(230)
Scheduled repayment of debt principal	(842)	(5,028)	—	(2,875)	(2,868)	—	(11,613)	(9,657)	(1,956)
AFFO	3,254	9,786	467	3,318	3,348	(2,074)	18,099	14,219	3,880

(1) For equity accounted investments, Adjusted EBITDA reflects management fees earned, interest income, as well as distributions paid to Capstone. Principal received on outstanding loans receivable are included in AFFO. The statistics for power generated, capacity factors and availability exclude those of Capstone's equity accounted investments.

(2) Development & Corporate consists of costs related to Capstone's power development projects, as well as interest income and CPC's debt service costs.

(3) Contractual settlements are in other gains and (losses) for the statement of income.

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2016:

Three months	Six months	Explanations
1,447	2,820	Adjusted EBITDA contributions from the new wind facilities, consisting of Goulais which reached COD on May 21, 2015, and the GHG wind facilities, which reached COD in 2016.
2,084	2,527	Higher revenue from the hydro facilities and Amherstburg due to higher production, resulting from strong hydrology and solar resources.
(583)	1,691	Higher year-to-date revenue from the operating wind facilities (excluding new facilities) due to increased production and payments to curtail, reflecting better wind resource.
880	1,273	Lower operating expenses at Cardinal due to lower fuel expenses.
(1,356)	(1,425)	Higher operating expenses at SkyGen due to costs to progress tower repairs at Ferndale, for which Capstone has submitted an insurance claim.
969	(144)	Various other changes.
3,441	6,742	Change in Adjusted EBITDA.
(1,237)	(2,684)	Change in Adjusted EBITDA attributable to non-controlling interests.
(1,412)	(1,491)	Higher debt service at Cardinal due to the financing closed on March 18, 2016.
(1,000)	(1,243)	Higher maintenance capital expenditures on gearboxes at Erie Shores.
1,183	2,331	Higher distributions from Goulais and GHG, which did not distribute in the prior periods.
70	225	Various other changes.
1,045	3,880	Change in AFFO.

Project development

The Grey Highlands ZEP[(1)] and Ganaraska[(1)] wind development projects reached COD on schedule and within budget and began contributing to Capstone's operating results on February 26, 2016 and May 6, 2016, respectively.

As at June 30, 2016, Capstone's development pipeline included the rights to net 37.5 MW (gross 46.5 MW) as follows:

Project	Expected COD	Expected Ownership Interest	Net Capacity	Counterparty	Expected PPA Expiry	Status
Grey Highlands Clean	2016	100%	18.5 MW	IESO	2036	Under construction [(2)]
Snowy Ridge [(1)]	2016	50%	5.0 MW	IESO	2036	Under construction [(3)]
Settlers Landing [(1)]	2017	50%	4.0 MW	IESO	2037	ERT [(4)]
Riverhurst	2019	100%	10.0 MW	SaskPower	2039	Interconnection agreement [(5)]

(1) Capstone expects to share control of the Wind Works development projects.
(2) The Environmental Review Tribunal ("ERT") dismissed the appeal of the project's Renewable Energy Approval ("REA"), which was subsequently appealed to the Ontario Divisional Court. The Ontario Divisional Court judgment was released on June 28, 2016, dismissing the appeals.
(3) The ERT dismissed the appeal of the project's REA, which was subsequently appealed to the Minister of the Environment and Climate Change. The Minister's dismissed the appeal and confirmed the decision of the ERT in the decision issued June 1, 2016.
(4) The ERT ordered that the appeal of the project's REA is allowed in part, and that it will allow the parties to the appeal to make submissions in relation to the appropriate remedy. Capstone proceeded with the necessary procedural steps to make submissions in relation to the appropriate remedy to the ERT. Evidence was presented through oral testimony, and Capstone has filed its written closing submissions in respect of the remedy. Oral closing submissions are scheduled to occur on August 22, 2016.
(5) As at June 30, 2016, Capstone was progressing the interconnection agreement with SaskPower.

Capstone expects to fund these development projects with a combination of equity from Capstone, along with a partner on the Wind Works development projects and project-level debt financing, which will be non-recourse to Capstone.

Seasonality

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

Infrastructure - Utilities

Water

Capstone's water utilities segment includes a 50% ownership interest in Bristol Water, which is located in the United Kingdom and is a regulated utility subject to supervision by Ofwat. The remaining ownership is 30% held by Sociedad General de Aguas de Barcelona ("Agbar"), a subsidiary of Suez Environnement, and 20% held by a subsidiary of ITOCHU Corporation ("ITOCHU").

Refer to page 15, "Contractual Obligations" in this MD&A for detail of Agbar's O&M agreement with Bristol Water.

	Three months ended			Six months ended		
	Jun 30, 2016	Jun 30, 2015	Change	Jun 30, 2016	Jun 30, 2015	Change
Water supplied (megalitres)	21,169	21,267	(98)	41,402	40,749	653
Revenue	50,623	52,054	(1,431)	104,917	113,543	(8,626)
Operating expenses	(42,237)	(29,360)	(12,877)	(66,270)	(64,101)	(2,169)
Interest income	89	21	68	172	60	112
Adjusted EBITDA before non-controlling interest	8,475	22,715	(14,240)	38,819	49,502	(10,683)
Less: NCI	(4,245)	(11,368)	7,123	(19,428)	(24,774)	5,346
Adjusted EBITDA	4,230	11,347	(7,117)	19,391	24,728	(5,337)
Adjusted EBITDA of consolidated businesses with NCI	(4,230)	(11,347)	7,117	(19,391)	(24,728)	5,337
Dividends from businesses with NCI	660	—	660	660	1,992	(1,332)
AFFO	660	—	660	660	1,992	(1,332)

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2016:

Three months	Six months	Explanations
(6,970)	(6,970)	Higher operating expenses reflecting accrued termination fees for the O&M agreement.
(186)	(5,246)	Lower revenue due to the decrease in regulated water tariffs.
(567)	(79)	Higher repairs and maintenance in the second quarter.
—	3,025	Lower operating expenses for non-recurring recovery of past service costs on closing of the defined benefit pension plan in 2016.
904	2,576	Lower operating expenses due to 2015 non-recurring costs for restructuring and participating in the CMA process.
524	524	Lower operating expenses due to personnel costs subsequent to restructuring.
(220)	245	Impact of foreign exchange.
(602)	588	Various other changes.
(7,117)	(5,337)	Change in Adjusted EBITDA.
660	(1,332)	Lower dividends received during 2016.
660	(1,332)	Change in AFFO.

Seasonality

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

District Heating

Capstone's district heating utilities segment comprises a 33.3% interest in Värmevärden, located in Sweden. Capstone's investment includes shareholder loans receivable and equity. Financial performance at Värmevärden in the first six months of 2016 was higher than in 2015 primarily due to higher revenue attributed to colder weather conditions. Overall, Värmevärden's cash flow to support interest and distributions to shareholders remains strong.

On May 26, 2016, Värmevärden made an in-kind distribution to Capstone, which was immediately reinvested in return for a new shareholder loan. In addition, on June 30, 2016, Värmevärden refinanced the outstanding senior secured bonds with new bank debt and repaid a portion of the pre-existing shareholder loan. Refer to page 2, "Changes in the Business" in this MD&A for details.

	Three months ended			Six months ended		
	Jun 30, 2016	Jun 30, 2015	Change	Jun 30, 2016	Jun 30, 2015	Change
Heat and steam production (GWh)	186	204	(18)	579	568	11
Equity accounted income (loss) [(1)]	—	(1,562)	1,562	—	(1,104)	1,104
Interest income	1,019	658	361	1,750	1,321	429
Distributions	4,167	2,537	1,630	4,167	2,537	1,630
Adjusted EBITDA and AFFO	5,186	3,195	1,991	5,917	3,858	2,059

(1) Capstone no longer records equity accounted income (losses) for Värmevärden, as the cumulative equity accounted losses and distributions exceeded the carrying value. Additional information about Capstone's investment in Värmevärden is included in the financial position review on page 15 of this MD&A.

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2016:

Three months	Six months	Explanations
1,630	1,630	Higher distributions received.
323	323	Higher interest income attributable to the new shareholder loan.
38	106	Impact of foreign exchange on the pre-existing shareholder loan.
1,991	2,059	Change in Adjusted EBITDA and AFFO.

Seasonality

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

Corporate

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

	Three months ended			Six months ended		
	Jun 30, 2016	Jun 30, 2015	Change	Jun 30, 2016	Jun 30, 2015	Change
Administrative expenses	(9,969)	(2,912)	(7,057)	(15,291)	(5,950)	(9,341)
Project development costs	(7,874)	(17)	(7,857)	(11,918)	(1,568)	(10,350)
Interest income	54	22	32	82	42	40
Adjusted EBITDA	(17,789)	(2,907)	(14,882)	(27,127)	(7,476)	(19,651)
Interest paid	(1,607)	(2,731)	1,124	(2,282)	(3,057)	775
Dividends paid on Capstone's preferred shares	(938)	(938)	—	(1,876)	(1,876)	—
Income taxes (paid) recovery	(375)	111	(486)	(750)	(264)	(486)
AFFO	(20,709)	(6,465)	(14,244)	(32,035)	(12,673)	(19,362)

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2016:

Three months	Six months	Explanations
(7,659)	(11,651)	Higher professional fees attributable to the iCON III acquisition.
(7,060)	(8,872)	Higher staff costs related to the iCON III acquisition, including final long-term incentive plan payments and employee separation costs.
(20)	(666)	Lower HST recovery in 2016.
—	1,448	Lower professional fees attributable to 2015 acquisition due diligence costs.
(143)	90	Various other changes.
(14,882)	(19,651)	Change in Adjusted EBITDA.
773	773	Lower interest paid on convertible debentures following redemption on April 29, 2016.
(135)	(484)	Various other changes.
(14,244)	(19,362)	Change in AFFO.

FINANCIAL POSITION REVIEW

Overview

On April 29, 2016, Capstone was acquired by iCON III, refer to page 2, "Changes in the Business" in this MD&A for details. Overall, iCON III's investment in Capstone consists of a combination of common shares and a foreign currency denominated promissory note, which was issued in exchange for common shares of the Corporation. In addition, a new CPC Credit Agreement was completed and the former corporate credit facility was settled.

As at June 30, 2016, Capstone was in a $299,643 net current liabilities position, compared with $54,580 as at December 31, 2015. Excluding items that Capstone does not expect to fund from current assets, the working capital surplus of $16,582 sufficiently meets foreseeable current commitments.

Liquidity

Working capital

As at	Jun 30, 2016	Dec 31, 2015
Power	(39,257)	(34,929)
Utilities – water	23,125	26,239
Corporate	(283,511)	(45,890)
Net current assets (liabilities)	(299,643)	(54,580)
Corporate - promissory note payable [1]	316,225	—
Corporate - 2016 convertible debentures [2]	—	42,278
Working capital	16,582	(12,302)

(1) The Promissory note is with Capstone's common shareholder and is classified as current due to the demand feature of the note. Capstone does not expect to settle the promissory note from the current liquidity. Refer to page 12 of the Financial position review for details.
(2) The 2016 convertible debentures were redeemed as part of the iCON III acquisition.

Capstone's working capital was $28,884 higher than December 31, 2015, due to working capital increases of $36,326 for corporate, offset by decreases of $4,328 for the power segment and $3,114 for Bristol Water.

The corporate working capital increase primarily reflected excess proceeds from financings distributed to Capstone of $23,432 from Värmevärden and $11,663 from Cardinal. These increases were partially offset by costs resulting from the iCON III acquisition.

The increase in the power working capital deficit primarily reflected a higher current portion of long-term debt attributable to the new CPC credit facility, of which $15,000 is current. In addition, the deficit included $28,834 of accrued liabilities for the Wind Works development projects. Capstone expects to settle these liabilities from proceeds that will be drawn on project debt (December 31, 2015 - $25,455).

Cash and cash equivalents

As at	Jun 30, 2016	Dec 31, 2015
Power	23,260	43,705
Utilities – water	22,029	25,495
Corporate	32,708	5,192
Unrestricted cash and cash equivalents	77,997	74,392
Less: cash with access limitations		
Power	(23,260)	(22,056)
Utilities – water	(22,029)	(25,495)
Cash and cash equivalents available to corporate	32,708	26,841

Unrestricted cash represents funds freely available for corporate to pay preferred share dividends, administrative expenses, as well as to fund future acquisitions or capital and development investments. The unrestricted cash and cash equivalents increase of $3,605 was attributable to a $27,516 increase at corporate, partially offset by decreases of $20,445 and $3,466 at the power segment and Bristol Water, respectively.

The corporate cash increase primarily reflected $23,432 of cash received from Värmevärden. The power segment cash decrease of $20,445 was primarily due to funding for the wind development projects.

Cash and cash equivalents available to corporate were net of power segment and Bristol Water cash of $23,260 and $22,029, respectively, which are only periodically accessible to Capstone through distributions. The power segment's cash and cash equivalents are accessible to Capstone through distributions under the terms of the new CPC Credit Agreement, which allows for distributions to Capstone, subject to certain conditions. In turn, CPC receives distributions from its subsidiary power assets, which are subject to the terms of their project-specific credit agreements. Power facilities subject to this restriction are the hydro power facilities, Erie Shores, Amherstburg, Cardinal, Glace Bay, SkyGen, Skyway 8, Goulais, Saint-Philémon, Amherst, Grey Highlands Clean, and the Wind Works development projects.

Restricted cash

Restricted cash increased by $9,185, primarily due to draws on the new construction facility to develop the Grey Highlands Clean, Grey Highlands ZEP, and Ganaraska wind projects and to fund the maintenance reserve for Cardinal's new term facility. These increases were partially offset by releases of the remaining construction reserves at Goulais and Saint-Philémon and development projects' letters of credit in 2016.

Cash flow

Capstone’s consolidated cash and cash equivalents increased by $3,605 in the first six months of 2016 compared with a decrease of $7,643 for the same period in 2015. The components of the change in cash, as presented in the consolidated statement of cash flows, were:

Six months ended	Jun 30, 2016	Jun 30, 2015
Operating activities	22,704	74,986
Investing activities	(92,194)	(63,599)
Financing activities (excluding dividends to shareholders)	78,432	(4,670)
Dividends paid to shareholders	(1,258)	(15,276)
Effect of exchange rate changes on cash and cash equivalents	(4,079)	916
Change in cash and cash equivalents	3,605	(7,643)

Cash flow from operating activities generated $52,282 less cash and cash equivalents during 2016 due to lower cash flow of $25,068 from the power segment, $13,658 from corporate and $13,556 from the utilities segment. Cash flow from the power segment was higher in 2015 primarily due to the accounts receivable receipts for revenue prior to the implementation of the NUG contract at Cardinal. Cash flows from the corporate segment decreased primarily due to costs associated with iCON III's acquisition of Capstone, while the utilities segment decrease mainly reflected lower Bristol Water revenue, resulting from lower water tariffs.

Cash flow used in investing activities was $28,595 higher during 2016. In 2016, cash of $74,226 (2015 - $35,578) was used in the construction of projects under development in the power segment. In addition, restricted cash increased by $11,108 primarily due to debt draws on the construction facilities to develop the Grey Highlands Clean and GHG wind development project (2015 - $33,890 decrease in restricted cash) and cash of $31,859 (2015 - $67,277) was used to fund capital asset additions. Capstone also received $23,432 from Värmevärden as a partial settlement of the pre-existing shareholder loan receivable.

Cash flows from financing activities increased by $83,102 during 2016. In 2016, proceeds from debt draws were $217,669 higher, primarily due to the new debt raised for CPC, Cardinal, GHG, and Grey Highlands Clean. In addition, repayments of debt principal were $63,064 higher in 2016, primarily due to the repayment of the corporate credit facility using proceeds from the Cardinal financing. Capstone also paid $43,176, to redeem the convertible debentures, and $29,628, to settle a promissory note issued to iCON III, as part of the acquisition of Capstone.

Dividends paid to shareholders were $14,018 lower during first six months of 2016, due to the suspension of commons share dividends because of the iCON III acquisition. Refer to page 2, "Changes in the Business" in this MD&A.

Promissory Note Payable

On April 29, 2016, Capstone issued a $316,225 demand interest-free promissory note to Irving, the holder of all outstanding common shares. Refer to page 2, "Changes in the Business" in this MD&A for details on the iCON III acquisition. IFRS requires the promissory note to be classified as a current liability because it is due on demand.

The promissory note consists of three tranches: £106,000, 712,700 SEK, and $10,370 which are repayable at either the holder or borrower's option any time prior to the maturity date of December 31, 2021. Settlement of each tranche can occur in cash in the source currency or by transferring the equity securities of Bristol Water or Värmevärden at an agreed upon fair market value for the respective tranche. In addition, the promissory note is convertible at the holder's option into common shares of Capstone at fair value using the respective foreign exchange rates as at April 29, 2016.

Long-term Debt

Continuity of Capstone's long-term debt for the six months ended was:

	Dec 31, 2015	Additions	Repayments & Redemptions	Foreign Exchange	Other	Jun 30, 2016
Long-term debt (1)						
Power (2), (3)	529,211	225,669	(25,016)		(76)	729,788
Utilities – water	712,584	—	—	(110,422)	(46)	602,116
Corporate (4)	116,869	7,000	(127,570)	—	3,701	—
Deferred financing fees	(14,127)	(5,458)	1,259	519	412	(17,395)
	1,344,537	227,211	(151,327)	(109,903)	3,991	1,314,509
Less: current portion of long-term debt	(101,203)	(21,261)	52,207	(111)	—	(70,368)
	1,243,334	205,950	(99,120)	(110,014)	3,991	1,244,141

(1) Refer to page 2, "Changes in the Business" in this MD&A for details of Capstone's financing changes.
(2) Power completed financings of $125,000 for the CPC credit facilities, $70,000 and $36,853, of project debt at Cardinal and Grey Highlands Clean, respectively. In addition, GHG had $33,816 of advances on its construction facility.
(3) Power made $15,051 of scheduled debt payments. In addition, $9,966 of SkyGen promissory notes were repaid on February 8, 2016.
(4) On April 29, 2016, Capstone redeemed or converted the 2016 and 2017 convertible debentures and settled the corporate credit facility.

Power

As at June 30, 2016, the power segment's long-term debt consisted of $85,000 for the CPC credit facility and $644,788 of project debt. The current portion of long-term debt was $70,368, consisting primarily of scheduled debt repayments, as well as $23,336 of term loans at SkyGen, maturing in 2016.

Capstone expects to repay the long-term debt from income generated by the power assets. As at June 30, 2016, 100% of the power segment's project debt was scheduled to amortize over the term of the facilities' respective PPAs.

The new CPC credit facilities include $85,000 drawn on the non-revolving facility and $32,545 utilized on the revolving letter of credit facility. In addition, CPC has undrawn credit capacity of $5,000 as a source for future capital and development expenditures. The new CPC credit facilities mature on April 29, 2019 and bear interest at a variable rate plus an applicable margin. In addition, fixed annual minimum repayments are required, which are paid quarterly from excess cash as defined in the credit agreement.

CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios. The collateral for the CPC credit facilities is provided by a combination of a limited recourse guarantee and postponement of debts and claims of Capstone in favour of the CPC lenders. The collateral also includes a first ranking lien against all property of CPC and its guarantors, with few exceptions for entities with project financing, as well as equity pledges from CPC and its guarantors. All of the power segment's project debt is non-recourse to Capstone, except for limited recourse guarantees provided to the lenders of the various wind projects ($9,000).

Utilities - water

As at June 30, 2016, Bristol Water had approximately 78% of its long-term debt with maturity dates of greater than 10 years. The earliest maturity is on December 7, 2017 for $34,450. In addition, Bristol Water had $120,575 of undrawn credit capacity available to fund future capital expenditures.

Equity

Shareholders' equity comprised:

As at	Jun 30, 2016	Dec 31, 2015
Common shares (1)	49,873	715,989
Class B exchangeable units (1)	—	26,710
Preferred shares	72,020	72,020
Share capital	121,893	814,719
Other equity items	—	9,284
Accumulated other comprehensive income (loss)	5,255	51,151
Retained earnings (deficit) (2)	(1,359)	(354,619)
Equity attributable to Capstone shareholders	125,789	520,535
Non-controlling interests	226,859	261,545
Total shareholders' equity	352,648	782,080

(1) Refer to page 2, "Changes in the Business" in this MD&A for details on the iCON III acquisition which closed on April 29, 2016.
(2) On April 29, 2016, the deficit balance of $377,218 was released to share capital on the iCON III acquisition.

Capstone continues to publicly list its 3,000,000 preferred shares on the Toronto Stock Exchange.

Contractual Obligations

Capstone enters into contractual commitments in the normal course of business, summarized as follows:

- Long-term debt, financial instruments and leases, including finance and operating leases;
- Purchase obligations, including capital expenditure commitments, natural gas purchase contracts, operations and management agreements; and
- Other commitments, including management services agreements, wood waste agreements, electricity savings agreements and guarantees.

On May 25, 2016, Capstone's subsidiary gave twelve months' written notice of termination to Agbar, in accordance with the O&M agreement. Following the termination of the O&M agreement, Agbar has the right to exercise a put option which, if exercised, would require a Capstone subsidiary to purchase Agbar's interest in Bristol Water at a price determined in accordance with the shareholders' agreement.

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business, aside from the iCON III acquisition and related changes. Refer to page 2, "Changes in the Business" in this MD&A for details. In addition, Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

Capstone's significant equity accounted investments were:

Name of entity	Principal place of business and country of incorporation	Ownership at Jun 30, 2016	Ownership at Dec 31, 2015	Principal activity
Värmevärden AB ("Värmevärden") [1]	Sweden	33.3%	33.3%	District heating
Glen Dhu Wind Energy Limited Partnership ("Glen Dhu") [2]	Canada	49%	49%	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	50%	50%	Power generation

(1) Capstone does not currently record equity accounted income (losses) from Värmevärden, since the cumulative equity accounted losses and distributions exceeded the carrying value. Until cumulative unrecognized losses and dividends become positive, Capstone will carry its investment at nil and recognize dividends received in other gains and losses on the statement of income. As at June 30, 2016, Capstone has not recognized cumulative losses and distributions of $2,168 in equity accounted investments. Additional information about Capstone's investment in Värmevärden is included in the "Results of Operations" on page 10 of this MD&A.

(2) Under the limited partnership agreement, Capstone has the option to acquire an additional 1% interest from November 2017 to November 2018 at a price based on a predetermined calculation.

Capital Asset Expenditure Program

Capstone's $93,088 of capital expenditures include $29,666 and $63,422 of additions to capital assets and projects under development, respectively. The breakdown of additions by operating segment was:

	Three months ended Jun 30, 2016	Three months ended Jun 30, 2015	Six months ended Jun 30, 2016	Six months ended Jun 30, 2015
Power	3,858	31,083	68,137	66,270
Utilities – water	12,299	15,008	24,951	37,972
	16,157	46,091	93,088	104,242

In 2016, capital expenditures for the power segment mainly related to $40,548 and $22,841 to develop and construct the Wind Works and Grey Highlands Clean development projects, respectively.

Capital expenditures for the utilities – water segment included both growth and maintenance activities as planned in Bristol Water's regulatory capital expenditure program.

Retirement Benefit Plans

During the first six months of 2016, Bristol Water curtailed the defined benefit plan resulting in a $39,913 decrease to the retirement benefit surplus. As at June 30, 2016, the surplus was $58,645. The decrease primarily reflected a $31,578 valuation allowance based on accessibility of the surplus to Bristol Water and a $16,298 decrease due to foreign exchange, partially offset by a $6,050 reversal of past service costs.

The surplus is subject to a number of critical accounting estimates that can materially impact the balances, including foreign exchange translation. The fair values included in the surplus are calculated by an actuary while management assesses the reasonability of the assumptions used.

Income Taxes

The second quarter and year to date current income tax recovery of $276 and $184, respectively, primarily related to Bristol Water. The year to date deferred tax expense of $1,668 reflected the $36,124 decrease in deferred income tax liabilities less $31,578 reclassified against the retirement benefit surplus and $6,214 recognized through other comprehensive income or a component of equity.

Deferred income tax assets were nil (December 31, 2015 - $220) for Capstone's Canadian operations, which previously represented recognized tax loss carry forwards.

Deferred income tax liabilities of $167,781 (December 31, 2015 - $204,125) represented $63,749 (December 31, 2015 - $64,619) for Capstone's Canadian operations and $104,032 (December 31, 2015 - $139,506) for Bristol Water. Deferred income tax liabilities primarily represent historical tax depreciation in excess of accounting depreciation for intangible and capital assets.

DERIVATIVE FINANCIAL INSTRUMENTS

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

As at	Jun 30, 2016	Dec 31, 2015
Derivative contract assets	2,600	166
Derivative contract liabilities	(13,985)	(6,540)
Net derivative contract liabilities	(11,385)	(6,374)

Net derivative contract liabilities increased by $5,011 from December 31, 2015, primarily due to contractual settlement payments of $3,952 received from Millar Western, in accordance with Whitecourt's fuel supply agreement, and comprehensive losses of $968.

In March 2016, Cardinal and Grey Highlands Clean entered into swap agreements to convert floating interest rate obligations under the respective credit agreements to a fixed rate. The swap agreements are effective until 2034 for Cardinal and Grey Highlands Clean, covering the remaining periods of the non-utility generator contract and PPA, respectively.

The gains (losses) attributable to fair value changes of derivatives in the interim consolidated statements of income and comprehensive income comprised:

	Three months ended		Six months ended	
	Jun 30, 2016	Jun 30, 2015	Jun 30, 2016	Jun 30, 2015
Whitecourt embedded derivative	10,797	(3,705)	9,512	(4,172)
Foreign currency contracts	17	(764)	103	(1,234)
Interest rate swap contracts	(2,892)	1,522	(7,513)	(1,346)
Cardinal gas purchase agreement	—	655	—	4,364
Cardinal embedded derivatives	—	42	—	169
Forward gas sale and purchase contracts	—	—	—	(3,329)
Gains (losses) on derivatives in net income	7,922	(2,250)	2,102	(5,548)
Interest rate swap contracts in OCI	(1,514)	1,586	(3,070)	1,018
Gains (losses) on derivatives in comprehensive income	6,408	(664)	(968)	(4,530)

For the year to date, the comprehensive loss on derivatives was primarily attributable to increases in liabilities relating to the interest rate swap contracts, attributable to decreases in the long-term interest rates. This was partially offset by the Whitecourt embedded derivative gain primarily because of lower estimated forward Alberta power pool prices since December 31, 2015.

FOREIGN EXCHANGE

The foreign exchange loss in 2016 was primarily due to the translation of Capstone's SEK-denominated shareholder loan receivable with Värmevärden. In 2016, Capstone had foreign exchange losses of $1,796 and $2,646 compared to the second quarter and year-to-date gains in 2015. The losses reflected a depreciation of the Swedish krona against the Canadian dollar in 2016, thereby decreasing the carrying value of the loan in Canadian dollars.

RISKS AND UNCERTAINTIES

Capstone is subject to a variety of risks and uncertainties. These risks and uncertainties could impact future operating results and financial condition, which could adversely affect Capstone's ability to pay preferred dividends.

For a comprehensive description of risks, please refer to the disclosure in the Corporation's Annual Report for the year ended December 31, 2015 and the “Risk Factors” section of the Annual Information Form dated March 29, 2016 as supplemented by risk factors contained in any material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim MD&A and information circulars filed by the Corporation with securities commissions or similar authorities in Canada, which are available on the SEDAR website at www.sedar.com.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone monitors developments with respect to environmental, health and safety regulation. Please refer to the Corporation’s prior environmental, health and safety regulation disclosure in its Annual Report for the year ended December 31, 2015 and “Environmental, Health and Safety Matters” section of the Corporation’s Annual Information Form dated March 29, 2016, which are available on the SEDAR website at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

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

	2016		2015				2014	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	83,115	88,469	89,201	84,140	81,403	90,239	116,683	104,085
Net income (loss) (1)	(18,170)	(4,507)	8,885	301	(9,273)	222	(7,599)	532
Adjusted EBITDA	12,201	29,929	30,327	26,657	28,768	29,549	47,017	32,159
AFFO	(9,616)	2,257	1,888	1,949	932	6,464	19,022	5,384
Preferred dividends	938	938	938	938	938	938	938	938

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

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

Capstone’s accounting policies are consistent with those disclosed in the notes to the December 31, 2015 consolidated financial statements included in the Annual Report.

Future Accounting Changes

The International Accounting Standards Board (“IASB”) has not issued any significant accounting changes that impact the Corporation since the standards described in the most recent annual financial statements for the year ended December 31, 2015. Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had an impact in 2016.

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.

Refer to note 2 (Summary of Significant Accounting Policies) in the most recent annual financial statements for the year ended December 31, 2015 for greater details of the areas of significance and the related critical estimates and judgments.

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 Significance	Critical Estimates and Judgments
Capital assets, projects under development and intangible assets:	
• Purchase price allocations	• Initial fair value of net assets.
• Depreciation on capital assets	• Estimated useful lives and residual value.
• Amortization on intangible assets	• Estimated useful lives.
• Asset retirement obligations	• Expected settlement date, amount and discount rate.
• Impairment assessments of capital assets, projects under development, intangibles and goodwill	• Future cash flows and discount rate.
Retirement benefits	• Future cash flows and discount rate.
Deferred income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	• Forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales.
Accounts receivable	• Probability of failing to recover amounts when they fall into arrears.
Accounting for investments in non-wholly owned subsidiaries	• Determine how relevant activities are directed (either through voting rights or contracts); • Determine if Capstone has substantive or protective rights; and • Determine Capstone's ability to influence returns.

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

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Since December 31, 2015, no material changes have occurred in Capstone's policies and procedures and other processes that comprise its internal controls over financial reporting and disclosure controls and procedures.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Jun 30, 2016	Dec 31, 2015
Current assets			
Cash and cash equivalents		77,997	74,392
Restricted cash		38,249	29,064
Accounts receivable		68,816	77,175
Other assets		14,268	10,904
Current portion of derivative contract assets	7	67	58
		199,397	191,593
Non-current assets			
Loans receivable	6	11,325	37,271
Derivative contract assets	7	2,533	108
Equity accounted investments	8	22,537	23,392
Capital assets	9	1,605,970	1,702,233
Projects under development	10	84,122	106,200
Intangible assets	11	332,196	362,514
Retirement benefit surplus	12	58,645	98,558
Deferred income tax assets		—	220
Total assets		2,316,725	2,522,089
Current liabilities			
Accounts payable and other liabilities		111,110	143,903
Promissory note payable	7 & 14b	316,225	—
Current portion of derivative contract liabilities	7	617	254
Current portion of finance lease obligations		720	813
Current portion of long-term debt	13	70,368	101,203
		499,040	246,173
Long-term liabilities			
Derivative contract liabilities	7	13,368	6,286
Deferred income tax liabilities		167,781	204,125
Deferred revenue		30,669	32,063
Finance lease obligations		2,237	3,261
Long-term debt	13	1,244,141	1,243,334
Liability for asset retirement obligation		6,841	4,767
Total liabilities		1,964,077	1,740,009
Equity attributable to shareholders' of Capstone		125,789	520,535
Non-controlling interest		226,859	261,545
Total liabilities and equity		2,316,725	2,522,089
Commitments and contingencies	18		
Subsequent events	19		

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital (1)	Other Equity Items (2)	AOCI (3)	Retained Earnings (Deficit)	NCI (4)	Total Equity
Balance, December 31, 2014		812,142	9,284	19,994	(324,714)	190,073	706,779
Other comprehensive income (loss)		—	—	20,573	1,435	16,264	38,272
Net income (loss) for the period		—	—	—	(9,051)	8,933	(118)
Dividends declared to common shareholders of Capstone	14a	1,159	—	—	(14,561)	—	(13,402)
Dividends declared to preferred shareholders of Capstone (6)	14a	—	—	—	(1,922)	—	(1,922)
Dividends declared to NCI		—	—	—	—	(2,875)	(2,875)
Balance, June 30, 2015		813,301	9,284	40,567	(348,813)	212,395	726,734

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital (1)	Other Equity Items (2)	AOCI (3)	Retained Earnings (Deficit)	NCI (4)	Total Equity
Balance, December 31, 2015		814,719	9,284	51,151	(354,619)	261,545	782,080
Other comprehensive income (loss) from January 1 - April 29, 2016		—	—	(29,743)	(10,004)	(32,192)	(71,939)
Net income (loss) from January 1 - April 29, 2016 included in retained earnings reset		—	—	—	(20,600)	6,501	(14,099)
Dividends declared to common shareholders of Capstone		617	—	—	—	—	617
Dividends declared to preferred shareholders of Capstone (6)	14a	—	—	—	(1,279)	—	(1,279)
Redemption of Capstone's 2016 convertible debentures	3	—	(9,284)	—	9,284	—	—
Dividends declared to NCI from January 1 - April 29, 2016		—	—	—	—	(1,060)	(1,060)
Convertible debenture advances (7)		—	—	—	—	3,077	3,077
Elimination of deficit	3	(377,218)	—	—	377,218	—	—
Issuance of promissory note in exchange for common shares	3	(316,225)	—	—	—	—	(316,225)
April 29, 2016 (5)		121,893	—	21,408	—	237,871	381,172
Other comprehensive income (loss) after April 29, 2016		—	—	(16,153)	1,373	(10,549)	(25,329)
Net loss after April 29, 2016		—	—	—	(2,077)	(2,179)	(4,256)
Dividends declared to preferred shareholders of Capstone (6)	14a	—	—	—	(655)	—	(655)
Dividends declared to NCI after April 29, 2016		—	—	—	—	(784)	(784)
Convertible debenture advances (7)		—	—	—	—	2,500	2,500
Balance, June 30, 2016		121,893	—	5,255	(1,359)	226,859	352,648

(1) After April 29, 2016, share capital consists of common and preferred shares. Prior to April 29, 2016, share capital comprised common shares, preferred shares and class B exchangeable units.
(2) Other equity items include the equity portion of Capstone's 2016 convertible debentures, which was redeemed on April 29, 2016, resulting in an increase in retained earnings.
(3) Accumulated other comprehensive income (loss) (“AOCI”).
(4) Non-controlling interest (“NCI”).
(5) Refer to note 3 for changes related to the iCON III acquisition.
(6) Dividends declared to preferred shareholders of Capstone include deferred income taxes of $31 prior to April 29, 2016 and $30 after April 29, 2016 (2015 - $49).
(7) Capital contributions by One West Holdings Ltd. ("Concord"), the 50% partner on the Wind Works development projects.

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Notes	Three months ended Jun 30, 2016	Three months ended Jun 30, 2015	Six months ended Jun 30, 2016	Six months ended Jun 30, 2015
Revenue		83,115	81,403	171,584	171,642
Operating expenses	15	(53,509)	(39,488)	(86,935)	(83,273)
Administrative expenses	15	(9,969)	(2,912)	(15,291)	(5,950)
Project development costs	15	(8,002)	(1,283)	(13,326)	(3,453)
Equity accounted income (loss)	8	120	(1,539)	712	(687)
Interest income		1,220	1,058	2,111	2,139
Net pension interest income		818	754	1,702	1,505
Other gains and (losses), net	16	4,345	(9,424)	(1,604)	(12,857)
Foreign exchange gain (loss)		(1,796)	837	(2,646)	575
Earnings before interest expense, taxes, depreciation and amortization		16,342	29,406	56,307	69,641
Interest expense		(13,585)	(14,109)	(29,540)	(28,437)
Depreciation of capital assets	9	(18,477)	(17,129)	(36,891)	(33,732)
Amortization of intangible assets	11	(3,372)	(3,196)	(6,747)	(6,270)
Income before income taxes		(19,092)	(5,028)	(16,871)	1,202
Income tax recovery (expense)					
Current		276	57	184	1,182
Deferred		(1,999)	(584)	(1,668)	(2,502)
Total income tax recovery (expense)		(1,723)	(527)	(1,484)	(1,320)
Net income		(20,815)	(5,555)	(18,355)	(118)
Net income attributable to:					
Shareholders of Capstone		(18,170)	(9,273)	(22,677)	(9,051)
Non-controlling interest		(2,645)	3,718	4,322	8,933
		(20,815)	(5,555)	(18,355)	(118)

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Jun 30, 2016	Three months ended Jun 30, 2015	Six months ended Jun 30, 2016	Six months ended Jun 30, 2015
Cumulative differences on translation of foreign operations		(34,154)	17,738	(76,698)	34,554
Other comprehensive income on equity accounted investments	8	—	244	—	80
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2016 - $350 and $682 recovery, 2015 - $331 and $242 expense)		(1,690)	1,226	(3,308)	768
Total of items that may subsequently be reclassified to net income		(35,844)	19,208	(80,006)	35,402
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2016 - $1,695 and $17,242 expense, 2015 - $121 recovery and $718 expense, respectively) - will not be reclassified to net income		4,020	(482)	(17,262)	2,870
Other comprehensive income (loss)		(31,824)	18,726	(97,268)	38,272
Net income		(20,815)	(5,555)	(18,355)	(118)
Total comprehensive income		(52,639)	13,171	(115,623)	38,154
Comprehensive income attributable to:					
Shareholders of Capstone		(36,754)	1,642	(77,204)	12,957
Non-controlling interest		(15,885)	11,529	(38,419)	25,197
		(52,639)	13,171	(115,623)	38,154

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended	Notes	Jun 30, 2016	Jun 30, 2015
Operating activities:			
Net income		(18,355)	(118)
Deferred income tax expense		1,668	2,502
Depreciation and amortization		43,638	40,002
Non-cash other gains and losses (net)		5,556	13,756
Amortization of deferred financing costs and non-cash financing costs		1,980	1,425
Equity accounted (income) loss	8	(712)	687
Unrealized foreign exchange (gain) loss on loans receivable	6	2,514	(500)
Change in non-cash working capital		(13,585)	17,232
Total cash flows from operating activities		22,704	74,986
Investing activities:			
Receipt of loans receivable	6	23,432	661
Distributions from equity accounted investments	8	1,567	4,705
Investment in projects under development	10	(74,226)	(35,578)
Investment in capital assets and intangibles	9	(31,859)	(67,277)
Increase (decrease) in restricted cash		(11,108)	33,890
Total cash flows used in investing activities		(92,194)	(63,599)
Financing activities:			
Proceeds from long-term debt		232,669	15,000
Convertible debenture advances		5,577	—
Settlement of interest rate swaps		85	—
Repayment of long-term debt and finance lease obligations		(79,782)	(16,718)
Redemption of debentures	3	(43,176)	—
Repayment of promissory note	3	(29,628)	—
Transaction costs on debt issuance		(5,469)	(77)
Dividends paid to non-controlling interests		(1,844)	(2,875)
Dividends paid to common and preferred shareholders		(1,258)	(15,276)
Total cash flows from (used in) financing activities		77,174	(19,946)
Effect of exchange rate changes on cash and cash equivalents		(4,079)	916
Increase (decrease) in cash and cash equivalents		3,605	(7,643)
Cash and cash equivalents, beginning of year		74,392	58,842
Cash and cash equivalents, end of period		77,997	51,199
Supplemental information:			
Interest paid		29,485	29,207
Taxes paid (recovery)		(916)	2,632

See accompanying notes to these interim consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone is incorporated in British Columbia and domiciled in Canada and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. As at June 30, 2016, Capstone owns Capstone Power Corp. (100% ownership) which owns, operates and develops thermal and renewable power generation facilities in Canada with a total installed net capacity of 482 megawatts. In addition, Capstone has significant investments in two utilities businesses in Europe, Bristol Water (50% ownership), a water utility in the United Kingdom, and Värmevärden (33.3% ownership), a district heating business in Sweden.

2. BASIS OF PREPARATION

Statement of Compliance

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34") on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2015. In accordance with IAS 34, certain information and footnote disclosures included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited 2015 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on August 4, 2016.

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

3. ACQUISITION OF CAPSTONE BY ICON III

On April 29, 2016, Capstone completed the previously announced arrangement agreement under which Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund managed by London, UK-based iCON Infrastructure LLP ("iCON"), acquired all the issued and outstanding common shares of Capstone and all the Class B exchangeable units of Capstone's subsidiary MPT LTC Holding LP ("Class B units") for $4.90 cash per share or unit, as applicable ("iCON III acquisition"). Pursuant to the arrangement agreement, the outstanding 2016 convertible debentures were redeemed by Capstone and the 2017 convertible debentures were converted into common shares prior to being acquired by Irving. As part of the transaction, Capstone issued a demand interest-free promissory note to Irving for $316,225 and Capstone Power Corp. ("CPC") entered into a credit agreement for $125,000 in part to fund the 2016 convertible debenture redemption. Upon completion, the common shares, Class B units, and 2016 and 2017 convertible debentures were delisted from the Toronto Stock Exchange and ceased trading. Capstone also settled all outstanding share-based compensation.

Convertible debentures

In accordance with the arrangement agreement, CPC's 2017 convertible debentures were converted into 6,046,507 common shares per the conversion ratio and Capstone's 2016 convertible debentures were redeemed for cash of $43,176. For both debenture series, the Corporation paid the accrued interest owed and subsequently cancelled the debentures. On extinguishing these debentures, a net loss of $3,324 was recognized in the statement of income and the equity component of the 2016 convertible debentures of $9,284 was released to retained earnings.

Common Shares and Class B Units

The Class B Units acquired by Irving were exchanged for 3,249,390 common shares. All 103,827,939 outstanding common shares were acquired by Irving and cancelled after being replaced by the promissory notes described below and the same number of newly issued common shares without par value. Additionally, the deficit as at April 29, 2016 of $377,218 was reclassified to share capital, resulting in the new shares being recorded at a carrying value of $49,873.

Promissory Notes

Capstone issued a demand interest-free promissory note to Irving for $316,225 in exchange for common share capital. The promissory note consists of three tranches: £106,000, 712,700 SEK, and $10,370 which can be repaid at any time prior to the maturity date of December 31, 2021. Settlement of each tranche can occur in cash in the underlying currency or by transferring the equity securities of Bristol Water or Värmevärden at an agreed upon fair market value. In addition, the promissory note is convertible at the holder's option into common shares of Capstone at fair value using the respective foreign exchange rates as at April 29, 2016. On April 29, 2016, Capstone also issued a $29,628 promissory note to Irving in exchange for common share capital which was settled in cash on the same day.

CPC Credit Agreement
CPC reached financial close on credit facilities for an aggregate amount of $125,000, consisting of an $85,000 non-revolving facility, a $5,000 revolving facility, and a $35,000 revolving letter of credit facility ("the CPC Credit Agreement"). The proceeds drawn on the non-revolving facility were used to repay the outstanding 2016 convertible debentures and to replace the existing corporate credit facility. The CPC Credit Agreement matures on April 29, 2019 and bears interest at a variable rate plus an applicable margin. In addition, fixed annual minimum repayments are required, which are paid quarterly by excess cash as determined in accordance with the credit agreement.

Share-based Compensation
As part of the acquisition, all vesting conditions were satisfied on April 29, 2016 for Capstone's share-based compensation, including Deferred Share Units ("DSU"), Restricted Stock Units ("RSU") and Performance Share Units ("PSU"). The total accrued liability of $9,172 was paid to plan participants in May 2016. The charge to administrative expenses for share-based compensation were $4,402 and $6,740 for the three and six months ended June 30, 2016, respectively.

4. SEASONALITY

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to Capstone's accounting policies during the first six months of 2016.

Basis of Measurement

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

Future Accounting Changes

The IASB has not issued any significant new accounting standards that impact the Corporation since the standards described in the most recent annual financial statements for the year ended December 31, 2015.

Capstone is assessing the material standards described in the annual financial statements, which include IFRS 15, "Revenue from Contracts with Customers" and IFRS 9, "Financial Instruments" which both have an effective date beginning on January 1, 2018, and IFRS 16, "Leases" which has an effective date beginning on January 1, 2019.

Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had an impact in 2016.

6. LOANS RECEIVABLE

Capstone's loans receivable from Värmevärden and changes during the period were:

	2016		2015	
	SEK	$	SEK	$
As at January 1	227,541	37,271	227,541	33,744
Principal repayments of pre-existing loan receivable (1)	(153,333)	(23,432)	—	—
Foreign exchange gain (loss)	—	(2,514)	—	500
	74,208	11,325	227,541	34,244
Issuance of new loan receivable (2)	365,134	57,363	—	—
Contra-asset (2)	(365,134)	(57,363)	—	—
As at June 30	74,208	11,325	227,541	34,244

(1) On June 30, 2016, Värmevärden repaid a portion of the pre-existing shareholder loan from the net excess proceeds on refinancing, including operating cash flows generated from the business. The pre-existing shareholder loan bears interest at a fixed annual rate of 7.944% and matures in 2031.

(2) On May 26, 2016, Capstone received in an in-kind distribution from Värmevärden and subsequently reinvested these gains in return for a new shareholder loan. As a result of the immediate reinvestment, IFRS requires these gains to be deferred as a contra-asset against the new loan receivable. This resulted in a nil balance on the statement of financial position and statement of income for the new loan receivable and distribution, respectively. The new shareholder loan receivable bears interest at a fixed annual rate of 6% and matures in 2036.

7. FINANCIAL INSTRUMENTS

(A) Classification by Level

The following table summarizes the Corporation's financial instruments that have been recorded at fair value:

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Jun 30, 2016	Dec 31, 2015
Derivative contract assets:					
Whitecourt embedded derivative [2]	—	—	2,412	2,412	—
Interest rate swap contracts [3]	—	10	—	10	—
Foreign currency contracts	—	178	—	178	166
Less: Current portion	—	(67)	—	(67)	(58)
	—	121	2,412	2,533	108
Promissory note payable [1]	—	316,225	—	316,225	—
Derivative contract liabilities:					
Whitecourt embedded derivative [2]	—	—	—	—	3,148
Interest rate swap contracts [3]	—	8,644	—	8,644	1,121
Interest rate swap contracts for hedging	—	5,341	—	5,341	2,271
Less: Current portion	—	(617)	—	(617)	(254)
	—	13,368	—	13,368	6,286

(1) Capstone's demand interest-free promissory note to Irving is designated as fair value through profit and loss.
(2) Whitecourt's embedded derivative consists of a $7,179 fair value asset, offset by $4,767 of amortized contra-asset, set up on inception (2015 - $1,796 fair value asset, fully offset by $4,944 of amortized contra-asset).
(3) In March 2016, Cardinal and Grey Highlands Clean entered into interest rate swap contracts (2015 - GHG Wind Development LP ("GHG") entered into interest rate swap contracts).

Financial instruments not recorded at fair value

Accounts receivable, loans receivable, accounts payable, finance lease obligations and long-term debt are reported at carrying value on the statement of financial position. The fair values of these items approximate their carrying values, except for finance lease obligations and long-term debt, which are summarized in the following table:

	Fair value	Carrying value
Finance lease obligations	2,796	2,957
Long-term debt	1,527,782	1,314,509

(B) Fair Value Determination

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

Foreign currency contracts	• Fair value of foreign currency contracts fluctuate with changes in the relative currencies to the Canadian dollar. • A Black-Scholes model, based on the current spot price, discount rate, volatility in the underlying currency and time to maturity, is used to determine fair value.
Interest rate swap	• The interest rate swap contract's fair value fluctuates with changes in market interest rates. • A discounted cash flow analysis based on a forward interest rate curve was used to determine its fair value.
Whitecourt embedded derivative	• The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including estimates on the forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales.
Promissory note payable	• The promissory note's fair value fluctuates with changes in the relative currencies to the Canadian dollar. • The promissory note has a minimum value equal to the liability's fair value converted using the respective foreign exchange rates as at April 29, 2016, which is the value at which the note can be converted to common shares of Capstone.

The Corporation, with the assistance of third-party experts, determines the fair value of financial instruments, including Level 3 fair values. The valuation processes and results are reviewed and approved each reporting period. These critical estimates are discussed as part of the Audit Committee's quarterly review of the financial statements.

(C) Significant Assumptions

The Whitecourt embedded derivative is classified as a Level 3 financial instrument because it uses unobservable inputs to determine fair value. The impact on fair value of changes in the significant unobservable input was:

Fair value as at Jun 30, 2016	Unobservable input	Estimated input	Relationship of input to fair value
2,412	Forward Alberta power pool prices	From $28/MWh to $134/MWh until 2029.	A reasonably possible increase in estimated forward prices of 5% or a decrease of 5%, would cause fair value to decrease by $6,285 and increase by $4,559, respectively.

(D) Level 3 Fair Value Continuity

	Net, level 3 derivatives
As at January 1, 2016	(3,148)
Change in value of the Whitecourt embedded derivative included in other gains and (losses) in net income	9,336
Settlement of Whitecourt embedded derivative during the period	(3,952)
Amortization of Whitecourt embedded derivative inception value included in other gains and (losses) in net income	176
As at June 30, 2016	2,412

8. EQUITY ACCOUNTED INVESTMENTS

As at	Ownership %	Jun 30, 2016 Carrying value	Dec 31, 2015 Carrying value
Värmevärden [(1)]	33.3%	—	—
Glen Dhu [(2)]	49.0%	21,980	22,814
Fitzpatrick	50.0%	557	578
		22,537	23,392

(1) Capstone does not currently record equity accounted income (losses) from Värmevärden, since the cumulative equity accounted losses and distributions exceeded the carrying value. Until cumulative unrecognized losses and dividends become positive, Capstone will carry its investment at nil and recognize dividends received in other gains and losses on the statement of income. As at June 30, 2016, Capstone has not recognized cumulative losses and distributions of $2,168 in equity accounted investments.

(2) Capstone has the option to acquire an additional 1% interest in Glen Dhu from Nov. 2017 to Nov. 2018 based on a predetermined calculation.

The change in the Corporation's total equity accounted investments for the periods ended June 30 was:

Three months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distributions	Ending balance
June 30, 2016	22,907	120	—	(490)	22,537
June 30, 2015	28,274	(1,539)	244	(3,235)	23,744

Six months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distributions	Ending balance
June 30, 2016	23,392	712	—	(1,567)	22,537
June 30, 2015	29,056	(687)	80	(4,705)	23,744

9. CAPITAL ASSETS

As at January 1, 2016	1,702,233
Additions	29,666
Disposals	(614)
Transfers [(1)]	75,970
Depreciation	(36,891)
Foreign exchange	(164,394)
As at June 30, 2016	1,605,970

(1) Includes transfers from projects under development of $76,243 for Grey Highlands ZEP and Ganaraska, upon reaching the commercial operation date ("COD"), less transfer to intangibles of $273. Refer to notes 10 and 11, respectively.

The reconciliation of capital asset additions to a cash basis included in the consolidated statement of cash flows was:

	Six months ended	
	Jun 30, 2016	Jun 30, 2015
Additions	29,666	64,545
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	4,099	1,512
Net foreign exchange difference	(1,906)	1,220
Cash additions	31,859	67,277

10. PROJECTS UNDER DEVELOPMENT ("PUD")

As at January 1, 2016	106,200
Capitalized costs during the period (1)	63,422
Transferred to capital assets (2) (refer to note 9)	(76,243)
Transferred to intangibles (2) (refer to note 11)	(9,257)
As at June 30, 2016	84,122

(1) Includes $1,165 of capitalized borrowing costs during the construction of the Grey Highlands ZEP, Ganaraska and Grey Highlands Clean wind development projects using the interest rate of the long-term debt (2015 - $1,393 during the construction of Goulais).

(2) Amounts were transfered on COD of Grey Highlands ZEP and Ganaraska.

The reconciliation of additions to PUD to a cash basis included in consolidated statement of cash flow was:

	Six months ended	
	Jun 30, 2016	Jun 30, 2015
Additions	63,422	39,697
Adjustment for change in PUD included in accounts payable and accrued liabilities	10,804	(4,119)
Cash additions	74,226	35,578

11. INTANGIBLE ASSETS

As at January 1, 2016	362,514
Transfers (1)	9,530
Amortization	(6,747)
Foreign exchange	(33,101)
As at June 30, 2016	332,196

(1) Includes transfers of $273 from capital assets and $9,257 from projects under development. Refer to notes 9 and 10 respectively.

12. RETIREMENT BENEFIT PLANS

On March 31, 2016, Bristol Water's defined benefit pension plan members ceased earning additional pension benefits as the plan was curtailed. All eligible employees were offered membership in the defined contribution pension plan.

As at June 30, 2016, the retirement benefit surplus was $58,645. Assumptions used were updated, by the actuary using a consistent method of calculation as at December 31, 2015, to reflect market conditions and expectations (December 31, 2015 - $98,558).

On curtailment, Capstone recognized a reversal of past service costs included in operating expenses of $6,050, which increased the surplus. The reversal consists of a gain on curtailment of the plan, partially offset by an increase in the obligation, due to discretionary benefits provided to plan members.

IFRS restricts the value of a retirement benefit surplus to the present value of economic benefits available in the form of plan refunds or reductions in future contributions. For Bristol Water, the benefit is now only available as a plan refund as no additional defined pension benefits will be earned. In the UK, a withholding tax of 35% is applicable to a refund of a defined benefit surplus and is applied regardless of the company's tax position. This amount has therefore been treated as an expense that arises on any future refund and, in accordance with IFRIC 14, this expense has been netted against the gross value of the retirement benefit surplus. Accordingly, the surplus recorded in respect of Bristol Water is a gross surplus of $90,223,reduced by a 35% withholding tax of $31,578.

13. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Jun 30, 2016	Dec 31, 2015
CPC credit facility (1)	85,000	—
Project debt		
Wind - Operating (2), (3)	366,938	321,395
Wind - Development (4)	36,853	30,234
Hydros	82,321	85,196
Solar	89,518	92,386
Gas	69,158	—
Power	729,788	529,211
Bank loans	120,278	142,381
Term loans	451,580	534,366
Debentures	2,267	2,676
Irredeemable cumulative preferred shares	27,991	33,161
Utilities – water	602,116	712,584
Corporate credit facility (5)	—	47,000
Convertible debentures - 2016 (6)	—	42,278
Convertible debentures - 2017 (6)	—	27,591
Corporate	—	116,869
	1,331,904	1,358,664
Less: deferred financing costs	(17,395)	(14,127)
Long-term debt	1,314,509	1,344,537
Less: current portion	(70,368)	(101,203)
	1,244,141	1,243,334

(1) CPC reached financial close on the CPC Credit Agreement as described in note 3. Since inception, the effective interest rate was 4.2%.
(2) Wind - Operating project debt consists of Erie Shores, Amherst, SkyGen, Skyway8, Glace Bay, Saint-Philémon and Goulais. In addition, 2016 includes the GHG project debt which was transferred from wind - development on COD.
(3) On February 8, 2016, SkyGen $9,966 promissory notes were repaid.
(4) Wind - Development project debt consists of the Grey Highlands Clean construction facility in 2016 (2015 - GHG).
(5) On January 31, 2016, the corporate credit facility capacity decreased by $35,000, reducing its capacity to $90,000. Concurrent with the Cardinal financing on March 18, 2016, the capacity was further decreased to $60,000 and settled concurrently with the proceeds from debt raised by CPC on April 29, 2016.
(6) All outstanding convertible debentures were either redeemed by Capstone or converted and then cancelled on April 29, 2016. Refer to note 3.

(B) Financing Changes - Cardinal, Grey Highlands Clean and CPC

On April 29, 2016, CPC reached financial close on credit facilities for an aggregate amount of $125,000, comprising an $85,000 non-revolving facility, a $5,000 revolving facility, and a $35,000 revolving letter of credit facility, as further described in note 3. In addition, CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios. The collateral for the CPC credit facility is provided by a combination of a limited recourse guarantee and postponement of debts and claims of Capstone in favour of the CPC lenders. The collateral also includes a first ranking lien against all property of CPC and its guarantors, with few exceptions for entities with project financing, as well as equity pledges from CPC and its guarantors.

In the first quarter of 2016, Capstone, through wholly owned subsidiaries, closed an $83,000 financing for the Cardinal gas cogeneration plant and a financing that provides up to $55,100 to construct the Grey Highlands Clean wind project. The Cardinal debt matures in 2023 and based on the interest rate swap contract entered into at inception, has an effective fixed interest rate of 2.87% to maturity. The Grey Highlands Clean construction facility is expected to convert into a term facility in the fourth quarter of 2016 and based on the interest rate swap contract entered into at inception, has an effective fixed interest rate on the loan of 2.68% during the period.

14. SHAREHOLDERS' EQUITY AND PROMISSORY NOTE PAYABLE

(A) Equity

The share capital of the Corporation was:

As at	Jun 30, 2016	Dec 31, 2015
Common shares (1)	49,873	715,989
Class B exchangeable units (1)	—	26,710
Preferred shares	72,020	72,020
	121,893	814,719

(1) After April 29, 2016, share capital consists of common and preferred shares, previously share capital also included the publicly listed common shares and class B exchangeable units. Refer to note 3 for details.

No dividends were declared in 2016 in respect of the Corporation's common shareholders, nor for Class B Exchangeable Units of MPT LTC Holding LP (a subsidiary entity of the Corporation) pursuant to the iCON III acquisition of Capstone. In addition, all former share-based compensation arrangements were settled and no longer remain outstanding as DSUs, RSUs or PSUs. Refer to note 3 for details.

Capstone maintained its preferred shares which declared dividends during the quarter as follows:

	Three months ended		Six months ended	
	Jun 30, 2016	Jun 30, 2015	Jun 30, 2016	Jun 30, 2015
Preferred shares (1)	967	942	1,934	1,922

(1) Includes $30 and $61 of deferred income taxes, for the quarter and year to date respectively (2015 - $7 and 49, respectively).

(B) Promissory Note Payable

On April 29, 2016, as part of the acquisition of Capstone by iCON III, described in note 3, Capstone issued a demand interest-free promissory note to Irving for $316,225 in exchange for common share capital. The promissory note is repayable at either the holder or borrower's option any time prior to the maturity date of December 31, 2021.

Settlement of each tranche can occur in cash in the underlying currency of the note or by transferring the equity securities of Bristol Water or Värmevärden at an agreed upon fair market value for the respective tranche. In addition, the promissory note is convertible at the holder's option into common shares of Capstone at fair value using the respective foreign exchange rates as at April 29, 2016. Capstone does not expect to settle the promissory note from the current liquidity.

As further described in note 7, the promissory note has been designated as fair value through profit and loss and the carrying value fluctuates for changes in underlying exchange rates, with a minimum liability equal to the conversion value based on the respective foreign exchange rates at April 29, 2016. The promissory note tranches are:

As at Jun 30, 2016	Principal Amount	Exchange Rate (1)	Fair Value
Tranche 1 - UK Pound Sterling denominated	£106,000	1.8352	$194,531
Tranche 2 - Swedish Krona ("SEK" or "kr") denominated	712,700kr	0.1562	$111,324
Tranche 3 - Canadian dollar denominated	$10,370	1.0000	$10,370
			316,225

(1) Exchange rates used are the greater of the current period ended spot rate or the April 29, 2016 historical spot rate, as a result of the conversion feature to Capstone's common shares.

15. EXPENSES BY NATURE

	Three months ended Jun 30, 2016				Three months ended Jun 30, 2015			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	21,188	—	—	21,188	19,970	—	—	19,970
Wages and benefits	7,411	8,579	98	16,088	8,927	1,731	941	11,599
O&M charge (1)	13,941	—	—	13,941	—	—	—	—
Professional fees (2)	1,148	830	7,862	9,840	1,905	623	295	2,823
Maintenance	3,608	—	—	3,608	2,497	—	—	2,497
Bad debts	1,381	—	—	1,381	1,389	—	—	1,389
Leases	511	124	—	635	494	82	—	576
Insurance	630	61	—	691	539	76	—	615
Utilities	663	—	—	663	456	—	—	456
Fuel and transportation	955	—	—	955	1,430	—	—	1,430
Property taxes	581	—	—	581	554	—	—	554
Manager fees	435	—	—	435	416	—	—	416
Other	1,057	375	42	1,474	911	400	47	1,358
Total	53,509	9,969	8,002	71,480	39,488	2,912	1,283	43,683

	Six months ended Jun 30, 2016				Six months ended Jun 30, 2015			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	41,571	—	—	41,571	45,233	—	—	45,233
Wages and benefits	17,360	12,538	1,127	31,025	16,701	4,121	1,211	22,033
O&M charge (1)	13,941	—	—	13,941	—	—	—	—
Pension closure recovery	(6,050)	—	—	(6,050)	—	—	—	—
Professional fees (2)	3,294	1,168	12,068	16,530	5,040	1,045	2,018	8,103
Maintenance	5,385	—	—	5,385	4,788	—	—	4,788
Bad debts	2,125	—	—	2,125	2,785	—	—	2,785
Leases	1,067	239	—	1,306	932	173	—	1,105
Insurance	1,245	99	—	1,344	1,083	76	—	1,159
Utilities	1,271	—	—	1,271	971	—	—	971
Fuel and transportation	1,933	—	—	1,933	2,158	—	—	2,158
Property taxes	1,047	—	—	1,047	970	—	—	970
Manager fees	878	—	—	878	851	—	—	851
Other	1,868	1,247	131	3,246	1,761	535	224	2,520
Total	86,935	15,291	13,326	115,552	83,273	5,950	3,453	92,676

(1) Refer to note 18 for further details on the termination of the O&M agreement.
(2) Professional fees include legal, audit, tax and other advisory services.

16. OTHER GAINS AND LOSSES

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Unrealized gains (losses) on derivative financial instruments	7,957	(2,250)	2,050	(5,548)
Losses on settlement of convertible debentures (1)	(3,324)	—	(3,324)	—
Losses on disposal of capital assets	(215)	(7,231)	(384)	(7,295)
Realized losses on derivative financial instruments (2)	(35)	—	52	—
Other	(38)	57	2	(14)
Other gains and (losses), net	4,345	(9,424)	(1,604)	(12,857)

(1) Capstone's 2016 and 2017 convertible debentures were redeemed and converted as part of the iCON III acquisition. Refer to note 3 for details.
(2) Realized losses from the sale of UK Pound Sterling foreign currency contracts.

17. SEGMENTED INFORMATION

Management has organized the Corporation's business into three reportable segments in order to assess performance and to allocate capital. Cash generating units within each reportable segment have similar economic characteristics based on the nature of the products or services they provide, the customers they serve, the method of distributing those products or services and the prevailing regulatory environment.

Management evaluates the performance of these segments primarily on revenue and cash flows from operations.

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

	Three months ended Jun 30, 2016					Three months ended Jun 30, 2015				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	32,492	50,623	—	—	83,115	29,349	52,054	—	—	81,403
Depreciation of capital assets	(10,340)	(8,120)	—	(17)	(18,477)	(8,660)	(8,438)	—	(31)	(17,129)
Amortization of intangible assets	(2,458)	(906)	—	(8)	(3,372)	(2,239)	(945)	—	(12)	(3,196)
Interest income	58	89	1,019	54	1,220	357	21	658	22	1,058
Interest expense	(6,824)	(5,694)	—	(1,067)	(13,585)	(8,006)	(5,196)	—	(907)	(14,109)
Income tax recovery (expense)	(3,238)	(353)	3	1,865	(1,723)	90	(1,756)	(8)	1,147	(527)
Net income (loss)	3,774	(5,751)	627	(19,465)	(20,815)	(8,972)	7,192	(554)	(3,221)	(5,555)
Cash flow from operations	21,700	15,148	3,808	(25,746)	14,910	26,082	20,006	5,232	(18,597)	32,723
Additions to capital assets	3,858	12,299	—	—	16,157	10,898	15,279	—	—	26,177
Additions to PUD	28,732	—	—	—	28,732	20,184	—	—	—	20,184

	Six months ended Jun 30, 2016					Six months ended Jun 30, 2015				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	66,667	104,917	—	—	171,584	58,099	113,543	—	—	171,642
Depreciation of capital assets	(20,079)	(16,777)	—	(35)	(36,891)	(16,571)	(17,098)	—	(63)	(33,732)
Amortization of intangible assets	(4,832)	(1,907)	—	(8)	(6,747)	(4,360)	(1,884)	—	(26)	(6,270)
Interest income	107	172	1,750	82	2,111	716	60	1,321	42	2,139
Interest expense	(13,238)	(12,702)	—	(3,600)	(29,540)	(14,414)	(11,437)	—	(2,586)	(28,437)
Income tax recovery (expense)	(3,171)	(1,427)	—	3,114	(1,484)	1,527	(4,083)	14	1,222	(1,320)
Net income (loss)	3,337	7,755	1,360	(30,807)	(18,355)	(8,889)	17,050	833	(9,112)	(118)
Cash flow from operations	23,923	26,481	3,019	(30,719)	22,704	48,991	40,631	2,425	(17,061)	74,986
Additions to capital assets	4,715	24,951	—	—	29,666	26,572	37,973	—	—	64,545
Additions to PUD	63,422	—	—	—	63,422	39,697	—	—	—	39,697

	As at Jun 30, 2016					As at Dec 31, 2015				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	1,045,601	1,224,420	36,544	10,160	2,316,725	1,010,669	1,465,683	39,795	5,942	2,522,089
Total liabilities	833,443	813,673	—	316,961	1,964,077	649,625	965,335	—	125,049	1,740,009

Certain comparative figures for the periods ended June 30, 2015 have been adjusted to conform with the presentation in the current year.

18. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various material contracts and commitments as disclosed in the annual consolidated financial statements for the year ended December 31, 2015.

On May 25, 2016, Capstone's subsidiary gave twelve months' written notice of termination to Agbar, in accordance with the O&M agreement. Following the termination of the O&M agreement, Agbar has the right to exercise a put option which, if exercised, would require a Capstone subsidiary to purchase Agbar's interest in Bristol Water at a price determined in accordance with the shareholders' agreement.

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business, aside from the iCON III acquisition and related changes. Refer to note 3 "Acquisition of Capstone by iCON III" for details.

19. SUBSEQUENT EVENTS

Preferred Shares Dividend Rate Reset

On July 4, 2016, Capstone announced to preferred shareholders the applicable fixed and floating dividend rates for its cumulative five-year rate reset preferred shares, which took effect on July 31, 2016. Shareholders were given the option of choosing Series A fixed rate shares or Series B floating rate shares by July 15, 2016. In accordance with the share agreement, an insufficient number of shareholders selected Series B shares, and consequently all shareholders retained Series A shares. The Series A shareholders accrue dividends at a fixed rate of 3.271% per annum and preferred dividends are paid quarterly.

Financing Changes - Snowy Ridge

On July 8, 2016, Capstone, through a subsidiary that controls the Snowy Ridge wind project, entered into a credit agreement that provides up to $35,805 for the construction of the project. The construction term of the facility is expected to mature in the fourth quarter of 2016 and has a variable interest rate based on CDOR plus 1.625%. Upon maturity, the facility will convert to a term loan, which matures no later than 2022 with a five-year variable annual interest rate of CDOR plus 1.625% (which increases to CDOR plus 1.875% commencing on the day following the third anniversary of the term conversion date). Snowy Ridge has entered into swap contracts to convert its floating interest rate obligations under the credit agreement to a fixed rate. The effective fixed interest rate on the loan will be 2.68% pre-term conversion, stepping up to 2.75% for the first three years of the term loan, and to 3.00% for years four and five. Interest during construction is capitalized to projects under development.

CONTACT INFORMATION

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

Contacts:

Michael Smerdon
Executive Vice President and Chief Financial Officer
Tel: 416-649-1300
Email: msmerdon@capstoneinfra.com