CAPSTONE INFRASTRUCTURE CORPORATION ›

Financial Report for the
Quarter Ended June 30, 2013

CAPSTONE
INFRASTRUCTURE

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Earnings Measures ($000s)	Three months ended Jun 30, 2013	Three months ended Jun 30, 2012	Six months ended Jun 30, 2013	Six months ended Jun 30, 2012
Revenue	93,539	85,849	187,794	178,005
Net income	14,636	48	30,534	16,659
Basic earnings per share	0.119	(0.068)	0.264	0.102

Cash Flow Measures ($000s)	Three months ended Jun 30, 2013	Three months ended Jun 30, 2012	Six months ended Jun 30, 2013	Six months ended Jun 30, 2012
Cash flows from operating activities	31,571	23,879	62,200	55,100
Adjusted EBITDA [1]	31,834	27,516	64,176	64,736
Adjusted funds from operations (“AFFO”) [1]	9,014	3,707	22,657	18,623
Payout ratio [1]	63.3%	276.0%	50.3%	121.0%

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

Capital Structure – At Fair Value ($000s)	Jun 30, 2013	Dec 31, 2012
Long-term debt – power	290,263	305,497
Long-term debt – utilities – water [1]	270,613	259,830
Long-term debt – corporate	42,963	44,416
Common shares	276,160	291,955
Class B exchangeable units	12,315	13,093
Preferred shares	51,240	58,200
Debt to capitalization	64.0%	62.7%

(1) Calculated as 50% proportionate share based on ownership interest.

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	72,865,409
Preferred shares outstanding	3,000,000
Convertible debentures outstanding	42,749
Class B exchangeable units	3,249,390
Securities exchange and symbols	Toronto Stock Exchange: CSE, CSE.PR.A, CSE.DB.A

QUARTERLY TRADING INFORMATION

	High	Low	Closing	Average Daily Trading Volume
Common shares	$4.25	$3.76	$3.79	564,000
Preferred shares	$19.50	$16.25	$17.08	4,416
Convertible debentures	$104.90	$100.02	$101.52	544

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LEGAL NOTICE

This document is not an offer or invitation for the subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of any investors. Before making an investment in Capstone Infrastructure Corporation (the "Corporation"), an investors or prospective investors 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”, “estimate”, “plan”, “believe” or other similar words, and include, among other things, statements found in "Message to Shareholders" and “Results of Operations” concerning the guidance provided on the Corporation's post transaction profile. 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, 2012 under the heading “Results of Operations”, as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's profile on 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 acquisition (the "ReD Acquisition") of all the common shares of Renewable Energy Developers Inc. ("ReD") will be completed by the end of the third quarter of 2013; that the business and economic conditions affecting the Corporation's and ReD'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 ReD`s power infrastructure development projects achieving commercial operation; that Capstone`s and ReD`s power infrastructure facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; an effective TransCanada pipeline ("TCPL") gas transportation toll of approximately $1.95 per gigajoule in 2013; that there will be no material change in the level of gas mitigation revenue historically earned by the Cardinal facility; that there will be no material changes to the Corporation's or ReD's facilities, equipment or contractual arrangements, no material changes in the legislative, regulatory and operating framework for the Corporation's or ReD's businesses, no material delays in obtaining required approvals and no material changes in rate orders or rate structures for the Capstone`s and ReD`s power infrastructure facilities, Värmevärden or Bristol Water, no material changes in environmental regulations for power infrastructure facilities, Värmevärden or Bristol Water and no significant event occurring outside the ordinary course of business; that the amendments to the regulations governing the mechanism for calculating the Global Adjustment (which affects the calculation of the direct customer rate ("DCR") escalator under the power purchase agreement ("PPA") for the Cardinal facility and price escalators under the PPAs for the hydro power facilities located in Ontario) will continue in force; that there will be no material change to the accounting treatment for Bristol Water's business under International Financial Reporting Standards, particularly with respect to accounting for maintenance capital expenditures; that there will be no material change to the amount and timing of capital expenditures by Bristol Water; that there will be no material changes to the Swedish Krona to Canadian dollar and British pound to Canadian dollar exchange rates; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying asset management plan 5 ("AMP5"), including, among others: real and inflationary increases in Bristol Water's revenue, Bristol Water's expenses increasing in line with inflation, 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: the conditions of the ReD Acquisition not being satisfied; risks related to the integration of the Corporation`s and ReD`s businesses; 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 and development; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); risks related to the Power Infrastructure Facilities (power purchase agreements; operational performance; fuel costs and supply; contract performance; land tenure and related rights; environmental; regulatory environment); 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); and risks related to Värmevärden (operational performance; fuel costs and availability; industrial and residential contracts; environmental; regulatory environment; and labour relations).

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

I am pleased to report on Capstone Infrastructure's second quarter results, recent activities and outlook.

We achieved strong overall business performance in the quarter, reflecting the quality of our businesses and sound operations across our portfolio.

Revenue increased by 9.0% over the same quarter in 2012, and by 5.5% on a year-to-date basis, mostly due to higher power generation at Cardinal and Erie Shores and to increased revenue at Bristol Water arising from a higher regulated water rate, which increases annually.

Total expenses increased by 6.9% in the second quarter over the same period last year and by 5.0% in the first six months of 2013. The variance reflected higher operating expenses, primarily due to higher fuel costs at Cardinal related to higher production, increased project development costs mostly related to the planned acquisition of Renewable Energy Developers Inc. (ReD), and higher operations and maintenance fees at Bristol Water. These factors were partially offset by lower administrative expenses, which declined by 30.9% in the quarter and by 18.7% in the first six months of 2013.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA) increased by 15.7% in the quarter, reflecting higher power production and a higher dividend from Värmevärden as surplus cash attributable to prior years' performance became available for distribution. Adjusted EBITDA for the first six months of the year declined by 0.9%, primarily reflecting our lower ownership interest in Bristol Water effective May 10, 2012 and lower electricity production in the first quarter of 2013.

Adjusted Funds from Operations (AFFO) increased by 143.2% in the quarter and by 21.7% in the first six months of the year, due to lower maintenance capital expenditures at Cardinal, a higher dividend from Värmevärden, lower administrative expenses and lower interest costs resulting from the repayment of our senior credit facility in the second quarter of 2012.

Our quarterly payout ratio, which is based on AFFO, was 63% compared with 276% in the same quarter last year, and 50% in the first six months of 2013 compared with 121% in the same period of 2012, reflecting strong financial performance and the common share dividend of $0.30 per share annually we established in June 2012. We are targeting a long-term average payout ratio of approximately 70% to 80%.

As described on page 20, we ended the quarter in a solid financial position and a debt-to-capitalization ratio of 64%. Notably, our outstanding debt is almost entirely fixed rate or linked to inflation and is predominantly secured at the operating business level, which means it is non-recourse to Capstone. Approximately 95% of the long-term debt at our power facilities is scheduled to amortize over our PPA terms. At Bristol Water, 84% of long-term debt has a maturity longer than 10 years. Our capital structure at the corporate and subsidiary level aligns with the cash flow profile and duration of our businesses and gives us the flexibility to pursue new investments.

We are also making progress on our strategic priorities for 2013.

On Cardinal, during the quarter we held regular meetings with the Ontario Power Authority (OPA) that focused on a long-term solution for Cardinal, which will enable us to proceed with our plans to reconfigure and expand the facility, rather than on extending the existing power purchase agreement (PPA). While the process has been much longer than we anticipated when Cardinal was selected for negotiations in 2011, we continue to believe our facility has a compelling value proposition. Gas cogeneration is flexible and cost-effective energy, which makes high quality plants like Cardinal important to Ontario's electricity supply mix. This is particularly true given the increasing amount of intermittent renewable energy within Ontario's electricity supply and uncertainty about the future of nuclear power in the province.

Another priority for 2013 is to maximize the performance of our businesses, which includes preventive maintenance, detailed planning for capital expenditures, and finding new ways to increase cash flow.

During the quarter, our power facilities achieved high availabilities and total production was slightly above long-term averages. At Erie Shores, we invested in WindBOOST, a software tool that we expect to help increase annual energy production by 1% to 3%, thereby improving the economic profile of the facility.

At Bristol Water, the team is continuing to advance the company's $460 million capital program for the current five-year asset management plan (AMP5), which concludes in March 2015. As at June 30, 2013, Bristol Water's cumulative capital expenditures in AMP5 were $299 million, about $34 million less than the original plan agreed with the regulator. During the quarter, Bristol Water reduced its shortfall by 11% as cumulative capital expenditures for regulatory purposes increased by $38 million. This capital expenditure program, which is aimed at improving and expanding Bristol Water's network of reservoirs, treatment facilities, water mains and pipes, will drive growth in Bristol Water's regulated capital value and ultimately lead to growing dividends and considerable value for our shareholders in the years ahead.

At Värmevärden, management is continuing to implement favourable retail pricing adjustments and to improve plant availability, which will contribute to cash flow growth over time.

Finally, an important focus for 2013 is to build upon our power and utilities platforms. On July 3, 2013, we entered into a definitive agreement to acquire 100% of the issued and outstanding shares of ReD by issuing common shares of Capstone pursuant to a plan of arrangement. With the addition of ReD, Capstone will gain new operating wind power facilities in Ontario and Nova Scotia, which will make us a larger infrastructure company with power generation facilities across Canada totaling approximately net 465 megawatts (MW) of installed capacity. We will gain an attractive pipeline of contracted development opportunities in Nova Scotia, Ontario, Saskatchewan and Quebec representing net 79 MW of capacity, some of which are slated to begin construction in 2013. These development projects are expected to reach commercial operations over 2014 and 2015, which will help to offset the impact of the Cardinal's PPA expiry. In addition, we expect this initiative will complement Capstone Power Development, our development subsidiary, and bolster our ability to successfully source, pursue and execute earlier-stage power opportunities. Pending shareholder approvals in early September and the satisfaction of other conditions and consents, we expect the transaction to close by the end of the third quarter of 2013.

For 2013, we expect continuing stable performance from our businesses, as described on pages 14 to 18 of this report. With the completion of the ReD transaction, we expect to deliver Adjusted EBITDA of approximately $115 million to $125 million in 2013, reflecting the partial year contribution from ReD's operating wind power facilities offset by higher administration expenses as well as transaction-related costs and assuming the transaction is completed by the end of the third quarter of 2013. The other assumptions underlying our forecast are described on page 2 of this report.

Capstone's vision is to be Canada's pre-eminent diversified infrastructure company, one that delivers an attractive risk-adjusted return to shareholders by providing reliable income and capital appreciation. While we understand that shareholders are concerned about Cardinal's future, we believe Capstone is underpinned by strong fundamentals and that our company will have a bright future.

Thank you for your continuing support.

Sincerely,

Michael Bernstein
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated operating results for the three and six months ended June 30, 2013, and the consolidated cash flows for the six months ended June 30, 2013 with the comparative prior periods, and the Corporation's financial position as at June 30, 2013 and December 31, 2012. This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at and for the three and six months ended June 30, 2013 and the financial statements and MD&A for the year ended December 31, 2012. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 21, 2013 and its Annual Report for the year ended December 31, 2012. 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. The information contained in this MD&A reflects all material events up to August 12, 2013, 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)		British pound (£)	
As at and for the periods ended	**Average**	**Spot**	**Average**	**Spot**
Year ended December 31, 2012	0.148	0.153	1.584	1.618
Quarter ended March 31, 2013	0.157	0.156	1.564	1.542
Quarter ended June 30, 2013	0.156	0.156	1.571	1.599

CHANGES IN THE BUSINESS

No significant changes occurred in the business during the first six months of 2013.

SUBSEQUENT EVENTS

Acquisition of ReD

On July 3, 2013, Capstone entered into a definitive agreement to acquire 100% of the issued and outstanding shares of Renewable Energy Developers Inc. ("ReD") by issuing common shares of Capstone, pursuant to a plan of arrangement (the "Transaction"). Under the terms of the Transaction, shareholders of ReD will receive 0.26 of a Capstone common share and $0.001 in cash for each share of ReD. Closing of the Transaction is subject to the approval of both Capstone and ReD shareholders and consents from certain third parties.

ReD is an owner, operator and developer of renewable energy projects in Canada. As at December 31, 2012, ReD had total assets of $236,816 and revenue of $16,688. Capstone will consolidate ReD upon completion of the Transaction.

The addition of ReD will result in Capstone becoming a larger infrastructure company with power generation facilities across Canada totaling approximately net 465 megawatts ("MW") of installed capacity, an attractive pipeline of contracted development opportunities in Canada representing net 79 MW of capacity, and international investments in regulated water and district heating businesses.

NON-GAAP AND ADDITIONAL GAAP PERFORMANCE MEASURE DEFINITIONS

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 non-GAAP and additional 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 non-GAAP and additional GAAP measures used in this MD&A are defined below.

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

EBITDA is net income, including that net income related to the non-controlling interest ("NCI"), interest income and net pension interest income excluding interest expense, income taxes, depreciation and amortization. EBITDA represents Capstone's continuing 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 consolidated statement of income.

Adjusted EBITDA

Adjusted EBITDA is calculated as revenue less operating and administrative expenses and project development costs plus interest income and dividends or distributions received from equity accounted investments. Amounts attributed to any non-controlling interest are deducted. Adjusted EBITDA for the investment in Bristol Water is included at Capstone's proportionate ownership interest. For the period from October 5, 2011 to May 10, 2012, Capstone held a 70% ownership interest. This ownership interest was reduced to 50% upon the partial sale of Bristol Water on May 10, 2012. The reconciliation of Adjusted EBITDA to EBITDA is provided below.

Adjusted Funds from Operations ("AFFO")

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 income, taxes paid 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 dividends received. Also deducted are corporate expenses and dividends on preferred shares.

AFFO is calculated from Adjusted EBITDA by:

Deducting:

- Adjusted EBITDA generated from businesses with significant non-controlling interests

Adding:

- Dividends received from businesses with significant non-controlling interests
- Scheduled repayments of principal on loans receivable from equity accounted investments

Deducting items, for businesses without significant non-controlling interests:

- 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, net of changes to the levelization liability up to repayment on June 6, 2012.

Payout Ratio

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

Reconciliation of Non-GAAP Performance measures

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

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
EBITDA	46,248	33,511	93,246	81,158
Foreign exchange (gain) loss	28	652	(721)	(452)
Other (gains) and losses, net	(7,181)	2,163	(9,717)	760
Equity accounted (income) loss	1,690	602	1,105	(843)
Distributions from equity accounted investments	3,104	983	3,104	983
Net pension interest income	(422)	(730)	(811)	(1,429)
Non-controlling interest ("NCI") portion of Adjusted EBITDA	(11,633)	(9,665)	(22,030)	(15,441)
Adjusted EBITDA	31,834	27,516	64,176	64,736
Cash flow from operating activities	31,571	23,879	62,200	55,100
Bristol Water cash flow from operating activities	(14,357)	(15,521)	(31,314)	(31,884)
Bristol Water dividends paid to Capstone	1,479	4,868	3,088	4,868
Distributions from equity accounted investments	3,104	983	3,104	983
Foreign exchange on loans receivable from Värmevärden	4	(145)	30	(536)
Chapais loans receivable principal repayments	270	243	533	479
Power maintenance capital expenditures	(743)	(2,857)	(1,146)	(3,326)
Power and corporate scheduled principal repayments	(4,759)	(5,364)	(7,447)	(6,646)
Power and corporate working capital changes	(6,617)	(1,441)	(4,515)	1,461
Dividends on redeemable preferred shares	(938)	(938)	(1,876)	(1,876)
AFFO	9,014	3,707	22,657	18,623

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were higher than in the second quarter of 2012. Adjusted EBITDA was slightly lower on a year-to-date basis while AFFO was higher as reflected in the following table.

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Revenue	93,539	85,849	187,794	178,005
Expenses	(54,193)	(50,694)	(106,813)	(101,686)
Interest income	1,017	1,043	2,121	2,875
Distributions from equity accounted investments	3,104	983	3,104	983
Less: non-controlling interest ("NCI")	(11,633)	(9,665)	(22,030)	(15,441)
Adjusted EBITDA	31,834	27,516	64,176	64,736
Adjusted EBITDA of consolidated businesses with NCI	(11,619)	(13,623)	(21,999)	(27,100)
Dividends from businesses with non-controlling interests	1,479	4,868	3,088	4,868
Principal from loans receivable	270	243	533	479
Interest paid	(6,158)	(6,045)	(10,861)	(12,083)
Dividends paid on Capstone's preferred shares	(938)	(938)	(1,876)	(1,876)
Income taxes (paid) recovery	(352)	(93)	(1,811)	(429)
Maintenance capital expenditures	(743)	(2,857)	(1,146)	(3,326)
Scheduled repayment of debt principal	(4,759)	(5,364)	(7,447)	(6,646)
AFFO	9,014	3,707	22,657	18,623
AFFO per share	0.119	0.049	0.298	0.249
Payout ratio	63.3%	276.0%	50.3%	121.0%
Dividends declared per share	0.075	0.135	0.150	0.300

Revenue for the quarter was $7,690, or 9.0%, higher than in 2012 and $9,789, or 5.5%, higher on a year-to-date basis. The increases were primarily attributed to $6,116 and $6,717 of higher revenue within the power segment for the quarter and year-to-date, respectively. The increases within the power segment resulted from higher power generation due to fewer maintenance outages and increased power rates at Cardinal, and better wind conditions at Erie Shores. In addition, Bristol Water's revenue was $1,632 and $4,170 higher in the quarter and year-to-date, respectively, due to the annual increase in regulated water tariffs.

Expenses for the quarter were $3,499, or 6.9%, higher than in 2012, and $5,127, or 5.0%, higher on a year-to-date basis.

- Operating expenses increased by $3,069 during the quarter and $4,593 on a year-to-date basis, primarily due to Cardinal and Bristol Water. Cardinal's operating expenses increased $1,595 for the quarter and $2,326 year-to-date as more fuel was used to support higher production. Bristol Water's operating expenses increased $1,549 for the quarter and $2,333 year-to-date due to higher operations and maintenance fees paid to Agbar (Sociedad General de Aguas de Barcelona) ("Agbar") and inflation on energy, consumables, wages and salaries, and sub-contracting activities.
- Administrative expenses decreased by $1,127 during the quarter and $1,080 on a year-to-date basis, primarily due to lower professional fees and staff costs.
- Project development costs increased by $1,557 during the quarter and $1,614 on a year-to-date basis, primarily due to increased business development activities during the quarter related to the planned acquisition of ReD.

Distributions from equity accounted investments were $2,121, or 216%, higher than in 2012 on a quarterly and year-to-date basis due to distribution of surplus cash attributable to prior years' performance.

Dividends from businesses with non-controlling interests for the quarter were $3,389, or 69.6%, lower than in 2012 and $1,780, or 36.6%, lower on a year-to-date basis.The decrease for the quarter related to the change in payment frequency at Bristol Water from semi-annually to quarterly. Additionally, the decrease for the quarter and year-to-date were impacted by the lower ownership interest versus 2012.

Interest paid for the quarter was $113, or 1.9%, higher than in 2012 and $1,222, or 10.1%, lower on a year-to-date basis. The decrease for the year-to-date was primarily due to $1,907 less interest following the repayment of the senior debt facility and reduction of the CPC-Cardinal debt facility in the second quarter of 2012. This was partially offset by a $1,168 increase in interest for the hydro facilities' debt, which was issued in June 2012.

Interest paid by Bristol Water is excluded from Capstone's definition of AFFO and is 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 is attributed to amortization of financing costs and interest accruals.

Maintenance capital expenditures for the quarter were $2,114, or 74.0%, lower than in 2012 and $2,180, or 65.5%, lower on a year-to-date basis. The decreases were primarily attributed to Cardinal's 2012 hot gas path maintenance outage, which occurs every three years.

Scheduled repayment of debt principal for the quarter was $605, or 11.3%, lower than in 2012 and $801, or 12.1%, higher on a year-to-date basis. The year-to-date increase was primarily due to debt repayments resulting from the hydro facilities' debt, which was established in June 2012.

Results by Segment

Capstone's results are segmented into power facilities 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 project development. The utilities segments include 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 Bristol Water 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 provides interest income and dividends.

Non-GAAP performance measures

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

	Three months ended			Six months ended		
	Jun 30, 2013	Jun 30, 2012	Change	Jun 30, 2013	Jun 30, 2012	Change
Power	20,320	15,927	4,393	43,682	40,487	3,195
Utilities – water	11,619	13,623	(2,004)	21,999	27,100	(5,101)
Utilities – district heating	3,810	1,637	2,173	4,509	2,988	1,521
Corporate	(3,915)	(3,671)	(244)	(6,014)	(5,839)	(175)
Adjusted EBITDA	31,834	27,516	4,318	64,176	64,736	(560)
Power	10,627	4,016	6,611	26,752	22,809	3,943
Utilities – water	1,479	4,868	(3,389)	3,088	4,868	(1,780)
Utilities – district heating	3,810	1,637	2,173	4,509	2,988	1,521
Corporate	(6,902)	(6,814)	(88)	(11,692)	(12,042)	350
AFFO	9,014	3,707	5,307	22,657	18,623	4,034

Power

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2012:

Change for the Three months ended Jun 30, 2013	Change for the Six months ended Jun 30, 2013	Explanations
3,718	3,815	Impact of higher availability in 2013 attributable to Cardinal's hot gas path inspection in 2012.
508	1,081	Higher revenue at Cardinal due to a PPA rate increase.
(505)	(1,137)	Higher operating expenses at Cardinal due to price increases.
627	240	Higher revenue at Whitecourt primarily attributable to higher average power pool prices.
181	(765)	Impact of variations in wind, hydrology and sunlight on revenue.
(136)	(39)	Various other changes.
4,393	3,195	Change in Adjusted EBITDA.
77	(1,486)	Higher first quarter 2013 debt interest and principal payments primarily for the hydro facilities' debt, which was established in June 2012.
1,856	2,033	Higher Cardinal maintenance capital expenditures in 2012 primarily due to the hot gas path inspection.
285	201	Various other changes.
6,611	3,943	Change in AFFO.

Utilities – water

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2012:

Change for the Three months ended Jun 30, 2013	Change for the Six months ended Jun 30, 2013	Explanations
(1,979)	(6,135)	Impact of sale of 20% interest in Bristol Water on May 10, 2012.
147	1,545	Business performance increase primarily due to higher revenue as a result of annual increase in regulated water tariffs, offset by higher operating expenses.
(172)	(511)	Impact of foreign exchange on Adjusted EBITDA.
(2,004)	(5,101)	Change in Adjusted EBITDA.
(1,391)	(1,391)	Impact of sale of 20% interest in Bristol Water on May 10, 2012.
(1,740)	—	Impact of change in dividend frequency to quarterly from semi-annual in 2012.
(258)	(303)	Other business performance variances.
—	(86)	Impact of foreign exchange on AFFO
(3,389)	(1,780)	Change in AFFO.

Utilities – district heating

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2012:

Change for the Three months ended Jun 30, 2013	Change for the Six months ended Jun 30, 2013	Explanations
—	(728)	Lower interest income following the March 2012 partial repayment of the shareholder loan from Värmevärden refinancing proceeds.
2,070	2,070	Higher dividend due to distribution of surplus cash attributable to prior years' performance.
103	179	Impact of foreign exchange.
2,173	1,521	Change in Adjusted EBITDA and AFFO.

Corporate

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2012:

Change for the Three months ended Jun 30, 2013	Change for the Six months ended Jun 30, 2013	Explanations
1,127	1,080	Lower administrative expenses due to lower professional fees and staff costs.
(1,384)	(1,276)	Higher project development costs primarily due to diligence costs for the acquisition of ReD.
13	21	Higher interest income due to higher average cash balances.
(244)	(175)	Change in Adjusted EBITDA.
415	1,907	Lower interest paid on debt primarily due to second quarter 2012 repayment of the senior debt facility and the corporate component of the CPC-Cardinal debt facility.
(259)	(1,382)	Higher taxes paid primarily due to the final payment of 2012 taxes for the preferred share dividends.
(88)	350	Change in AFFO.

Net income

Net income for each business segment was as follows:

Net Income	Three months ended Jun 30, 2013	Three months ended Jun 30, 2012	Six months ended Jun 30, 2013	Six months ended Jun 30, 2012
Power	14,565	(3,016)	27,250	10,386
Utilities – Water	9,241	10,153	16,998	19,922
Utilities – District Heating	(1,009)	(752)	1,046	3,843
Corporate	(8,161)	(6,337)	(14,760)	(17,492)
Total	14,636	48	30,534	16,659

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

($000s)	Three months ended Jun 30, 2013	Three months ended Jun 30, 2012	Six months ended Jun 30, 2013	Six months ended Jun 30, 2012
Adjusted EBITDA	31,834	27,516	64,176	64,736
Adjustment of Värmevärden distributions to equity accounted income	(4,794)	(1,585)	(4,209)	(140)
NCI portion of Adjusted EBITDA	11,633	9,665	22,030	15,441
Other gains and (losses), net	7,181	(2,163)	9,717	(760)
Foreign exchange gain (loss)	(28)	(652)	721	452
Interest expense	(11,172)	(12,728)	(22,186)	(27,592)
Net pension interest income	422	730	811	1,429
Depreciation and amortization	(14,807)	(14,065)	(29,466)	(28,088)
Income tax recovery (expense)	(5,633)	(6,670)	(11,060)	(8,819)
Net income	14,636	48	30,534	16,659

Infrastructure - Power

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

Three months ended Jun 30, 2013	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	307.9	56.2	47.2	58.4	12.5	n/a	482.2
Capacity factor	96.9%	26.0%	92.6%	74.8%	28.6%	n/a	n.m.f
Availability	98.9%	96.0%	93.1%	99.1%	99.9%	n/a	n.m.f
Revenue	26,692	5,516	4,024	4,673	5,285	—	46,190
Expenses	(21,159)	(811)	(2,855)	(754)	(294)	(173)	(26,046)
Interest income	31	27	92	15	11	—	176
Adjusted EBITDA	5,564	4,732	1,261	3,934	5,002	(173)	20,320
Principal from loans receivable	—	—	270	—	—	—	270
Interest paid	(132)	(1,448)	—	(1,217)	(1,664)	—	(4,461)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(176)	(354)	(134)	(79)	—	—	(743)
Scheduled repayment of debt principal	(250)	(1,376)	—	(1,265)	(1,868)	—	(4,759)
AFFO	5,006	1,554	1,397	1,373	1,470	(173)	10,627

Three months ended Jun 30, 2012	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	251.4	47.5	47.8	63.8	13.7	n/a	424.2
Capacity factor	78.7%	22.0%	93.2%	81.8%	31.3%	n/a	n.m.f
Availability	83.1%	98.1%	93.6%	99.8%	97.9%	n/a	n.m.f
Revenue	21,441	4,651	3,398	4,945	5,697	—	40,132
Expenses	(19,564)	(1,009)	(2,585)	(843)	(352)	—	(24,353)
Interest income	14	9	117	3	5	—	148
Adjusted EBITDA	1,891	3,651	930	4,105	5,350	—	15,927
Principal from loans receivable	—	—	243	—	—	—	243
Interest paid	(90)	(1,546)	(2)	(542)	(1,753)	—	(3,933)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(2,032)	(129)	(464)	(232)	—	—	(2,857)
Scheduled repayment of debt principal	—	(1,298)	(32)	(2,204)	(1,830)	—	(5,364)
AFFO	(231)	678	675	1,127	1,767	—	4,016

(1) Includes receipts from interest and loan receivable on Capstone's 31.3% equity interest in the Chapais facility. Statistics for power generated, capacity factors and availability do not include the Chapais facility.

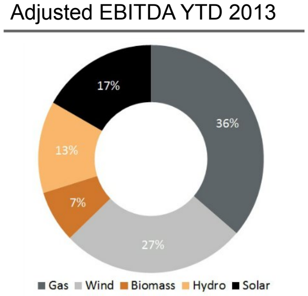
Six months ended Jun 30, 2013	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	655.3	137.0	96.6	85.3	18.6	n/a	992.8
Capacity factor	99.0%	31.9%	96.0%	54.9%	21.2%	n/a	n.m.f
Availability	99.4%	97.4%	96.4%	99.1%	99.7%	n/a	n.m.f
Revenue	59,997	13,450	7,792	7,206	7,949	—	96,394
Expenses	(44,083)	(1,832)	(4,852)	(1,487)	(595)	(338)	(53,187)
Interest income	60	50	315	28	22	—	475
Adjusted EBITDA	15,974	11,668	3,255	5,747	7,376	(338)	43,682
Principal from loans receivable	—	—	533	—	—	—	533
Interest paid	(268)	(2,915)	—	(2,443)	(3,244)	—	(8,870)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(239)	(368)	(182)	(357)	—	—	(1,146)
Scheduled repayment of debt principal	(500)	(2,733)	—	(2,030)	(2,184)	—	(7,447)
AFFO	14,967	5,652	3,606	917	1,948	(338)	26,752

Six months ended Jun 30, 2012	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	593.3	131.4	100.9	94.5	20.4	n/a	940.5
Capacity factor	87.9%	30.4%	96.3%	60.6%	23.4%	n/a	n.m.f
Availability	91.5%	98.5%	96.6%	99.8%	95.2%	n/a	n.m.f
Revenue	53,853	12,877	7,552	7,911	8,582	—	90,775
Expenses	(41,757)	(1,968)	(4,588)	(1,588)	(688)	—	(50,589)
Interest income	29	16	241	3	12	—	301
Adjusted EBITDA	12,125	10,925	3,205	6,326	7,906	—	40,487
Principal from loans receivable	—	—	479	—	—	—	479
Interest paid	(293)	(3,109)	(4)	(1,275)	(3,504)	—	(8,185)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(2,272)	(129)	(631)	(294)	—	—	(3,326)
Scheduled repayment of debt principal	—	(2,577)	(63)	(1,908)	(2,098)	—	(6,646)
AFFO	9,560	5,110	2,986	2,849	2,304	—	22,809

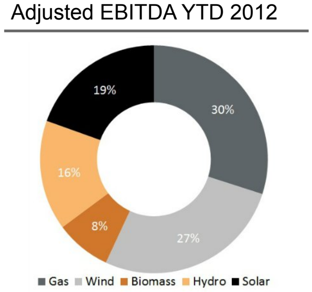
(1) Includes receipts from interest and loan receivable on Capstone's 31.3% equity interest in the Chapais facility. Statistics for power generated, capacity factors and availability do not include the Chapais facility.

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

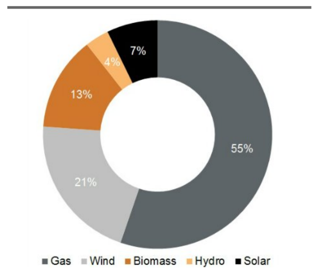
Adjusted EBITDA YTD 2013



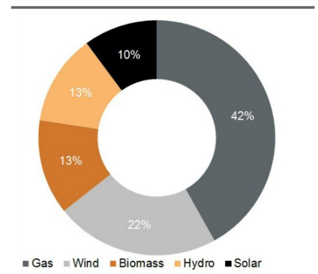
Adjusted EBITDA YTD 2012



AFFO YTD 2013



AFFO YTD 2012



Revenue for the quarter was $6,058, or 15.1%, higher than in 2012 and $5,619, or 6.2%, higher year-to-date. Strong performances in both periods at Cardinal and Erie Shores led to increased total power generation, which, combined with higher power pool prices at Whitecourt and rate increases at Cardinal, resulted in higher revenue. These drivers were partially offset by lower power generation at the hydro power facilities and Amherstburg due to unfavourable hydrology and solar resources, respectively, during the second quarter and year-to-date periods.

Expenses for the quarter were $1,693, or 7.0%, higher than in 2012 and $2,598, or 5.1%, higher year-to-date primarily due to Cardinal. Cardinal's operating expenses for the quarter were $1,595 higher than in 2012 and $2,326 higher year-to-date, primarily due to increased fuel consumption to support higher production. Power project development costs were $173 and $338 higher in the quarter and year-to-date periods, respectively. Power project development costs mainly include salaries and overhead for Capstone's new power development subsidiary, which was established in December 2012.

Interest income for the quarter was $28, or 18.9%, higher than in 2012 and $174, or 57.8%, higher year-to-date. The year-to-date increase was primarily related to receipt of a $125 semi-annual interest payment on Tranche B of the Chapais loan receivable. Interest payments on Tranche B continue to be at the discretion of Chapais management.

Interest paid for the quarter was $528, or 13.4%, higher than in 2012 and $685, or 8.4%, higher in the year-to-date period, primarily due to the hydro facilities' financing in June 2012. The $1,168 increase in year-to-date interest costs at the hydro power facilities was partially offset by $454 less interest paid on the Amherstburg and Erie Shores debts due to amortization of the outstanding balance.

Maintenance capital expenditures for the quarter were $2,114 lower than in 2012 and $2,180 lower year-to-date following Cardinal's hot gas path inspection in 2012.

Scheduled repayment of debt principal for the quarter was $605, or 11.3%, lower than in 2012 and $801, or 12.1%, higher year-to-date. The year-to-date increase was primarily due to a $122 increase for the hydro facilities and a $500 increase for Cardinal arising from the new or amended credit facilities from the second and third quarters of 2012, respectively.

Seasonality

Results for Capstone's power segment fluctuate during the year due to seasonal factors that affect quarterly production at each facility. These factors include scheduled maintenance, seasonal electricity demands and environmental factors such as water flows, sunlight, wind speed and density, and 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:

			Actual	Average long-term production (GWh) (1)				
Type	Facility	PPA Expiry	Q2	Q1	Q2	Q3	Q4	Annual
Gas	Cardinal	2014	307.9	343.4	281.4	303.5	333.3	1,261.6
Wind	Erie Shores	2026	56.2	76.9	53.0	34.0	76.9	240.8
Biomass	Whitecourt	2014	47.2	50.2	45.5	50.1	49.3	195.1
Hydro	Various	2017 - 2042	58.4	31.6	57.2	29.0	40.9	158.7
Solar	Amherstburg	2031	12.5	6.4	13.1	12.5	5.9	37.9
Total			482.2	508.5	450.2	429.1	506.3	1,894.1

(1) Average long-term production is from March 2005 to June 30, 2013, except for Erie Shores, which is from June 2006, and Amherstburg, which is from July 2011.

Outlook

In 2013, Capstone expects slightly higher revenue from higher power production, which will be partially offset by increased development costs.

Capstone's power facilities are expected to perform consistently with long-term average production for the remainder of 2013, subject to variations in wind, water flows, ambient temperatures and sunlight. Capstone expects Cardinal's production will be consistent with its long-term average for the remainder of 2013 and that the facility will incur lower average fuel transportation costs due to a lower average effective gas transportation rate in 2013 of $1.95 per GJ compared with $2.24 per GJ in 2012, based on the National Energy Board's decision on March 27, 2013 to fix multi-year tolls on TransCanada's Mainline and TransCanada's subsequent compliance filing outlining the resultant tolls, which went into effect on July 1, 2013.

Capstone's new power development subsidiary is expected to increase costs in the power segment as Capstone pursues and develops new business opportunities.

Overall, Capstone expects the net impact of these factors to result in a higher Adjusted EBITDA for the power segment in 2013 compared with 2012.

Infrastructure - Utilities

Water

Capstone's water utilities segment includes a 50% ownership interest in Bristol Water, which is located in the United Kingdom. Capstone initially acquired a 70% interest in October 2011 and subsequently sold a 20% indirect interest in Bristol Water to a subsidiary of ITOCHU Corporation.

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Water supplied (megalitres)	20,695	21,359	39,933	41,122
Revenue	47,349	45,717	91,400	87,230
Operating expenses	(24,211)	(22,662)	(47,579)	(45,246)
Interest income	114	233	208	557
Adjusted EBITDA before non-controlling interest	23,252	23,288	44,029	42,541
Less: non-controlling interest ("NCI")	(11,633)	(9,665)	(22,030)	(15,441)
Adjusted EBITDA	11,619	13,623	21,999	27,100
Adjusted EBITDA of consolidated businesses with NCI	(11,619)	(13,623)	(21,999)	(27,100)
Dividends from businesses with NCI	1,479	4,868	3,088	4,868
AFFO	1,479	4,868	3,088	4,868

Revenue for the quarter was $1,632, or 3.6%, higher than in 2012 and $4,170, or 4.8%, higher year-to-date; and $2,172 or 5.5% and $5,200, or 5.9%, excluding foreign currency translation. The increase in both periods was primarily due to the annual increase in water tariffs, which occurred on April 1, 2013, partially offset by lower water demand predominantly attributed to above average rainfall and reduction in network leakage.

Operating expenses for the quarter were $1,549, or 6.8%, higher than in 2012 and $2,333, or 5.2%, higher year-to-date; and $1,817 or 8.5% and $2,867, or 6.3%, excluding foreign currency translation. The increase in both periods was primarily attributed to higher operations and maintenance outperformance fees paid to Agbar, and inflation on energy, consumables, wages and salaries, and sub-contracting activities.

Interest income for the quarter was $119, or 51.1%, lower than in 2012 and $349, or 62.7%, lower year-to-date, reflecting lower average cash and short-term investment balances due to the use of surplus cash balances to fund the capital expenditure program.

Non-controlling interest increased on May 10, 2012 following Capstone's sale of a 20% interest in Bristol Water. Capstone's Adjusted EBITDA was reduced for Agbar's 30% interest over both periods and ITOCHU's 20% interest beginning May 10, 2012.

Dividends paid by Bristol Water for the quarter were $3,389 lower than in 2012 and $1,780 lower year-to-date. The decrease for the quarter was due to the change in payment frequency from semi-annually to quarterly and also a lower ownership interest versus 2012.

Capital expenditures

The approved and planned capital expenditures for the current asset management plan ("AMP5") period, which concludes in March 2015, is approximately $460,000, or £286,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at June 30, 2013, cumulative capital expenditures incurred during AMP5 were $299,000, which were $34,000 lower than the original plan agreed with Ofwat. Bristol Water's focus on meeting the AMP5 capital target has reduced the shortfall by 11% as cumulative capital expenditures for regulatory purposes increased $38,000 during the quarter ended June 30, 2013. The shortfall was primarily the result of delays at the start of AMP5 due to the Competition Commission review process. Capstone expects its cumulative expenditures over AMP5 to achieve the regulator-approved capital expenditure.

Seasonality

Bristol Water experiences little seasonal variation in demand resulting in stable revenues 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.

Regulatory

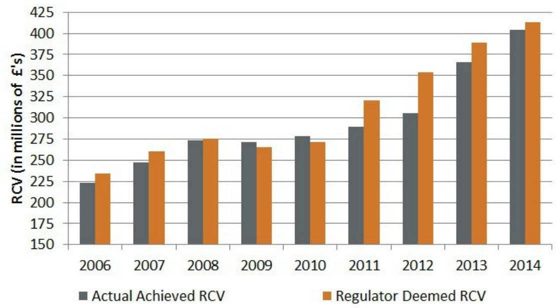
Bristol Water is a regulated business subject to supervision by the Water Services Regulation Authority ("Ofwat").

Management has started planning for the company's regulatory submission for Price Review 14 ("PR14"), during which Ofwat will approve Bristol Water's capital program and set the price increases Bristol Water may charge customers in the five-year AMP6 period commencing in April 2015. Bristol Water has agreed to Ofwat's proposed licence changes, which were devised as part of the introduction of competition within the retail business for non-household customers. This change may affect less than 3% of Bristol Water's business.

Management continues to focus on achieving key regulatory output targets, including leakage of less than 50 million litres of water per day ("Ml/d") in 2013/2014, and is striving for a top quartile ranking in Ofwat's Service Incentive Mechanism ("SIM") customer service measure. Strong performance on the SIM, which is measured through customer satisfaction surveys and quantitative data related to complaints, can result in an increased revenue allowance for Bristol Water in the next regulatory period.

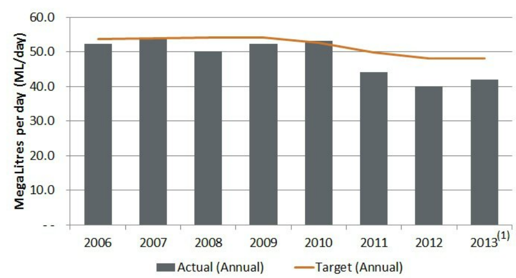
For the three months ended June 30, 2013, Bristol Water achieved leakage levels of 39.9 Ml/d (For the regulatory year ended March 31, 2013 – 42 Ml/d) and had a SIM score of 87.2 (For the regulatory year ended March 31, 2013 – 86, which ranked fourth overall in the industry).

Growth in Regulated Capital Value



All data above reflects fiscal years ended March 31. 2014 data represents the estimated values at March 31 2014.

Water Leakage Versus Target



(1) For the six months ended June 30, 2013.

Outlook

In 2013, Capstone's results will reflect a 50% interest in Bristol Water for the full year following the partial sale of Capstone's previous 70% interest in May 2012.

Bristol Water is expected to continue its strong operational performance, which will generate cash flow for dividends and for reinvestment in the capital expenditure program. Bristol Water expects to:

- Achieve increased revenue due to a 6.9% rise in the regulated water tariff from April 1, 2013;
- Complete capital expenditures of approximately $125,000 (£78,000). Capstone expects between 5% and 6% growth in Ofwat's deemed regulated capital value ("RCV") in 2013, which is expected to lead to future revenue growth; and
- Incur additional expenses in preparation for the coming price review.

Bristol Water's capital program is aimed at improving and expanding Bristol Water's network of reservoirs, treatment facilities, water mains and pipes in order to continue providing high quality water to customers, reducing the amount of water lost to leakage, and positioning Bristol Water to effectively serve a growing population.

Overall, Bristol Water's Adjusted EBITDA is expected to increase, however, Capstone's share will decline due to a lower ownership interest in 2013.

Infrastructure - Utilities

District Heating

Capstone's district heating utilities segment includes a 33.3% interest in Värmevärden, located in Sweden. Capstone's investment is comprised of loans receivable and equity. In 2012, the business completed a bond offering, resulting in repayment of a portion of the loans due to shareholders.

Since acquisition, Värmevärden has focused on maintaining strong customer relationships and managing fuel costs to optimize performance.

Värmevärden has enhanced its performance by focusing on plant availability to reduce the use of equipment requiring more expensive fuels during periods of higher demand. This initiative was partially offset during the first six months of 2013 by the impact of colder weather during the first quarter. Värmevärden has also successfully renewed contracts with industrial customers and achieved price increases in excess of inflation with the majority of residential customers.

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Heat and steam production (GWh)	209	209	641	602
Equity accounted income (loss)	(1,688)	(602)	(1,103)	843
Interest income	706	654	1,405	2,005
Dividends	3,104	983	3,104	983
Adjusted EBITDA and AFFO	3,810	1,637	4,509	2,988

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. During the first four months of 2012, Värmevärden used the bond issuance proceeds to reduce the shareholder loan from $81,587 to $33,487. Capstone received $1,405 in interest income from Värmevärden during the first six months of 2013, which was $600 lower than 2012 due to the lower shareholder loan balance.

Dividends

Capstone's dividends received from from Värmevärden were $2,121 higher than in 2012. The higher dividend was due to distribution of surplus cash attributable to prior years' performance.

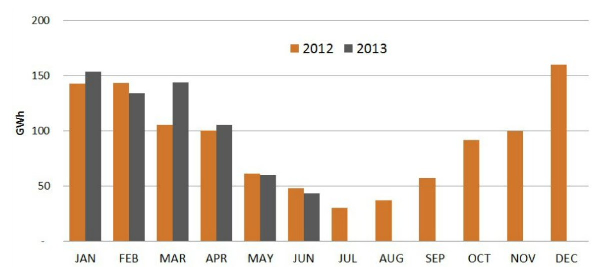
Equity accounted income (loss)

Equity accounted income (loss) included in Capstone's net income was $1,946 lower than in the first six months of 2012.The decrease was primarily attributable to lower production during the second quarter of 2013 due to warmer weather.

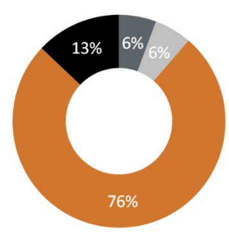
Seasonality

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.

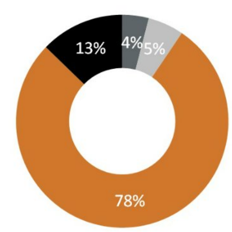
Heat and Steam Production



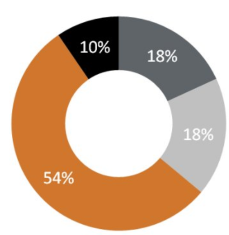
Fuel Mix Breakdown by MWh - YTD 2013



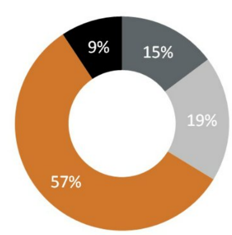
Fuel Mix Breakdown by MWh - YTD 2012



Fuel Mix Breakdown by Cost (SEK) - YTD 2013



Fuel Mix Breakdown by Cost (SEK) - YTD 2012



Electricity   Fossil Fuel   Bio and Waste Fuel   Industrial Heat

Outlook

In 2013, Värmevärden's performance is expected to continue to support fixed interest payments on Capstone's loan receivable and dividends on Capstone's equity investment.

Interest income from shareholder loans receivable is expected to be lower due to a reduction in the receivable balance in the second quarter of 2012, however this was offset by a larger than expected dividend to Capstone in the second quarter.

As a result, Capstone expects higher Adjusted EBITDA from the district heating segment compared with 2012.

Corporate

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

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Administrative expenses	(2,526)	(3,653)	(4,689)	(5,769)
Project development costs	(1,410)	(26)	(1,358)	(82)
Interest income	21	8	33	12
Adjusted EBITDA	(3,915)	(3,671)	(6,014)	(5,839)
Interest paid	(1,697)	(2,112)	(1,991)	(3,898)
Dividends paid on Capstone's preferred shares	(938)	(938)	(1,876)	(1,876)
Income taxes (paid) recovery	(352)	(93)	(1,811)	(429)
AFFO	(6,902)	(6,814)	(11,692)	(12,042)

Administrative expenses

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Staff costs	1,639	1,660	2,920	3,207
Other administrative expenses	887	1,993	1,769	2,562
	2,526	3,653	4,689	5,769

Staff costs for the quarter were $21, or 1.3%, lower than in 2012 and $287, or 8.9%, lower on a year-to-date basis. The decrease on a year-to-date basis was primarily due to the CEO taking his 2012 short-term incentive plan ("STIP") payment as a grant under the long-term incentive plan ("LTIP"). The LTIP grant is recognized in net income over the period up to vesting, whereas STIP payments are accrued in the year earned. This decrease was partially offset by higher LTIP expense for new grants since January 2013.

Other administrative expenses for the quarter were $1,106, or 55.5%, lower than in 2012 and $793, or 31.0%, lower year-to-date. The decrease in both periods resulted from lower professional fees. Other administrative expenses include audit fees, 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 $1,384, higher than in 2012 and $1,276, higher year-to-date, primarily due to diligence costs for the acquisition of ReD.

Interest income for the quarter was $13, or 163%, higher than in 2012 and $21, or 175%, higher year-to-date, primarily due to higher average cash balances in 2013.

Interest paid for the quarter was $415, or 19.6%, lower than in 2012 and $1,907, or 48.9%, lower year-to-date, primarily due to $112,375 less corporate debt than during the comparable periods in 2012. The debt was repaid from the proceeds of the Värmevärden recapitalization, new debt on the hydro facilities and sale of a 20% interest in Bristol Water.

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 relate to the preferred share dividends and are available to offset future tax of the Corporation. Taxes paid for the quarter were $259, or 278%, higher and $1,382, or 322%, higher on a year-to-date basis. The increase for the quarter primarily reflected higher installments due for taxes on the preferred share dividends. In addition, a $1,100 one-time final installment for 2012 was made during the first quarter for taxes on the preferred share dividends.

Outlook

In 2013, Capstone expects business development and marketing efforts to be above historical levels, while staffing levels will increase above 2012 levels when the ReD transaction reaches financial close.

Capstone's staff costs are expected to increase due to the accrual of an additional year of grants under the long-term incentive plan, and the addition of ReD staff members.

Overall, Capstone expects these variables to result in higher corporate administrative expenses and project development costs compared with 2012.

FINANCIAL POSITION REVIEW

Overview

As at June 30, 2013, Capstone had a consolidated working capital surplus of $36,716 compared with $30,821 at December 31, 2012. The increase of $5,895 primarily reflected higher cash held at corporate partially offset by the the utilities – water segment, where Bristol Water reduced its surplus cash to fund the ongoing capital expenditure program. Consolidated working capital included surpluses of $32,053 and $5,629 at the power and utilities – water segments, respectively, and a deficit of $966 at corporate.

Unrestricted cash and cash equivalents totaled $49,464 on a consolidated basis with the power and utilities – water segments contributing $26,726 and $9,139, respectively.

As at June 30, 2013, Capstone's debt to capitalization ratio (refer to page 20) increased from 62.7% to 64.0% on a fair value basis and from 57.6% to 57.0% on a book value basis. On a fair value basis, the increase was primarily due to a 6.0% decrease in the share price since December 31, 2012. As at June 30, 2013, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	Jun 30, 2013	Dec 31, 2012
Power	32,053	31,041
Utilities – water	5,629	10,123
Corporate	(966)	(10,343)
Working capital	36,716	30,821

The corporate deficit was attributable to corporate accruals, including dividends to shareholders to be funded from third quarter distributions from each operating business. The reduction in the corporate deficit since December 31, 2012 reflected the accumulation of cash during the first six months of 2013.

On a consolidated basis, current assets decreased by $531, or 0.3%, since December 31, 2012, primarily due to Bristol Water's use of cash and short-term investments to fund capital expenditures. This was partially offset by cash increases of $10,256 and $5,785 at corporate and the power segment, respectively. Current liabilities decreased by $6,426, or 5.0%, since December 31, 2012, primarily due to lower capital expenditure payables at Bristol Water.

Cash and cash equivalents

As at	Jun 30, 2013	Dec 31, 2012
Power	26,726	20,941
Utilities – water	9,139	25,315
Corporate	13,599	3,343
Unrestricted cash and cash equivalents	49,464	49,599
Less: cash with access limitations		
Power	(12,498)	(8,386)
Utilities – water	(9,139)	(25,315)
Cash and cash equivalents available to Capstone	27,827	15,898

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The $135 decrease in cash from December 31, 2012 was primarily attributable to the use of cash to fund Bristol Water's capital expenditure program.

Cash and cash equivalents available to Capstone are funds available for general purposes, including payment of dividends to shareholders. Bristol Water has $83,132 of credit availability to fund the longer term cash requirements of the capital projects. For the power segment, $12,498 is only periodically accessible to Capstone through distributions under the terms of the credit agreements for the hydro facilities, Erie Shores and Amherstburg.

Restricted cash decreased by $612 from December 31, 2012 to $18,617 at June 30, 2013. The decrease comprised a draw of $400 on the hydro facilities' maintenance reserve, funding $112 of Amherstburg's maintenance reserve by way of a letter of credit, and a $100 foreign exchange translation on Bristol Water's restricted cash. Under the terms of the hydro facilities' bonds, the balance in the hydro facilities' maintenance reserve is determined and funded at the end of each year. Restricted cash represents reserve accounts of $9,824 and $8,793 at the power segment and Bristol Water, respectively.

Cash flow

Capstone’s cash and cash equivalents decreased by $135 in the first six months of 2013 compared with a increase of $6,731 in 2012. Details of the decrease are presented in the consolidated statement of cash flows and are summarized as follows:

Six months ended	Jun 30, 2013	Jun 30, 2012
Operating activities	62,200	55,100
Investing activities	(66,538)	23,517
Financing activities (excluding dividends to shareholders)	16,443	(52,255)
Dividends paid to shareholders	(11,577)	(20,203)
Effect of exchange rate changes on cash and cash equivalents	(663)	572
Change in cash and cash equivalents	(135)	6,731

Cash flow from operating activities generated $7,100 more cash and cash equivalents than in first six months of 2012. Operating cash flows increased by $5,792 at corporate and $2,551 in the power segment, partially offset by a decrease of $673 at Värmevärden and $570 at Bristol Water. The increase at corporate reflected higher professional fees in 2012 for the disposition of Bristol Water.

Cash flow from investing activities was $90,055 lower in 2013, primarily because Capstone received $47,964 of proceeds in 2012 from the recapitalization of Värmevärden. In addition, Bristol Water used $42,572 of its short-term deposits in 2012 to fund capital expenditures versus $6,252 in 2013.

Cash flow from financing activities was $68,698 higher in the first six months of 2013 than in the prior year, primarily because repayment of debt was $189,310 lower in 2013, partially offset by proceeds from new debt which was $50,604 lower in 2013. These 2013 decreases were attributable to the re-financing of corporate and power debt in 2012. Cash flow from financing activities were also higher in 2012 when Capstone received $70,274 from the partial sale of Bristol Water.

Dividends paid to shareholders were $8,626 lower in the first six months of 2013 than in the prior year following Capstone's common share dividend policy announcement in the second quarter of 2012.

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 ratios using fair values and carrying values were as follows:

	Jun 30, 2013		Dec 31, 2012	
As at	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power	290,263	290,346	305,497	297,792
Utilities – water (1)	270,613	249,409	259,830	236,768
Corporate	42,963	40,840	44,416	40,631
Deferred financing fees	—	(6,654)	—	(7,328)
	603,839	573,941	609,743	567,863
Equity				
Shareholders’ equity (2)	339,715	432,432	363,248	418,848
Total capitalization	943,554	1,006,373	972,991	986,711
Debt to capitalization	64.0%	57.0%	62.7%	57.6%

(1) Only 50% of the long-term debt at Bristol Water has been included in the calculation to reflect the impact of the non-controlling interest.

(2) The carrying value of shareholders’ equity does not include the amount attributed to the non-controlling interest.

Power

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

			Jun 30, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC-Cardinal credit facility	2014	4.53%	11,550	11,550	12,050	12,050
Erie Shores project debt	2016 & 2026	5.28 – 6.15%	100,662	94,970	106,538	97,703
Amherstburg Solar Park project debt	2016	7.32%	88,376	88,376	90,560	90,560
Hydro facilities senior secured bonds	2040	4.56%	70,697	75,208	76,347	77,237
Hydro facilities subordinated secured bonds	2041	7.00%	18,978	20,242	20,002	20,242
			290,263	290,346	305,497	297,792

As at June 30, 2013, approximately 95% of the power segment's long-term debt was scheduled to amortize over the lives of their respective PPAs. All of the power segment's project debt is non-recourse to Capstone.

Covenant compliance

Each of the power segment's long-term debt facilities is subject to financial covenant requirements. The Erie Shores' project debt, the hydro facilities' senior secured and subordinated secured bonds, and Amherstburg project debt are individually required to maintain minimum debt service coverage ratios to allow for distributions to the Corporation.

During the first six months of 2013, Capstone's power segment complied with all covenants and expects to continue to comply for the remainder of 2013.

Utilities – Water

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

			Jun 30, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Bank loans	2017	1.20 - 5.73%	59,286	59,211	31,540	31,430
Term loans	2032 - 2041	5.90 – 6.94%(1)	450,894	411,573	457,563	413,746
Debentures	Irredeemable	3.50 – 4.25%	2,169	2,055	2,346	2,072
Cumulative preferred shares	Irredeemable	8.75%	28,877	25,979	28,211	26,289
Consolidated long-term debt			541,226	498,818	519,660	473,537
Less: non-controlling interest			(270,613)	(249,409)	(259,830)	(236,769)
Capstone share of long-term debt			270,613	249,409	259,830	236,768

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

As at June 30, 2013, approximately 84% of the utilities – water segment's long-term debt had maturities of greater than 10 years. The utilities – water segment has no debt maturing in the next fiscal year.

Long-term debt for the utilities – water segment is used to fund the ongoing capital expenditures to grow Bristol Water's network. As at June 30, 2013, $83,132 of undrawn credit capacity remained available to fund future capital expenditures.

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

Covenant compliance

The principal debt agreements require Bristol Water to comply with covenants relating to the minimum levels of interest coverage and net debt in relation to regulatory capital value.

During the first six months of 2013, Bristol Water complied with all its covenants and expects to comply for the remainder of 2013.

Corporate

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

			Jun 30, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Convertible debentures	2016	6.50%	42,963	40,840	44,416	40,631
			42,963	40,840	44,416	40,631

All of the corporate debt relates to the convertible debentures and matures in December 2016.

Covenant compliance

Corporate debt has no financial covenants.

Equity

Shareholders' equity comprised:

As at	Jun 30, 2013	Dec 31, 2012
Common shares	634,177	632,474
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	732,907	731,204
Equity portion of convertible debentures	9,284	9,284
Accumulated other comprehensive income (loss)	(2,046)	(809)
Retained earnings (deficit)	(307,713)	(320,831)
Equity to Capstone shareholders	432,432	418,848
Non-controlling interests	100,656	91,610
Total equity	533,088	510,458

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 increase in common shares outstanding was as follows:

	Six months ended Jun 30, 2013	
($000s and 000s of shares)	Shares	Amount
Opening balance	72,445	632,474
Dividend reinvestment plan (DRIP)	420	1,703
Ending balance	72,865	634,177

The composition of shareholders' equity at fair value was as follows:

As at	Jun 30, 2013			Dec 31, 2012		
($000s, except per share amounts)	Market price per share	Outstanding amount	Fair Value	Market price per share	Outstanding amount	Fair Value
Common shares	$3.79	72,865	276,160	$4.03	72,445	291,955
Class B units	$3.79	3,249	12,315	$4.03	3,249	13,093
Preferred shares	$17.08	3,000	51,240	$19.40	3,000	58,200
			339,715			363,248

Retained earnings (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. These contracts include leases, purchase obligations, electricity supply contracts, gas purchase contracts, wood waste agreements, operations and management agreements and guarantees. All material changes in contractual obligations outside the normal course of operations during the first six months of 2013 were previously disclosed in the annual MD&A for the year ended December 31, 2012, or the Annual Information Form dated March 21, 2013. Additionally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business, except for the acquisition of ReD as described in on page 5 of this MD&A. Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

See discussion in the results of operations on page 17 of this MD&A for a detailed discussion on Capstone's equity accounted investment in Värmevärden.

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

Capital Expenditure Program

Capstone incurred $30,528 in capital expenditures during the second quarter of 2013. Below is the breakdown of the investment by operating segment:

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Power	1,722	2,392	2,183	2,862
Utilities – water	28,797	31,066	65,360	73,491
Corporate	9	35	11	62
	30,528	33,493	67,554	76,415

Capital expenditures for the utilities – water segment included both growth and maintenance initiatives as planned under Bristol Water's regulatory capital expenditure program for AMP5. Overall, Bristol Water's expenditures to date are behind the five-year plan but are expected to catch up before the end of AMP5 in March 2015.

The power segment's expenditures in the second quarter of 2013 were primarily related to the implementation of a growth initiative at Erie Shores where $932 was invested to install WindBOOST, a control software that allows increased power output. In 2012, capital expenditures in the power segment primarily related to Cardinal's hot gas path maintenance inspection.

Retirement Benefit Plans

On January 1, 2013, Capstone adopted the required changes to IAS 19. Refer to note 4 "Summary of Significant Accounting Policies" to the March 31, 2013 interim consolidated financial statements for details of the nature and impact of these changes on Capstone financial statements.

Bristol Water has a defined benefit retirement plan for current and former employees. The defined benefit retirement plan is closed to new employees, who are allowed to join the defined contribution plan.

As at June 30, 2013, the defined benefit retirement plan was in a $50,039 surplus position. During the first six months of 2013 the surplus increased by $12,464, primarily due to increases in the fair value of plan assets. The surplus is subject to a number of critical accounting estimates which can materially impact the balances. The fair values included in the surplus are calculated with the assistance of an actuary and assumptions used are considered to be reasonable by management.

Bristol Water's employer contributions to the defined benefit plan for the three and six months ended June 30, 2013 were $794 and $1,591, respectively. The expense is incurred entirely at Bristol Water.

The total defined contribution pension expense recorded in the consolidated statement of income for the six months ended June 30, 2013 was $692. The expense comprised $600 for Bristol Water and $92 for Cardinal.

Income Taxes

The second quarter current income tax expense of $686 was primarily attributable to Bristol Water.

Deferred income tax assets and liabilities were 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.

As at	Jun 30, 2013	Dec 31, 2012
Deferred income tax assets	32,917	28,719
Deferred income tax liabilities	(197,768)	(181,176)
	(164,851)	(152,457)

Capstone's total deferred income tax assets include $19,439 ($14,517 at December 31, 2012) attributable to its Canadian entities and $13,478 ($14,202 at December 31, 2012) for Bristol Water. Deferred income tax assets primarily relate to financial instruments fair value adjustments,differences in the amortization of deferred financing costs for tax and accounting purposes, and tax loss carry forwards.

Deferred income tax liabilities of $74,840 ($64,704 at December 31, 2012) were attributable to Capstone's Canadian entities while $122,928 ($116,472 at December 31, 2012) was attributable to Bristol Water. Deferred income tax liabilities primarily relate to differences in the amortization of intangible and capital assets for tax and accounting purposes.

Capstone's net deferred income tax liability increased by $12,394 during the first six months of 2013, primarily due to the difference between accounting and tax depreciation. The deferred tax expense of $11,292 on the consolidated statement of income differs from the increase in the net deferred income tax liability due to amounts recorded in other comprehensive income, primarily related to temporary differences in Bristol Water's retirement benefit surplus.

Bristol Water's deferred tax assets and liabilities as at June 30, 2013 were calculated using a tax rate of 23%. On July 2, 2013, UK legislation was substantively enacted reducing the UK corporate rate from 23% to 21% effective April 1, 2014 and to 20% effective April 1, 2015. The lower rates will cause Bristol Water's deferred tax assets and liabilities to decline, which will be reflected in Capstone's third quarter results as required under IFRS.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in notes 9 (Financial Instruments) and 10 (Financial Risk Management) in the consolidated financial statements for the year ended December 31, 2012. These notes contain further details on the implicit risks and valuation methodology employed for Capstone's financial instruments.

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

As at	Jun 30, 2013	Dec 31, 2012
Derivative contract assets	2,369	2,021
Derivative contract liabilities	(19,716)	(30,651)
Net derivative contract liabilities	(17,347)	(28,630)

Net derivative contract liabilities decreased by $11,283, which is included in the $9,788 gain as part of gains on derivatives in net income for the six-month period ended June 30, 2013.

The gain (loss) on derivatives in the interim consolidated statements of income and comprehensive income comprised:

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Interest rate swap contracts	4,105	(2,495)	5,173	(125)
Foreign currency option contracts	(494)	(48)	(473)	(457)
Embedded derivative	3,620	1,138	5,088	576
Gains on derivatives in net income	7,231	(1,405)	9,788	(6)
Interest rate swap contracts in OCI	586	(261)	599	(51)
Gains on derivatives in comprehensive income	7,817	(1,666)	10,387	(57)

The gain on derivatives for the quarter and first six months of 2013 was primarily attributable to the gains on the interest rate contracts and the embedded derivative, partially offset by losses on the foreign currency contracts.

The gain on interest rate swap contracts was primarily due to a gain of $3,730 and $4,610 on the interest rate swap on the Amherstburg debt for the quarter and year-to-date, respectively. The fair value increased due to an increase in long-term interest rates.

The gain on the embedded derivative was primarily due to a decrease in the growth rate of the Direct Customer Rate (“DCR”) and the passage of time as the embedded derivative terminates with the fuel supply agreement in May 2015. The swap portion of the embedded derivative liability is calculated by discounting Capstone's expected cash flows from Cardinal's fuel supply agreement. Cardinal may swap gas mitigation payments at DCR for a fixed rate. As a result, higher natural gas prices increase the fair value of the liability. Additionally, as time passes, fewer net payments are included in the calculation and the liability declines.

The loss on foreign currency contracts was primarily due to the depreciation of the British pound and Swedish Krona forward-looking rates relative to the fixed Canadian dollar conversion rates.

FOREIGN EXCHANGE

The foreign exchange gains (losses) for 2013 and 2012 were primarily due to unrealized translation of Capstone’s SEK - denominated shareholder loan receivable with Värmevärden. Capstone’s foreign exchange loss of $28 for the second quarter of 2013 was $624, or 96%, lower than in 2012. The loss reflects the depreciation of the Swedish Krona against the Canadian dollar thereby decreasing the carrying value of the loan in Canadian dollars.

Additionally, Capstone's year-to-date foreign exchange gain of $721 was primarily attributed to the Swedish Krona appreciation during the first quarter, which was impacted by the repayment of more than half of the shareholder loan in early 2012 reducing the foreign exchange impacts during the first quarter.

RISKS AND UNCERTAINTIES

Capstone is subject to a variety of risks and uncertainties, including the re-contracting of Cardinal, which has a PPA expiring at the end of 2014. These risks and uncertainties could impact future operating results and financial condition, which could adversely affect Capstone's ability to pay dividends to shareholders. For a comprehensive description of these risk factors, please refer to the “Risk Factors” section of the Corporation’s Annual Information Form dated March 21, 2013 as supplemented by risk factors contained in any material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim management’s discussion and analysis and information circulars filed by the Corporation with 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, 2012 and “Environmental, Health and Safety Matters” section of the Corporation’s Annual Information Form dated March 21, 2013, 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)	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4 [1]	Q3
Revenue	93,539	94,255	94,654	84,951	85,849	92,156	91,663	40,361
Net income (loss) [2]	10,015	12,019	12,909	5,836	(4,184)	13,681	(4,591)	(11,783)
Adjusted EBITDA	31,834	32,342	31,074	24,542	27,516	37,211	31,036	13,253
AFFO	9,014	13,644	13,560	3,381	3,707	14,915	9,722	5,891
Common dividends [3]	5,709	5,696	5,579	5,655	10,231	12,299	11,569	10,225
Preferred dividends	938	938	938	938	938	938	1,264	—
Earnings Per Share – Basic	0.119	0.145	0.147	0.065	(0.068)	0.171	(0.082)	(0.190)
Earnings Per Share – Diluted	0.117 [4]	0.141 [4]	0.143 [4]	0.065	(0.068)	0.165 [4]	(0.082)	(0.190)
AFFO per share	0.119	0.180	0.179	0.045	0.049	0.200	0.136	0.096
Dividends declared per common share	0.075	0.075	0.075	0.075	0.135	0.165	0.165	0.165

(1) AFFO and AFFO per share have been adjusted to conform to the Corporation's revised definition of AFFO; refer to page 6 of this MD&A.

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

(3) Common dividends include amounts declared for both the common shares of the Corporation and the Class B exchangeable units.

(4) Convertible debentures were dilutive during the period.

ACCOUNTING POLICIES AND INTERNAL CONTROL

Significant Changes in Accounting Standards

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2012 consolidated financial statements included in the Annual Report, except for required changes to IFRS.

Capstone has adopted the new and revised standards, along with consequential amendments, effective January 1, 2013, these changes include:

- IFRS 10, Consolidated Financial Statements and IAS 27, Separate Financial Statements;
- IFRS 11, Joint Arrangements and IAS 28, Investments in Associates and Joint Ventures;
- IFRS 12, Disclosure of Interests in Other Entities;
- IFRS 13, Fair Value Measurement;
- IAS 1, Amendment, Presentation of Items of Other Comprehensive Income; and
- IAS 19, Employee Benefits.

Refer to note 4 "Summary of Significant Accounting Policies" to the March 31, 2013 interim consolidated financial statements for detail of the nature and impact of these changes to Capstone financial statements.

Certain comparative figures in this MD&A have been adjusted as if these accounting policies had always been applied. No adjustments were made to the periods before September 30, 2011, prior to the acquisition of Bristol Water.

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, 2012.

The Corporation will complete its assessment of the new and amended standard with an effective implementation date on January 1, 2015 as described in the most recent annual financial statements.

Accounting Estimates

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

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

Area of significant estimate	Assumptions and judgements
• 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 of trade receivables	• Probability of failing to recover amounts when they fall into arrears
• Derivative financial instruments	• Interest rate, natural gas price, and direct consumer rate
• Retirement benefits	• Future cash flows and discount rate
• Income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income
• Impairment assessments of capital assets, intangibles and goodwill	• Future cash flows and discount rate

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

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Since December 31, 2012, no material changes have occurred in Capstone's policies and procedures and other processes that comprise its internal control over financial reporting and disclosure controls and procedures.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Jun 30, 2013	Dec 31, 2012	Jan 1, 2012
			(note 4)	(note 4)
Current assets				
Cash and cash equivalents		49,464	49,599	57,587
Restricted cash		18,617	19,229	14,947
Short-term deposits		—	6,471	82,202
Accounts receivable		74,698	75,386	70,854
Other assets		14,433	7,218	7,448
Current portion of loans receivable	6	1,245	1,096	984
Current portion of derivative contract assets	7	185	174	261
		158,642	159,173	234,283
Non-current assets				
Loans receivable	6	38,066	37,909	85,824
Derivative contract assets	7	2,184	1,847	2,883
Equity accounted investments	8	12,970	16,990	15,993
Capital assets	9	1,119,203	1,086,407	977,456
Intangible assets	10	280,130	283,919	288,304
Retirement benefit surplus	11	50,039	37,575	60,104
Deferred income tax assets		32,917	28,719	32,897
Total assets		1,694,151	1,652,539	1,697,744
Current liabilities				
Accounts payable and other liabilities		98,687	106,767	81,734
Current portion of derivative contract liabilities	7	3,075	3,106	3,088
Current portion of finance lease obligations		3,444	3,502	5,256
Current portion of long-term debt	12	16,720	14,977	230,899
		121,926	128,352	320,977
Long-term liabilities				
Derivative contract liabilities	7	16,641	27,545	31,055
Electricity supply and gas purchase contracts	10	2,456	3,260	4,894
Deferred income tax liabilities		197,768	181,176	178,201
Deferred revenue		9,972	6,298	1,363
Finance lease obligations		3,330	3,699	6,727
Long-term debt	12	806,630	789,655	704,145
Liability for asset retirement obligation		2,340	2,096	2,412
Total liabilities		1,161,063	1,142,081	1,249,774
Equity attributable to shareholders' of Capstone		432,432	418,848	413,520
Non-controlling interest		100,656	91,610	34,450
Total liabilities and equity		1,694,151	1,652,539	1,697,744
Commitments and contingencies	19			

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital [1]	Convertible Debentures	AOCI [2]	Retained Earnings	NCI [3]	Total Equity
Balance, December 31, 2011		725,591	9,284	(6,729)	(314,626)	34,450	447,970
Adjustment relating to changes in accounting policy	4	—	—	—	—	—	—
Balance, January 1, 2012		725,591	9,284	(6,729)	(314,626)	34,450	447,970
Shares issued		(89)	—	—	—	—	(89)
Other comprehensive income (loss)	4	—	—	1,816	(6,229)	(3,098)	(7,511)
Net income for the period	4	—	—	—	9,496	7,163	16,659
Dividends declared to common shareholders of Capstone	13b	4,202	—	—	(22,530)	—	(18,328)
Dividends declared to preferred shareholders of Capstone	13b	—	—	—	(1,876)	—	(1,876)
Dividends declared by Bristol Water		—	—	—	—	(2,088)	(2,088)
Disposal of partial interest in Bristol Water		—	—	749	15,955	51,659	68,363
Balance, June 30, 2012		729,704	9,284	(4,164)	(319,810)	88,086	503,100

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital [1]	Convertible Debentures	AOCI [2]	Retained Earnings	NCI [3]	Total Equity
Balance, December 31, 2012	4	731,204	9,284	(809)	(320,831)	91,610	510,458
Other comprehensive income (loss)	4	—	—	(1,237)	4,452	3,561	6,776
Net income for the period	4	—	—	—	22,034	8,500	30,534
Dividends declared to common shareholders of Capstone	13a&b	1,703	—	—	(11,405)	—	(9,702)
Dividends declared to preferred shareholders of Capstone [4]	13b	—	—	—	(1,963)	—	(1,963)
Dividends declared by Bristol Water		—	—	—	—	(3,015)	(3,015)
Balance, June 30, 2013		732,907	9,284	(2,046)	(307,713)	100,656	533,088

(1) Share capital includes common and preferred shares and class B exchangeable units.
(2) Accumulated other comprehensive income (loss) (“AOCI”).
(3) Non-controlling interest (“NCI”).
(4) Dividends declared to preferred shareholders of Capstone include $87 of deferred income taxes.

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Jun 30, 2013	Three months ended Jun 30, 2012	Six months ended Jun 30, 2013	Six months ended Jun 30, 2012
			(note 4)		(note 4)
Revenue		93,539	85,849	187,794	178,005
Operating expenses	16	(50,084)	(47,015)	(100,428)	(95,835)
Administrative expenses	16	(2,526)	(3,653)	(4,689)	(5,769)
Project development costs	16	(1,583)	(26)	(1,696)	(82)
Equity accounted income (loss)	8	(1,690)	(602)	(1,105)	843
Interest income		1,017	1,043	2,121	2,875
Net pension interest income		422	730	811	1,429
Other gains and (losses), net		7,181	(2,163)	9,717	(760)
Foreign exchange gain (loss)		(28)	(652)	721	452
Earnings before interest expense, taxes, depreciation and amortization		46,248	33,511	93,246	81,158
Interest expense		(11,172)	(12,728)	(22,186)	(27,592)
Depreciation of capital assets	9	(12,183)	(11,588)	(24,091)	(23,155)
Amortization of intangible assets	10	(2,624)	(2,477)	(5,375)	(4,933)
Income before income taxes		20,269	6,718	41,594	25,478
Income tax recovery (expense)					
Current		(686)	(460)	232	(508)
Deferred		(4,947)	(6,210)	(11,292)	(8,311)
Total income tax recovery (expense)		(5,633)	(6,670)	(11,060)	(8,819)
Net income		14,636	48	30,534	16,659
Net income attributable to:					
Shareholders of Capstone		10,015	(4,184)	22,034	9,496
Non-controlling interest		4,621	4,232	8,500	7,163
		14,636	48	30,534	16,659
Earnings per share	14				
Basic		0.119	(0.068)	0.264	0.102
Diluted		0.117	(0.068)	0.257	0.102

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Jun 30, 2013	Three months ended Jun 30, 2012	Six months ended Jun 30, 2013	Six months ended Jun 30, 2012
			(note 4)		(note 4)
Cumulative differences on translation of foreign operations		10,012	364	(2,676)	3,111
Other comprehensive loss on equity accounted investments	8	(51)	(434)	292	(74)
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2013 - ($158) and ($126), respectively; 2012 - $96 and $16, respectively)		444	(251)	256	(287)
Total of items that may be reclassified subsequently to net income		10,405	(321)	(2,128)	2,750
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2013 - ($1,108) and $2,659, respectively; 2012 - ($590) and ($4,003), respectively) - will not be reclassified to net income		(3,708)	(2,016)	8,904	(10,261)
Other comprehensive income (loss)		6,697	(2,337)	6,776	(7,511)
Net income		14,636	48	30,534	16,659
Total comprehensive income		21,333	(2,289)	37,310	9,148
Comprehensive income attributable to:					
Shareholders of Capstone		14,418	(5,528)	25,249	5,083
Non-controlling interest		6,915	3,239	12,061	4,065
		21,333	(2,289)	37,310	9,148

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended	Notes	Jun 30, 2013	Jun 30, 2012
Operating activities:			
Net income		30,534	16,659
Deferred income tax expense (recovery)		11,292	8,311
Depreciation and amortization		29,466	28,088
Other gains and losses (net)		(9,717)	627
Amortization of deferred financing costs and non-cash financing costs		4,471	6,903
Equity accounted (income) loss	8	1,105	(843)
Unrealized foreign exchange (gain) loss on loan receivable	6	(751)	84
Change in non-cash working capital	18	(4,200)	(4,729)
Total cash flows from operating activities		62,200	55,100
Investing activities:			
Receipt of loans receivable		533	48,443
Change in restricted cash and short term deposits		6,758	37,597
Return of capital from equity accounted investments		3,127	983
Proceeds from sale (purchase) of foreign currency contracts		(896)	38
Investment in capital assets and computer software	9	(76,060)	(63,544)
Total cash flows from (used in) investing activities		(66,538)	23,517
Financing activities:			
Proceeds from long-term debt		50,017	100,621
Proceeds from partial sale of Bristol Water	5	—	70,274
Repayment of long-term debt and finance lease obligations		(29,859)	(219,169)
Dividends paid to common and preferred shareholders		(11,577)	(20,203)
Dividends paid to non-controlling interests		(3,015)	(2,045)
Transaction costs on debt issuance		(700)	(1,936)
Total cash flows from (used in) financing activities		4,866	(72,458)
Effect of exchange rate changes on cash and cash equivalents		(663)	572
Increase (decrease) in cash and cash equivalents		(135)	6,731
Cash and cash equivalents, beginning of year		49,599	57,587
Cash and cash equivalents, end of period		49,464	64,318
Supplemental information:			
Interest paid		20,105	21,082
Taxes paid (recovery)		2,202	429

See accompanying notes to these interim consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone Infrastructure Corporation 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 build and responsibly manage a high quality portfolio of infrastructure businesses in Canada and internationally in order to deliver a superior total return to our shareholders by providing reliable income and capital appreciation. Capstone's portfolio includes investments in gas cogeneration, wind, hydro, biomass and solar power generating facilities, representing approximately 370 MW of installed capacity, a 33.3% interest in a district heating business in Sweden, and a 50% interest in a regulated water utility in the United Kingdom.

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, 2012, except as described in note 4 "Summary of Significant Accounting Policies – Changes in Accounting Policies". 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 2012 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on August 12, 2013.

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

3. SEASONALITY

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to Capstone's accounting policies during the first six months of 2013, except as noted in the following section "Changes in Accounting Policies".

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.

Change in Accounting Policies

Capstone has adopted the following new and revised standards, along with consequential amendments, effective January 1, 2013. These changes were required due to changes in IFRS and were made in accordance with the applicable transitional provisions and are summarized as follows.

IFRS 10, 11 and 12, Consolidated Financial Statements, Joint arrangements and Disclosure of Interests in Other Entities, establishes a common definition for control along with additional disclosure requirements. The adoption of IFRS 10, 11 and 12 did not require any changes to the existing consolidation approach for any of Capstone's subsidiaries and investees or change the accounting for investments in associates.

IAS 27, Separate Financial Statements and **IAS 28**, Investments in Associates and Joint Ventures, are consistent with the changes to IFRS 10 and 11, respectively. IAS 27, deals with the accounting for subsidiaries, associates and joint ventures in the separate financial statements of the parent company. IAS 28, prescribes the accounting for investments in associates and sets out the requirements for use of the equity method of accounting.

IFRS 13, Fair value measurement, provides a single framework for measuring fair value along with additional disclosure requirements. The measurement of fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by Capstone to measure fair value and did not result in any measurement adjustments.

IAS 1, Amendment, presentation of items of other comprehensive income. This amendment required Capstone to group other comprehensive income items by those that will be reclassified subsequently to net income and those that will not be reclassified. The Company has classified comprehensive income items of the comparative period. These changes did not result in any adjustments to other comprehensive income or comprehensive income.

IAS 19, Employee Benefits, amendments included changes affecting measurement, recognition and disclosure.The amendments only impact Bristol Water's defined benefit pension plan and the changes are summarized as follows:

- Interest on pension assets is no longer calculated based on the expected return on plan assets. IFRS now requires interest to be calculated on the net retirement benefit surplus using the discount rate based on market yields of high quality corporate bonds. Previously, interest income on plan assets was based on their long-term rate of expected return and was included in interest expense.
- Actual running costs, except investment management expenses, are now recognized as current service costs included in operating expenses. Previously, these expenses were deducted from the expected return on plan assets included in interest expense.

Historical consolidated statements of financial position and the consolidated statements of cash flows were not impacted by the change in accounting policy.

The following tables summarize the impact on financial statement captions:

	Three months ended		Six months ended	
Adjustments to consolidated statement of income	**Jun 30, 2013**	**Jun 30, 2012**	**Jun 30, 2013**	**Jun 30, 2012**
Net pension interest income	422	730	811	1,429
Interest expense	202	279	410	271
Operating expense	(119)	(153)	(252)	(273)
Deferred income tax recovery (expense)	(116)	(199)	(223)	(343)
Change to net income	389	657	746	1,084
Net income before accounting change	14,247	(609)	29,788	15,575
Net income after accounting change	14,636	48	30,534	16,659
Net income after accounting change attributable to:				
Shareholders of Capstone	10,015	(4,184)	22,034	9,496
Non-controlling interest	4,621	4,232	8,500	7,163
Net income after accounting change	14,636	48	30,534	16,659

Capstone previously classified the net pension interest as part of interest expense in the statement of income. Subsequent to the amendment, Capstone has added a caption to the statement of income, labeled net pension interest income, which comprises:

- Interest cost on the defined benefit obligation; and
- Interest income on plan assets.

	Three months ended		Six months ended	
Adjustments to Earnings Per Share ("EPS")	**Jun 30, 2013**	**Jun 30, 2012**	**Jun 30, 2013**	**Jun 30, 2012**
Basic EPS before accounting change	0.117	(0.073)	0.259	0.093
Change to net income attributable to the shareholders' of Capstone per share	0.002	0.005	0.005	0.009
Basic EPS after accounting change	0.119	(0.068)	0.264	0.102
Diluted EPS before accounting change	0.114	(0.073)	0.253	0.093
Change to net income attributable to the shareholders' of Capstone per share	0.003	0.005	0.004	0.009
Diluted EPS after accounting change	0.117	(0.068)	0.257	0.102

	Three months ended		Six months ended	
Adjustments to consolidated statement of comprehensive income	**Jun 30, 2013**	**Jun 30, 2012**	**Jun 30, 2013**	**Jun 30, 2012**
Decrease in other comprehensive income for actuarial gains and losses recognized in respect of retirement benefit obligations	(505)	(856)	(969)	(1,427)
Increase in other comprehensive income for deferred income taxes	116	199	223	343
Change to net income	389	657	746	1,084
Change to comprehensive income	—	—	—	—
Comprehensive income before and after accounting change	21,333	(2,289)	37,310	9,148
Comprehensive income after accounting change attributable to:				
Shareholders of Capstone	14,418	(5,528)	25,249	5,083
Non-controlling interest	6,915	3,239	12,061	4,065
Comprehensive income after accounting change	21,333	(2,289)	37,310	9,148

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, 2012.

The Corporation must complete its assessment of the new and amended standard with an effective implementation date on January 1, 2015 as described in the most recent annual financial statements.

5. ACQUISITIONS AND DISPOSALS

Partial Sale of Interest in Bristol Water

On May 10, 2012, Capstone sold to I-Environment Investments Ltd, a subsidiary of ITOCHU Corporation, a 20% indirect interest in Bristol Water plc. I-Environment Investments Ltd acquired a 2/7^{ths} ownership interest in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone received $68,984 of net proceeds on sale. Following this sale, Capstone retained a 50% beneficial interest in Bristol Water and continues to consolidate based on retention of control. Capstone recorded the transaction as a transfer of equity to non-controlling interest holders.

6. LOANS RECEIVABLE

The following table summarizes the loans receivable from Värmevärden and Chapais:

As at	Jun 30, 2013	Dec 31, 2012
Värmevärden	35,519	34,768
Chapais	3,703	4,237
Macquarie Long Term Care L.P. ("MLTCLP")	89	—
	39,311	39,005
Less: current portion	(1,245)	(1,096)
Total long-term loans receivable	38,066	37,909

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

Six months ended	Jun 30, 2013		Jun 30, 2012	
	SEK	$	SEK	$
Opening balance	227,541	34,768	551,808	81,587
Principal repayment	—	—	(324,267)	(48,100)
Realized foreign exchange gain	—	—	—	136
Unrealized foreign exchange gain (loss)	—	751	—	(84)
Ending balance	227,541	35,519	227,541	33,539

7. FINANCIAL INSTRUMENTS

(A) Classification by Level

The following table illustrates the classification of the Corporation's financial instruments that have been recorded at fair value as at June 30, 2013, within the fair value hierarchy:

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Jun 30, 2013	Dec 31, 2012
Derivative contract assets:					
Foreign currency contracts	—	1,271	—	1,271	849
Embedded derivative asset	—	—	1,098	1,098	1,172
Less: Current portion	—	(185)	—	(185)	(174)
	—	1,086	1,098	2,184	1,847
Derivative contract liabilities:					
Interest rate swap contracts	—	10,162	—	10,162	15,337
Interest rate swap contracts for hedging	—	2,558	—	2,558	3,156
Embedded derivative liability	—	—	6,996	6,996	12,158
Less: Current portion	—	(3,075)	—	(3,075)	(3,106)
	—	9,645	6,996	16,641	27,545

No financial instruments were transferred between levels during the period.

Financial instruments that are not recorded at fair value on the balance sheet are cash and cash equivalents, 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	7,381	6,774
Long-term debt	874,452	823,350

(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 fluctuates 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 contracts' 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 their fair value.
Embedded derivative	• The determination of the fair value of the Corporation's embedded derivatives requires the use of option pricing models involving significant judgment based on management's estimates and assumptions.

Capstone's finance department, with the assistance of third-party experts, is responsible for performing the valuation 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

Due to the lack of observable market quotes on the Corporation's embedded derivatives, their fair values, classified as Level 3, were derived using valuation models that rely on a combination of observable and unobservable inputs, including interest rates, forward gas prices and volatility, foreign exchange curves, credit spreads, estimates on gas volumes and sales, fixed and variable gas transportation costs and a forecasted Direct Customer Rate ("DCR") curve based on historical averages.

The table summarizes the impact on fair value of changes in the unobservable inputs:

Embedded derivative	Fair value at Jun 30, 2013	Unobservable inputs	Estimated input	Relationship of input to fair value
Asset	1,098	Natural gas price	Empress gas and Dawn gas spot and forward prices. Empress spot price of 3.271 dollars and Dawn spot price of 4.157 dollars.	10% increase in gas price results in an increase in fair value of $400.
		DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $39.
Liability	(6,996)	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $1,511.
	(5,898)			

Changes in one or a combination of these estimates may have a significant impact on the fair value of the embedded derivatives given the volume of gas and length of contract involved. As new information becomes available, management may choose to revise these estimates where there is an absence of reliable observable market data.

(D) Fair Value Continuity

	Net, embedded derivative
Opening balance, December 31, 2012	(10,986)
Other gains and (losses), net included in net income	5,088
Closing balance, June 30, 2013	(5,898)

8. EQUITY ACCOUNTED INVESTMENTS

As at	Jun 30, 2013 Carrying value	Dec 31, 2012 Carrying value
Macquarie Long Term Care L.P. (“MLTCLP”)	5	87
Värmevärden	12,965	16,903
Chapais	—	—
	12,970	16,990

See note 6 for detail on loans receivable with Värmevärden, Chapais and MLTCLP.

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

Three month ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Return of capital	Ending balance
June 30, 2013	17,918	(1,690)	(51)	(3,207)	12,970
June 30, 2012	17,798	(602)	(434)	(983)	15,779

Six month ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Return of capital	Ending balance
June 30, 2013	16,990	(1,105)	292	(3,207)	12,970
June 30, 2012	15,993	843	(74)	(983)	15,779

9. CAPITAL ASSETS

	Jan 1, 2013	Additions	Disposals	Foreign exchange	Transfers	Jun 30, 2013
Cost						
Land	2,766	—	—	(30)	—	2,736
Equipment and vehicles	15,650	465	(520)	(326)	(1,724)	13,545
Property and plant	851,726	1,729	(210)	(4,747)	11,823	860,321
Infrastructure assets	346,530	27,288	—	(3,632)	28,147	398,333
Construction in progress	51,209	38,072	(9)	(705)	(42,457)	46,110
	1,267,881	67,554	(739)	(9,440)	(4,211)	1,321,045
Accumulated depreciation						
Equipment and vehicles	(5,160)	(962)	485	170	—	(5,467)
Property and plant	(168,416)	(20,298)	154	2,072	—	(186,488)
Infrastructure assets	(7,898)	(2,831)	9	833	—	(9,887)
Net carrying value	1,086,407	43,463	(91)	(6,365)	(4,211)	1,119,203

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

	Six months ended Jun 30, 2013	Six months ended Jun 30, 2012
Additions	67,554	76,415
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	9,049	(13,096)
Net foreign exchange difference	(543)	225
Cash additions	76,060	63,544

10. INTANGIBLES

	Jan 1, 2013	Additions	Foreign exchange	Transfers	Jun 30, 2013
Assets					
Computer software	7,544	43	(290)	4,211	11,508
Electricity supply and gas purchase contracts	108,048	—	—	—	108,048
Water rights	73,018	—	—	—	73,018
Licence	21,516	—	(254)	—	21,262
Goodwill	139,712	—	(1,624)	—	138,088
Accumulated amortization					
Computer software	(3,269)	(1,361)	304	—	(4,326)
Electricity supply and gas purchase contracts	(50,967)	(3,768)	—	—	(54,735)
Water rights	(11,683)	(1,050)	—	—	(12,733)
	283,919	(6,136)	(1,864)	4,211	280,130
Provisions					
Electricity supply and gas purchase contracts	12,257	—	—	—	12,257
Utilization	(8,997)	(804)	—	—	(9,801)
	3,260	(804)	—	—	2,456

11. RETIREMENT BENEFIT PLANS

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

Defined Contribution Plan

The total expense recorded in the consolidated statement of income for the three months ended June 30, 2013 was $375. The expense is composed of $328 for Bristol Water and $47 for Cardinal.

Defined Benefit Plan

The retirement benefit surplus on the statements of financial position at June 30, 2013 was $50,039 (December 31, 2012 - $37,575).

Employer contributions paid in the three months ended June 30, 2013 to the defined benefit plan were $794. The contributions were entirely incurred at Bristol Water.

12. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Jun 30, 2013	Dec 31, 2012
CPC-Cardinal credit facility	11,550	12,050
Erie Shores project debt	94,970	97,703
Amherstburg Solar Park project debt	88,376	90,560
Hydro facilities senior secured and subordinated bonds	95,450	97,479
Power	290,346	297,792
Bank loans	59,211	31,430
Term loans	411,573	413,746
Debentures	2,055	2,072
Irredeemable cumulative preferred shares	25,979	26,289
Utilities – water	498,818	473,537
Convertible debentures	40,840	40,631
Corporate	40,840	40,631
	830,004	811,960
Less: deferred financing costs	(6,654)	(7,328)
Long-term debt	823,350	804,632
Less: current portion	(16,720)	(14,977)
	806,630	789,655

(B) Long-term Debt Covenants

For the three and six months ended and as at June 30, 2013, the Corporation and its subsidiaries complied with all financial and non-financial debt covenants.

13. SHAREHOLDERS' EQUITY

The share capital of the Corporation was as follows:

As at	Jun 30, 2013	Dec 31, 2012
Common shares	634,177	632,474
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	732,907	731,204

(A) Common Shares

	Three months ended Jun 30, 2013		Six months ended Jun 30, 2013	
($000s and 000s shares)	Shares	Carrying Value	Shares	Carrying Value
Opening balance	72,697	633,520	72,445	632,474
Dividend reinvestment plan	168	657	420	1,703
Ending balance	72,865	634,177	72,865	634,177

(B) Dividends Declared

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
Common shares	5,465	9,695	10,917	21,458
Class B exchangeable units	244	536	488	1,072
	5,709	10,231	11,405	22,530
Preferred shares (includes $15 and $87 of deferred income taxes, for the quarter and year to date, respectively)	953	938	1,963	1,876

14. EARNINGS PER SHARE ("EPS")

	Three months ended		Six months ended	
	Jun 30, 2013	Jun 30, 2012	Jun 30, 2013	Jun 30, 2012
		(note 4)		(note 4)
Net income	14,636	48	30,534	16,659
Non-controlling interest	(4,621)	(4,232)	(8,500)	(7,163)
Dividends declared on preferred shares	(953)	(938)	(1,963)	(1,876)
Net income available to common shareholders	9,062	(5,122)	20,071	7,620
Weighted average number of common shares (including Class B exchangeable units) outstanding	76,059	75,013	75,960	74,734
Basic EPS	0.119	(0.068)	0.264	0.102
Net income available to common shareholders	9,062		20,071	
Interest expense on convertible debt (net of tax)	514		1,028	
Net income used to determine diluted EPS	9,576		21,099	
Weighted average number of common shares (including Class B exchangeable units) outstanding	76,059		75,960	
Assumed conversion of convertible debentures	6,107		6,107	
Weighted average number of common shares (including Class B exchangeable units) outstanding for diluted EPS	82,166		82,067	
Diluted EPS	0.117	(0.068)	0.257	0.102

The convertible debentures are dilutive for the three- and six-month periods ended June 30, 2013 and anti-dilutive in the comparative periods.

15. SHARE-BASED COMPENSATION

(A) Deferred Share Units ("DSU")

Capstone granted 11,402 DSUs during the first six months of 2013. The five-day volume weighted average price ("VWAP") per DSU granted on January 2, 2013 was 4.00 dollars and 4.27 dollars on April 1, 2013. As at June 30, 2013, the $136 carrying value of the DSUs was based on a market price of 3.79 dollars.

(B) Long-term Incentive Plan

Capstone granted 243,886 Restricted Stock Units ("RSU") and 133,917 Performance Share Units ("PSU") during the first six months of 2013. The five-day VWAP per RSU and PSU granted on January 2, 2013 was 4.00 dollars and 4.25 dollars per RSU granted on March 20, 2013. As at June 30, 2013, the carrying value of the RSUs was $895 and $512 for the PSUs based on a market price of 3.79 dollars.

16. EXPENSES – ANALYSIS BY NATURE

	Three months ended Jun 30, 2013				Three months ended Jun 30, 2012			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	19,799	—	—	19,799	17,700	—	—	17,700
Raw materials, chemicals and supplies	16,958	—	—	16,958	18,266	—	—	18,266
Wages and benefits	8,327	1,639	125	10,091	6,359	1,660	—	8,019
Maintenance	1,114	—	—	1,114	1,444	—	—	1,444
Manager fees	379	—	—	379	522	—	—	522
Insurance	487	29	—	516	475	38	—	513
Professional fees for legal, audit, tax and other advisory	1,132	239	1,423	2,794	277	661	26	964
Leases	360	96	—	456	369	90	—	459
Property taxes	266	—	—	266	294	—	—	294
Other	1,262	523	35	1,820	1,309	1,204	—	2,513
Total	50,084	2,526	1,583	54,193	47,015	3,653	26	50,694

	Six months ended Jun 30, 2013				Six months ended Jun 30, 2012			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	41,305	—	—	41,305	38,390	—	—	38,390
Raw materials, chemicals and supplies	33,942	—	—	33,942	36,770	—	—	36,770
Wages and benefits	15,533	2,920	258	18,711	12,048	3,207	—	15,255
Maintenance	1,736	—	—	1,736	2,218	—	—	2,218
Manager fees	763	—	—	763	797	—	—	797
Insurance	977	56	—	1,033	957	38	—	995
Professional fees for legal, audit, tax and other advisory	1,583	564	1,383	3,530	793	661	82	1,536
Leases	701	183	—	884	721	185	—	906
Property taxes	557	—	—	557	607	—	—	607
Other	3,331	966	55	4,352	2,534	1,678	—	4,212
Total	100,428	4,689	1,696	106,813	95,835	5,769	82	101,686

17. SEGMENTED INFORMATION

The Corporation has three reportable segments based on how management has organized the business to assess performance and for operating and capital allocation. Each reportable segment has similar economic characteristics based on the nature of the products or services, type of customers, method of distributing their products or services and regulatory environment. Management evaluates the performance of these segments primarily on revenue and 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 (70% October 5, 2011 – May 10, 2012).	United Kingdom
Utilities – district heating ("DH") The district heating business (Värmevärden), in which the Corporation holds a 33.3% indirect interest.	Sweden

	Three months ended Jun 30, 2013					Three months ended Jun 30, 2012				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	46,190	47,349	—	—	93,539	40,132	45,717	—	—	85,849
Depreciation of capital assets	(6,411)	(5,694)	—	(78)	(12,183)	(6,645)	(4,848)	—	(95)	(11,588)
Amortization of intangible assets	(2,002)	(605)	—	(17)	(2,624)	(2,001)	(455)	—	(21)	(2,477)
Interest income	176	114	706	21	1,017	148	233	654	8	1,043
Interest expense	(4,665)	(5,178)	—	(1,329)	(11,172)	(5,625)	(5,400)	—	(1,703)	(12,728)
Income tax recovery (expense)	(2,762)	(2,952)	—	81	(5,633)	(3,223)	(3,196)	—	(251)	(6,670)
Net income (loss)	14,565	9,241	(1,009)	(8,161)	14,636	(3,016)	10,153	(752)	(6,337)	48
Cash flow from operations	19,307	14,357	1,332	(3,425)	31,571	14,358	15,521	654	(6,654)	23,879
Additions to capital assets	1,722	28,797	—	9	30,528	2,392	31,066	—	35	33,493

	Six months ended Jun 30, 2013					Six months ended Jun 30, 2012				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	96,394	91,400	—	—	187,794	90,775	87,230	—	—	178,005
Depreciation of capital assets	(12,805)	(11,120)	—	(166)	(24,091)	(13,272)	(9,690)	—	(193)	(23,155)
Amortization of intangible assets	(3,994)	(1,345)	—	(36)	(5,375)	(4,005)	(901)	—	(27)	(4,933)
Interest income	475	208	1,405	33	2,121	301	557	2,005	12	2,875
Interest expense	(9,266)	(10,243)	—	(2,677)	(22,186)	(11,963)	(11,551)	—	(4,078)	(27,592)
Income tax recovery (expense)	(6,016)	(5,148)	—	104	(11,060)	(6,141)	(1,939)	—	(739)	(8,819)
Net income (loss)	27,250	16,998	1,046	(14,760)	30,534	10,386	19,922	3,843	(17,492)	16,659
Cash flow from operations	40,257	31,314	1,332	(10,703)	62,200	37,706	31,884	2,005	(16,495)	55,100
Additions to capital assets	2,183	65,360	—	11	67,554	2,862	73,491	—	62	76,415

	As at Jun 30, 2013					As at Dec 31, 2012				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	625,843	990,587	48,746	28,975	1,694,151	634,403	946,510	51,923	19,703	1,652,539
Total liabilities	292,703	709,432	50	158,878	1,161,063	309,004	682,740	2,245	148,092	1,142,081

18. NON-CASH WORKING CAPITAL

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

	Six months ended	
	Jun 30, 2013	Jun 30, 2012
Accounts receivable	(7,091)	8,555
Other assets	(1,998)	282
Accounts payable and other liabilities	4,889	(13,566)
	(4,200)	(4,729)

19. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments as disclosed in the annual consolidated financial statements for the year ended December 31, 2012. No material developments arose during the six months ended June 30, 2013, except for the acquisition of ReD as described in note 21.

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENTS

On July 3, 2013, Capstone entered into a definitive agreement to acquire 100% of the issued and outstanding shares of Renewable Energy Developers Inc. ("ReD") by issuing common shares of Capstone, pursuant to a plan of arrangement (the "Transaction"). Under the terms of the Transaction, shareholders of ReD will receive 0.26 of a Capstone common share and $0.001 in cash for each share of ReD. Closing of the Transaction is subject to the approval of both Capstone and ReD shareholders and consents from certain third parties.

ReD is an owner, operator and developer of renewable energy projects in Canada. As at December 31, 2012, ReD had total assets of $236,816 and revenue of $16,688. Capstone will consolidate ReD upon completion of the Transaction.

The addition of ReD will result in Capstone becoming a larger infrastructure company with power generation facilities across Canada totaling approximately net 465 MW of installed capacity, an attractive pipeline of contracted development opportunities in Canada representing net 79 MW of capacity, and international investments in regulated water and district heating businesses.

PORTFOLIO

POWER

Business	Year Built	Ownership Interest	Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Cardinal	1994	100%	156	OEFC	2014	Husky	2015	18
Erie Shores(1)	2006	100%	99	OPA	2026	n/a	n/a	10
Whitecourt	1994	100%	25	TransAlta	2014	Millar Western	2016	34
Amherstburg	2011	100%	20	OPA	2031	n/a	n/a	n/a
Sechelt	1997	100%	16	BC Hydro	2017	n/a	n/a	n/a
Wawatay	1992	100%	14	OEFC	2042	n/a	n/a	n/a
Hluey Lakes	2000	100%	3	BC Hydro	2020	n/a	n/a	n/a
Dryden(2)	Various	100%	3	OEFC	2020	n/a	n/a	n/a
Chapais(3)	1995	31.3%	28	Hydro-Québec	2015	Barrette/Chantiers/ Société en commandite Scierie Opitciwan	2015	n/a

UTILITIES

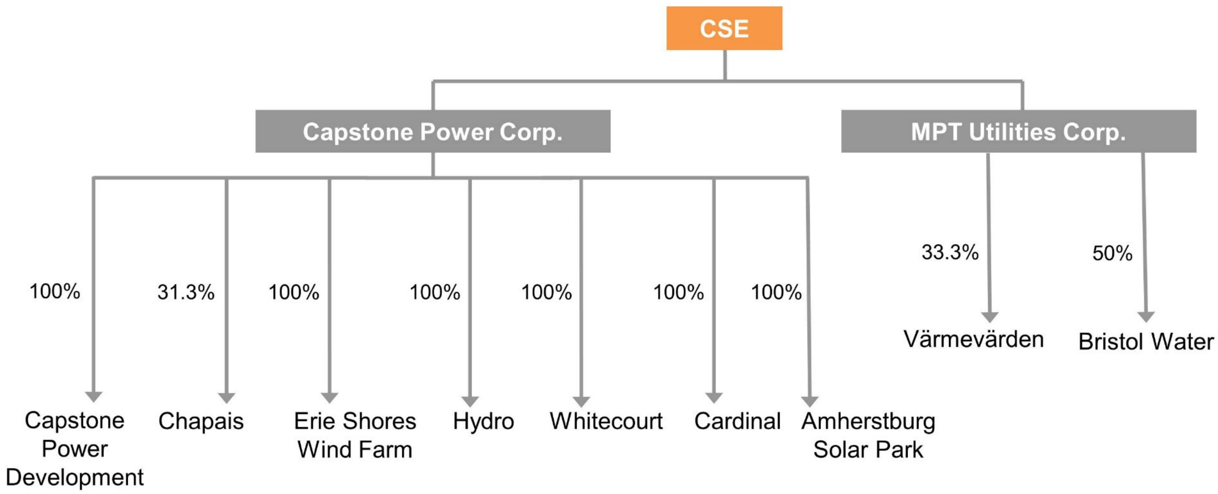
Business	Ownership Interest	Capacity	Counterparties	Length of Network	Approximate Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 639 MWth	Mix of industrial and retail customers, with industrial counterparties representing approximately 25% of revenue	317 kilometres	163,000	No	95
Bristol Water	50%	Average daily supply of 258 million litres	Domestic or residential customers represent 77% of revenue with non-domestic customers representing the balance	6,669 kilometres	1.2 million	UK Water Services Regulation Authority	539

(1) One 1.5 MW turbine is owned by a landowner.

(2) The Dryden facility is composed of three facilities, built in 1922 (Wainwright), 1928 (Eagle) and 1938 (McKenzie). These facilities were refurbished in 1986.

(3) CSE's investment in Chapais consists of a 31.3% interest in one of two classes of preferred shares, a 24.8% interest in Tranche A and B debt, and a 50% interest in Tranche C debt.

ORGANIZATIONAL STRUCTURE



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