Essential

CAPSTONE
INFRASTRUCTURE

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

	Three months ended		Six months ended	
Earnings Measures ($000s)	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2015**	**Jun 30, 2014**
Revenue	81,403	106,413	171,642	220,810
Net income	(5,555)	8,414	(118)	27,871
Basic earnings per share [1]	(0.105)	0.012	(0.113)	0.151

[1] Basic earnings per share is calculated using the net income available to common shareholders. Refer to note 14 in the accompanying consolidated financial statements.

	Three months ended		Six months ended	
Cash Flow Measures ($000s)	**Jun 30, 2015**	**Jun 30, 2014**	**Jun 30, 2015**	**Jun 30, 2014**
Cash flows from operating activities	32,723	33,461	74,986	77,904
Adjusted EBITDA [1]	28,768	39,492	58,317	81,183
Adjusted funds from operations ("AFFO") [1]	932	12,133	7,396	32,006
Payout ratio [1]	782%	60%	197%	45%

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

Capital Structure – At Fair Value ($000s)	Jun 30, 2015	Dec 31, 2014
Long-term debt – power [1]	425,790	435,808
Long-term debt – utilities – water [1]	394,376	368,223
Long-term debt – corporate	105,421	91,077
Common shares	280,821	299,432
Class B exchangeable units	9,716	10,398
Preferred shares	38,730	51,750
Debt to capitalization	73.8%	71.2%

[1] Capstone's proportionate share based on ownership interest.

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	93,919,643
Class B exchangeable units	3,249,390
Preferred shares outstanding	3,000,000
2016 - Convertible debentures outstanding	42,749
2017 - Convertible debentures outstanding	27,428
Securities exchange and symbols	Toronto Stock Exchange: CSE, CSE.PR.A, CSE.DB.A, CPW.DB

QUARTERLY TRADING INFORMATION

	High Price	Low Price	Closing Price	Average daily volume
Common shares	$3.78	$2.98	$2.99	208,368
Preferred shares	$14.20	$12.65	$12.91	2,732
2016 - Convertible debentures	$102.50	$100.26	$100.42	403
2017 - Convertible debentures	$102.25	$101.50	$102.00	243

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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 and financial outlook are provided for the purpose of presenting information about management's current expectations and plans relating to the future, and readers are cautioned that such statements may not be appropriate for other purposes. These statements and financial outlook 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 the "Message to Shareholders", “Results of Operations” and "Financial Position Review" concerning the guidance provided on the Corporation. These statements and financial outlook are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and financial outlook and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements and financial outlook within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation (“MD&A”) for the year ended December 31, 2014 under the heading “Results of Operations”, 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 and financial outlook contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that there will be no 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 Bristol Water will implement rates prescribed in Ofwat's final determination while pursuing a more appropriate outcome through the Competition & Markets Authority; 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 and financial outlook relate; market prices for electricity in Ontario and the amount of hours Cardinal is dispatched; the price 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 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 management's assumptions of the final regulatory outcome for AMP6, 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 and financial outlook, actual results may differ from those suggested by the forward-looking statements and financial outlook for various reasons, including: risks related to the Corporation's securities (dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation's securities; shareholder dilution; and convertible debentures credit risk, 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 (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; 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 24, 2015, as supplemented by disclosure of risk factors contained in any subsequent annual information form, material change reports (except confidential material changes reports), business acquisition reports, interim financial statements, interim MD&A 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 and financial outlook. The forward-looking statements and financial outlook within this document reflect current expectations of the Corporation as at the date of this document and speak only as at the date of this document. Except as may be required by applicable law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements and financial outlook.

MESSAGE TO SHAREHOLDERS

Dear Fellow Shareholders,

Capstone accomplished important milestones during the second quarter of 2015, as the third wind development project in eight months achieved commercial operation and we secured the final two Renewable Energy Approvals (REAs) for our next five Ontario wind projects. Cardinal demonstrated it could successfully operate under its new contract when it began selling power to the Ontario grid during peak demand periods. The review underway in the UK with the Competition and Markets Authority (CMA) to challenge the current AMP6 business plan for Bristol Water set by the economic regulator, Ofwat, also moved closer toward resolution.

Financial Highlights

The company's second quarter results reflect a combination of particular circumstances that we expect will improve in subsequent quarters in 2015 and 2016. Specifically, production across our power portfolio was below historical norms: very dry conditions in British Columbia drove down output at our largest hydroelectric facility, unusually low wind resources led to diminished production at our wind farms, and a cloudy spring reduced output from Amherstburg Solar Park. These factors compound what is traditionally a seasonally low quarter from a production standpoint. Meanwhile, lower merchant power prices in Alberta affected the revenues at Whitecourt. In addition, at the start of the quarter Bristol Water began operating under Ofwat's mandated 14% real reduction in customer bills for AMP6.

Those distinguishing factors, along with the economics of Cardinal's new contract, affected second quarter revenue relative to 2014, which came in 24% lower compared to the same period last year.

Total expenses fell 22% in the second quarter, largely because of lower production and fuel costs at Cardinal compared to the second quarter of 2014; savings were partially offset by higher project development expenses.

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) fell 27% from the second quarter last year. The lower figure reflects the economics of Cardinal's new contract, reduced output across Capstone's power generation segment and lower revenues at Bristol Water with the commencement on April 1, 2015 of the AMP6 regulatory period under Ofwat's final determination, now the subject of the CMA review. These reductions were partially offset by favourable foreign currency translation, as well as new contributions from the recently completed Skyway 8, Saint-Philémon and Goulais wind facilities.

Adjusted Funds from Operations (AFFO) declined from the same period in 2014, for the reasons noted above. Although Saint-Philémon and Goulais are producing revenue and accumulating cash, Capstone did not receive a dividend from those new facilities in the quarter, which also affected AFFO. Capstone and our two corporate partners agreed with the Bristol Water Board to defer declaring a dividend until the CMA review is settled, which also led to lower AFFO.

On a year-to-date basis, the payout ratio, based on AFFO, is consistent with management's expectations; on a quarterly basis, the payout ratio was 782%, compared with 60% in the second quarter of 2014. Management anticipates this atypical figure will be greatly reduced in subsequent reporting periods as power generation returns to historical levels, we receive dividends from the new wind facilities, and dividends from Bristol Water resume following a successful conclusion of the CMA process. Our long-term target remains an average payout ratio of between 70% and 80%.

We ended the quarter with a debt-to-capitalization ratio of 74% and unrestricted cash and equivalents of $51.2 million, of which $22.6 million is available for general corporate purposes, along with $24.2 million in undrawn corporate credit capacity.

Areas of focus

With all of Capstone's near-term wind projects now commissioned, our growth focus is on the next phase of development, which includes five contracted and REA-approved projects in Ontario, and one pending in Saskatchewan. During the second quarter, we initiated the exercise of our rights to increase Capstone's ownership position in four of the upcoming projects, from 50% to a minimum stake of 75% -- and potentially 100%. This would add an incremental 12 megawatts, and potentially up to 24 megawatts, of new generating capacity, for a total of 64 net megawatts . We anticipate construction on the Ontario projects to begin in the third quarter of 2015.

Our development team has submitted a proposal for storage technology under Phase II of the Energy Storage Procurement by the Independent Electricity System Operator of Ontario (IESO). The team is also preparing submissions through the IESO's Large Renewable Procurement, under which Capstone can bid for up to 38.4 megawatts of solar and 129.6 megawatts of wind. Decisions on the outcome of these bids are expected in the third and fourth quarters of 2015, respectively.

The major refurbishment and life extension at Cardinal was completed in the second quarter and the plant has begun operating on a dispatchable basis, recently supplying electricity to the Ontario grid on summer days when power consumption has spiked.

Bristol Water is nearing the conclusion of the CMA review process and provisional findings were released subsequent to quarter end, on July 10, 2015. These findings affirmed Bristol Water's position in several key areas, though there remain areas of disagreement with the CMA's findings, such as the pay-as-you-go ratio. The CMA provisionally granted £20 million higher total expenditure over the 2015 to 2020 AMP6 period, while simultaneously reducing the scope of required projects under Ofwat's plan. Further, the CMA raised the potential for an additional £20 million allowance for enhancements to water treatment works. Based on the provisional allowance, the CMA set total expenditures of £429 million over AMP6.

The CMA also provisionally raised the allowable weighted average cost of capital by a modest amount in recognition of a portion of Bristol Water's embedded debt costs as well as a higher equity return, while taking into account today's low prevailing interest rates.

Since the provisional findings were published, Bristol Water participated in a final round of hearings on August 4, 2015 and presented additional documentation in support of an outcome that will best serve the company's customers, protect the integrity of the system and place Bristol Water on a more equal footing to its peers in the UK. The final evaluation is expected by September 3. The CMA can seek an extension if necessary to complete its review.

Outlook[1]

At the mid-point of fiscal 2015, we reiterate our forecast of annual Adjusted EBITDA of $115 million to $125 million. We also confirm Capstone's commitment to our current dividend policy and remain focused on bringing our payout ratio in line with our long-term target of between 70% and 80% by the end of 2017. Our growing portfolio of high-quality power assets and stable utilities businesses will provide a solid base as we continue our mission to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally.

Thank you for your continued support.

Sincerely,

Michael Bernstein
President and Chief Executive Officer

[1]Please refer to the Legal Notice on page 2 for a description of various other material factors or assumptions underlying our outlook.

MANAGEMENT’S DISCUSSION AND ANALYSIS

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INTRODUCTION

Management’s discussion and analysis (“MD&A”) summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated operating results and cash flows for the three and six months ended June 30, 2015 with the comparative prior periods and the Corporation’s financial position as at June 30, 2015 and December 31, 2014. 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, 2015 and the financial statements and MD&A for the year ended December 31, 2014. Additional information about the Corporation can be found in its other public filings, specifically the Corporation’s Annual Information Form dated March 24, 2015 and its Annual Report for the year ended December 31, 2014. 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 10, 2015, the date on which this MD&A was approved by the Corporation’s Board of Directors.

BASIS OF PRESENTATION

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

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

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the periods ended	**Average**	**Spot**	**Average**	**Spot**
Year ended December 31, 2014	0.1605	0.1483	1.8192	1.8071
Quarter ended March 31, 2015	0.1488	0.1470	1.8781	1.8834
Quarter ended June 30, 2015	0.1462	0.1505	1.8850	1.9614

CHANGES IN THE BUSINESS

In the first six months of 2015, two wind development projects entered commercial operations, Whitecourt's fuel supply and price support agreement with Millar Western was signed, Skyway 8's construction debt was converted to a term facility and Capstone initiated a response to the Ontario Electricity Financial Corporation's ("OEFC") appeal of an Ontario Superior Court ruling that was favourable to Capstone and other plaintiffs . In addition, Capstone worked with management of Bristol Water on the regulatory review underway with the Competition and Markets Authority ("CMA").

Saint-Philémon and Goulais Achieved Commercial Operations

The Saint-Philémon and Goulais wind development projects achieved commercial operations on time and within budget in January and May of 2015, respectively. Approvals have recently been secured for five more projects that are expected to begin construction in 2015 and be completed in succession by the end of 2017.

Whitecourt's New Fuel Supply Agreement

On March 2, 2015, Millar Western and Whitecourt completed an agreement that secures a long-term fuel supply for the facility for an initial term of 15 years, which is extendable to 20 years. The new agreement, which has a commencement date of January 1, 2015, also includes price support and revenue sharing mechanisms that reduce the merchant risk of operating in Alberta's power market.

Skyway 8 - Debt Facility Conversion

On February 17, 2015, the Skyway 8 construction facility converted to a three-year term facility, which has regular principal and interest payments fully amortizing over 20 years and bears interest at a fixed, annual rate of 4.80%.

Claim Against OEFC

On March 12, 2015, the Ontario Superior Court of Justice determined that the OEFC did not properly calculate the price paid and payable for electricity produced under its power purchase agreements ("PPA") with Capstone and other power producers in Ontario. On April 10, 2015, the OEFC served a Notice of Appeal in respect of the March 12, 2015 decision. Capstone is responding to the appeal.

Capstone estimates that the Court's decision, if upheld following appeal, would result in a net receipt of approximately $25,000 representing retroactive adjustments for unpaid revenue claimed from the OEFC. Further, the future price paid for electricity at Capstone's Wawatay and Dryden hydro facilities is expected to be calculated in accordance with the original pre-2011 methodology in their respective PPAs, resulting in higher future power rates.

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

Bristol Water's Regulatory Determination and Review

Capstone owns 50% of Bristol Water, a regulated water utility in the UK. In December 2014, Ofwat, the economic regulator for the UK water sector issued a disappointing final determination for the forthcoming five-year regulatory period. At the request of Bristol Water, the regulator referred the final determination to the CMA in March 2015. On July 10, 2015, the CMA published provisional findings showing improvement in certain key areas compared with Ofwat's final determination. However, Bristol Water disagrees with some of the CMA's other provisional findings, such as the pay-as-you go ratio. Following the release of the provisional findings, Bristol Water made additional representations in submissions and in hearings in support of further changes. Those findings are still subject to the CMA's final evaluation, which is expected by September 3, 2015. The CMA can seek an extension if necessary to complete its review.

SUBSEQUENT EVENTS

Financing Change - Amherstburg Solar Park

On July 9, 2015, Capstone reached financial close on an approximately $95,000 refinancing of the Amherstburg Solar Park ("Amherstburg"), through a wholly owned subsidiary. The new project debt was used to repay Amherstburg's outstanding principal, swap break fees and closing costs. The new project debt fully amortizes over the remainder of the facility's power purchase agreement, which expires in 2031 and bears interest at a fixed, annual rate of 3.49%.

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, investors and other stakeholders in evaluating Capstone's operating performance. Adjusted EBITDA is an indicator of results generated by the 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 7.

Adjusted Funds from Operations ("AFFO")

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

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

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

Payout Ratio

Payout ratio is a non-GAAP financial measure that assists management, investors and other stakeholders in assessing the sustainability of Capstone's dividend policy.

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

Reconciliation of Non-GAAP Performance Measures

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

	Three months ended		Six months ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
EBITDA	29,406	45,696	69,641	104,020
Foreign exchange (gain) loss	(837)	2,920	(575)	1,769
Other (gains) and losses, net	9,424	1,176	12,857	755
Contractual settlements in other gains and (losses)	8	—	899	—
Equity accounted (income) loss	1,539	1,913	687	666
Distributions from equity accounted investments	3,272	4,127	4,742	5,352
Net pension interest income	(754)	(593)	(1,505)	(1,231)
NCI portion of Adjusted EBITDA	(13,290)	(15,747)	(28,429)	(30,148)
Adjusted EBITDA (1)	28,768	39,492	58,317	81,183
Cash flow from operating activities	32,723	33,461	74,986	77,904
Cash flow from operating activities of businesses with NCI	(26,924)	(16,599)	(50,474)	(37,519)
Distributions paid to Capstone from businesses with NCI	557	3,012	3,109	5,353
Distributions from equity accounted investments	3,272	4,127	4,742	5,352
Foreign exchange on loans receivable from Värmevärden	(41)	—	(75)	32
Chapais loans receivable principal repayments	335	301	661	594
Power maintenance capital expenditures	(1,061)	(517)	(1,701)	(689)
Power and corporate scheduled principal repayments	(5,991)	(5,546)	(9,657)	(8,880)
Power and corporate working capital changes	(1,000)	(5,168)	(12,319)	(8,265)
Dividends on redeemable preferred shares	(938)	(938)	(1,876)	(1,876)
AFFO	932	12,133	7,396	32,006

(1) See page 11 for a reconciliation of Adjusted EBITDA to net income.

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both lower in 2015 for the second quarter and year to date.

Capstone's Adjusted EBITDA performance reflected the following:

- Lower results from the power segment primarily attributable to the economics of Cardinal's new contract, which became effective on January 1, 2015. In addition, Capstone's operating wind, hydro and solar facilities experienced generally poor resource conditions and resulted in lower revenue. These declines were partially offset by new contributions from Skyway 8, Saint-Philémon and Goulais, which commenced operations on August 14, 2014, January 16, 2015, and May 21, 2015 respectively;
- Lower results from Bristol Water, reflecting the impact of Ofwat's AMP6 regulatory determination, which decreased annual regulated water tariffs as of April 1, 2015. This was partially offset by positive foreign currency translation; and
- Higher corporate expenses, primarily due to non-recurring project development costs to pursue business development opportunities. This was partially offset by lower integration-related administrative expenses in 2015.

In addition, Capstone's AFFO was affected by:

- Lower dividends from Bristol Water and Värmevärden.

	Three months ended		Six months ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Revenue	81,403	106,413	171,642	220,810
Expenses	(43,683)	(56,272)	(92,676)	(116,776)
Interest income	1,058	971	2,139	1,945
Contractual settlements in other gains and (losses)	8	—	899	—
Distributions from equity accounted investments	3,272	4,127	4,742	5,352
Less: NCI	(13,290)	(15,747)	(28,429)	(30,148)
Adjusted EBITDA	28,768	39,492	58,317	81,183
Adjusted EBITDA of consolidated businesses with NCI	(13,347)	(15,743)	(28,539)	(30,172)
Distributions from businesses with NCI	557	3,012	3,109	5,353
Principal from loans receivable	335	301	661	594
Interest paid	(7,502)	(7,553)	(12,654)	(12,439)
Dividends paid on Capstone's preferred shares	(938)	(938)	(1,876)	(1,876)
Income taxes (paid) recovery	111	(375)	(264)	(1,068)
Maintenance capital expenditures	(1,061)	(517)	(1,701)	(689)
Scheduled repayment of debt principal	(5,991)	(5,546)	(9,657)	(8,880)
AFFO	932	12,133	7,396	32,006
AFFO per share	0.010	0.126	0.077	0.331
Payout ratio	782%	60%	197%	45%
Dividends declared per share	0.075	0.075	0.150	0.150

Revenue for the quarter was $25,010, or 24%, lower in 2015 and $49,168, or 22%, lower year to date. The decreases were mainly due to $17,640 and $47,102 less revenue for the quarter and year to date, respectively, from the power segment, primarily due to the economics of Cardinal's new contract. At Bristol Water, revenue decreased by $7,370 and $2,066 during the quarter and year to date, respectively, primarily due to lower regulated water tariffs in the second quarter, partially offset by favourable foreign currency translation.

Expenses for the quarter were $12,589, or 22%, lower in 2015 and $24,100, or 21%, lower year to date.

- **Operating expenses** decreased by $12,313 during the quarter and $24,337, year to date. This was primarily due to lower power segment expenses of $12,439 and $29,855 for the quarter and year to date respectively, substantially reflecting lower Cardinal production costs. Year to date, this was partially offset by $5,518 of higher expenses at Bristol Water, primarily due to $3,886 of one-time costs and $1,632 of higher foreign currency translation. The one-time costs include costs of restructuring and participating in the CMA process.
- **Administrative expenses** decreased by $902 during the quarter and $2,202, year to date. The year-to-date decrease primarily reflects a $746 HST recovery and a $884 decrease in professional fees attributable to the integration of ReD in 2014. The remaining variance of $544 reflects lower incentive compensation included in staff costs.

- **Project development costs** increased by $626 during the quarter and $2,439, year to date. The year-to-date increase consisted of $1,603 of non-recurring corporate business development costs and $836 of higher costs to advance the wind development projects.

Contractual settlements in other gains and (losses) relate to cash settlements included in other gains and losses under IFRS in the consolidated statement of income. Year to date, the amount comprised a $1,159 receipt relating to the new Whitecourt fuel supply agreement, partially offset by a $260 payment under Cardinal's gas purchase agreement.

Distributions from equity accounted investments for the quarter were $855, or 21%, lower and $610, or 11%, lower year to date, due to lower distributions from the Glen Dhu wind facility and Värmevärden. In 2014, both businesses had accumulated surplus cash which allowed them to make higher distributions.

Distributions from businesses with non-controlling interests for the quarter were $2,455, or 82%, lower in 2015 and $2,244, or 42%, lower year to date. The decreases were mainly a result of agreement with the Bristol Water Board of Directors to defer declaring a dividend during the CMA process.

Interest paid for both periods was generally consistent with 2014.

Interest paid by Bristol Water, Amherst and Saint-Philémon 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, 2015.

Income taxes paid for the quarter were $486, or 130%, lower and $804, or 75%, lower year to date. Taxes paid were lower for the quarter due to a recovery of 2014 income taxes and lower for the year primarily because $500 of minimum taxes and $223 of income taxes that did not recur in 2015 and a $486 installments recovery in the quarter. These were partially offset by $405 of earlier tax installments on the preferred share dividends in 2015.

Maintenance capital expenditures for the quarter were $544, or 105%, higher and $1,012, or 147%, higher year to date. The second quarter increase was attributable to the operating wind facilities, Whitecourt and the hydros. In addition, Cardinal contributed $404 in the first quarter.

Scheduled repayment of debt principal for the quarter was $445, or 8%, higher in 2015 and $777, or 9%, higher year to date, mainly due to higher repayments on the amortizing debt in the power segment.

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.

The financial results of Capstone's businesses with non-controlling interest, such as Bristol Water, Amherst, Saint-Philémon and Goulais, are consolidated with Capstone's other businesses before deducting the portion of Adjusted EBITDA attributable to non-controlling interests. Capstone's non-controlling interest in Värmevärden and other equity accounted investments provide interest income, distributions and management service fees, when applicable.

As at June 30, 2015, Capstone's operating segments by ownership interest are as follows:

Accounting treatment	**Control**		**Significant influence**
Ownership	**Wholly-owned**	**Partially owned**	**Minority interest**
Power (1)	Cardinal (gas cogeneration), Erie Shores, SkyGen, Glace Bay and Confederation Power(2) (wind facilities), Whitecourt (biomass facility), Amherstburg (solar park) and the hydro facilities.	Amherst, Saint-Philémon and Goulais (wind facilities)	Glen Dhu and Fitzpatrick (wind facilities)
Utilities - water		Bristol Water	
Utilities - district heating			Värmevärden

(1) The power segment includes several wind development projects in addition to the operating businesses disclosed above.
(2) The Confederation Power wind facilities were sold on May 19, 2015; accordingly, the results of operations are only reflected up to that date.

Non-GAAP performance measures

Non-GAAP performance measures results for each business segment were as follows:

	Three months ended		Change		Six months ended		Change	
	Jun 30, 2015	Jun 30, 2014	$	%	Jun 30, 2015	Jun 30, 2014	$	%
Power	17,133	24,319	(7,186)	(30)%	37,207	56,167	(18,960)	(34)%
Utilities – water	11,347	15,121	(3,774)	(25)%	24,728	28,543	(3,815)	(13)%
Utilities – district heating	3,195	3,751	(556)	(15)%	3,858	4,512	(654)	(14)%
Corporate	(2,907)	(3,699)	792	21 %	(7,476)	(8,039)	563	7 %
Adjusted EBITDA	28,768	39,492	(10,724)	(27)%	58,317	81,183	(22,866)	(28)%
Power	4,202	13,677	(9,475)	(69)%	14,219	36,913	(22,694)	(61)%
Utilities – water	—	2,414	(2,414)	(100)%	1,992	4,344	(2,352)	(54)%
Utilities – district heating	3,195	3,751	(556)	(15)%	3,858	4,512	(654)	(14)%
Corporate	(6,465)	(7,709)	1,244	16 %	(12,673)	(13,763)	1,090	8 %
AFFO	932	12,133	(11,201)	(92)%	7,396	32,006	(24,610)	(77)%

Power

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2014:

Three months	Six months	Explanations
1,789	3,521	Adjusted EBITDA contribution from new facilities reaching COD after June 30, 2014, consisting of Skyway 8, Saint-Philémon and Goulais.
(6,382)	(17,444)	Lower Adjusted EBITDA at Cardinal under the new non-utility generator ("NUG") contract.
(1,566)	(3,930)	Lower revenue from the hydro, wind (excluding new facilities) and solar facilities due to lower production attributable to poor resources.
(529)	(835)	Higher project development costs to advance the wind projects.
(149)	(753)	Lower revenue from Whitecourt due to lower merchant rates, net contractual settlement under the new fuel supply agreement.
(349)	481	Various other changes.
(7,186)	(18,960)	Change in Adjusted EBITDA.
(1,378)	(2,182)	Change in Adjusted EBITDA attributable to non-controlling interests.
(544)	(1,012)	Higher maintenance capital expenditures primarily at Cardinal, the wind facilities and Whitecourt, partially offset by the hydro facilities as penstock repairs were not required in 2015.
(391)	(711)	Skyway 8 debt service costs post COD.
24	171	Various other changes.
(9,475)	(22,694)	Change in AFFO.

Utilities – water

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2014:

Three months	Six months	Explanations
(4,758)	(2,909)	Lower revenue due to decrease in regulated water tariffs.
(511)	(2,349)	Higher operating expenses due to non-recurring costs for restructuring, preparing submissions to the 2014 price review and participating in the CMA process.
843	923	Deferred maintenance and lower staff costs.
408	795	Impact of foreign exchange on Adjusted EBITDA.
244	(275)	Various other changes
(3,774)	(3,815)	Change in Adjusted EBITDA.
131	234	Impact of foreign exchange on dividends received from Bristol Water.
(2,545)	(2,586)	Lower dividends received in the second quarter.
(2,414)	(2,352)	Change in AFFO.

Utilities – district heating

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2014:

Three months	Six months	Explanations
(128)	(226)	Impact of foreign exchange on Adjusted EBITDA and AFFO.
(428)	(428)	Lower distributions received.
(556)	(654)	Change in Adjusted EBITDA and AFFO.

Corporate

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2014:

Three months	Six months	Explanations
60	746	Lower administrative expenses due to HST recovery from prior years.
40	448	Lower professional fees due to integration of ReD in 2014.
560	544	Lower staff costs primarily related to LTIP expense.
(101)	(1,603)	Higher project development costs due to acquisition analysis and due diligence costs.
233	428	Various other changes.
792	563	Change in Adjusted EBITDA.
452	527	Other
1,244	1,090	Change in AFFO.

Net income

Net income for each business segment was:

	Three months ended		Six months ended	
Net income	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Power	(8,972)	4,146	(8,889)	14,993
Utilities – water	7,192	13,492	17,050	23,392
Utilities – district heating	(554)	(3,388)	833	(624)
Corporate	(3,221)	(5,836)	(9,112)	(9,890)
Total	(5,555)	8,414	(118)	27,871

Capstone's net income includes non-cash items as required by IFRS. The major differences between net income and Adjusted EBITDA were:

	Three months ended		Six months ended	
($000s)	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Adjusted EBITDA	28,768	39,492	58,317	81,183
Adjustment from distributions from equity accounted investments to equity accounted income	(4,811)	(6,040)	(5,429)	(6,018)
NCI portion of Adjusted EBITDA	13,290	15,747	28,429	30,148
Other gains and (losses), net	(9,424)	(1,176)	(12,857)	(755)
Contractual settlements in other gains and (losses)	(8)	—	(899)	—
Foreign exchange gain (loss)	837	(2,920)	575	(1,769)
Interest expense	(14,109)	(13,386)	(28,437)	(27,152)
Net pension interest income	754	593	1,505	1,231
Depreciation and amortization	(20,325)	(19,999)	(40,002)	(39,019)
Income tax recovery (expense)	(527)	(3,897)	(1,320)	(9,978)
Net income	(5,555)	8,414	(118)	27,871

Other losses for the quarter were $8,248 higher than in 2015 and $12,102 higher year to date. Other losses include non-cash items required by IFRS. The year-to-date loss includes $7,440 of losses on capital assets replaced as part of Cardinal's conversion to a cycling facility. Also included are losses of $2,250 and $5,548 for the quarter and year to date, respectively, resulting primarily from changes in the fair value of the Whitecourt embedded derivative.

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 Jun 30, 2015	Gas	Wind[(1)]	Biomass[(1)]	Hydro	Solar	Development [(2)]	Total
Power generated (GWh)	6.0	123.2	44.3	46.6	11.0	n/a	231.1
Capacity factor	3.3%	25.6%	83.9%	59.7%	25.3%	n/a	n.m.f
Availability	61.7%	92.7%	91.8%	99.5%	96.7%	n/a	n.m.f
Revenue	4,825	13,010	3,078	3,856	4,580	—	29,349
Expenses	(3,436)	(2,436)	(2,889)	(1,077)	(290)	(1,266)	(11,394)
Interest income	27	295	26	5	4	—	357
Contractual settlements in other gains and (losses)	—	—	8	—	—	—	8
Distributions from equity accounted investments	—	735	—	—	—	—	735
Less: NCI	—	(1,922)	—	—	—	—	(1,922)
Adjusted EBITDA	1,416	9,682	223	2,784	4,294	(1,266)	17,133
Adjusted EBITDA of consolidated businesses with NCI	—	(2,000)	—	—	—	—	(2,000)
Distributions from businesses with NCI	—	557	—	—	—	—	557
Principal from loans receivable	—	—	335	—	—	—	335
Interest paid	—	(2,143)	—	(1,129)	(1,499)	—	(4,771)
Maintenance capital expenditures	(66)	(685)	(293)	(17)	—	—	(1,061)
Scheduled repayment of debt principal	—	(2,393)	—	(1,644)	(1,954)	—	(5,991)
AFFO	1,350	3,018	265	(6)	841	(1,266)	4,202

Three months ended Jun 30, 2014	Gas	Wind[(1)]	Biomass[(1)]	Hydro	Solar	Development [(2)]	Total
Power generated (GWh)	192.8	96.9	46.6	58.0	12.5	n/a	406.8
Capacity factor	60.3%	23.5%	92.5%	74.3%	28.7%	n/a	n.m.f
Availability	98.7%	97.8%	93.3%	99.6%	97.5%	n/a	n.m.f
Revenue	24,156	9,431	3,412	4,724	5,266	—	46,989
Expenses	(16,398)	(2,067)	(2,925)	(872)	(305)	(743)	(23,310)
Interest income	41	34	59	4	5	—	143
Distributions from equity accounted investments	—	1,103	—	—	—	—	1,103
Less: NCI	—	(606)	—	—	—	—	(606)
Adjusted EBITDA	7,799	7,895	546	3,856	4,966	(743)	24,319
Adjusted EBITDA of consolidated businesses with NCI	—	(622)	—	—	—	—	(622)
Distributions from businesses with NCI	—	553	—	—	—	45	598
Principal from loans receivable	—	—	301	—	—	—	301
Interest paid	—	(2,106)	—	(1,175)	(1,575)	—	(4,856)
Maintenance capital expenditures	—	(234)	(101)	(182)	—	—	(517)
Scheduled repayment of debt principal	—	(2,231)	—	(1,409)	(1,906)	—	(5,546)
AFFO	7,799	3,255	746	1,090	1,485	(698)	13,677

(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.

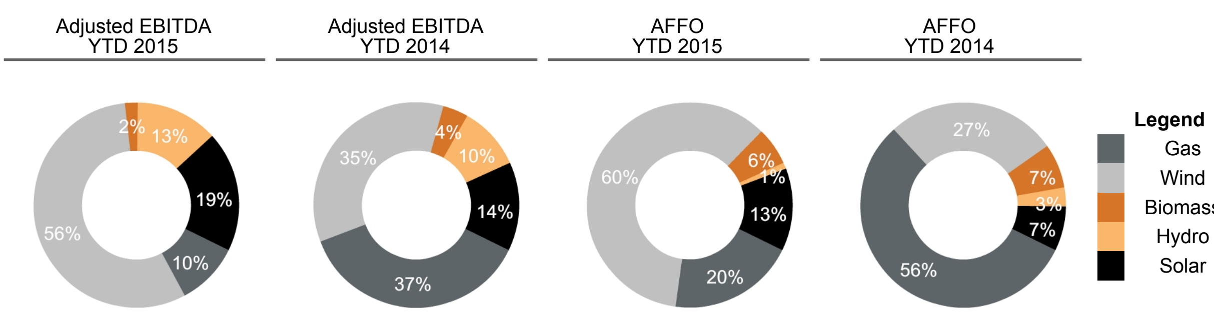
(2) Development includes costs for Capstone's power development team, and development project costs, which are expensed during construction.

Six months ended Jun 30, 2015	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development [2]	Total
Power generated (GWh)	7.0	272.5	90.9	79.1	19.2	n/a	468.7
Capacity factor	1.9%	29.0%	86.4%	50.9%	22.1%	n/a	n.m.f
Availability	71.2%	94.0%	94.3%	98.6%	97.1%	n/a	n.m.f
Revenue	10,476	27,667	4,763	7,124	8,069	—	58,099
Expenses	(6,516)	(4,784)	(5,320)	(1,956)	(596)	(1,885)	(21,057)
Interest income	53	584	60	10	9	—	716
Contractual settlements in other gains and (losses)	(260)	—	1,159	—	—	—	899
Distributions from equity accounted investments	—	2,205	—	—	—	—	2,205
Less: NCI	—	(3,655)	—	—	—	—	(3,655)
Adjusted EBITDA	3,753	22,017	662	5,178	7,482	(1,885)	37,207
Adjusted EBITDA of consolidated businesses with NCI	—	(3,811)	—	—	—	—	(3,811)
Distributions from businesses with NCI	—	1,117	—	—	—	—	1,117
Principal from loans receivable	—	—	661	—	—	—	661
Interest paid	—	(4,338)	—	(2,269)	(2,990)	—	(9,597)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(470)	(731)	(373)	(127)	—	—	(1,701)
Scheduled repayment of debt principal	—	(4,669)	—	(2,612)	(2,376)	—	(9,657)
AFFO	3,283	9,585	950	170	2,116	(1,885)	14,219

Six months ended Jun 30, 2014	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development [2]	Total
Power generated (GWh)	520.7	240.7	96.7	88.1	20.2	n/a	966.4
Capacity factor	78.0%	29.1%	96.2%	56.7%	23.3%	n/a	n.m.f
Availability	99.4%	98.0%	96.6%	98.9%	97.5%	n/a	n.m.f
Revenue	58,338	23,591	7,124	7,647	8,501	—	105,201
Expenses	(37,205)	(4,484)	(5,042)	(1,724)	(572)	(1,050)	(50,077)
Interest income	65	70	126	8	12	—	281
Distributions from equity accounted investments	—	2,328	—	—	—	—	2,328
Less: NCI	—	(1,566)	—	—	—	—	(1,566)
Adjusted EBITDA	21,198	19,939	2,208	5,931	7,941	(1,050)	56,167
Adjusted EBITDA of consolidated businesses with NCI	—	(1,629)	—	—	—	—	(1,629)
Distributions from businesses with NCI	—	919	—	—	—	90	1,009
Principal from loans receivable	—	—	594	—	—	—	594
Interest paid	—	(4,159)	—	(2,361)	(3,139)	—	(9,659)
Maintenance capital expenditures	—	(334)	(146)	(209)	—	—	(689)
Scheduled repayment of debt principal	—	(4,339)	—	(2,271)	(2,270)	—	(8,880)
AFFO	21,198	10,397	2,656	1,090	2,532	(960)	36,913

(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 includes costs for Capstone's power development team, and development project costs, which are expensed during construction.

The following charts show the composition of Adjusted EBITDA and AFFO for the power segment's operating businesses:



Revenue for the quarter was $17,640, or 38%, lower in 2015 and $47,102, or 45%, lower year to date, primarily due to Cardinal where revenue was $19,331 and $47,862 lower for the quarter and year to date, respectively, due to the economics of the new PPA. Cardinal began operating as a cycling facility on January 1, 2015 under its new NUG contract, which results in less revenue, than when the plant operated as a baseload facility.

In addition, lower production also reduced revenue by $1,531 for the quarter and $3,265 year to date. Production was below the prior year and the long-term average due to less favourable wind (excluding the new facilities) and hydrology conditions and solar resources. Revenue at Whitecourt was also lower year to date by $2,361, mainly due to lower power prices, as 2015 merchant rates were lower than those in the 2014 power purchase agreement.

Contributions from new wind facilities, which partially offset revenue decreases, were $3,556 and $6,386 for the quarter and year to date, respectively. The new wind facilities include production from Skyway 8, Saint-Philémon and Goulais, which reached commercial operations after June 30, 2014.

Expenses for the quarter were $11,916, or 51%, lower in 2015 and $29,020, or 58%, lower year to date. For the quarter and year to date, the decreases were primarily due to $12,962 and $30,689 lower Cardinal operating expenses for the quarter and year to date respectively, reflecting lower gas and gas transportation costs due to lower production under the new NUG contract. This was partially offset by $523 and $835 higher project development costs in the quarter and year to date, respectively, as well as $605 of higher expenses in the quarter and $1,032 year to date attributable to the new wind facilities that reached commercial operation dates ("COD") in 2014 and 2015.

Interest income for the quarter was $214, or 150%, higher in 2015 and $435, or 155%, higher year to date, primarily due to accrued interest on the loan receivable from the Batchewana First Nation of Ojibways ("BFN") related to the Goulais wind facility.

Contractual settlements in other gains and (losses) relate to cash settlements included in other gains and losses under IFRS, in the consolidated statement of income. In 2015, the amount comprises a $1,159 receipt from Millar Western under Whitecourt's new fuel supply agreement, partially offset by a $260 payment to Husky under Cardinal's gas purchase agreement.

Distributions from equity accounted investments for the quarter were $368 lower in 2015 and $123, or 5%, lower year to date, due to lower funds received from Glen Dhu.

Non-controlling interest relates to the Adjusted EBITDA attributed to Capstone's partners for the Amherst, Saint-Philémon and Goulais wind projects.

Distributions from businesses with NCI for the quarter were $41, or 7%, lower in 2015 and $108, or 11%, higher year to date. For the quarter, distributions were lower by $41 due to a lower distribution from Amherst. Higher distributions year to date were primarily due to higher distributions from Amherst resulting from a higher distribution in the first quarter of 2015.

Interest paid for the quarter was $85, or 2%, lower in 2015 and $62, or 1%, lower year to date. The year-to-date decrease was due to lower payments of $566 on amortizing debt balances at Erie Shores, the hydro facilities, Amherstburg, SkyGen and Glace Bay. These decreases were partially offset by higher payments of $504 at the Skyway 8 facility, since drawing on the debt in May 2014.

Maintenance capital expenditures for the quarter were $544, or 105%, higher in 2015 and $1,012, or 147%, higher year to date. For the quarter and year to date respectively, the increase of $478 and $542 is primarily attributable to the operating wind facilities and Whitecourt, partially offset by the hydros facilities. In addition, for the year to date Cardinal contributed $470 to the increase for improvements unrelated to the conversion to a cycling facility.

Scheduled repayment of debt principal for the quarter was $445, or 8%, higher in 2015 and $777, or 9%, higher year to date. The year-to-date increase was primarily due to a $622 increase on the amortizing debt of Erie Shores, the hydro facilities and Amherstburg, as well as $208 from Skyway 8, since drawing on the debt in May 2014. These variances were partially offset by lower repayments by Glace Bay.

Project development

The construction of the Saint-Philémon and Goulais wind development projects reached COD consistent with their targeted dates and within their budgets. Skyway 8, Saint-Philémon and Goulais began contributing to Capstone's operating results since their respective COD's of August 2014, and January and May of 2015.

As at June 30, 2015, Capstone's development pipeline, included the rights to net 64 MW across six projects, which are progressing through the regulatory approvals process. These projects are being developed under PPAs in Ontario and Saskatchewan and are currently expected to achieve their CODs in 2016 and 2017, once pending environmental approvals have been obtained and construction can proceed.

Capstone expects to fund these six development projects with a combination of equity from Capstone and project-level debt financing, which will be non-recourse to Capstone.

Seasonality

In 2015, Cardinal's new NUG contract changed how the facility contributes to Capstone economically. Under the new contract, Cardinal earns a portion of its revenue by supplying electricity to the Ontario grid only when profitable to do so. Cardinal is no longer a baseload facility, consequently, historical production is not indicative of seasonal impacts upon production. The new contract is not expected to have a material seasonality impact.

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 as shown in the following table:

Type	Contract Expiry	Actual Q2	Average long-term production (GWh) (1) Q1	Q2	Q3 (2)	Q4 (2)	Annual
Wind (3)	2020 - 2037	123.2	165.5	129.3	80.1	145.7	520.6
Biomass (3)	2029	44.3	49.8	45.5	50.4	49.1	194.8
Hydro	2017 - 2042	46.6	31.4	56.3	29.8	41.6	159.1
Solar	2031	11.0	7.2	12.4	12.4	5.8	37.8
Total		225.1	253.9	243.5	172.7	242.2	912.3

(1) Average long-term production for each of the assets included is for periods greater than five years, except for businesses acquired or built within the last five years. This means that Amherstburg, the wind facilities acquired by Capstone on October 1, 2013, and Skyway 8, Saint-Philémon and Goulais have a shorter period than five years in calculating the average long-term production.

(2) Saint-Philémon and Goulais commenced operations in 2015, therefore no amounts are included in long-term production for Q3 and Q4.

(3) The average long-term production excludes Capstone's equity investments (Chapais biomass facility, and the Glen Dhu and Fitzpatrick wind facilities).

Outlook (3)

In 2015, the power segment is benefiting from contributions from the near-term wind development projects as they reached COD. Skyway 8 is contributing for the full year, along with Saint-Philémon, which commenced operations in January 2015 and Goulais, which commenced operations in May 2015. Capstone expects Adjusted EBITDA for development to be similar to 2014, as costs to advance the remaining development projects are expected to be comparable with costs incurred in 2014.

Overall, all operating facilities are expected to perform consistently with their long-term average production, subject to variations in wind, water flows, ambient temperatures and sunlight, with the exception of Cardinal.

We anticipate a lower contribution from Cardinal, reflecting operating as a cycling facility under its new non-utility generator contract. In 2015, Whitecourt is expected to generate lower revenue based on a lower outlook for realized power prices compared with 2014.

Overall, Capstone expects the net impact of these factors to result in lower Adjusted EBITDA for the power segment in 2015 compared with 2014.

(3) See page 2 for a description of various other material factors or assumptions underlying our outlook.

Infrastructure - Utilities

Water

Capstone's water utilities segment includes a 50% ownership interest in Bristol Water, which is located in the United Kingdom. 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").

	Three months ended		Six months ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Water supplied (megalitres)	21,267	20,812	40,749	40,450
Revenue	52,054	59,424	113,543	115,609
Operating expenses	(29,360)	(29,224)	(64,101)	(58,583)
Interest income	21	62	60	99
Adjusted EBITDA before non-controlling interest	22,715	30,262	49,502	57,125
Less: NCI	(11,368)	(15,141)	(24,774)	(28,582)
Adjusted EBITDA	11,347	15,121	24,728	28,543
Adjusted EBITDA of consolidated businesses with NCI	(11,347)	(15,121)	(24,728)	(28,543)
Dividends from businesses with NCI	—	2,414	1,992	4,344
AFFO	—	2,414	1,992	4,344

Revenue for the quarter was $7,370, or 12%, lower in 2015 and $2,066, or 2%, lower year to date. Excluding foreign currency, revenue was $8,973, or 15% lower for the quarter and $5,287, or 4%, lower year to date. The majority of the variance, or $9,516 for the quarter and year to date, was attributable to lower water tariffs following implementation of the Ofwat AMP6 final determination on April 1, 2015, pending the outcome from the CMA appeals process. On a year-to-date basis, the decrease was partially offset by an increase of $3,699 following the annual regulatory water tariff change on April 1, 2014. The remaining variance was attributable to slight increases in volume.

Operating expenses for the quarter were $136, higher in 2015 and $5,518, or 9.4%, higher year to date. Excluding foreign currency, operating expenses were $652, or 2%, lower for the quarter, and $3,886, or 6%, higher year to date. The year-to-date increase was primarily due to costs for restructuring and the CMA appeals process, partially offset by savings from cost containment efforts and a reduced level of preventative maintenance in the second quarter.

Non-controlling interest relates to the Adjusted EBITDA attributed to Capstone's partners, Agbar and ITOCHU.

Dividends paid to Capstone by Bristol Water were lower for the quarter and year to date mainly because shareholders agreed with the Bristol Water Board of Directors to defer declaring a dividend during the CMA process.

Capital expenditures

Beginning April 1, 2015, Bristol Water started operating under AMP6, the five-year asset management plan that runs from April 1, 2015 to March 31, 2020. The capital expenditures under AMP6 would be approximately $469,000 (or £239,000) in 2015 prices, according to provisional findings released by the CMA in July 2015, which is subject to further revisions until the CMA issues its final determination.

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.

Regulatory

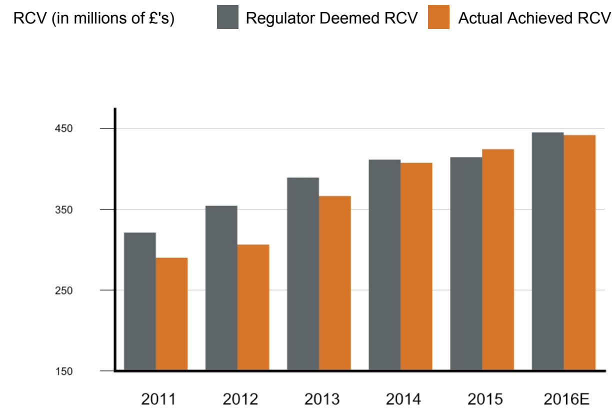
Bristol Water is a regulated utility subject to supervision by the UK water industry economic regulator, the Water Services Regulation Authority ("Ofwat").

In December 2013, Bristol Water put forward a five-year business plan covering the AMP6 period, which runs from April 1, 2015 to March 31, 2020, as part of Ofwat's 2014 price review ("PR14"). Ofwat issued its final determination on the AMP6 business plan on December 12, 2014. The final determination fell short of expectations and was formally rejected by Bristol Water's Board of Directors on February 5, 2015. This rejection initiated a process whereby the final determination was referred for review to the CMA, the UK agency responsible for considering regulatory references and appeals. Provisional findings from the CMA review were published on July 10, 2015. Those findings, which are subject to further main party hearings and written representations, show improvement in certain key areas that formed the basis of Bristol Water's disagreement with Ofwat's final determination for the AMP6 plan. However, Bristol Water disagrees with some of the CMA's other provisional findings, such as the pay-as-you go ratio. Following the release of the provisional findings, Bristol Water made additional representations in submissions and in hearings in support of further changes. The CMA has a prescribed timeline for concluding its review with a final evaluation on this matter expected by September 3, 2015. The CMA can seek an extension if necessary to complete its review. Any customer price adjustments arising from the CMA's decision would come into effect on April 1, 2016.

Management continues to focus on achieving regulatory output targets, including leakage of less than 50 million litres of water per day ("Ml/d") in 2015/2016, as well as strong performance in the Service Incentive Mechanism ("SIM"), which is measured through customer satisfaction surveys and quantitative data related to customer contacts.

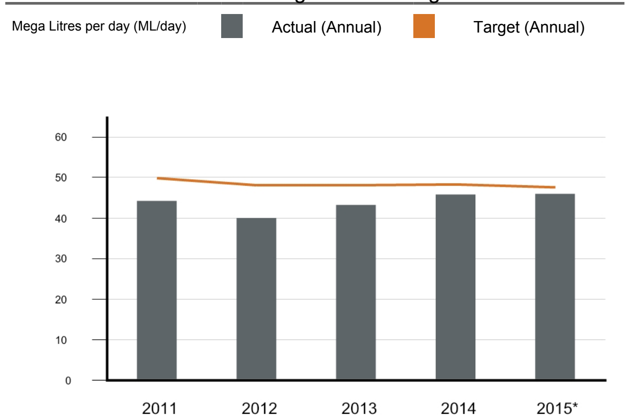
For the regulatory year ended March 31, 2015, Bristol Water achieved leakage levels of 45.1 Ml/d (for regulatory year ended March 31, 2014 - 43.7 Ml/d) and had a SIM score of 80 (for the regulatory year ended March 31, 2014 SIM score was 85, which ranked fifth overall out of 18 companies in the industry).

Growth in Regulated Capital Value



All data above reflects fiscal years ended March 31.

Water Leakage Versus Target



* For the six months ended June 30, 2015.

Outlook [2]

On April 1, 2015, Bristol Water began operating under the final determination issued by Ofwat while pursuing a more appropriate outcome through the CMA process. Capstone expects Bristol Water's financial results in 2015 to reflect:

- Lower revenue from a 16% (real) decrease in the regulated water tariff, which commenced April 1, 2015; and
- Higher operating costs from non-recurring charges related to restructuring, submissions for the 2014 price review, including the CMA appeals process, and foreign exchange impact.

Overall, Capstone expects these factors to contribute to lower Adjusted EBITDA for the utilities-water segment in 2015 compared with 2014.

(2) See page 2 for a description of various other material factors or assumptions underlying our outlook.

Infrastructure - Utilities

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.

Värmevärden's overall financial performance in the first six months of 2015 was lower than 2014 primarily due to lower revenue attributed to warmer weather conditions.

Overall, Värmevärden's cash flow to support interest and dividend payments to shareholders remains strong.

	Three months ended		Six months ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Heat and steam production (GWh)	204	204	568	571
Equity accounted income (loss)	(1,562)	(1,548)	(1,104)	(733)
Interest income	658	727	1,321	1,488
Dividends	2,537	3,024	2,537	3,024
Adjusted EBITDA and AFFO	3,195	3,751	3,858	4,512

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. Capstone received $1,321 in interest income from Värmevärden during the first six months of 2015, which was $167 lower than 2014, due to unfavourable foreign exchange translation.

Dividends

Capstone's dividends received from Värmevärden were $487 lower for the quarter and year to date than in 2014. In 2014, Värmevärden had accumulated surplus cash which allowed it to make a higher distribution.

Equity accounted income (loss)

Equity accounted income included in Capstone's net income was $371 lower in the first six months of 2015. The decrease was attributed to warm weather conditions in 2015 and unfavourable foreign exchange.

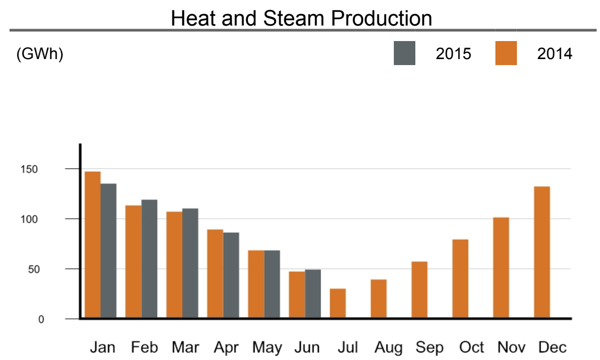
Seasonality

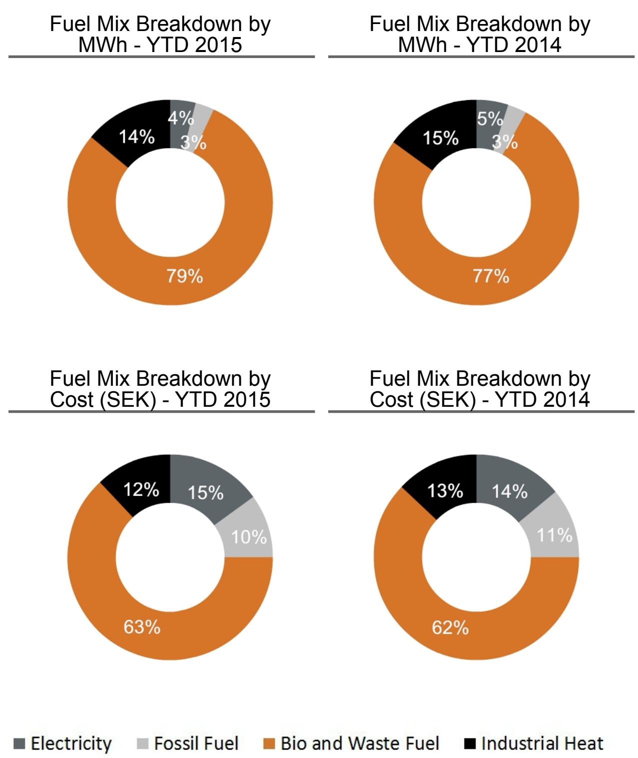
Heat production is typically highest during the first quarter, which represents the coldest months of the year. The first and fourth quarters combined have historically accounted for approximately 65% of Värmevärden's annual revenue.

Outlook (1)

Interest income from the shareholder loan is expected to be consistent with 2014 while we expect to return to normal dividends in 2015, resulting in lower Adjusted EBITDA from the district heating segment compared with 2014.

(1) See page 2 for a description of various other material factors or assumptions underlying our outlook.





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, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Administrative expenses	(2,912)	(3,822)	(5,950)	(8,151)
Project development costs	(17)	84	(1,568)	35
Interest income	22	39	42	77
Adjusted EBITDA	(2,907)	(3,699)	(7,476)	(8,039)
Interest paid	(2,731)	(2,697)	(3,057)	(2,780)
Dividends paid on Capstone's preferred shares	(938)	(938)	(1,876)	(1,876)
Income taxes (paid) recovery	111	(375)	(264)	(1,068)
AFFO	(6,465)	(7,709)	(12,673)	(13,763)

Administrative expenses were $910, or 24% lower in 2015 for the quarter and $2,210, or 27%, year to date.

	Three months ended		Six months ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Staff costs	1,731	2,339	4,121	4,701
Other administrative expenses	1,181	1,483	1,829	3,459
	2,912	3,822	5,950	8,160

Staff costs for the quarter were $608, or 26% lower in 2015 and $580, or 12%, lower year to date. Both decreases reflect a decrease in the long-term incentive plan expense due to a lower share price during the first six months of 2015 versus 2014.

Other administrative expenses for the quarter were $302, or 20%, lower in 2015 and $1,630, or 47%, lower year to date. The year-to-date decrease primarily reflects $746 of HST refunds and $884 lower professional fees because 2014 included costs for the integration of ReD. Other administrative expenses include audit fees, tax compliance and advisory, investor relations costs, office administration and premises costs, as well as professional fees other than for business development.

Project development costs for the quarter were $101 higher in 2015 and $1,603 higher year to date. The year-to-date increase was primarily due to acquisition analysis and due diligence costs.

Interest paid for the quarter was $34, or 1%, higher in 2015 and $277, or 10%, higher year to date, primarily due to a higher corporate credit facility balance.

Preferred share dividends paid and taxes paid

Dividends paid on Capstone's preferred shares relate to a quarterly fixed-rate payment equivalent to 5.0% per year. Taxes paid include amounts on the preferred share dividends, which are available to offset future income taxes of the Corporation.

Taxes paid for the quarter were $486, or 130%, lower and $804, or 75%, lower year to date. Taxes paid were lower for the quarter due to a recovery of 2014 income taxes and lower for the year primarily because $500 of minimum taxes and $223 of income taxes that did not recur in 2015 and a $486 installments recovery in the quarter. These were partially offset by $405 of earlier tax installments on the preferred share dividends in 2015.

Outlook [1]

In 2015, Capstone expects financial results for corporate to reflect:

- Higher corporate project development costs in 2015;
- Lower professional fees in 2015 as the one-time costs related to ReD integration are not expected to recur.

Overall, Capstone expects these factors to result in slightly higher corporate expenses compared with 2014.

(1) See page 2 for a description of various other material factors or assumptions underlying our outlook.

FINANCIAL POSITION REVIEW

Overview

As at June 30, 2015, Capstone had a consolidated working capital deficit of $74,291, compared with a surplus of $69,694 as at December 31, 2014. The decrease of $143,985 was primarily due to the power segment, where Amherstburg's long-term debt was classified as current prior to refinancing on July 9, 2015. In addition, restricted cash decreased as funds were drawn for the construction of the wind development projects.

As at June 30, 2015, Capstone's debt to capitalization ratio (refer to page 21) increased from 71.2% to 73.8% on a fair value basis and from 61.3% to 62.3% on a book value basis. The fair value increase was primarily due to a 6.6% decline of the share price since December 31, 2014. In addition, outstanding debt increased by $30,479 mainly due to a $26,153 increase at Bristol Water, attributable to appreciation of the UK pound sterling.

As at June 30, 2015, Capstone and its subsidiaries complied with all debt covenants and expect to remain in compliance.

Liquidity

Working capital

As at	Jun 30, 2015	Dec 31, 2014
Power	(74,252)	68,452
Utilities – water	10,153	8,586
Corporate	(10,192)	(7,344)
Working capital	(74,291)	69,694

Capstone's working capital was $143,985 lower than December 31, 2014, primarily due to decreases of $142,704 for the power segment and $2,848 for Corporate, partially offset by a $1,567 increase at Bristol Water.

The power segment working capital decrease primarily reflects an $84,748 increase in the current portion of long-term debt, mainly attributable to the Amherstburg project debt refinanced on July 9, 2015. Restricted cash also decreased by $34,476 to fund construction of the Saint-Philémon and Goulais wind development projects. In addition, a $19,246 production based decline in Cardinal's accounts receivable under the new contract represented the majority of the remaining decrease in working capital.

Cash and cash equivalents

As at	Jun 30, 2015	Dec 31, 2014
Power	38,470	36,637
Utilities – water	6,837	13,271
Corporate	5,892	8,934
Unrestricted cash and cash equivalents	51,199	58,842
Less: cash with access limitations		
Power	(21,737)	(18,174)
Utilities – water	(6,837)	(13,271)
Cash and cash equivalents available to corporate	22,625	27,397

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The unrestricted cash and cash equivalents decrease of $7,643 was due to decreases of $6,434 at Bristol Water and $3,042 at corporate, partially offset by a $1,833 increase for the power segment.

For Bristol Water, fluctuations in cash were primarily related to the timing of payments to fund the capital projects. In addition to cash and cash equivalents, Bristol Water also had $137,298 of available credit to fund the longer-term cash requirements of the capital projects as at June 30, 2015.

Cash and cash equivalents available to corporate of $22,625 was available for general purposes, including payment of dividends to shareholders, funding the wind development projects and other growth initiatives.

For the power segment, $21,737 is only periodically accessible to Capstone through distributions under the terms of credit agreements. Power facilities subject to this restriction are the hydro facilities, Erie Shores, Amherstburg, Glace Bay, SkyGen, Skyway 8, Goulais, Saint-Philémon and Amherst.

Restricted cash

Restricted cash decreased by $32,984, primarily to fund construction of Goulais and Saint-Philémon.

Cash flow

Capstone's consolidated cash and cash equivalents decreased by $7,643 in the first six months of 2015 compared with an increase of $22,881 for the same period in 2014. The components of the change in cash, as presented in the consolidated statement of cash flows, are summarized as follows:

Six months ended	Jun 30, 2015	Jun 30, 2014
Operating activities	74,986	77,904
Investing activities	(63,599)	(128,582)
Financing activities (excluding dividends to shareholders)	(4,670)	87,726
Dividends paid to shareholders	(15,276)	(14,589)
Effect of exchange rate changes on cash and cash equivalents	916	422
Change in cash and cash equivalents	(7,643)	22,881

Cash flow from operating activities generated $2,918 less cash and cash equivalents during 2015. Operating cash flows from the power and utilities segments decreased by $4,638 and $1,372 respectively. This was partially offset by an increase of $6,184 at corporate. Power segment cash flow decreased primarily due to the economics of Cardinal's new contract. Corporate cash flow increased primarily due to lower corporate expenses.

Cash flow used in investing activities decreased by $64,983 during 2015. In 2015, cash of $67,277 (2014 - $63,065) was used to fund capital asset additions, primarily for Cardinal and Bristol Water. In addition, $35,578 (2014 - $22,030) of cash was used primarily for construction for the projects under development in the power segment. These uses were partially offset by $33,890 transferred from restricted cash to unrestricted cash for the power segment (2014 - $49,080 increase in restricted cash).

Cash flows from financing activities decreased by $92,396 during 2015. In 2015, proceeds from debt draws were $86,631 lower as no new debt was required to finance Bristol Water capital expenditures. In addition, repayments of debt principal were $7,743 higher in 2015. This was offset by $2,253 lower dividends to non-controlling interests primarily due to deferral of second quarter dividends from Bristol Water during the CMA process.

Dividends paid to shareholders were $687 higher during first six months of 2015, due to additional shares issued as part of the dividend reinvestment program.

Capital Structure

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

	Jun 30, 2015		Dec 31, 2014	
As at	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power [(1)]	425,790	409,860	435,808	423,365
Utilities – water [(1)]	394,376	342,382	368,223	315,447
Corporate	105,421	104,619	91,077	89,393
Deferred financing fees	—	(8,495)	—	(9,272)
	925,587	848,366	895,108	818,933
Equity				
Shareholders' equity [(2)]	329,267	514,339	361,580	516,706
Total capitalization	1,254,854	1,362,705	1,256,688	1,335,639
Debt to capitalization	73.8%	62.3%	71.2%	61.3%

(1) Only Capstone's proportionate interest in the consolidated long-term debt has been included in the calculation.
(2) The carrying value of shareholders' equity does not include the amount attributed to the non-controlling interest.

Power

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

			Jun 30, 2015		Dec 31, 2014	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Project debt						
Wind - Operating (1)	2016 - 2034	3.99 - 6.36%	346,999	327,832	213,179	202,060
Wind - Development (2)	2034	5.16%	—	—	141,805	136,921
Hydros	2040 - 2041	4.56 - 7.00%	88,442	87,289	90,064	89,902
Solar (3)	2016	7.32%	80,242	80,242	82,618	82,618
			515,683	495,363	527,666	511,501
Less: non-controlling interest			(89,893)	(85,503)	(91,858)	(88,136)
Capstone share of long-term debt			425,790	409,860	435,808	423,365

(1) Wind - Operating project debt consists of Erie Shores, Amherst, SkyGen, Skyway 8 and Glace Bay for both periods. In 2015, on COD the Saint-Philémon and Goulais project debt was transfered from wind - development.
(2) Wind - Development project debt consists of Saint-Philémon and Goulais as at December 31, 2014.
(3) Solar - On July 9, 2015, the Amherstburg Solar Park refinanced the project debt. Refer to page 6 of the MD&A for details.

During the first six months of 2015, the Skyway 8 construction debt was converted to a term facility and the Saint-Philémon and Goulais project debts of $136,921 were transferred from wind - development to wind - operating upon their respective COD's. In addition, on June 15, 2015 Saint-Philémon repaid $4,433 of Tranche B debt, primarily from proceeds received from Hydro-Québec.

The Saint-Philémon and Goulais construction debt facilities, respectively, mature no later than September 30 and December 31, 2015 and upon maturity these debts will convert to term facilities.

As at June 30, 2015, approximately 98% of the power segment's long-term debt was scheduled to amortize over the term of the facilities' respective PPAs. 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 ($11,500).

Utilities – Water

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

			Jun 30, 2015		Dec 31, 2014	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Bank loans	2017 - 2019	1.28 - 5.73%	134,789	136,738	122,836	125,877
Term loans (1)	2032 - 2041	3.60 - 6.01%	614,036	513,590	576,696	473,301
Debentures	Irredeemable	3.50 – 4.25%	2,966	2,562	2,805	2,351
Cumulative preferred shares	Irredeemable	8.75%	36,961	31,873	34,109	29,365
Consolidated long-term debt			788,752	684,763	736,446	630,894
Less: non-controlling interest			(394,376)	(342,382)	(368,223)	(315,447)
Capstone share of long-term debt			394,376	342,382	368,223	315,447

(1) Certain of the term loans are index-linked debt. The effective interest rate disclosed in the table is the sum of the real interest rates on the debt (2.701% - 3.635%) plus the Retail Price Index ("RPI"). Bristol Water pays interest on these loans based on the real interest rate, and the principal amount of the loan is indexed to RPI.

As at June 30, 2015, approximately 78% of the utilities – water segment's long-term debt had a maturity date greater than 10 years. The earliest maturity is in 30 months on December 7, 2017 for $39,228.

Long-term debt for the utilities – water segment is used to fund the ongoing capital expenditures to expand Bristol Water's network. In the first six months of 2015, the carrying value of Bristol Water's debt increased by $53,869, primarily due to foreign currency translation. As at June 30, 2015, $137,298 of undrawn credit capacity remained available to fund future capital expenditures.

The preferred shares are classified as long-term debt on the basis that they are irredeemable. All Bristol Water debt is non-recourse to Capstone.

Corporate

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

			Jun 30, 2015		Dec 31, 2014	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Corporate credit facility	2017	2.86%	35,000	35,000	20,000	20,000
Convertible debentures	2016	6.50%	42,929	41,992	42,963	41,728
Convertible debentures	2017	6.75%	27,492	27,627	28,114	27,665
			105,421	104,619	91,077	89,393

The balance outstanding on Capstone's corporate credit facility increased $15,000 since December 31, 2014, representing funds drawn to advance power development projects. As at June 30, 2015 the corporate credit facility had $24,229 of remaining capacity.

Equity

Shareholders' equity comprised:

As at	Jun 30, 2015	Dec 31, 2014
Common shares	714,571	713,412
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
Share capital	813,301	812,142
Other equity items [(1)]	9,284	9,284
Accumulated other comprehensive income (loss)	40,567	19,994
Deficit	(348,813)	(324,714)
Equity attributable to Capstone shareholders	514,339	516,706
Non-controlling interests	212,395	190,073
Total shareholders' equity	726,734	706,779

(1) Other equity items include the equity portion of convertible debentures.

Capstone is authorized to issue an unlimited number of common shares as well as a limited number of preferred shares equal to 50% of the outstanding common shares. The year to date increase in common shares outstanding was as follows:

(000s of shares and $000s)	Shares	Amount
Opening balance	93,573	713,412
Dividend reinvestment plan (DRIP)	347	1,159
Ending balance	93,920	714,571

The composition of shareholders' equity at fair value was:

As at		Jun 30, 2015			Dec 31, 2014	
($000s, except per share amounts)	Market price per share	Outstanding amount	Fair Value	Market price per share	Outstanding amount	Fair Value
Common shares	$2.99	93,920	280,821	$3.20	93,573	299,432
Class B units	$2.99	3,249	9,716	$3.20	3,249	10,398
Preferred shares	$12.91	3,000	38,730	$17.25	3,000	51,750
			329,267			361,580

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

Contractual Obligations

Capstone enters into contractual commitments in the normal course of business, 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.

Generally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business, except for Whitecourt's new fuel supply agreement and Confederation Power's asset sale agreement. Details of these changes are further disclosed in the Annual Information Form dated March 24, 2015.

Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

Capstone's equity accounted investments are summarized as follows:

Name of entity	Principal place of business and country of incorporation	Ownership at Jun 30, 2015	Ownership at Dec 31, 2014	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
Macquarie Long Term Care L.P. ("MLTCLP") (3)	Canada	45%	45%	Holding company
Chapais Électrique Limitée ("Chapais") (4)	Canada	31.3%	31.3%	Power generation

(1) Värmevärden is further detailed in the results of operations on page 18 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.
(3) MLTCLP had no significant activity.
(4) No income has been recorded on the investment since its acquisition. Capstone does not expect to earn any future equity accounted income from this investment.

Capital Asset Expenditure Program

Capstone incurred $46,091 of capital expenditures during the second quarter of 2015. Year to date, Capstone's capital expenditures were $104,242, which include $64,545 and $39,697 of additions to capital assets and projects under development, respectively.

Below is the breakdown of the investment by operating segment was:

	Three months ended		Six months ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Power	31,083	22,374	66,270	36,648
Utilities – water	15,008	31,001	37,972	60,876
	46,091	53,375	104,242	97,524

In 2015, capital expenditures for the power segment mainly related to $24,375 invested by Cardinal to convert the plant to operate as a cycling facility and $22,420 of costs to construct the Goulais wind project. The remaining balance primarily relates to amounts accrued for liquidated damages and other third party costs required to be incurred to develop the remaining wind development projects. In 2014, capital expenditures for the power segment were primarily related to $29,230 to develop and construct the Skyway 8 and Saint-Philémon wind projects and $3,606 to begin converting the Cardinal facility.

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

Retirement Benefit Plans

Only Bristol Water has a defined benefit plan for current and former employees. The plan is closed to new employees. There are also defined contribution plans for employees of Bristol Water and Cardinal.

As at June 30, 2015, the defined benefit plan was in a $91,242 surplus position for accounting purposes. During the first six months of 2015, the surplus increased by $12,492, primarily attributable to increases in the fair value of plan assets and foreign exchange. 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 with the assistance of an actuary and management considers the assumptions used to be reasonable.

The total defined contribution pension expense recorded in the consolidated statement of income for the second quarter and six months ended June 30, 2015 was $610 and $1,206, respectively. The year-to-date expense comprised $1,115 for Bristol Water and $91 for Cardinal. Employer contributions paid in the second quarter and six months ended June 30, 2015 to the defined benefit plan were $1,007 and $2,039 for Bristol Water, respectively.

Income Taxes

The second quarter and year-to-date current income tax recoveries of $57 and $1,182, respectively, primarily relate to Bristol Water.

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

Deferred income tax assets and liabilities are presented on a net basis where there is a legal right of offset within the same tax jurisdictions.

Deferred income tax liabilities of $206,585 (December 31, 2014 - $192,829) represent $63,692 (December 31, 2014 - $67,157) for Capstone’s Canadian operations and $142,893 (December 31, 2014 - $125,672) for Bristol Water. Deferred income tax liabilities primarily relate to differences between the accounting and tax amortization of intangible and capital assets.

Capstone’s net deferred income tax liability increased by $6,102 in the second quarter and $13,756 during the first six months of 2015, primarily due to differences between accounting and tax depreciation for capital assets. This was partially offset by the recognition of tax loss carry forwards for Capstone's Canadian operations. The deferred tax expense of $584 for the quarter and $2,502 year to date on the consolidated statement of income comprises the increase in the net deferred income tax liability, primarily related to foreign exchange and the temporary differences in Bristol Water's retirement benefit surplus.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in notes 8 (Financial Instruments) and 9 (Financial Risk Management) in the consolidated annual financial statements for the year ended December 31, 2014. These notes contain further details on the implicit risks and valuation methodology employed for Capstone’s financial instruments and are updated in the subsequent interim financial statements, if necessary.

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, 2015	Dec 31, 2014
Derivative contract assets	483	5,047
Derivative contract liabilities	(18,982)	(17,863)
Net derivative contract liabilities	(18,499)	(12,816)

Net derivative contract liabilities were $5,683 higher than as at December 31, 2014, mainly because of decreases in the fair value of the underlying financial instruments as detailed in the table below. Contractual settlement payments of $1,159 for Whitecourt's new fuel supply agreement also increased the net derivative liabilities.

On March 2, 2015, Whitecourt entered into a new fuel supply agreement with Millar Western for 15 years, which is extendable to 20 years. The new agreement, which commenced on January 1, 2015, includes a power price support and revenue sharing mechanisms that reduce Whitecourt's exposure to merchant price risk in Alberta.

The price support and revenue sharing mechanisms are embedded derivatives that are measured at fair value and result in an asset during periods when the forecasted merchant power price is forecast to be lower than the price support and a liability during periods when the merchant power price is forecast to be higher.

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, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Whitecourt embedded derivative	(3,705)	—	(4,172)	—
Forward gas sale and purchase contracts	—	109	(3,329)	109
Interest rate swap contracts	1,522	(855)	(1,346)	(2,857)
Foreign currency contracts	(764)	276	(1,234)	(486)
Gas swap contracts	—	196	—	196
Cardinal gas purchase agreement	655	180	4,364	180
Cardinal embedded derivatives	42	(1,073)	169	2,905
Gains (losses) on derivatives in net income	(2,250)	(1,167)	(5,548)	47
Interest rate swap contracts in OCI	1,586	256	1,018	217
Gains (losses) on derivatives in comprehensive income	(664)	(911)	(4,530)	264

For the year to date, the loss on derivatives is attributable to decreases in the fair value of Whitecourt's embedded derivative, the forward gas sale and purchase contracts, interest rate swaps and foreign currency contracts, partially offset by gains on Cardinal's gas purchase agreement and embedded derivative.

The loss on the Whitecourt embedded derivative was primarily due to an increase in the estimated forward Alberta power pool prices from inception to June 30, 2015, as well as a reduction in the number of net payments resulting from the passage of time.

Year to date, the loss on the interest rate swap contracts is due to the Amherstburg contract, which decreased due to a reduction in the long-term interest rates. The Amherstburg interest rate swap was settled on July 9, 2015, concurrent with the project debt refinancing. Refer to page 6 of the MD&A for details.

The loss on the foreign currency contracts was primarily due to a depreciation of the UK pound sterling and Swedish krona forward-looking rates relative to the fixed Canadian dollar conversion rates and the passage of time.

The fair value increase on the forward gas sale and purchase contracts and the Cardinal gas purchase agreement were primarily due to the passage of time as these derivatives expired during the quarter.

FOREIGN EXCHANGE

The foreign exchange gains in 2015 were primarily due to unrealized translation of Capstone’s SEK - denominated shareholder loan receivable with Värmevärden. Capstone’s foreign exchange gain was $3,757 higher than the second quarter loss in 2014, and $2,344, higher year to date. The gains reflect appreciation of the Swedish krona against the Canadian dollar in the second quarter of 2015, thereby increasing 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 dividends to shareholders and/or the price of Capstone's securities. For a comprehensive description of these risks, please refer to the disclosure in the Corporation's Annual Report for the year ended December 31, 2014 and the “Risk Factors” section of the Annual Information Form dated March 24, 2015 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, 2014 and “Environmental, Health and Safety Matters” section of the Corporation’s Annual Information Form dated March 24, 2015, 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.

($000s, except for per share amounts)	2015		2014				2013	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	81,403	90,239	116,683	104,085	106,413	114,397	110,291	91,418
Net income (loss) (1)	(9,273)	222	(7,599)	532	2,097	14,437	10,441	8,887
Adjusted EBITDA	28,768	29,549	47,017	32,159	39,492	41,691	37,992	26,253
AFFO	932	6,464	19,022	5,384	12,133	19,873	13,930	3,346
Common dividends (2)	7,288	7,273	7,261	7,252	7,244	7,220	7,208	5,720
Preferred dividends	938	938	938	938	938	938	938	938
Earnings Per Share – Basic (3)	(0.105)	(0.008)	(0.089)	(0.005)	0.012	0.140	0.099	0.104
Earnings Per Share – Diluted (3)	(0.105)	(0.008)	(0.089)	(0.005)	0.012	0.132	0.096	0.102
AFFO per share	0.010	0.067	0.196	0.056	0.126	0.207	0.145	0.044
Dividends declared per common share	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075

(1) Net income (loss) attributable to the common shareholders of Capstone, which excludes non-controlling interests.
(2) Common dividends include amounts declared for both the common shares of the Corporation and the Class B exchangeable units.
(3) Earnings Per Share (EPS) is calculated using net income attributable to common shareholders of Capstone. Refer to note 14 of the consolidated financial statements for the calculation of EPS.

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, 2014 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, 2014 or as updated in the subsequent interim financial statements. Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had a material impact in 2015.

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, 2014 for greater detail 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	• Interest rate, natural gas price, direct consumer rate, 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, 2014, 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, 2015	Dec 31, 2014
Current assets			
Cash and cash equivalents		51,199	58,842
Restricted cash		32,894	65,878
Accounts receivable		71,937	94,555
Other assets		16,224	9,600
Current portion of loans receivable	5	787	1,448
Current portion of derivative contract assets	6	120	4,279
		173,161	234,602
Non-current assets			
Loans receivable	5	45,744	45,244
Derivative contract assets	6	363	768
Equity accounted investments	7	23,744	29,056
Capital assets	8	1,670,827	1,418,187
Projects under development	9	30,630	151,361
Intangible assets	10	360,330	342,012
Retirement benefit surplus	11	91,242	78,750
Total assets		2,396,041	2,299,980
Current liabilities			
Accounts payable and other liabilities		134,263	132,445
Current portion of derivative contract liabilities	6	2,515	6,620
Current portion of finance lease obligations		776	693
Current portion of long-term debt	12	109,898	25,150
		247,452	164,908
Long-term liabilities			
Derivative contract liabilities	6	16,467	11,243
Deferred income tax liabilities		206,585	192,829
Deferred revenue		27,496	21,600
Finance lease obligations		3,073	3,407
Long-term debt	12	1,163,890	1,194,850
Liability for asset retirement obligation		4,344	4,364
Total liabilities		1,669,307	1,593,201
Equity attributable to shareholders' of Capstone		514,339	516,706
Non-controlling interest		212,395	190,073
Total liabilities and equity		2,396,041	2,299,980
Commitments and contingencies	19		
Subsequent events	20		

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)	Deficit	NCI (4)	Total Equity
Balance, December 31, 2013		809,392	9,428	17,013	(306,283)	138,613	668,163
Other comprehensive income (loss)		—	—	6,591	1,264	6,138	13,993
Net income for the period		—	—	—	16,534	11,337	27,871
Release of share option reserve		—	(144)	—	144	—	—
Dividends declared to common shareholders of Capstone	13b	1,749	—	—	(14,464)	—	(12,715)
Dividends declared to preferred shareholders of Capstone (5)	13b	—	—	—	(1,960)	—	(1,960)
Dividends declared to NCI		—	—	—	—	(5,128)	(5,128)
Contributions from NCI		—	—	—	—	2,418	2,418
Balance, June 30, 2014		811,141	9,284	23,604	(304,765)	153,378	692,642

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital (1)	Other Equity Items (2)	AOCI (3)	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 for the period		—	—	—	(9,051)	8,933	(118)
Dividends declared to common shareholders of Capstone	13a&b	1,159	—	—	(14,561)	—	(13,402)
Dividends declared to preferred shareholders of Capstone (5)	13b	—	—	—	(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

(1) Share capital includes common and preferred shares and class B exchangeable units.
(2) Other equity items include the equity portion of convertible debentures.
(3) Accumulated other comprehensive income (loss) (“AOCI”).
(4) Non-controlling interest (“NCI”).
(5) Dividends declared to preferred shareholders of Capstone include $49 of deferred income taxes (2014 - $84).

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Jun 30, 2015	Three months ended Jun 30, 2014	Six months ended Jun 30, 2015	Six months ended Jun 30, 2014
Revenue		81,403	106,413	171,642	220,810
Operating expenses	16	(39,488)	(51,801)	(83,273)	(107,610)
Administrative expenses	16	(2,912)	(3,814)	(5,950)	(8,152)
Project development costs	16	(1,283)	(657)	(3,453)	(1,014)
Equity accounted income (loss)	7	(1,539)	(1,913)	(687)	(666)
Interest income		1,058	971	2,139	1,945
Net pension interest income		754	593	1,505	1,231
Other gains and (losses), net	8	(9,424)	(1,176)	(12,857)	(755)
Foreign exchange gain (loss)		837	(2,920)	575	(1,769)
Earnings before interest expense, taxes, depreciation and amortization		29,406	45,696	69,641	104,020
Interest expense		(14,109)	(13,386)	(28,437)	(27,152)
Depreciation of capital assets	8	(17,129)	(17,180)	(33,732)	(32,408)
Amortization of intangible assets	10	(3,196)	(2,819)	(6,270)	(6,611)
Income before income taxes		(5,028)	12,311	1,202	37,849
Income tax recovery (expense)					
Current		57	(1,371)	1,182	(1,886)
Deferred		(584)	(2,526)	(2,502)	(8,092)
Total income tax recovery (expense)		(527)	(3,897)	(1,320)	(9,978)
Net income		(5,555)	8,414	(118)	27,871
Net income attributable to:					
Shareholders of Capstone		(9,273)	2,097	(9,051)	16,534
Non-controlling interest		3,718	6,317	8,933	11,337
		(5,555)	8,414	(118)	27,871
Earnings per share	14				
Basic		(0.105)	0.012	(0.113)	0.151
Diluted		(0.105)	0.012	(0.113)	0.150

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Jun 30, 2015	Three months ended Jun 30, 2014	Six months ended Jun 30, 2015	Six months ended Jun 30, 2014
Cumulative differences on translation of foreign operations		17,738	(3,285)	34,554	12,030
Other comprehensive income on equity accounted investments	7	244	(623)	80	(607)
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2015 - ($331) and ($242) respectively, 2014 - ($47) and ($59), respectively)		1,226	90	768	42
Total of items that may subsequently be reclassified to net income		19,208	(3,818)	35,402	11,465
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2015 - $121 recovery and $718 expense, respectively, 2014 - $161 expense and $633 expense, respectively) - will not be reclassified to net income		(482)	638	2,870	2,528
Other comprehensive income (loss)		18,726	(3,180)	38,272	13,993
Net income		(5,555)	8,414	(118)	27,871
Total comprehensive income		13,171	5,234	38,154	41,864
Comprehensive income attributable to:					
Shareholders of Capstone		1,642	(114)	12,957	24,389
Non-controlling interest		11,529	5,348	25,197	17,475
		13,171	5,234	38,154	41,864

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended	Notes	Jun 30, 2015	Jun 30, 2014
Operating activities:			
Net income		(118)	27,871
Deferred income tax expense		2,502	8,092
Depreciation and amortization		40,002	39,019
Non-cash other gains and losses (net)		13,756	755
Amortization of deferred financing costs and non-cash financing costs		1,425	3,991
Equity accounted (income) loss	7	687	666
Unrealized foreign exchange (gain) loss on loan receivable	5	(500)	1,343
Change in non-cash working capital	18	17,232	(3,833)
Total cash flows from operating activities		74,986	77,904
Investing activities:			
Investment in capital assets and intangibles	8	(67,277)	(63,065)
Investment in projects under development	9	(35,578)	(22,030)
Decrease in restricted cash		33,890	(49,080)
Distributions received from equity accounted investments	7	4,705	5,485
Repayments of loan receivable		661	594
Purchase of foreign currency contracts		—	(486)
Total cash flows used in investing activities		(63,599)	(128,582)
Financing activities:			
Proceeds from long-term debt		15,000	101,631
Repayment of long-term debt and finance lease obligations		(16,718)	(8,975)
Dividends paid to common and preferred shareholders		(15,276)	(14,589)
Dividends paid to non-controlling interests		(2,875)	(5,128)
Transaction costs on debt issuance		(77)	(2,220)
Contributions from NCI		—	2,418
Total cash flows from (used in) financing activities		(19,946)	73,137
Effect of exchange rate changes on cash and cash equivalents		916	422
Increase (decrease) in cash and cash equivalents		(7,643)	22,881
Cash and cash equivalents, beginning of year		58,842	45,768
Cash and cash equivalents, end of period		51,199	68,649
Supplemental information:			
Interest paid		29,207	25,469
Taxes paid (recovery)		2,632	1,571

See accompanying notes to these interim consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone is incorporated and domiciled in Canada and principally located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. The mission of Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") is to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally. As at June 30, 2015, Capstone has investments in utilities businesses in Europe and owns, operates and develops thermal and renewable power generation facilities in Canada with a total installed net capacity of 468 megawatts.

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, 2014. 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 2014 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on August 10, 2015.

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

3. SEASONALITY

The seasonality of wind speed and density, volume of water flows, sunlight, ambient temperatures and pricing provisions within the power purchase agreements ("PPA") with 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to Capstone's accounting policies during the first six months of 2015.

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, 2014.

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 have effective implementation dates beginning on January 1, 2017 and January 1, 2018, respectively.

Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had a material impact in 2015.

5. LOANS RECEIVABLE

The following table summarizes the loans receivable from Värmevärden, Batchewana First Nation of Ojibways ("BFN"), Chapais and MLTCLP:

As at	Jun 30, 2015	Dec 31, 2014
Värmevärden	34,244	33,744
BFN	11,500	11,500
Chapais	698	1,359
Macquarie Long Term Care L.P. ("MLTCLP")	89	89
	46,531	46,692
Less: current portion	(787)	(1,448)
Total long-term loans receivable	45,744	45,244

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

Six months ended	Jun 30, 2015		Jun 30, 2014	
	SEK	$	SEK	$
Opening balance	227,541	33,744	227,541	37,658
Unrealized foreign exchange gain (loss)	—	500	—	(1,343)
Ending balance	227,541	34,244	227,541	36,315

6. 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, 2015	Dec 31, 2014
Derivative contract assets:					
Foreign currency contracts	—	483	—	483	1,717
Forward gas sale contract (1)	—	—	—	—	3,330
Less: Current portion	—	(120)	—	(120)	(4,279)
	—	363	—	363	768
Derivative contract liabilities:					
Interest rate swap contracts	—	11,853	—	11,853	10,507
Interest rate swap contracts for hedging	—	1,805	—	1,805	2,824
Whitecourt embedded derivative	—	—	5,324	5,324	—
Cardinal gas purchase agreement (1)	—	—	—	—	4,364
Cardinal embedded derivative (1)	—	—	—	—	168
Less: Current portion	—	(2,515)	—	(2,515)	(6,620)
	—	11,143	5,324	16,467	11,243

(1) Expired in May 2015.

Whitecourt embedded derivative

On March 2, 2015, Whitecourt entered into a new fuel supply agreement with Millar Western for 15 years, which is extendable to 20 years. The new agreement, which has a commencement date of January 1, 2015, includes power price support and revenue sharing mechanisms that reduce Whitecourt's exposure to merchant price risk in Alberta.

The price support and revenue sharing mechanisms are embedded derivatives that are measured at fair value and result in an asset during periods when the projected merchant power price is forecast to be lower than the price support and a liability during periods when the merchant power price is forecast to be higher.

Financial instruments not recorded at fair value

Financial instruments that are not reported at fair value on the statement of financial position are accounts receivable, loans receivable, accounts payable, finance lease obligations and long-term debt. 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	3,731	3,849
Long-term debt	1,409,856	1,273,788

(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.

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 are summarized in the following table:

Fair value as at Jun 30, 2015	Unobservable input	Estimated input	Relationship of input to fair value
(5,324)	Forward Alberta power pool prices	From \$28/MWh to \$157/MWh over the next 15 years.	A reasonably possible increase in estimated forward prices of 5% or a decrease of 5%, would cause fair value to decrease by \$4,358 and increase by \$4,550, respectively.

(D) Level 3 Fair Value Continuity

	Net, level 3 derivatives
Opening balance, December 31, 2014	(4,532)
Change in value of the Whitecourt embedded derivative included in other gains and (losses) in net income	(4,342)
Settlement of Whitecourt embedded derivative during the period	(1,159)
Amortization of Whitecourt embedded derivative inception value included in other gains and (losses) in net income	176
Change in value of the Cardinal gas purchase agreement included in other gains and (losses) in net income	4,364
Change in value of the Cardinal embedded derivative included in other gains and (losses) in net income	169
Closing balance, June 30, 2015	(5,324)

(E) Fuel Supply Agreement Inception Value

On March 2, 2015, Capstone recognized $5,297 as the fair value of the Whitecourt fuel supply agreement, which is equal to and offsets the fair value of the embedded derivative included in Whitecourt's fuel supply agreement. Capstone will amortize the inception value to income over 15 years, representing the life of the fuel supply agreement.

7. EQUITY ACCOUNTED INVESTMENTS

As at	Ownership %	Jun 30, 2015 Carrying value	Dec 31, 2014 Carrying value
Värmevärden	33.3%	400	3,924
Glen Dhu (1)	49.0%	22,715	24,477
Others (2)	31.3 - 50.0%	629	655
		23,744	29,056

(1) Under the limited partnership agreement, Capstone has the option to acquire an additional 1% interest in Glen Dhu from November 2017 to November 2018 at a price based on a predetermined calculation.
(2) Others are Capstone's investment in Fitzpatrick, MLTCLP and Chapais.

See note 5 for detail on loans receivable with Värmevärden, Chapais and MLTCLP.

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

Three months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distributions	Ending balance
June 30, 2015	28,274	(1,539)	244	(3,235)	23,744
June 30, 2014	39,089	(1,913)	(623)	(4,260)	32,293

Six months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distributions	Ending balance
June 30, 2015	29,056	(687)	80	(4,705)	23,744
June 30, 2014	39,051	(666)	(607)	(5,485)	32,293

8. CAPITAL ASSETS

As at January 1, 2015 (1)	1,418,187
Additions	64,545
Disposals (2)	(7,889)
Transfers (3)	152,101
Depreciation	(33,732)
Foreign exchange	77,615
As at June 30, 2015	1,670,827

(1) The Confederation Power wind facilities were sold on May 19, 2015.

(2) Disposals include $7,440 of capital asset derecognition for Cardinal assets replaced as part of the conversion to a cycling facility. The derecognition resulted in a loss of $7,440, which is included in other gains and losses on the consolidated statement of income.

(3) Includes transfers from projects under development of $59,885 for Saint-Philémon and $93,881 for Goulais upon reaching the commercial operation date ("COD") , less transfer to intangibles of $1,665 for Bristol Water. Refer to notes 9 and 10, respectively.

The reconciliation of capital asset additions on an accrual basis to additions on a cash basis on the consolidated statement of cash flows was:

	Six months ended Jun 30, 2015	Six months ended Jun 30, 2014
Additions	64,545	66,030
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	1,512	(3,695)
Net foreign exchange difference	1,220	730
Cash additions	67,277	63,065

9. PROJECTS UNDER DEVELOPMENT

As at January 1, 2015	151,361
Capitalized costs during the period [1]	39,697
Transferred to capital assets [2] (refer to note 8)	(153,766)
Transferred to intangibles [2] (refer to note 10)	(6,662)
As at June 30, 2015	30,630

(1) Includes $1,393 of capitalized borrowing costs during the construction of Goulais using the interest rate of the long-term debt (2014 - $358).
(2) Amounts were transfered on COD of Saint-Philémon and Goulais.

The reconciliation of additions to projects under development ("PUD") on an accrual basis to additions on a cash basis on the consolidated statement of cash flow was:

	Six months ended	
	Jun 30, 2015	**Jun 30, 2014**
Additions	39,697	31,494
Adjustment for change in PUD included in accounts payable and accrued liabilities	(4,119)	(9,464)
Cash additions	35,578	22,030

10. INTANGIBLES

As at January 1, 2015	342,012
Transfers [1]	8,327
Amortization	(6,270)
Disposals	—
Foreign exchange	16,261
As at June 30, 2015	360,330

(1) Includes transfers of $1,665 from capital assets for Bristol Water and $6,662 from projects under development. Refer to notes 8 and 9 respectively.

11. RETIREMENT BENEFIT PLANS

Employees of the Corporation's operating businesses participate in various retirement benefit plans as follows.

Defined Contribution Plan

The total expense recorded in the consolidated statement of income for the three months ended June 30, 2015 was $610 (June 30, 2014 - $551). The expense is composed of $564 for Bristol Water and $46 for Cardinal.

Defined Benefit Plan

The retirement benefit surplus on the consolidated statements of financial position as at June 30, 2015 was $91,242 (December 31, 2014 - $78,750).

Employer contributions paid in the three months ended June 30, 2015 to the defined benefit plan were $1,007 (June 30, 2014 - $1,009). The contributions were entirely incurred at Bristol Water.

12. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Jun 30, 2015	Dec 31, 2014
Project debt		
Wind - Operating (1)	327,832	202,060
Wind - Development (2)	—	136,921
Hydros	87,289	89,902
Solar (3)	80,242	82,618
Power	495,363	511,501
Bank loans	136,738	125,877
Term loans	513,590	473,301
Debentures	2,562	2,351
Irredeemable cumulative preferred shares	31,873	29,365
Utilities – water	684,763	630,894
Corporate credit facility	35,000	20,000
Convertible debentures - 2016	41,992	41,728
Convertible debentures - 2017	27,627	27,665
Corporate	104,619	89,393
	1,284,745	1,231,788
Less: deferred financing costs	(10,957)	(11,788)
Long-term debt	1,273,788	1,220,000
Less: current portion	(109,898)	(25,150)
	1,163,890	1,194,850

(1) Wind - Operating project debt consists of Erie Shores, Amherst, SkyGen, Skyway 8 and Glace Bay for both periods. In 2015, on COD the Saint-Philémon and Goulais project debt was transfered from wind - development.
(2) Wind - Development project debt consists of Saint-Philémon and Goulais as at December 31, 2014.
(3) Solar - On July 9, 2015, the Amherstburg Solar Park refinanced the project debt. Refer to note 20 for details.

(B) Skyway 8 - Term Facility Conversion

On February 17, 2015, the Skyway 8 construction facility converted to a three-year term facility, which has regular principal and interest payments fully amortizing over 20 years and bears interest at a rate of 4.80%.

(C) Long-term Debt Covenants

For the three and six months ended and as at June 30, 2015, the Corporation and its subsidiaries complied with all financial and non-financial debt covenants.

13. SHAREHOLDERS' EQUITY

The share capital of the Corporation was as follows:

As at	Jun 30, 2015	Dec 31, 2014
Common shares	714,571	713,412
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	813,301	812,142

(A) Common Shares

	Three months ended Jun 30, 2015		Six months ended Jun 30, 2015	
($000s and 000s shares)	Shares	Carrying Value	Shares	Carrying Value
Opening balance	93,725	713,893	93,573	713,412
Dividend reinvestment plan	195	678	347	1,159
Ending balance	93,920	714,571	93,920	714,571

(B) Dividends Declared

	Three months ended		Six months ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Common shares	7,044	7,000	14,073	13,976
Class B exchangeable units	244	244	488	488
	7,288	7,244	14,561	14,464
Preferred shares (1)	942	980	1,922	1,960

(1) Includes $7 and $49 of deferred income taxes, for the quarter and year to date respectively (2014 - $42 and $84, respectively)

14. EARNINGS PER SHARE ("EPS")

	Three months ended		Six months ended	
	Jun 30, 2015	Jun 30, 2014	Jun 30, 2015	Jun 30, 2014
Net income	(5,555)	8,414	(118)	27,871
Non-controlling interest	(3,718)	(6,317)	(8,933)	(11,337)
Dividends declared on preferred shares	(942)	(980)	(1,922)	(1,960)
Net income available to common shareholders	(10,215)	1,117	(10,973)	14,574
Weighted average number of common shares (including Class B exchangeable units) outstanding	97,105	96,480	97,015	96,346
Basic EPS	(0.105)	0.012	(0.113)	0.151
Basic net income	(10,215)	1,117	(10,973)	14,574
Effect of dilutive securities:				
2016 convertible debentures	—	—	—	—
2017 convertible debentures	—	—	—	685
Diluted Net income	(10,215)	1,117	(10,973)	15,259
Basic weighted-average number of shares outstanding	97,105	96,480	97,015	96,346
Effect of dilutive securities:				
2016 convertible debentures (1)	—	—	—	—
2017 convertible debentures (1)	—	—	—	5,486
Diluted weighted average number of common shares (including Class B exchangeable units) outstanding	97,105	96,480	97,015	101,832
Diluted EPS	(0.105)	0.012	(0.113)	0.150

(1) The 2016 and 2017 convertible debentures were anti-dilutive for the quarter and six months ended June 30, 2015. The 2017 convertible debentures were dilutive for the six months ended June 30, 2014.

15. SHARE-BASED COMPENSATION

(A) Deferred Share Units ("DSU")

Capstone granted DSUs to directors of the Corporation during 2015 as follows:

Grants during the six months ended June 30, 2015:	DSUs
Number of units granted at a 3.17 dollar five-day VWAP on January 2, 2015	13,790
Number of units granted at a 3.50 dollar five-day VWAP on April 1, 2015	12,139

(1) Volume weighted average price ("VWAP")

As at June 30, 2015, the carrying value of all outstanding DSUs was $362 based on a market price of 2.99 dollars.

(B) Long-term Incentive Plan ("LTIP")

Corporate LTIP

Capstone granted Restricted Stock Units ("RSU") and Performance Share Units ("PSU"), during 2015 as follows:

Grants during the six months ended June 30, 2015:	RSUs	PSUs
Number of units granted at a 3.17 dollar five-day VWAP on January 2, 2015	225,489	205,001
Number of units granted at a 3.38 dollar five-day VWAP on March 13, 2015	171,558	—

As at June 30, 2015, the carrying value of all outstanding RSUs was $1,479 and $779 for the PSUs based on a VWAP of 3.15 dollars.

Power Development LTIP

Capstone granted RSUs, based on milestones reached for power development projects, during 2015 as follows:

Grants during the six months ended June 30, 2015:	RSUs
Number of units granted at a 3.17 dollar five-day VWAP on January 2, 2015	58,664

As at June 30, 2015, the carrying value of all outstanding RSUs was $182 based on a VWAP of 3.15 dollars.

Beginning July 1, 2015, the RSU component of the Power Development LTIP was replaced by an all-cash component. Consequently, all RSUs were settled as of July 31, 2015.

16. EXPENSES BY NATURE

	Three months ended Jun 30, 2015				Three months ended Jun 30, 2014			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	19,970	—	—	19,970	20,140	—	—	20,140
Wages and benefits	8,927	1,731	941	11,599	9,476	2,339	205	12,020
Professional fees for legal, audit, tax and other advisory	1,905	623	295	2,823	863	696	404	1,963
Maintenance	2,497	—	—	2,497	1,886	—	—	1,886
Fuel	1,430	—	—	1,430	14,692	—	—	14,692
Bad debts	1,389	—	—	1,389	1,777	—	—	1,777
Insurance	539	76	—	615	565	29	—	594
Leases	494	82	—	576	462	153	—	615
Property taxes	554	—	—	554	323	—	—	323
Manager fees	416	—	—	416	372	—	—	372
Other	1,367	400	47	1,814	1,245	597	48	1,890
Total	39,488	2,912	1,283	43,683	51,801	3,814	657	56,272

	Six months ended Jun 30, 2015				Six months ended Jun 30, 2014			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	45,233	—	—	45,233	42,611	—	—	42,611
Wages and benefits	16,701	4,121	1,211	22,033	16,182	4,701	390	21,273
Professional fees for legal, audit, tax and other advisory	5,040	1,045	2,018	8,103	1,735	1,850	478	4,063
Maintenance	4,788	—	—	4,788	3,165	—	—	3,165
Bad debts	2,785	—	—	2,785	3,124	—	—	3,124
Fuel	2,158	—	—	2,158	34,204	—	—	34,204
Insurance	1,083	76	—	1,159	1,154	74	—	1,228
Leases	932	173	—	1,105	952	257	—	1,209
Property taxes	970	—	—	970	683	—	—	683
Manager fees	851	—	—	851	761	—	—	761
Other	2,732	535	224	3,491	3,039	1,270	146	4,455
Total	83,273	5,950	3,453	92,676	107,610	8,152	1,014	116,776

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, 2015					Three months ended Jun 30, 2014				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	29,349	52,054	—	—	81,403	46,989	59,424	—	—	106,413
Depreciation of capital assets	(8,660)	(8,438)	—	(31)	(17,129)	(10,077)	(7,071)	—	(32)	(17,180)
Amortization of intangible assets	(2,239)	(945)	—	(12)	(3,196)	(1,931)	(886)	—	(2)	(2,819)
Interest income	357	21	658	22	1,058	143	62	727	39	971
Interest expense	(8,006)	(5,196)	—	(907)	(14,109)	(6,768)	(6,148)	—	(470)	(13,386)
Income tax recovery (expense)	730	(1,756)	119	380	(527)	(254)	(3,659)	(17)	33	(3,897)
Net income (loss)	(8,972)	7,192	(554)	(3,221)	(5,555)	4,146	13,492	(3,388)	(5,836)	8,414
Cash flow from operations	26,082	20,006	5,232	(18,597)	32,723	18,667	18,903	6,023	(10,132)	33,461
Additions to capital assets	10,898	15,279	—	—	26,177	1,070	31,001	—	—	32,071
Additions to PUD	20,184	—	—	—	20,184	21,304	—	—	—	21,304

	Six months ended Jun 30, 2015					Six months ended Jun 30, 2014				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	58,099	113,543	—	—	171,642	105,201	115,609	—	—	220,810
Depreciation of capital assets	(16,571)	(17,098)	—	(63)	(33,732)	(18,206)	(14,138)	—	(64)	(32,408)
Amortization of intangible assets	(4,360)	(1,884)	—	(26)	(6,270)	(4,730)	(1,856)	—	(25)	(6,611)
Interest income	716	60	1,321	42	2,139	281	99	1,488	77	1,945
Interest expense	(14,414)	(11,437)	—	(2,586)	(28,437)	(12,302)	(12,515)	—	(2,335)	(27,152)
Income tax recovery (expense)	1,528	(4,083)	140	1,095	(1,320)	(4,360)	(6,294)	27	649	(9,978)
Net income (loss)	(8,889)	17,050	833	(9,112)	(118)	14,993	23,392	(624)	(9,890)	27,871
Cash flow from operations	48,991	40,631	2,425	(17,061)	74,986	44,353	39,823	4,605	(10,877)	77,904
Additions to capital assets	26,572	37,973	—	—	64,545	5,154	60,876	—	—	66,030
Additions to PUD	39,697	—	—	—	39,697	31,494	—	—	—	31,494

	As at Jun 30, 2015					As at Dec 31, 2014				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	971,970	1,382,318	38,628	3,125	2,396,041	998,130	1,255,890	40,610	5,350	2,299,980
Total liabilities	616,274	935,688	—	117,345	1,669,307	631,283	860,521	—	101,397	1,593,201

Certain comparative figures for the period ended June 30, 2014 have been adjusted to conform with the presentation in the current year.

18. NON-CASH WORKING CAPITAL

The change in non-cash working capital comprised the following:

	Six months ended	
	Jun 30, 2015	Jun 30, 2014
Accounts receivable	27,259	6,149
Other assets	(8,186)	(15)
Accounts payable and other liabilities	(1,841)	(9,967)
	17,232	(3,833)

19. COMMITMENTS AND CONTINGENCIES

Commitments

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, 2014. Generally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business except for Whitecourt's new fuel supply agreement and Confederation Power's asset sale agreement. Details of these changes are further disclosed in the Annual Information Form dated March 24, 2015.

Contingent asset

On March 12, 2015, the Ontario Superior Court of Justice determined that the OEFC did not properly calculate the price paid and payable for electricity produced under its PPAs with Capstone and other power producers in Ontario. On April 10, 2015, the OEFC served a Notice of Appeal in respect of the March 12, 2015 decision. Capstone intends to respond to the appeal.

Capstone estimates that the Court's decision, if upheld following appeal, would result in a net receipt of approximately $25,000 representing retroactive adjustments for revenue claimed from the OEFC. Further, the future price paid for electricity at Capstone's Wawatay and Dryden hydro facilities is expected to be calculated in accordance with the original pre-2011 methodology in their respective PPAs, resulting in higher future power rates.

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

20. SUBSEQUENT EVENTS

Financing Change - Amherstburg Solar Park

On July 9, 2015, Capstone executed an approximately $95,000 refinancing of the Amherstburg Solar Park ("Amherstburg"), through a wholly owned subsidiary. The new project debt was used to repay Amherstburg's outstanding principal, swap break fees and closing costs. The new project debt fully amortizes over the remainder of the facility's power purchase agreement, which expires in 2031 and bears an interest at a fixed, annual rate of 3.49%.

Bristol Water's Regulatory Determination and Review

In December 2014, Ofwat issued a final determination for the regulatory period from April 1, 2015 to March 31, 2020. Bristol Water has formally rejected the regulator's final determination and the matter is undergoing binding review by the Competition and Markets Authority ("CMA"). In July 2015, provisional findings from this review were issued by the CMA as well as Capstone's response. A final outcome is expected by September 3, 2015. The CMA can seek an extension if necessary to complete its review. It is reasonably possible that an adverse final result from the CMA process may result in changes to the assumptions underlying the recoverable amount of goodwill, which has a carrying amount of $169,407, resulting in a material adjustment.

PORTFOLIO*

UTILITIES

- Utilities

REGULATED WATER UTILITY
UK • Bristol Water

DISTRICT HEATING
SE • Värmevärden

POWER INFRASTRUCTURE

- *Operating*

WIND
ON • Erie Shores
• Skyway 8
• Goulais
• Three other facilities
PQ • Saint-Philémon
NS • Glace Bay
• Amherst
• Glen Dhu

BIOMASS
AB • Whitecourt
QC • Chapais

HYDRO
BC • Sechelt
• Hluey Lakes
ON • Wawatay
• Dryden

GAS COGENERATION
ON • Cardinal

SOLAR
ON • Amherstburg

- *Development projects*

WIND
ON • Five other projects
SK • Riverhurst

* As of August 10, 2015.

POWER

Type of Facility	Province	Year Built	Ownership Interest	Total Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Gas Cogeneration									
Cardinal (1)	ON	1994	100%	156	IESO	2034	n/a	n/a	18
Wind									
Operating	ON	2002 - 2015	100%	143	IESO	2026 - 2035	n/a	n/a	12
	NS	2006 - 2012	49% - 100%	67	NSPI	2020 - 2037	n/a	n/a	2
	PQ	2015	51%	12	Hydro Québec	2035	n/a	n/a	n/a
Development	ON	2016E	75% - 100%	54	IESO	2036E	n/a	n/a	n/a
	SK	2017E	100%	10	SaskPower	2037E	n/a	n/a	n/a
Biomass									
Whitecourt (2)	AB	1994	100%	33.8	(3)	(3)	Millar Western	2030	33
Hydro									
Sechelt and Hluey Lakes	BC	1997 and 2000	100%	19	BC Hydro	2017 and 2020	n/a	n/a	n/a
Wawatay and Dryden(4)	ON	1992 and 1986	100%	17	OEFC	2042 and 2020	n/a	n/a	n/a
Solar									
Amherstburg	ON	2011	100%	20	IESO	2031	n/a	n/a	n/a

(1) On January 1, 2015, Cardinal's new 20-year non-utility generator contract with the Ontario Power Authority was effective.

(2) Whitecourt total net capacity includes Capstone's 31.3% equity accounted interest in Chapais.

(3) Whitecourt's PPA with TransAlta expired on December 31, 2014. Effective March 2, 2015, Millar Western and Whitecourt completed a new fuel supply agreement which replaces the existing agreement and has a term of 15 years, extendable to 20 years. The new agreement also includes a power price support and revenue sharing mechanisms regarding the price received for electricity sold by Whitecourt.

(4) Year built for Wawatay and Dryden represent the date of significant refurbishments.

UTILITIES

Business	Ownership Interest	Capacity	Counterparties	Length of Network	Approximate Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 639 MWth	Mix of industrial and retail customers.	300 kilometres	163,000	No	92
Bristol Water	50%	Average daily supply of 267 million litres	Mix of commercial and residential customers.	6,716 kilometres	1.2 million	Ofwat	508

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