Essential

CAPSTONE
INFRASTRUCTURE

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Earnings Measures ($000s)	Three months ended Sep 30, 2015	Three months ended Sep 30, 2014	Nine months ended Sep 30, 2015	Nine months ended Sep 30, 2014
Revenue	84,140	104,085	255,782	324,895
Net income	5,021	6,836	4,903	34,707
Basic earnings per share (1)	(0.007)	(0.005)	(0.120)	0.146

(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.

Cash Flow Measures ($000s)	Three months ended Sep 30, 2015	Three months ended Sep 30, 2014	Nine months ended Sep 30, 2015	Nine months ended Sep 30, 2014
Cash flows from operating activities	2,823	19,225	77,809	97,129
Adjusted EBITDA (1)	26,657	32,159	84,973	113,342
Adjusted funds from operations ("AFFO") (1)	1,949	5,384	9,345	37,390
Payout ratio (1)	375%	134%	234%	58%

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

Capital Structure – At Fair Value ($000s)	Sep 30, 2015	Dec 31, 2014
Long-term debt – power (1)	440,198	435,808
Long-term debt – utilities – water (1)	416,956	368,223
Long-term debt – corporate	126,049	91,077
Common shares	291,038	299,432
Class B exchangeable units	10,041	10,398
Preferred shares	30,750	51,750
Debt to capitalization	74.8%	71.2%

(1) Capstone's proportionate share based on ownership interest.

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	94,186,632
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	$3.36	$2.82	$3.09	104,990
Preferred shares	$13.25	$9.50	$10.25	4,487
2016 - Convertible debentures	$101.51	$100.25	$100.75	681
2017 - Convertible debentures	$102.75	$101.26	$102.01	345

TABLE OF CONTENTS

LEGAL NOTICE

This document is not an offer or invitation for the subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of any investors. Before making an investment in Capstone Infrastructure Corporation (the "Corporation"), an 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 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 the regulatory assumptions underlying the Competition and Market Authority's ("CMA") final determination, including, among others: real and inflationary changes in Bristol Water's revenue, Bristol Water's expenses changing in line with inflation and efficiency measures, and capital investment, leakage, customer service standards and asset serviceability targets being achieved.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements 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 change 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,

In the third quarter of fiscal 2015, Capstone Infrastructure made progress on a number of fronts. Organic growth continued, with the development team breaking ground on two new wind projects that are expected to be commissioned in the spring of 2016. Proposals for a new solar park and an expansion of the Erie Shores Wind Farm were finalized and submitted under Ontario's Large Renewable Procurement. Cardinal was dispatched on 28 days during the quarter to supply electricity to the Ontario grid, confirming that the facility remains an important part of the province's energy mix.

Finally, shortly after the quarter ended, the Competition and Markets Authority ("CMA") review at Bristol Water was resolved, with an outcome that achieved several important gains over the original regulatory business plan and is expected to enable distributions between 2015 and 2020 similar to those received during the previous five-year period.

Financial Highlights

The third quarter, along with the second, is historically a slow period for Capstone, mainly due to lower seasonal production in our power segment. This year, additional factors affecting third quarter results compared with the same period in 2014 included the impact of the new non-utility generator contract at Cardinal, weaker resources at our wind assets, lower customer tariffs at Bristol Water with the commencement of the AMP6 business plan, and weak Alberta power pool prices affecting Whitecourt.

The above factors resulted in a 19% decline in revenues for the third quarter of 2015, compared with last year. Offsetting the lower figure was the positive impact of favourable foreign currency translation from Bristol Water.

Total expenses fell by 18% in the third quarter, due to lower production expenses at Cardinal and the absence of integration costs from the ReD transaction, and offset by one-time costs at Bristol Water from restructuring expenses, participating in the CMA review and higher foreign currency translation.

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) fell by 17%, attributable to factors noted above and offset by contributions from Skyway 8, Saint-Philémon and Goulais, which were commissioned in August 2014, January 2015 and May 2015, respectively.

Adjusted Funds from Operations (AFFO) was 64% lower than the third quarter of 2014 because of lower dividends from Värmevärden and dividends from Bristol Water that were deferred during the CMA review. The decline was offset by a first-time distribution from Saint-Philémon upon conversion of the credit facility. The resulting payout ratio in the quarter was 375%, compared with 134% in the same quarter a year earlier. AFFO is slightly ahead of management's expectations on a year-to-date basis.

Capstone ended the quarter with a debt-to-capitalization ratio of 75% and unrestricted cash and equivalents of $41.2 million, of which $13 million is available for general corporate purposes. Subsequent to quarter end, the company's existing lenders increased the capacity of the corporate credit facility by $35 million, to a total of $125 million.

Areas of focus

Construction is now underway on two new wind development projects in Ontario. The 10-megawatt Grey Highlands ZEP and the 18-megawatt Ganaraska sites broke ground during the weeks of September 7 and September 21, respectively. Steps undertaken in the second quarter of 2015 to review the ownership structure of those two projects, and two others in Ontario, have concluded with the result that Capstone's ownership interest is expected to be 50% upon commissioning of those facilities.

The CMA final determination supported Bristol Water's submissions in certain key areas and the review produced tangible improvements to Ofwat's business plan. Specifically, Bristol Water was allotted additional funds to run the business, while costly enhancement projects were removed. The net result of these changes is an effective improvement of £40 million over the five-year period. The CMA also agreed with Bristol Water's position on cost of capital and confirmed a small company premium, embedded debt costs and removed the arbitrary customer benefit test. These meaningful decisions demonstrate that rejecting Ofwat's final determination was the right course of action for Bristol Water's customers, the Company and its shareholders.

However, the CMA's final determination favours long-term rate-base growth over near-term revenues, which increases the value of Bristol Water over time at the expense of near-term cash flows.

Overall, the CMA's final determination is expected to enable Bristol Water to provide a dividend to its shareholders of around £40 million over the five-year period, a figure that is consistent with analysis by Ofwat and the CMA. In response to the CMA final determination, rating agency Moody's has affirmed Bristol Water's Baa1 rating and changed its outlook from negative to stable.

Outlook[1]

We reiterate our forecast for annual Adjusted EBITDA of $115 million to $125 million for fiscal 2015 and confirm our longstanding commitment to Capstone's current dividend policy. Our objective remains to bring Capstone's payout ratio in line with our target of 70% to 80% by the end of 2017. We believe the momentum we have on the organic growth side, along with the certainty we have now achieved at Bristol Water, will drive an even sharper focus by our team on growing our diversified portfolio of stable, high-quality assets.

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

TABLE OF CONTENTS

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 nine months ended September 30, 2015 with the comparative prior periods and the Corporation's financial position as at September 30, 2014 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 nine months ended September 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 November 9, 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
Quarter ended September 30, 2015	0.1543	0.1596	2.0273	2.0244

CHANGES IN THE BUSINESS

In the first nine months of 2015, two wind development projects entered commercial operations, Whitecourt's fuel supply and price support agreement with Millar Western was signed, several financing changes were completed within the power segment, and Capstone responded to the Ontario Electricity Financial Corporation's ("OEFC") appeal of a favourable Ontario Superior Court ruling.

Saint-Philémon and Goulais Achieved Commercial Operations

The Saint-Philémon and Goulais wind development projects achieved commercial operations on budget in January and May of 2015, respectively. Approvals have been secured for five more projects, two of which began construction in the third quarter. The remaining Ontario projects are expected to start construction by the first quarter of 2016 and should all be completed by the end of 2016.

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.

Financing Changes - Skyway 8, Amherstburg and Saint-Philémon

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%.

On July 9, 2015, Capstone reached financial close on an approximately $95,000 refinancing of Amherstburg Solar Park's ("Amherstburg") project debt, which is non-recourse to Capstone. The proceeds were 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%.

On August 4, 2015, the Saint-Philémon construction facility converted to a term facility maturing on May 31, 2034, which has regular principal and interest payments fully amortizing over the remaining term and bears interest at a fixed, annual rate of 5.486%.

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 are now calculated in accordance with the March 12, 2015 judgment, 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.

SUBSEQUENT EVENTS

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, known as AMP6. In March 2015, at the request of Bristol Water, the regulator referred the final determination to the Competition and Markets Authority ("CMA"), the body responsible for arbitrating regulatory references and appeals. On October 6, 2015 the CMA published its final determination for Bristol Water’s AMP6 business plan, which runs until March 31, 2020. Overall, the CMA’s price determination enables Bristol Water to deliver an acceptable level of service to its customers, protect the integrity of the water system and is expected to provide its owners, including Capstone, with dividends in line with expectations.

As a result of the outcome of the CMA's final determination, management determined that an impairment assessment trigger for goodwill associated with the Utilities - Water segment resulted, and therefore, performed an impairment test as of September 30, 2015. Management calculated the recoverable amount based on fair value less cost of disposal method and concluded that no impairment charge was required. This method was based on a discounted cash flow model and incorporated assumptions that market participants would use in estimating fair value. The discounted cash flow model incorporates management's best estimates of future cash flows, a post-tax discount rate and terminal value. Management cautions that a change in key assumptions on which the recoverable amount is based may cause the carrying amount of the Utilities - Water segment to exceed its recoverable amount, resulting in an impairment to goodwill.

Financing Changes - Corporate facility expansion and Goulais term conversion

On October 6, 2015 Capstone and its existing lenders increased the capacity of its corporate credit facility by $35,000 to increase the total facility to $125,000. The expanded portion of the corporate credit facility matures January 2016 and the remaining $90,000 was extended by one year, to mature November 2018. The increased capacity enhances financial flexibility and may be used to fund ongoing development projects or other corporate purposes.

On October 9, 2015, the Goulais construction facility converted to a term facility maturing on September 30, 2034, which has regular principal and interest payments fully amortizing over the remaining term and bears interest at a fixed, annual rate of 5.156%.

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 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 8.

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		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
EBITDA	44,881	43,912	114,522	147,932
Foreign exchange (gain) loss	(2,145)	1,210	(2,720)	2,979
Other (gains) and losses, net	(2,168)	3,998	10,689	4,753
Contractual settlements in other gains and (losses)	1,358	(2,024)	2,256	(2,024)
Equity accounted (income) loss	892	1,974	1,579	2,640
Distributions from equity accounted investments	25	—	4,767	5,352
Net pension interest income	(713)	(598)	(2,218)	(1,829)
NCI portion of Adjusted EBITDA	(15,473)	(16,313)	(43,902)	(46,461)
Adjusted EBITDA (1)	26,657	32,159	84,973	113,342
Cash flow from operating activities (2)	2,823	19,225	77,809	97,129
Cash flow from operating activities of businesses with NCI	(21,712)	(19,395)	(72,187)	(56,914)
Distributions paid to Capstone from businesses with NCI	2,050	1,982	5,159	7,335
Distributions from equity accounted investments	25	—	4,767	5,352
Foreign exchange on loans receivable from Värmevärden	(74)	626	(149)	658
Loans receivable principal repayments	427	309	1,088	903
Power maintenance capital expenditures	(1,037)	(1,390)	(2,738)	(2,079)
Power and corporate scheduled principal repayments	(4,805)	(3,938)	(14,462)	(12,818)
Power and corporate working capital changes	25,190	8,903	12,871	637
Dividends on redeemable preferred shares	(938)	(938)	(2,813)	(2,813)
AFFO	1,949	5,384	9,345	37,390

(1) See page 12 for a reconciliation of Adjusted EBITDA to net income.

(2) Cash flow from operating activities for the periods ended September 30, 2015 include $13,045 of one-time costs to terminate the Amherstburg interest rate swap.

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both lower in 2015 for the third 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 facilities generally experienced poor wind conditions resulting in lower revenue. These declines were partially offset by contributions from Skyway 8, Saint-Philémon and Goulais, which commenced operations in August 2014, January 2015, and May 2015 respectively;
- Lower results from Bristol Water, reflecting 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
- Lower corporate expenses, primarily due to lower integration-related administrative expenses in 2015. This was partially offset by non-recurring project development costs to pursue business development opportunities.

In addition, Capstone's AFFO was affected by:

- Lower dividends from Bristol Water and Värmevärden; and
- The initial distribution received from Saint-Philémon in the third quarter of 2015.

	Three months ended		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Revenue	84,140	104,085	255,782	324,895
Expenses	(44,628)	(54,602)	(137,304)	(171,378)
Interest income	1,235	1,013	3,374	2,958
Contractual settlements in other gains and (losses)	1,358	(2,024)	2,256	(2,024)
Distributions from equity accounted investments	25	—	4,767	5,352
Less: NCI	(15,473)	(16,313)	(43,902)	(46,461)
Adjusted EBITDA	26,657	32,159	84,973	113,342
Adjusted EBITDA of consolidated businesses with NCI	(15,534)	(16,321)	(44,073)	(46,492)
Distributions from businesses with NCI	2,050	1,982	5,159	7,335
Principal from loans receivable	427	309	1,088	903
Interest paid	(4,497)	(5,027)	(17,151)	(17,468)
Dividends paid on Capstone’s preferred shares	(938)	(938)	(2,813)	(2,813)
Income taxes (paid) recovery	(374)	(1,452)	(638)	(2,520)
Maintenance capital expenditures	(1,037)	(1,390)	(2,738)	(2,079)
Scheduled repayment of debt principal	(4,805)	(3,938)	(14,462)	(12,818)
AFFO	1,949	5,384	9,345	37,390
AFFO per share	0.020	0.056	0.096	0.388
Payout ratio	375%	134%	234%	58%
Dividends declared per share	0.075	0.075	0.225	0.225

Revenue was $19,945, or 19%, lower for the quarter in 2015 and $69,113, or 21%, lower year to date. The decreases were mainly due to $15,866 and $62,968 less power segment revenue for the quarter and year to date, respectively, primarily due to the economics of Cardinal's new contract. At Bristol Water, revenue decreased by $4,079 and $6,145 during the quarter and year to date, respectively, primarily due to lower regulated water tariffs in the second and third quarters, partially offset by favourable foreign currency translation.

Expenses were $9,974, or 18%, lower for the quarter in 2015 and $34,074, or 20%, lower year to date.

- **Operating expenses** decreased by $8,057 during the quarter and $32,394, year to date. This was primarily due to lower power segment expenses of $8,351 and $38,206 for the quarter and year to date respectively, substantially reflecting lower Cardinal production costs. Year to date, this was partially offset by $5,812 of higher expenses at Bristol Water, primarily due to $756 of one-time costs and $5,056 of higher foreign currency translation. The one-time costs include costs of restructuring and participating in the CMA process.
- **Administrative expenses** decreased by $1,646 during the quarter and $3,848, year to date. The year-to-date decrease primarily reflects a $806 HST recovery and a $1,822 decrease in professional fees attributable to the integration of ReD in 2014. The remaining variance of $1,140 reflects lower incentive compensation included in staff costs.
- **Project development costs** decreased by $271 during the quarter and increased $2,168, year to date. The year-to-date increase consisted of $1,787 of non-recurring corporate business development costs and $381 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 $2,516 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 $25 higher and $585, or 11%, lower year to date. Distributions for the year to date were lower from the Glen Dhu wind facility and Värmevärden as both businesses had accumulated surplus cash which allowed them to make higher distributions in 2014.

Distributions from businesses with non-controlling interests for the quarter were $68, or 3%, higher in 2015 and $2,176, or 30%, lower year to date. The year to date decrease was mainly a result of an agreement with the Bristol Water Board of Directors to defer declaring a dividend during the CMA process.

Interest paid decreased by $530, or 11%, for the quarter and $317, or 2%, year to date. The decreases were primarily attributable to the Amherstburg refinancing completed in the quarter.

Interest paid by Bristol Water, Amherst, Saint-Philémon and Goulais 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 September 30, 2015.

Income taxes paid decreased by $1,078, or 74%, for the quarter and $1,882, or 75%, year to date. Taxes paid were lower for the quarter primarily due to $943 of corporate minimum tax installments paid in 2014, $208 of which was recovered in 2015 for a year-to-date variance of $1,151. The year-to-date variance also reflects $632 lower income tax installments required for 2015.

Maintenance capital expenditures for the quarter were $353, or 25%, lower and $659, or 32%, higher year to date. The year-to-date increase was attributable to Cardinal and Whitecourt, partially offset by the hydro facilities.

Scheduled repayment of debt principal for the quarter was $867, or 22%, higher in 2015 and $1,644, or 13%, 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 September 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		Nine months ended		Change	
	Sep 30, 2015	Sep 30, 2014	$	%	Sep 30, 2015	Sep 30, 2014	$	%
Power	14,840	19,669	(4,829)	(25)%	52,046	75,837	(23,791)	(31)%
Utilities – water	13,495	15,608	(2,113)	(14)%	38,223	44,151	(5,928)	(13)%
Utilities – district heating	703	714	(11)	(2)%	4,561	5,226	(665)	(13)%
Corporate	(2,381)	(3,832)	1,451	38 %	(9,857)	(11,872)	2,015	17 %
Adjusted EBITDA	26,657	32,159	(5,502)	(17)%	84,973	113,342	(28,369)	(25)%
Power	5,294	9,247	(3,953)	(43)%	19,512	46,162	(26,650)	(58)%
Utilities – water	—	1,885	(1,885)	(100)%	1,992	6,229	(4,237)	(68)%
Utilities – district heating	703	714	(11)	(2)%	4,561	5,226	(665)	(13)%
Corporate	(4,048)	(6,462)	2,414	37 %	(16,720)	(20,227)	3,507	17 %
AFFO	1,949	5,384	(3,435)	(64)%	9,345	37,390	(28,045)	(75)%

Power

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

Three months	Nine months	Explanations
1,758	5,279	Adjusted EBITDA contribution from new wind facilities that reached COD after June 30, 2014, consisting of Skyway 8, Saint-Philémon and Goulais.
(4,669)	(22,113)	Lower Adjusted EBITDA at Cardinal under the new non-utility generator ("NUG") contract.
(1,878)	(5,410)	Lower revenue from the hydro, wind (excluding new facilities) and solar facilities due to lower production attributable to poor resources.
(779)	(1,532)	Lower revenue from Whitecourt due to lower merchant rates net of contractual settlements under the new fuel supply agreement.
344	(491)	Higher project development costs year to date to advance the wind development projects.
395	476	Various other changes.
(4,829)	(23,791)	Change in Adjusted EBITDA.
(1,326)	(3,509)	Change in Adjusted EBITDA attributable to non-controlling interests.
1,811	1,811	Initial distribution received from Saint-Philémon in the third quarter of 2015.
(391)	(1,102)	Skyway 8 debt service costs post COD.
353	(659)	Higher maintenance capital expenditures for the year primarily at Cardinal and Whitecourt, partially offset by the hydro facilities as penstock repairs were not required in 2015.
429	600	Various other changes.
(3,953)	(26,650)	Change in AFFO.

Utilities – water

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

Three months	Nine months	Explanations
(5,325)	(8,272)	Lower revenue due to decrease in regulated water tariffs.
—	(2,510)	Higher operating expenses related to non-recurring costs for restructuring, preparing submissions to the 2014 price review and participating in the CMA process.
1,803	2,520	Impact of foreign exchange on Adjusted EBITDA.
1,381	2,041	Deferred maintenance and lower staff costs.
28	293	Various other changes
(2,113)	(5,928)	Change in Adjusted EBITDA.
(1,996)	(4,524)	Lower dividends received.
111	287	Impact of foreign exchange on dividends received from Bristol Water.
(1,885)	(4,237)	Change in AFFO.

Utilities – district heating

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

Three months	Nine months	Explanations
—	(428)	Lower distributions received.
(11)	(237)	Impact of foreign exchange on Adjusted EBITDA and AFFO.
(11)	(665)	Change in Adjusted EBITDA and AFFO.

Corporate

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

Three months	Nine months	Explanations
537	1,140	Lower staff costs primarily related to incentive compensation.
60	806	Lower administrative expenses due to HST recoveries in 2015 and prior years.
192	552	Lower tax advisory costs related to various corporate projects.
22	470	Lower professional fees due to integration of ReD in 2014.
(185)	(1,787)	Higher project development costs due to acquisition analysis and due diligence costs.
825	834	Various other changes.
1,451	2,015	Change in Adjusted EBITDA.
1,074	1,878	Lower taxes paid for minimum tax installments and income tax installments.
(111)	(386)	Various other changes.
2,414	3,507	Change in AFFO.

Net income

Net income for each business segment was:

	Three months ended		Nine months ended	
Net income	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Power	(2,256)	1,566	(11,145)	16,560
Utilities – water	9,675	12,645	26,725	36,035
Utilities – district heating	1,683	(2,024)	3,113	(2,648)
Corporate	(4,081)	(5,351)	(13,790)	(15,240)
Total	5,021	6,836	4,903	34,707

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		Nine months ended	
($000s)	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Adjusted EBITDA	26,657	32,159	84,973	113,342
Adjustment from distributions to equity accounted income	(917)	(1,974)	(6,346)	(7,992)
NCI portion of Adjusted EBITDA	15,473	16,313	43,902	46,461
Other gains and (losses), net	2,168	(3,998)	(10,689)	(4,753)
Contractual settlements in other gains and (losses)	(1,358)	2,024	(2,256)	2,024
Foreign exchange gain (loss)	2,145	(1,210)	2,720	(2,979)
Interest expense	(14,130)	(13,761)	(42,567)	(40,913)
Net pension interest income	713	598	2,218	1,829
Depreciation and amortization	(21,909)	(20,143)	(61,911)	(59,162)
Income tax recovery (expense)	(3,821)	(3,172)	(5,141)	(13,150)
Net income	5,021	6,836	4,903	34,707

Other gains and (losses) for the quarter were $6,166 higher than in 2014 and $5,936 lower year to date. Other gains and (losses) include non-cash items required by IFRS. The year-to-date loss includes $7,477 of losses on capital assets replaced as part of Cardinal's conversion to a cycling facility and $2,538 primarily from the termination of the Amherstburg interest rate swap, as part of refinancing the project debt.

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 Sep 30, 2015	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development [2]	Total
Power generated (GWh)	48.1	93.3	46.7	23.5	12.9	n/a	224.5
Capacity factor	30.1%	18.3%	87.3%	29.8%	29.1%	n/a	n.m.f
Availability	100.0%	97.9%	100.0%	99.1%	96.8%	n/a	n.m.f
Revenue	7,227	10,173	1,499	2,767	5,397	—	27,063
Expenses	(4,227)	(3,018)	(2,379)	(1,116)	(457)	(762)	(11,959)
Interest income	4	292	14	3	5	—	318
Contractual settlements [3]	—	—	1,358	—	—	—	1,358
Distributions from equity accounted investments	—	25	—	—	—	—	25
Less: NCI	—	(1,965)	—	—	—	—	(1,965)
Adjusted EBITDA	3,004	5,507	492	1,654	4,945	(762)	14,840
Adjusted EBITDA of consolidated businesses with NCI	—	(2,039)	—	—	—	—	(2,039)
Distributions from businesses with NCI	—	2,050	—	—	—	—	2,050
Principal from loans receivable	—	—	344	—	—	—	344
Interest paid	—	(2,116)	—	(1,110)	(833)	—	(4,059)
Maintenance capital expenditures	(96)	(379)	(99)	(463)	—	—	(1,037)
Scheduled repayment of debt principal	—	(2,427)	—	(380)	(1,998)	—	(4,805)
AFFO	2,908	596	737	(299)	2,114	(762)	5,294

Three months ended Sep 30, 2014	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development [2]	Total
Power generated (GWh)	184.2	77.5	50.7	24.0	12.6	n/a	349.0
Capacity factor	59.5%	14.2%	99.9%	30.4%	28.5%	n/a	n.m.f
Availability	96.9%	95.0%	100.0%	97.4%	100.0%	n/a	n.m.f
Revenue	23,469	8,194	3,896	2,074	5,296	—	42,929
Expenses	(13,874)	(2,164)	(2,365)	(864)	(281)	(1,218)	(20,766)
Interest income	100	47	51	7	9	—	214
Contractual settlements [3]	(2,024)	—	—	—	—	—	(2,024)
Less: NCI	—	(794)	—	—	—	110	(684)
Adjusted EBITDA	7,671	5,283	1,582	1,217	5,024	(1,108)	19,669
Adjusted EBITDA of consolidated businesses with NCI	—	(828)	—	—	—	115	(713)
Distributions from businesses with NCI	—	52	—	—	—	45	97
Principal from loans receivable	—	—	309	—	—	—	309
Interest paid	—	(2,070)	—	(1,160)	(1,557)	—	(4,787)
Maintenance capital expenditures	—	(614)	(64)	(712)	—	—	(1,390)
Scheduled repayment of debt principal	—	(2,061)	—	(286)	(1,591)	—	(3,938)
AFFO	7,671	(238)	1,827	(941)	1,876	(948)	9,247

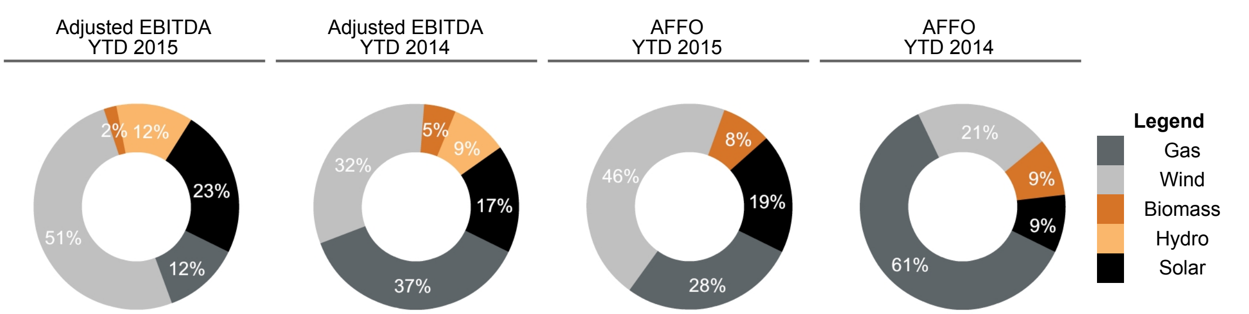
(1) For equity accounted investments, Adjusted EBITDA reflects management fees earned, interest income, as well as distributions paid to Capstone. Principal received on outstanding loans receivable are included in AFFO. The statistics for power generated, capacity factors and availability exclude those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

Nine months ended Sep 30, 2015	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development [2]	Total
Power generated (GWh)	55.1	362.3	137.5	102.4	32.1	n/a	689.4
Capacity factor	11.4%	24.7%	86.7%	43.7%	24.4%	n/a	n.m.f
Availability	80.8%	96.1%	96.2%	98.7%	97.0%	n/a	n.m.f
Revenue	17,703	37,840	6,262	9,891	13,466	—	85,162
Expenses	(10,743)	(7,802)	(7,699)	(3,072)	(1,053)	(2,647)	(33,016)
Interest income	57	876	74	13	14	—	1,034
Contractual settlements [3]	(260)	—	2,516	—	—	—	2,256
Distributions from equity accounted investments	—	2,230	—	—	—	—	2,230
Less: NCI	—	(5,620)	—	—	—	—	(5,620)
Adjusted EBITDA	6,757	27,524	1,153	6,832	12,427	(2,647)	52,046
Adjusted EBITDA of consolidated businesses with NCI	—	(5,850)	—	—	—	—	(5,850)
Distributions from businesses with NCI	—	3,167	—	—	—	—	3,167
Principal from loans receivable	—	—	1,005	—	—	—	1,005
Interest paid	—	(6,454)	—	(3,379)	(3,823)	—	(13,656)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(566)	(1,110)	(472)	(590)	—	—	(2,738)
Scheduled repayment of debt principal	—	(7,096)	—	(2,992)	(4,374)	—	(14,462)
AFFO	6,191	10,181	1,686	(129)	4,230	(2,647)	19,512

Nine months ended Sep 30, 2014	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development [2]	Total
Power generated (GWh)	704.9	318.6	147.3	111.9	32.8	n/a	1,315.5
Capacity factor	71.8%	20.5%	97.4%	47.8%	25.0%	n/a	n.m.f
Availability	98.5%	97.4%	97.7%	98.4%	98.3%	n/a	n.m.f
Revenue	81,807	31,785	11,020	9,721	13,797	—	148,130
Expenses	(51,079)	(6,648)	(7,407)	(2,588)	(853)	(2,266)	(70,841)
Interest income	165	116	177	15	21	—	494
Contractual settlements [3]	(2,024)	—	—	—	—	—	(2,024)
Distributions from equity accounted investments	—	2,328	—	—	—	—	2,328
Less: NCI	—	(2,366)	—	—	—	116	(2,250)
Adjusted EBITDA	28,869	25,215	3,790	7,148	12,965	(2,150)	75,837
Adjusted EBITDA of consolidated businesses with NCI	—	(2,462)	—	—	—	121	(2,341)
Distributions from businesses with NCI	—	971	—	—	—	135	1,106
Principal from loans receivable	—	—	903	—	—	—	903
Interest paid	—	(6,229)	—	(3,521)	(4,696)	—	(14,446)
Maintenance capital expenditures	—	(948)	(210)	(921)	—	—	(2,079)
Scheduled repayment of debt principal	—	(6,400)	—	(2,557)	(3,861)	—	(12,818)
AFFO	28,869	10,147	4,483	149	4,408	(1,894)	46,162

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

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



Revenue for the quarter was $15,866, or 37%, lower in 2015 and $62,968, or 43%, lower year to date, primarily due to Cardinal where revenue was $16,242 and $64,104 lower for the quarter and year to date, respectively, due to the economics of the new NUG contract whereby Cardinal began operating as a cycling facility on January 1, 2015, resulting in less revenue than under the previous PPA when the plant operated as a baseload facility.

In addition, lower merchant power prices in 2015 than 2014 PPA rates caused Whitecourt revenue to decline by $2,397 for the quarter and $4,758 year to date. Revenue from wind (excluding the new facilities) was $2,068 lower for the quarter and $4,378 lower year to date, due to less favourable wind conditions.

Contributions from new wind facilities, which partially offset revenue decreases, were $4,047 and $10,433 for the quarter and year to date, respectively. The new wind facilities comprise production from Skyway 8 which reached commercial operations in August 2014, Saint-Philémon and Goulais, which reached commercial operations after September 30, 2014. In addition, the Ontario hydro facilities revenue was $600 higher for the quarter, primarily due to a one-time retroactive payment for higher contracted power rates in 2015.

Expenses for the quarter were $8,807, or 42%, lower in 2015 and $37,825, or 53%, lower year to date. The decreases were primarily due to $9,647 and $40,336 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.

These were partially offset by $913 and $1,945 higher wind expenses for the quarter and year to date, respectively, attributable to facilities that reached commercial operation dates ("COD") since June 30, 2014. In addition, expenses were $252 and $484 higher at the hydro facilities by for the quarter and year to date, respectively, primarily due to higher property taxes and repairs.

Interest income for the quarter was $104, or 49%, higher in 2015 and $540, or 109%, 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 $2,516 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.

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 $1,953, or 2,013%, higher in 2015 and $2,061, or 186%, higher year to date. Higher distributions for the quarter and year to date were primarily due to a $1,811 distribution from Saint-Philémon paid on conversion of the credit facility in the third quarter of 2015. Saint-Philémon's distribution includes cash accumulated from operations since COD.

Interest paid for the quarter was $728, or 15%, lower in 2015 and $790, or 5%, lower year to date. The year-to-date decrease was due to lower payments of $873 at Amherstburg as a result of the refinancing completed in the third quarter of 2015 and lower payments of $659 on amortizing debt balances at Erie Shores, the hydro facilities, SkyGen and Glace Bay. These decreases were partially offset by higher payments of $742 at the Skyway 8 facility, since drawing on the debt in May 2014.

Maintenance capital expenditures for the quarter were $353, or 25%, lower in 2015 and $659, or 32%, higher year to date. For the quarter, the decrease is primarily attributable to higher maintenance expenditures in 2014 at the hydro facilities, due to the penstock repairs, and Erie Shores, due to gearbox maintenance. For the year to date, the increase is primarily attributable to capital improvements of $566 and $262 related to Cardinal and Whitecourt, respectively, partially offset by lower expenditures at the hydro facilities.

Scheduled repayment of debt principal for the quarter was $867, or 22%, higher in 2015 and $1,644, or 13%, higher year to date. The year-to-date increase was primarily due to a $1,213 increase on the amortizing debt of Amherstburg, the hydro facilities and Erie Shores, as well as $360 from Skyway 8, since drawing on the debt in May 2014.

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 September 30, 2015, Capstone's development pipeline included the rights to net 52 MW (gross 76 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 2018. Construction can proceed upon receipt of the pending environmental approvals. Three of the projects have had the Environmental Review Tribunal unanimously dismiss an appeal of such project’s Renewable Energy Approval (the “REA”). Three of the projects have commenced construction, while a fourth is scheduled to begin in the fourth quarter of 2015. The Environmental Review Tribunal’s dismissal of an appeal of one project’s REA was subsequently appealed to the Minister of the Environment. The Corporation is defending the appeal to the Minister, and believes it to be without merit. The fifth Ontario project is expected to commence construction by the first quarter of 2016, upon receipt of its environmental approvals.

Capstone expects to fund these six development projects with a combination of equity from Capstone, along with a partner on four of the projects 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 Q3	Average long-term production (GWh) (1) Q1	Q2	Q3	Q4 (2)	Annual
Wind (3)	2020 - 2037	93.3	165.5	129.3	102.4	145.7	542.9
Biomass (3)	2029	46.7	49.8	45.5	50.0	49.1	194.4
Hydro	2017 - 2042	23.5	31.4	56.3	29.2	41.6	158.5
Solar	2031	12.9	7.2	12.4	12.5	5.8	37.9
Total		176.4	253.9	243.5	194.1	242.2	933.7

(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 Q4.
(3) The average long-term production excludes Capstone's equity investments (Chapais biomass facility, and the Glen Dhu and Fitzpatrick wind facilities).

Outlook [1]

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.

(1) 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		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Water supplied (megalitres)	21,347	21,745	62,096	62,195
Revenue	57,077	61,156	170,620	176,765
Operating expenses	(30,229)	(29,935)	(94,330)	(88,518)
Interest income	155	16	215	115
Adjusted EBITDA before non-controlling interest	27,003	31,237	76,505	88,362
Less: NCI	(13,508)	(15,629)	(38,282)	(44,211)
Adjusted EBITDA	13,495	15,608	38,223	44,151
Adjusted EBITDA of consolidated businesses with NCI	(13,495)	(15,608)	(38,223)	(44,151)
Dividends from businesses with NCI	—	1,885	1,992	6,229
AFFO	—	1,885	1,992	6,229

Revenue for the quarter was $4,079, or 7%, lower in 2015 and $6,145, or 3%, lower year to date. Excluding foreign currency, revenue was $11,145, or 17% lower for the quarter and $16,241, or 9%, lower year to date. The majority of the variance, or $10,650 and $20,166 for the quarter and year to date respectively, was attributable to lower water tariffs following implementation of the Ofwat AMP6 final determination on April 1, 2015. The year to date decrease was partially offset by higher revenue of $3,699, because tariffs during the first quarter were higher before the new AMP. The remaining variances for the quarter and year to date were attributable to slight decreases in volume.

Operating expenses for the quarter were $294, higher in 2015 and $5,812, or 6.6%, higher year to date. Excluding foreign currency, operating expenses were $3,165, or 10%, lower for the quarter, and $756, or 1%, higher year to date. For the quarter and year to date, decreases of $2,135 and $4,083 respectively, were primarily attributable to savings from cost containment efforts. Reduced levels of preventative maintenance lowered expenses in both periods. Year-to-date operating expenses reduction was offset by $5,019 of higher costs primarily for restructuring and the CMA appeals process.

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. Dividends are expected to resume in the fourth quarter.

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 $429,000 (or £212,000) in 2015 prices, according to the final determination released by the CMA in October 2015. Bristol Water's capital expenditures for regulatory purposes were approximately $14,000 during the quarter and approximately $28,000 for the year-to-date period ended September 30, 2015.

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

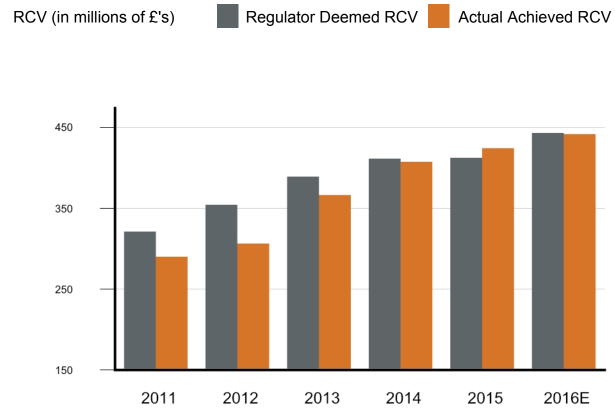
Bristol Water is a regulated utility subject to supervision by the UK water industry economic regulator, the Water Services Regulation Authority ("Ofwat").

In December 2014, Ofwat, issued a disappointing final determination for the forthcoming five-year regulatory period, known as AMP6. In March 2015, at the request of Bristol Water, the regulator referred the final determination to the CMA, the body responsible for arbitrating regulatory references and appeals. On October 6, 2015 the CMA published its final determination for Bristol Water's AMP6 business plan, which runs until March 31, 2020. The CMA made tangible improvements to Ofwat's final determination. Specifically, Bristol Water was allotted an additional £22 million to run the business. Enhancement capital expenditure was reduced by £2 million, but projects were removed that would have cost £20 million. The net result of these changes is an effective improvement of £40 million over the five-year period. The CMA also agreed with Bristol Water's position on cost of capital and affirmed a small company premium, embedded debt costs and removed the "customer benefit" test. Overall, the CMA's price determination enables Bristol Water to deliver an acceptable level of service to its customers, protect the integrity of the water system and is expected to provide its owners, including Capstone, with dividends in line with expectations.

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.

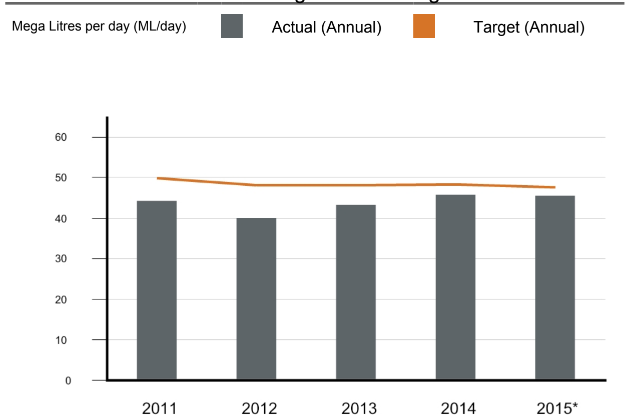
For the regulatory year ended March 31, 2015, Bristol Water achieved leakage levels of 45.1 Ml/d (for regulatory year ended March 31, 2014 - 43.7 Ml/d) and had a SIM score of 80 (for the regulatory year ended March 31, 2014 SIM score was 85).

Growth in Regulated Capital Value



All data above reflects fiscal years ended March 31.

Water Leakage Versus Target



* For the nine months ended September 30, 2015.

Outlook [1]

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.

(1) 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 nine 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		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Heat and steam production (GWh)	117	126	685	698
Equity accounted income (loss)	(400)	(1,725)	(1,504)	(2,458)
Interest income	703	714	2,024	2,202
Dividends	—	—	2,537	3,024
Adjusted EBITDA and AFFO	703	714	4,561	5,226

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. Capstone received $2,024 in interest income from Värmevärden during the first nine months of 2015, which was $178 lower than 2014, due to unfavourable foreign exchange translation.

Dividends

For the year to date, Capstone's dividends received from Värmevärden were $487 lower than in 2014 when Värmevärden had accumulated surplus cash allowing for a higher distribution.

Equity accounted income (loss)

Capstone's commercial investment in Värmevärden is comprised of equity and shareholder loans. In 2015, Capstone was required to stop recording equity accounted income (losses) in accordance with IFRS as the equity accounted investment was a negative balance for accounting purposes.

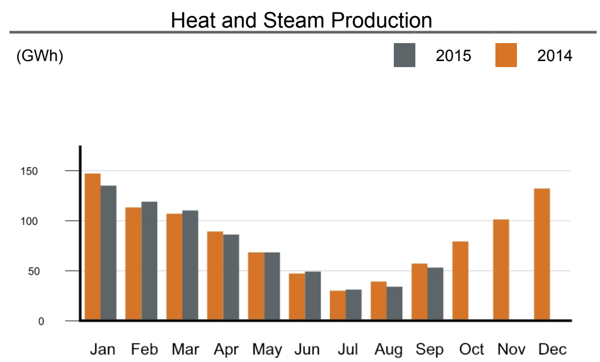
Seasonality

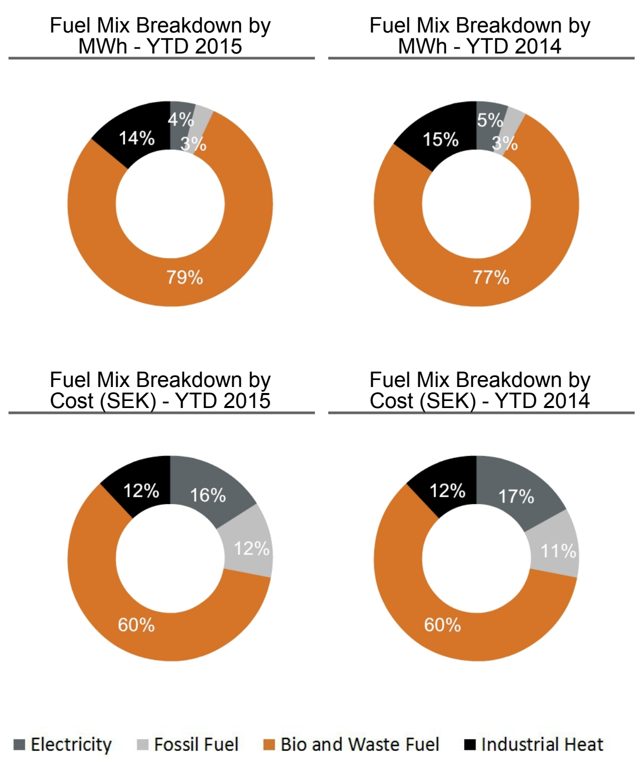
Heat production is typically highest during the first quarter, which represents the coldest months of the year. The first and fourth quarters combined have historically accounted for approximately 65% of Värmevärden's annual revenue.

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		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Administrative expenses	(2,210)	(3,856)	(8,160)	(12,008)
Project development costs	(230)	(45)	(1,798)	(11)
Interest income	59	69	101	147
Adjusted EBITDA	(2,381)	(3,832)	(9,857)	(11,872)
Principal from loans receivable	83	—	83	—
Interest paid	(438)	(240)	(3,495)	(3,022)
Dividends paid on Capstone's preferred shares	(938)	(938)	(2,813)	(2,813)
Income taxes (paid) recovery	(374)	(1,452)	(638)	(2,520)
AFFO	(4,048)	(6,462)	(16,720)	(20,227)

Administrative expenses were $1,646, or 43% lower in 2015 for the quarter and $3,848, or 32%, year to date.

	Three months ended		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Staff costs	1,809	2,450	5,931	7,151
Other administrative expenses	401	1,406	2,229	4,857
	2,210	3,856	8,160	12,008

Staff costs for the quarter were $641, or 26%, lower in 2015 and $1,220, or 17%, lower year to date. Both decreases primarily reflect a decrease in incentive compensation due to a lower share price during the first nine months of 2015 versus 2014.

Other administrative expenses for the quarter were $1,005, or 71%, lower in 2015 and $2,628, or 54%, lower year to date. The year-to-date decrease primarily reflects $806 of HST refunds and $1,822 lower professional fees primarily 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 $185 higher in 2015 and $1,787 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 $198, or 83%, higher in 2015 and $473, or 16%, 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 were lower for the quarter primarily due to $943 of corporate minimum tax installments paid in 2014, $208 of which was recovered in 2015 for a year-to-date variance of $1,151. The year-to-date variance also reflects $632 lower income tax installments required for 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 September 30, 2015, Capstone had a consolidated working capital deficit of $8,697, compared with a surplus of $69,694 as at December 31, 2014. The decrease of $78,391 was primarily due to the power segment, where restricted cash decreased as funds were used to construct wind development projects which generated capital assets, as well as lower cash and accounts receivable balances at Cardinal.

As at September 30, 2015, Capstone's debt to capitalization ratio (refer to page 22) increased from 71.2% to 74.8% on a fair value basis and from 61.3% to 63.1% on a book value basis. The fair value increase was primarily due to a $29,751 decline in the fair value of equity due primarily to a lower preferred share price since December 31, 2014. In addition, outstanding debt increased by $88,095 mainly due to a $48,733 increase at Bristol Water, attributable to appreciation of the UK pound sterling and a $35,000 increase in the amount drawn on the corporate credit facility.

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

Liquidity

Working capital

As at	Sep 30, 2015	Dec 31, 2014
Power	(18,400)	68,452
Utilities – water	17,145	8,586
Corporate	(7,442)	(7,344)
Working capital	(8,697)	69,694

Capstone's working capital was $78,391 lower than December 31, 2014, primarily due to a $86,852 decrease for the power segment, partially offset by a $8,559 increase at Bristol Water and $98 decrease for Corporate.

The power segment working capital decrease primarily reflects a decrease in restricted cash of $38,605 to fund construction of the Saint-Philémon and Goulais wind development projects, as well as a $27,257 production based decline in Cardinal's accounts receivable and cash balances under the new contract. The majority of the remaining decrease in working capital relates to a $9,965 increase in the current portion of long-term debt, due to SkyGen promissory notes which mature in February 2016 and higher accruals for the wind development projects.

Cash and cash equivalents

As at	Sep 30, 2015	Dec 31, 2014
Power	24,834	36,637
Utilities – water	12,953	13,271
Corporate	3,399	8,934
Unrestricted cash and cash equivalents	41,186	58,842
Less: cash with access limitations		
Power	(15,233)	(18,174)
Utilities – water	(12,953)	(13,271)
Cash and cash equivalents available to corporate	13,000	27,397

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The unrestricted cash and cash equivalents decrease of $17,656 was due to decreases of $11,803 at the power segment, $5,535 at corporate and $318 at Bristol Water.

For the power segment, $15,233 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.

Cash and cash equivalents of $13,000 were available to corporate for general purposes, including payment of dividends to shareholders, funding the wind development projects and other growth initiatives.

For Bristol Water, cash decreased primarily due to the timing of payments to fund the capital projects. In addition to cash and cash equivalents, Bristol Water also had $141,708 of available credit to fund the longer-term cash requirements of the capital projects as at September 30, 2015.

Restricted cash

Restricted cash decreased by $34,159, primarily to fund construction of Goulais and Saint-Philémon, partially offset by increases in restricted cash at Bristol Water and corporate.

Cash flow

Capstone's consolidated cash and cash equivalents decreased by $17,656 in the first nine months of 2015 compared with an increase of $13,124 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:

Nine months ended	Sep 30, 2015	Sep 30, 2014
Operating activities	77,809	97,129
Investing activities	(95,938)	(262,196)
Financing activities (excluding dividends to shareholders)	21,723	200,105
Dividends paid to shareholders	(22,746)	(22,305)
Effect of exchange rate changes on cash and cash equivalents	1,496	391
Change in cash and cash equivalents	(17,656)	13,124

Cash flow from operating activities generated $19,320 less cash and cash equivalents during 2015 primarily due to $12,055 of lower cash flows at corporate and $7,450 at the power segment. This was partially offset by an increase at the utilities segment of $185. Corporate cash flow decreased primarily due to funding the projects under development in the power segment.

Cash flow used in investing activities decreased by $166,258 during 2015. In 2015, cash of $79,892 (2014 - $98,761) was used to fund capital asset additions, primarily for Cardinal and Bristol Water. In addition, $57,188 (2014 - $95,427) of cash was used primarily for the construction of the projects under development in the power segment. These uses were partially offset by $35,431 transferred from restricted cash to unrestricted cash for the power segment (2014 - $61,996 increase in restricted cash).

Cash flows from financing activities decreased by $178,382 during 2015. In 2015, proceeds from debt draws were $82,005 lower as no new debt was raised to finance Bristol Water capital expenditures. In addition, repayments of debt principal were $87,396 higher in 2015. This was offset by $2,187 in lower dividends to non-controlling interests primarily due to deferral of dividends from Bristol Water during the CMA process.

Dividends paid to shareholders were $441 higher during first nine 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:

	Sep 30, 2015		Dec 31, 2014	
As at	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power [1]	440,198	419,348	435,808	423,365
Utilities – water [1]	416,956	353,051	368,223	315,447
Corporate	126,049	124,735	91,077	89,393
Deferred financing fees	—	(9,123)	—	(9,272)
	983,203	888,011	895,108	818,933
Equity				
Shareholders' equity [2]	331,829	519,983	361,580	516,706
Total capitalization	1,315,032	1,407,994	1,256,688	1,335,639
Debt to capitalization	74.8%	63.1%	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:

As at	Maturity	Interest Rate	Sep 30, 2015 Fair Value	Sep 30, 2015 Carrying Value	Dec 31, 2014 Fair Value	Dec 31, 2014 Carrying Value
Project debt						
Wind - Operating (1)	2016 - 2034	4.22 - 6.36%	348,360	324,917	213,179	202,060
Wind - Development (2)	n/a	n/a	—	—	141,805	136,921
Hydros	2040 - 2041	4.56 - 7.00%	89,673	86,910	90,064	89,902
Solar (3)	2030	3.49%	93,421	92,791	82,618	82,618
			531,454	504,618	527,666	511,501
Less: non-controlling interest			(91,256)	(85,270)	(91,858)	(88,136)
Capstone share of long-term debt			440,198	419,348	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 nine months of 2015, the Saint-Philémon and Goulais project debts of $136,921 were transferred from wind - development to wind - operating upon reaching COD. On July 9, 2015, approximately $95,000 was refinanced for the Amherstburg solar facility.

The Skyway 8 and Saint-Philémon construction debts were converted to term facilities. In addition, on October 9, 2015 the Goulais construction debt facility was converted to a term facility.

As at September 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:

As at	Maturity	Interest Rate	Sep 30, 2015 Fair Value	Sep 30, 2015 Carrying Value	Dec 31, 2014 Fair Value	Dec 31, 2014 Carrying Value
Bank loans	2017 - 2019	1.28 - 5.73%	139,580	141,187	122,836	125,877
Term loans (1)	2032 - 2041	3.60 - 6.01%	654,291	529,370	576,696	473,301
Debentures	Irredeemable	3.50 – 4.25%	3,221	2,649	2,805	2,351
Cumulative preferred shares	Irredeemable	8.75%	36,820	32,896	34,109	29,365
Consolidated long-term debt			833,912	706,102	736,446	630,894
Less: non-controlling interest			(416,956)	(353,051)	(368,223)	(315,447)
Capstone share of long-term debt			416,956	353,051	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 September 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 on December 7, 2017 for $40,488.

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 nine months of 2015, the carrying value of Bristol Water's debt increased by $75,208, primarily due to foreign currency translation. As at September 30, 2015, $141,708 of undrawn credit capacity remained available to fund future capital expenditures. In addition, Moody's rating agency has affirmed Bristol Water's Baa1 rating and changed its outlook from negative to stable, in response to the CMA final determination.

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:

			Sep 30, 2015		Dec 31, 2014	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Corporate credit facility	2017	2.73%	55,000	55,000	20,000	20,000
Convertible debentures	2016	6.50%	43,070	42,127	42,963	41,728
Convertible debentures	2017	6.75%	27,979	27,608	28,114	27,665
			126,049	124,735	91,077	89,393

The balance outstanding on Capstone's corporate credit facility increased $35,000 since December 31, 2014, representing funds drawn to advance power development projects.

As at November 9, 2015 the corporate credit facility had $18,443 of remaining capacity, net of $17,000 in draws and the $35,000 increase in the facility subsequent to September 30, 2015.

Equity

Shareholders' equity comprised:

As at	Sep 30, 2015	Dec 31, 2014
Common shares	715,346	713,412
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
Share capital	814,076	812,142
Other equity items [(1)]	9,284	9,284
Accumulated other comprehensive income (loss)	48,559	19,994
Deficit	(351,936)	(324,714)
Equity attributable to Capstone shareholders	519,983	516,706
Non-controlling interests	225,695	190,073
Total shareholders' equity	745,678	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)	614	1,934
Ending balance	94,187	715,346

The composition of shareholders' equity at fair value was:

As at	Sep 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	$3.09	94,187	291,038	$3.20	93,573	299,432
Class B units	$3.09	3,249	10,041	$3.20	3,249	10,398
Preferred shares	$10.25	3,000	30,750	$17.25	3,000	51,750
			331,829			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 Sep 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%	Holding company
Chapais Électrique Limitée ("Chapais") (4)	Canada	31.3%	31.3%	Power generation

(1) Capstone no longer records equity accounted income (losses) for Värmevärden, as the year-to-date equity accounted losses and distributions exceeded the December 31, 2014 carrying value. For the quarter and year to date, Capstone has unrecognized losses of $1,424, relating to Värmevärden. Until cumulative unrecognized losses and dividends become positive, Capstone will carry its investment at nil and record dividends received as other gains in the statement of income. Additional information about Capstone's investment in Värmevärden is included in the results of operations on page 19 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 was wound up on September 4, 2015, and had no significant activity prior to disposal.

(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 $48,230 of capital expenditures during the third quarter of 2015. Year to date, Capstone's capital expenditures were $152,472, which include $78,543 and $73,929 of additions to capital assets and projects under development, respectively.

Below is the breakdown of the investment by operating segment:

	Three months ended Sep 30, 2015	Three months ended Sep 30, 2014	Nine months ended Sep 30, 2015	Nine months ended Sep 30, 2014
Power	31,385	108,690	97,655	145,338
Utilities – water	16,845	28,945	54,817	89,821
	48,230	137,635	152,472	235,159

In 2015, capital expenditures for the power segment mainly related to $24,132 invested by Cardinal to convert the plant to operate as a cycling facility and $18,795 of costs to construct the Goulais wind project. The remaining expenditures primarily relate 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 $133,212 to develop and construct the Skyway 8, Saint-Philémon and Goulais wind projects and $8,156 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 September 30, 2015, the defined benefit plan was in a $107,635 surplus position for accounting purposes. During the first nine months of 2015, the surplus increased by $28,885, 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 third quarter and nine months ended September 30, 2015 was $653 and $1,861, respectively. The year-to-date expense comprised $1,720 for Bristol Water and $141 for Cardinal. Employer contributions paid for Bristol Water in the third quarter and nine months ended September 30, 2015 to the defined benefit plan were $1,022 and $3,061, respectively.

Income Taxes

The third quarter and year-to-date current income tax recoveries of $1,163 and $2,345, 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 $218,138 (December 31, 2014 - $192,829) represent $64,794 (December 31, 2014 - $67,157) for Capstone's Canadian operations and $153,344 (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 $11,553 in the third quarter and $25,309 during the first nine 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 $4,984 for the quarter and $7,486 year to date on the consolidated statement of income comprises the increase in the net deferred income tax liability, offset by foreign exchange and the temporary differences in Bristol Water's retirement benefit surplus, included in other comprehensive income.

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	Sep 30, 2015	Dec 31, 2014
Derivative contract assets	240	5,047
Derivative contract liabilities	(5,455)	(17,863)
Net derivative contract liabilities	(5,215)	(12,816)

Net derivative contract liabilities decreased by $7,601 from December 31, 2014, mainly because several of the underlying financial instruments were terminated or matured. These decreases were partially offset by contractual settlement payments of $2,467 for Whitecourt's new fuel supply agreement.

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		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Whitecourt embedded derivative	4,273	—	101	—
Forward gas sale and purchase contracts	—	(527)	(3,329)	(418)
Interest rate swap contracts	11,853	(286)	10,507	(3,144)
Foreign currency contracts	(242)	440	(1,476)	(192)
Gas swap contracts	—	(72)	—	123
Cardinal gas purchase agreement	—	(531)	4,364	(351)
Cardinal embedded derivatives	(1)	(110)	168	2,795
Gains (losses) on derivatives in net income	15,883	(1,086)	10,335	(1,187)
Interest rate swap contracts in OCI	(1,292)	35	(274)	253
Gains (losses) on derivatives in comprehensive income	14,591	(1,051)	10,061	(934)

For the year to date, the gain on derivatives is primarily attributable to the expiry of the interest rate swap contracts, Cardinal's gas purchase agreement and embedded derivative, partially offset by losses on the forward gas sale and purchase contracts and foreign currency contracts.

Year to date, the gain on the interest rate swap contracts is due to the Amherstburg contract, which was settled on July 9, 2015, concurrent with the project debt refinancing.

The fair value changes 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 2015.

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

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 $3,355 higher than the third quarter loss in 2014, and $5,699, higher year to date. The gains reflect appreciation of the Swedish krona against the Canadian dollar in 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. Following receipt of the CMA's Final Determination for Bristol Water, Capstone's assessment of Bristol Water's regulatory risk has been reduced.

For a comprehensive description of 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	84,140	81,403	90,239	116,683	104,085	106,413	114,397	110,291
Net income (loss) (1)	301	(9,273)	222	(7,599)	532	2,097	14,437	10,441
Adjusted EBITDA	26,657	28,768	29,549	47,017	32,159	39,492	41,691	37,992
AFFO	1,949	932	6,464	19,022	5,384	12,133	19,873	13,930
Common dividends (2)	7,308	7,288	7,273	7,261	7,252	7,244	7,220	7,208
Preferred dividends	938	938	938	938	938	938	938	938
Earnings Per Share – Basic (3)	(0.007)	(0.105)	(0.008)	(0.089)	(0.005)	0.012	0.140	0.099
Earnings Per Share – Diluted (3)	(0.007)	(0.105)	(0.008)	(0.089)	(0.005)	0.012	0.132	0.096
AFFO per share	0.020	0.010	0.067	0.196	0.056	0.126	0.207	0.145
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 an 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	Sep 30, 2015	Dec 31, 2014
Current assets			
Cash and cash equivalents		41,186	58,842
Restricted cash		31,719	65,878
Accounts receivable		78,084	94,555
Other assets		11,983	9,600
Current portion of loans receivable	5	469	1,448
Current portion of derivative contract assets	6	73	4,279
		163,514	234,602
Non-current assets			
Loans receivable	5	47,815	45,244
Derivative contract assets	6	167	768
Equity accounted investments	7	22,825	29,056
Capital assets	8	1,697,141	1,418,187
Projects under development	9	64,862	151,361
Intangible assets	10	363,928	342,012
Retirement benefit surplus	11	107,635	78,750
Total assets		2,467,887	2,299,980
Current liabilities			
Accounts payable and other liabilities		136,290	132,445
Current portion of derivative contract liabilities	6	—	6,620
Current portion of finance lease obligations		889	693
Current portion of long-term debt	12	35,032	25,150
		172,211	164,908
Long-term liabilities			
Derivative contract liabilities	6	5,455	11,243
Deferred income tax liabilities		218,138	192,829
Deferred revenue		29,834	21,600
Finance lease obligations		3,203	3,407
Long-term debt	12	1,288,880	1,194,850
Liability for asset retirement obligation		4,488	4,364
Total liabilities		1,722,209	1,593,201
Equity attributable to shareholders' of Capstone		519,983	516,706
Non-controlling interest		225,695	190,073
Total liabilities and equity		2,467,887	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				NCI (4)	Total Equity
		Share Capital (1)	Other Equity Items (2)	AOCI (3)	Deficit		
Balance, December 31, 2013		809,392	9,428	17,013	(306,283)	138,613	668,163
Other comprehensive income (loss)		—	—	5,125	4,370	8,525	18,020
Net income for the period		—	—	—	17,066	17,641	34,707
Shares issued		39	—	—	—	—	39
Release of share option reserve		—	(144)	—	144	—	—
Dividends declared to common shareholders of Capstone	13b	2,222	—	—	(21,715)	—	(19,493)
Dividends declared to preferred shareholders of Capstone (5)	13b	—	—	—	(2,940)	—	(2,940)
Dividends declared to NCI		—	—	—	—	(7,012)	(7,012)
Disposal of partial interest in Chi-Wiikwedong LP		—	—	—	(6,365)	7,894	1,529
Contributions from NCI		—	—	—	—	14,604	14,604
Balance, September 30, 2014		811,653	9,284	22,138	(315,723)	180,265	707,617

	Notes	Equity attributable to shareholders of Capstone				NCI (4)	Total Equity
		Share Capital (1)	Other Equity Items (2)	AOCI (3)	Deficit		
Balance, December 31, 2014		812,142	9,284	19,994	(324,714)	190,073	706,779
Other comprehensive income (loss)		—	—	28,565	6,297	26,794	61,656
Net income for the period		—	—	—	(8,750)	13,653	4,903
Dividends declared to common shareholders of Capstone	13a&b	1,934	—	—	(21,869)	—	(19,935)
Dividends declared to preferred shareholders of Capstone (5)	13b	—	—	—	(2,900)	—	(2,900)
Dividends declared to NCI		—	—	—	—	(4,825)	(4,825)
Balance, September 30, 2015		814,076	9,284	48,559	(351,936)	225,695	745,678

(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 $89 of deferred income taxes (2014 - $130).

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Sep 30, 2015	Three months ended Sep 30, 2014	Nine months ended Sep 30, 2015	Nine months ended Sep 30, 2014
Revenue		84,140	104,085	255,782	324,895
Operating expenses	16	(41,426)	(49,483)	(124,699)	(157,093)
Administrative expenses	16	(2,210)	(3,856)	(8,160)	(12,008)
Project development costs	16	(992)	(1,263)	(4,445)	(2,277)
Equity accounted income (loss)	7	(892)	(1,974)	(1,579)	(2,640)
Interest income		1,235	1,013	3,374	2,958
Net pension interest income		713	598	2,218	1,829
Other gains and (losses), net	8	2,168	(3,998)	(10,689)	(4,753)
Foreign exchange gain (loss)		2,145	(1,210)	2,720	(2,979)
Earnings before interest expense, taxes, depreciation and amortization		44,881	43,912	114,522	147,932
Interest expense		(14,130)	(13,761)	(42,567)	(40,913)
Depreciation of capital assets	8	(18,505)	(17,516)	(52,237)	(49,924)
Amortization of intangible assets	10	(3,404)	(2,627)	(9,674)	(9,238)
Income before income taxes		8,842	10,008	10,044	47,857
Income tax recovery (expense)					
Current		1,163	(1,338)	2,345	(3,224)
Deferred		(4,984)	(1,834)	(7,486)	(9,926)
Total income tax recovery (expense)		(3,821)	(3,172)	(5,141)	(13,150)
Net income		5,021	6,836	4,903	34,707
Net income attributable to:					
Shareholders of Capstone		301	532	(8,750)	17,066
Non-controlling interest		4,720	6,304	13,653	17,641
		5,021	6,836	4,903	34,707
Earnings per share	14				
Basic		(0.007)	(0.005)	(0.120)	0.146
Diluted		(0.007)	(0.005)	(0.120)	0.146

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Sep 30, 2015	Three months ended Sep 30, 2014	Nine months ended Sep 30, 2015	Nine months ended Sep 30, 2014
Cumulative differences on translation of foreign operations		14,686	(1,675)	49,240	10,355
Other comprehensive income on equity accounted investments	7	—	(436)	80	(1,043)
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2015 - $229 recovery and $13 expense respectively, 2014 - expenses of $5 and $65, respectively)		(1,026)	(74)	(258)	(32)
Total of items that may subsequently be reclassified to net income		13,660	(2,185)	49,062	9,280
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax expense in 2015 - $2,431 and $3,149, respectively, 2014 - $1,552 and $2,185, respectively) - will not be reclassified to net income		9,724	6,212	12,594	8,740
Other comprehensive income (loss)		23,384	4,027	61,656	18,020
Net income		5,021	6,836	4,903	34,707
Total comprehensive income		28,405	10,863	66,559	52,727
Comprehensive income attributable to:					
Shareholders of Capstone		13,155	2,172	26,112	26,561
Non-controlling interest		15,250	8,691	40,447	26,166
		28,405	10,863	66,559	52,727

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended	Notes	Sep 30, 2015	Sep 30, 2014
Operating activities:			
Net income		4,903	34,707
Deferred income tax expense		7,486	9,926
Depreciation and amortization		61,911	59,162
Other gains and losses (net)		(158)	2,729
Amortization of deferred financing costs and non-cash financing costs		1,501	5,627
Equity accounted (income) loss	7	1,579	2,640
Unrealized foreign exchange (gain) loss on loan receivable	5	(2,571)	2,321
Change in non-cash working capital	18	3,158	(19,983)
Total cash flows from operating activities		77,809	97,129
Investing activities:			
Investment in capital assets and intangibles	8	(79,892)	(98,761)
Investment in projects under development	9	(57,188)	(95,427)
Increase (decrease) in restricted cash		35,431	(61,996)
Distributions received from equity accounted investments	7	4,732	5,485
Increase in loan receivable		—	(11,500)
Repayments of loan receivable		979	903
Purchase of foreign currency contracts		—	(900)
Total cash flows used in investing activities		(95,938)	(262,196)
Financing activities:			
Proceeds from long-term debt		129,789	211,794
Repayment of long-term debt and finance lease obligations		(102,230)	(14,834)
Dividends paid to common and preferred shareholders		(22,746)	(22,305)
Dividends paid to non-controlling interests		(4,825)	(7,012)
Transaction costs on debt issuance		(1,011)	(3,761)
Contributions from NCI		—	13,918
Total cash flows from (used in) financing activities		(1,023)	177,800
Effect of exchange rate changes on cash and cash equivalents		1,496	391
Increase (decrease) in cash and cash equivalents		(17,656)	13,124
Cash and cash equivalents, beginning of year		58,842	45,768
Cash and cash equivalents, end of period		41,186	58,892
Supplemental information:			
Interest paid		47,184	30,994
Taxes paid (recovery)		2,568	3,068

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 September 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 November 9, 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 nine 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 both have an effective implementation date beginning on January 1, 2018.

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

5. LOANS RECEIVABLE

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

As at	Sep 30, 2015	Dec 31, 2014
Värmevärden	36,315	33,744
BFN	11,500	11,500
Chapais	469	1,359
Macquarie Long Term Care L.P. ("MLTCLP")	—	89
	48,284	46,692
Less: current portion	(469)	(1,448)
Total long-term loans receivable	47,815	45,244

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

Nine months ended	Sep 30, 2015		Sep 30, 2014	
	SEK	$	SEK	$
Opening balance	227,541	33,744	227,541	37,658
Unrealized foreign exchange gain (loss)	—	2,571	—	(2,321)
Ending balance	227,541	36,315	227,541	35,337

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	Sep 30, 2015	Dec 31, 2014
Derivative contract assets:					
Foreign currency contracts	—	240	—	240	1,717
Forward gas sale contract (1)	—	—	—	—	3,330
Less: Current portion	—	(73)	—	(73)	(4,279)
	—	167	—	167	768
Derivative contract liabilities:					
Interest rate swap contracts for hedging	—	3,097	—	3,097	2,824
Whitecourt embedded derivative (2)	—	—	2,358	2,358	—
Interest rate swap contracts (3)	—	—	—	—	10,507
Cardinal gas purchase agreement (1)	—	—	—	—	4,364
Cardinal embedded derivative (1)	—	—	—	—	168
Less: Current portion	—	—	—	—	(6,620)
	—	3,097	2,358	5,455	11,243

(1) Expired in May 2015.
(2) Whitecourt's embedded derivative consists of a $2,673 fair value asset, fully offset by the $5,031 amortized contra-asset, set up on inception.
(3) Terminated in July 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	4,245	4,092
Long-term debt	1,491,415	1,323,912

(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 Sep 30, 2015	Unobservable input	Estimated input	Relationship of input to fair value
(2,358)	Forward Alberta power pool prices	From $27/MWh to $134/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 $4,486 and increase by $4,553, 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	(155)
Settlement of Whitecourt embedded derivative during the period	(2,467)
Amortization of Whitecourt embedded derivative inception value included in other gains and (losses) in net income	264
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	168
Closing balance, September 30, 2015	(2,358)

(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 at March 2, 2015. 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 %	Sep 30, 2015 Carrying value	Dec 31, 2014 Carrying value
Värmevärden (1)	33.3%	—	3,924
Glen Dhu (2)	49.0%	22,238	24,477
Others (3)	31.3 - 50.0%	587	655
		22,825	29,056

(1) Capstone no longer records equity accounted income (losses) for Värmevärden, as the year-to-date equity accounted losses and distributions exceeded the December 31, 2014 carrying value. For the quarter and year to date, Capstone has unrecognized losses of $1,424, relating to Värmevärden. Until cumulative unrecognized losses and dividends become positive, Capstone will carry its investment at nil and record dividends received as other gains in the statement of income.
(2) 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.
(3) Others are Capstone's investment in Fitzpatrick and Chapais (December 31, 2014 - Fitzpatrick, MLTCLP and Chapais).

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

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

Three months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distributions	Ending balance
September 30, 2015	23,744	(892)	—	(27)	22,825
September 30, 2014	32,293	(1,974)	(436)	—	29,883

Nine months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distributions	Ending balance
September 30, 2015	29,056	(1,579)	80	(4,732)	22,825
September 30, 2014	39,051	(2,640)	(1,043)	(5,485)	29,883

8. CAPITAL ASSETS

As at January 1, 2015 (1)	1,418,187
Additions	78,543
Disposals (2)	(8,611)
Transfers (3)	151,781
Depreciation	(52,237)
Foreign exchange	109,478
As at September 30, 2015	1,697,141

(1) The Confederation Power wind facilities were sold on May 19, 2015.
(2) Disposals include $7,477 of capital asset derecognition for Cardinal assets replaced as part of the conversion to a cycling facility. The derecognition resulted in a loss of $7,477, 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 $1,985 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:

	Nine months ended	
	Sep 30, 2015	Sep 30, 2014
Additions	78,543	101,947
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	(412)	(3,816)
Net foreign exchange difference	1,761	630
Cash additions	79,892	98,761

9. PROJECTS UNDER DEVELOPMENT

As at January 1, 2015	151,361
Capitalized costs during the period [1]	73,929
Transferred to capital assets [2] (refer to note 8)	(153,766)
Transferred to intangibles [2] (refer to note 10)	(6,662)
As at September 30, 2015	64,862

(1) Includes $1,393 of capitalized borrowing costs during the construction of Goulais using the interest rate of the long-term debt (2014 - $1,164).
(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:

	Nine months ended	
	Sep 30, 2015	Sep 30, 2014
Additions	73,929	133,212
Adjustment for change in PUD included in accounts payable and accrued liabilities	(16,741)	(37,785)
Cash additions	57,188	95,427

10. INTANGIBLES

As at January 1, 2015	342,012
Transfers [1]	8,723
Amortization	(9,674)
Disposals	—
Foreign exchange	22,867
As at September 30, 2015	363,928

(1) Includes transfers of $1,985 from capital assets for Bristol Water and $6,662 from projects under development. Refer to notes 8 and 9 respectively.

Refer to note 20, subsequent events for detail regarding goodwill attributed to Bristol Water.

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 September 30, 2015 was $653 (September 30, 2014 - $558). The expense is composed of $605 for Bristol Water and $48 for Cardinal.

Defined Benefit Plan

The retirement benefit surplus on the consolidated statements of financial position as at September 30, 2015 was $107,635 (December 31, 2014 - $78,750).

Employer contributions paid in the three months ended September 30, 2015 to the defined benefit plan were $1,022 (September 30, 2014 - $1,152). The contributions were entirely incurred at Bristol Water.

12. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Sep 30, 2015	Dec 31, 2014
Project debt		
Wind - Operating [(1)]	324,917	202,060
Wind - Development [(2)]	—	136,921
Hydros	86,910	89,902
Solar [(3)]	92,791	82,618
Power	504,618	511,501
Bank loans	141,187	125,877
Term loans	529,370	473,301
Debentures	2,649	2,351
Irredeemable cumulative preferred shares	32,896	29,365
Utilities – water	706,102	630,894
Corporate credit facility	55,000	20,000
Convertible debentures - 2016	42,127	41,728
Convertible debentures - 2017	27,608	27,665
Corporate	124,735	89,393
	1,335,455	1,231,788
Less: deferred financing costs	(11,543)	(11,788)
Long-term debt	1,323,912	1,220,000
Less: current portion	(35,032)	(25,150)
	1,288,880	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.

(B) Financing Changes - Skyway 8, Amherstburg and Saint-Philémon

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%.

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, non-recourse to Capstone. 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%.

On August 4, 2015, the Saint-Philémon construction facility converted to a term facility maturing on May 31, 2034, which has regular principal and interest payments fully amortizing over the remaining term and bears interest at a fixed, annual rate of 5.486%.

(C) Long-term Debt Covenants

For the three and nine months ended and as at September 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	Sep 30, 2015	Dec 31, 2014
Common shares	715,346	713,412
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	814,076	812,142

(A) Common Shares

($000s and 000s shares)	Three months ended Sep 30, 2015 Shares	Three months ended Sep 30, 2015 Carrying Value	Nine months ended Sep 30, 2015 Shares	Nine months ended Sep 30, 2015 Carrying Value
Opening balance	93,920	714,571	93,573	713,412
Dividend reinvestment plan	267	775	614	1,934
Ending balance	94,187	715,346	94,187	715,346

(B) Dividends Declared

	Three months ended		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Common shares	7,064	7,008	21,138	20,984
Class B exchangeable units	244	244	731	731
	7,308	7,252	21,869	21,715
Preferred shares (1)	978	980	2,900	2,940

(1) Includes $41 and $89 of deferred income taxes, for the quarter and year to date respectively (2014 - $42 and $130, respectively)

14. EARNINGS PER SHARE (“EPS”)

	Three months ended		Nine months ended	
	Sep 30, 2015	Sep 30, 2014	Sep 30, 2015	Sep 30, 2014
Net income	5,021	6,836	4,903	34,707
Non-controlling interest	(4,720)	(6,304)	(13,653)	(17,641)
Dividends declared on preferred shares	(978)	(980)	(2,900)	(2,940)
Net income available to common shareholders	(677)	(448)	(11,650)	14,126
Weighted average number of common shares (including Class B exchangeable units) outstanding	97,346	96,659	97,126	96,452
Basic and Diluted EPS (1)	(0.007)	(0.005)	(0.120)	0.146

(1) The 2016 and 2017 convertible debentures were anti-dilutive for all periods in the table above.

15. SHARE-BASED COMPENSATION

(A) Deferred Share Units (“DSU”)

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

Grants during the Nine months ended September 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 3.60 dollar five-day VWAP on April 1, 2015	12,139
Number of units granted at a 3.12 dollar five-day VWAP on July 2, 2015	14,021

(1) Volume weighted average price (“VWAP”)

As at September 30, 2015, the carrying value of all outstanding DSUs was $427 based on a market price of 3.09 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 Nine months ended September 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 September 30, 2015, the carrying value of all outstanding RSUs was $1,688 and $653 for the PSUs based on a VWAP of 3.06 dollars.

Power Development LTIP

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

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

As at September 30, 2015, the carrying value of all outstanding RSUs was $52 based on a VWAP of 3.06 dollars.

Beginning July 1, 2015, the RSU component of the Power Development LTIP was replaced by an all-cash component. Consequently, all future milestone payments will be settled in cash, and only 16,206 of the 2015 RSU grants remain outstanding.

16. EXPENSES BY NATURE

	Three months ended Sep 30, 2015				Three months ended Sep 30, 2014			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	20,698	—	—	20,698	23,912	—	—	23,912
Wages and benefits	9,163	1,809	189	11,161	5,178	2,450	590	8,218
Professional fees [(1)]	2,630	46	732	3,408	1,473	666	381	2,520
Maintenance	1,840	—	—	1,840	1,539	—	—	1,539
Fuel	2,238	—	—	2,238	12,257	—	—	12,257
Bad debts	1,543	—	—	1,543	1,762	—	—	1,762
Insurance	525	(300)	—	225	659	38	—	697
Leases	448	83	—	531	389	111	—	500
Property taxes	576	—	—	576	356	—	—	356
Manager fees	433	—	—	433	420	—	—	420
Other	1,332	572	71	1,975	1,538	591	292	2,421
Total	41,426	2,210	992	44,628	49,483	3,856	1,263	54,602

	Nine months ended Sep 30, 2015				Nine months ended Sep 30, 2014			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	65,931	—	—	65,931	66,523	—	—	66,523
Wages and benefits	25,865	5,931	1,401	33,197	21,257	7,151	980	29,388
Professional fees [(1)]	7,670	1,091	2,751	11,512	3,204	2,516	859	6,579
Maintenance	6,397	—	—	6,397	4,704	—	—	4,704
Bad debts	4,329	—	—	4,329	4,886	—	—	4,886
Fuel	4,396	—	—	4,396	46,461	—	—	46,461
Insurance	1,608	(225)	—	1,383	1,813	120	—	1,933
Leases	1,379	256	—	1,635	1,341	368	—	1,709
Property taxes	1,547	—	—	1,547	1,038	—	—	1,038
Manager fees	1,285	—	—	1,285	1,181	—	—	1,181
Other	4,292	1,107	293	5,692	4,685	1,853	438	6,976
Total	124,699	8,160	4,445	137,304	157,093	12,008	2,277	171,378

(1) Professional fees include legal, audit, tax and other advisory services.

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 Sep 30, 2015					Three months ended Sep 30, 2014				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	27,062	57,078	—	—	84,140	42,929	61,156	—	—	104,085
Depreciation of capital assets	(9,572)	(8,901)	—	(32)	(18,505)	(9,470)	(8,014)	—	(32)	(17,516)
Amortization of intangible assets	(2,374)	(1,019)	—	(11)	(3,404)	(1,675)	(940)	—	(12)	(2,627)
Interest income	318	155	703	59	1,235	213	16	714	70	1,013
Interest expense	(7,000)	(5,645)	—	(1,485)	(14,130)	(6,344)	(6,460)	—	(957)	(13,761)
Income tax recovery (expense)	(778)	(2,469)	(119)	(455)	(3,821)	675	(3,406)	(32)	(409)	(3,172)
Net income (loss)	(2,256)	9,675	1,683	(4,081)	5,021	1,566	12,645	(2,024)	(5,351)	6,836
Cash flow from operations	(3,742)	22,616	(3,816)	(12,235)	2,823	8,346	21,842	(4,599)	(6,364)	19,225
Additions to capital assets	(2,846)	16,844	—	—	13,998	6,972	28,945	—	—	35,917
Additions to PUD	34,232	—	—	—	34,232	101,719	—	—	—	101,719

	Nine months ended Sep 30, 2015					Nine months ended Sep 30, 2014				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	85,162	170,620	—	—	255,782	148,130	176,765	—	—	324,895
Depreciation of capital assets	(26,143)	(25,999)	—	(95)	(52,237)	(27,677)	(22,152)	—	(95)	(49,924)
Amortization of intangible assets	(6,734)	(2,903)	—	(37)	(9,674)	(6,405)	(2,796)	—	(37)	(9,238)
Interest income	1,034	215	2,024	101	3,374	494	115	2,202	147	2,958
Interest expense	(21,414)	(17,082)	—	(4,071)	(42,567)	(18,647)	(18,975)	—	(3,291)	(40,913)
Income tax recovery (expense)	750	(6,552)	21	640	(5,141)	(3,685)	(9,700)	(5)	240	(13,150)
Net income (loss)	(11,145)	26,725	3,113	(13,790)	4,903	16,560	36,035	(2,648)	(15,240)	34,707
Cash flow from operations	45,249	63,247	(1,391)	(29,296)	77,809	52,699	61,665	6	(17,241)	97,129
Additions to capital assets	23,726	54,817	—	—	78,543	12,126	89,821	—	—	101,947
Additions to PUD	73,929	—	—	—	73,929	133,212	—	—	—	133,212

	As at Sep 30, 2015					As at Dec 31, 2014				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	975,553	1,448,395	37,211	6,728	2,467,887	998,130	1,255,890	40,610	5,350	2,299,980
Total liabilities	634,092	968,710	—	119,407	1,722,209	631,283	860,521	—	101,397	1,593,201

Certain comparative figures for the period ended September 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:

	Nine months ended	
	Sep 30, 2015	Sep 30, 2014
Accounts receivable	23,058	(3,379)
Other assets	(5,192)	(9,900)
Accounts payable and other liabilities	(14,708)	(6,704)
	3,158	(19,983)

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 March 12, 2015 judgment, 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

Bristol Water's Regulatory Determination and Review

In December 2014, Ofwat, the economic regulator for the UK water sector, issued a disappointing final determination for the forthcoming five-year regulatory period, known as AMP6. In March 2015, At the request of Bristol Water, the regulator referred the final determination to the UK Competition and Markets Authority ("CMA"), the body responsible for arbitrating regulatory references and appeals. On October 6, 2015 the CMA published its final determination for Bristol Water's AMP6 business plan, which runs until March 31, 2020. Overall, the CMA's price determination enables Bristol Water to deliver an acceptable level of service to its customers, protect the integrity of the water system and is expected to provide its owners, including Capstone, with dividends in line with expectations.

As a result of the outcome of the CMA's final determination, management determined that an impairment assessment trigger for goodwill associated with the Utilities - Water segment resulted, and therefore, performed an impairment test as of September 30, 2015. Management calculated the recoverable amount based on fair value less cost of disposal method and concluded that no impairment charge was required. This method was based on a discounted cash flow model and incorporated assumptions that market participants would use in estimating fair value. The discounted cash flow model incorporates management's best estimates of future cash flows, a post-tax discount rate and terminal value. Management cautions that a change in key assumptions on which the recoverable amount is based may cause the carrying amount of the Utilities - Water segment to exceed its recoverable amount, resulting in an impairment to goodwill.

Financing Changes - Corporate facility expansion and Goulais term conversion

On October 6, 2015, Capstone and its existing lenders increased the capacity of its corporate credit facility by $35,000 to increase the total facility to $125,000. The expanded portion of the corporate credit facility matures January 2016 and the remaining $90,000 was extended by one year, to mature November 2018. The increased capacity enhances financial flexibility and may be used to fund ongoing development projects or other corporate purposes.

On October 9, 2015, the Goulais construction facility converted to a term facility maturing on September 30, 2034, which has regular principal and interest payments fully amortizing over the remaining term and bears interest at a fixed, annual rate of 5.156%.

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 November 9, 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	19
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	50% - 100%	42	IESO	2036E	n/a	n/a	n/a
	SK	2018E	100%	10	SaskPower	2037E	n/a	n/a	n/a
Biomass									
Whitecourt (2)	AB	1994	100%	33.8	(3)	(3)	Millar Western	2030	35
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 270 million litres	Mix of commercial and residential customers.	6,680 kilometres	1.2 million	Ofwat	475

CONTACT INFORMATION

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

Contacts:

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

Aaron Boles
Senior Vice President, Communications
Tel: 416-649-1325
Email: aboles@capstoneinfra.com