CAPSTONE INFRASTRUCTURE CORPORATION ›

Financial Report for the
Quarter Ended September 30, 2013

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

	Three months ended		Nine months ended	
Earnings Measures ($000s)	**Sep 30, 2013**	**Sep 30, 2012**	**Sep 30, 2013**	**Sep 30, 2012**
Revenue	91,418	84,951	279,212	262,956
Net income	20,666	12,381	51,200	29,040
Basic earnings per share	0.104	0.065	0.368	0.167

	Three months ended		Nine months ended	
Cash Flow Measures ($000s)	**Sep 30, 2013**	**Sep 30, 2012**	**Sep 30, 2013**	**Sep 30, 2012**
Cash flows from operating activities	32,858	17,594	95,058	72,694
Adjusted EBITDA (1)	26,253	24,543	90,429	89,277
Adjusted funds from operations (“AFFO”) (1)	3,346	3,381	26,006	22,005
Payout ratio (1)	171.0%	167.3%	65.9%	128.1%

(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)	Sep 30, 2013	Dec 31, 2012
Long-term debt – power	284,986	305,497
Long-term debt – utilities – water (1)	293,077	259,830
Long-term debt – corporate	42,882	44,416
Common shares	281,125	291,955
Class B exchangeable units	12,510	13,093
Preferred shares	54,900	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 (1)	73,019,434
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

(1) On October 1, 2013 Capstone issued 19,699,339 common shares to acquire Renewable Energy Developers Inc. resulting in a total of 92,718,773 common shares outstanding as at October 1, 2013.

QUARTERLY TRADING INFORMATION

	High	Low	Closing	Average Daily Trading Volume
Common shares	$4.11	$3.76	$3.85	219,000
Preferred shares	$19.10	$16.64	$18.30	2,838
Convertible debentures	$102.89	$100.10	$100.31	279

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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 investor. 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 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 business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that there will be no material delays in the Corporation's power infrastructure development projects achieving commercial operation; that the Corporation's power infrastructure facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; 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 facilities, equipment or contractual arrangements, no material changes in the legislative, regulatory and operating framework for the Corporation's businesses, no material delays in obtaining required approvals and no material changes in rate orders or rate structures for the Corporation'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: 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 (including risks related to the integration of the business operated by Renewable Energy Developers Inc.); environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); risks related to the Corporation's power infrastructure facilities (power purchase agreements; operational performance; fuel costs and supply; contract performance; land tenure and related rights; environmental; and 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). 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

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 third 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 7.6% over the same quarter in 2012, and by 6.2% on a year-to-date basis, mostly due to higher overall power production and revenue growth at Bristol Water arising from higher regulated water rates, which increase annually, and higher water consumption.

Total expenses increased by 5.9% in the third quarter over the same period last year and by 5.3% in the first nine months of 2013. The variance in both periods reflected higher operating expenses due to higher operations and maintenance costs and inflationary increases for energy, consumables, wages and salaries at Bristol Water. In addition, we had higher project development costs, reflecting business development activities related to the acquisition of Renewable Energy Developers Inc. (ReD). The quarterly increase in expenses was partially offset by lower operating expenses at Cardinal reflecting the decline in gas transportation costs and lower gas consumption due to the facility's scheduled combustion inspection. On a year-to-date basis, Cardinal's fuel expenses were higher as a result of increased power production.

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA) increased by 7.0% in the quarter and by 1.3% in the year-to-date period, primarily reflecting higher revenue at Bristol Water and in the power segment overall. Adjusted EBITDA growth was partially offset by corporate development project expenses, mostly related to the acquisition of ReD, which were $1.5 million and $2.8 million higher in the quarter and year-to-date period, respectively. Adjusted EBITDA in the first nine months of the year also reflected the Corporation's reduced 50% ownership interest in Bristol Water.

Adjusted Funds from Operations (AFFO) declined by 1.0% in the quarter, reflecting higher Adjusted EBITDA offset by higher maintenance capital expenditures related to Cardinal's combustion inspection in September 2013, and higher scheduled debt principal repayments compared with last year. AFFO increased by 18.2% in the first nine months of the year due to higher Adjusted EBITDA and lower maintenance capital expenditures at Cardinal, which completed a hot gas path inspection in April 2012.

Our quarterly payout ratio, which is based on AFFO, was 171% compared with 167% in the same quarter last year, and 66% in the first nine months of 2013 compared with 128% 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 with a debt-to-capitalization ratio of 64% and cash of $41.4 million, of which $29.7 million is available to Capstone for general corporate purposes. 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, 82% 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 also continued to focus on our strategic priorities for 2013.

Over the quarter, we worked to complete our acquisition of ReD and secured shareholder approvals at meetings on September 4, 2013, which positioned us to close the transaction on October 1, 2013. With the addition of ReD, Capstone has gained new operating wind power facilities representing net 95 megawatts (MW) of capacity in Ontario and Nova Scotia, thereby making us a larger infrastructure company with power generation facilities across Canada totaling approximately net 465 MW of installed capacity. We have also gained an attractive pipeline of contracted development opportunities, primarily located in Ontario and Québec, representing an expected net 79 MW of capacity. At least two of these projects are slated to begin construction in 2013.

The projects in our new development pipeline are expected to reach commercial operations over 2014 and 2015, which will lessen the impact of the lower cash flow we expect from Cardinal following its PPA expiry. In addition, this pipeline --- and our growing development team --- bolsters our ability to successfully source, pursue and execute earlier-stage power opportunities.

On Cardinal, during the quarter we remained at the table with the Ontario Power Authority (OPA). We are continuing to focus on a long-term solution for Cardinal that will enable us to proceed with our plans to reconfigure and expand the facility. We continue to believe our facility has a compelling value proposition, balanced against the context of recent remarks by the Minister of Energy about the future of nuclear power in Ontario, a renewed policy focus on promoting energy conservation with consumers, and a new emphasis on delivering maximum value to ratepayers. While the Ministry of Energy's 2010 directive to the OPA regarding non-utility generator (NUG) contracts explicitly directed the OPA to consider in its analysis the economic and industrial benefits delivered by each facility, it is currently unclear how these considerable benefits will be incorporated into the OPA's overall assessment. The Ministry of Energy is expected to release its updated Long-Term Energy Plan before the end of 2013 following province-wide stakeholder consultations over the summer months. While we believe that gas-fired generation will continue to play a prominent role in Ontario's electricity mix, the timing of the LTEP may affect the timing of a resolution on Cardinal.

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 in line with long-term averages.

At Bristol Water, the team is continuing to advance the company's $475 million capital program for the current five-year asset management plan (AMP5), which concludes in March 2015. As at September 30, 2013, Bristol Water's cumulative capital expenditures in AMP5 were $344 million, about $23 million less than the original plan agreed with the regulator in 2010 but in line with management's expectations. During the quarter, Bristol Water reduced its shortfall by 32%, making $45 million in capital expenditures. 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.

We are also working closely with the Bristol Water team to plan the company's regulatory submission to the UK Water Services Regulation Authority (Ofwat) for Price Review 14, during which Ofwat will approve Bristol Water's capital program and set the rates Bristol Water may charge customers in the five-year AMP6 period commencing in April 2015.

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.

Subsequent to quarter end, on November 12, 2013 we established a new corporate credit facility, which has a three-year term maturing in October 2016, and repaid our CPC-Cardinal credit facility. The new facility is structured as a revolver and bears an initial effective interest rate of approximately 3.5%.

For the balance of the year, we expect continuing stable performance from our businesses, as described on pages 14 to 18 of this report. We now expect to deliver Adjusted EBITDA of approximately $120 million to $130 million in 2013 compared to our previously disclosed financial outlook of $115 to $125 million. Our revised outlook reflects the strong performance of our businesses in 2013 to date and the expected contribution from ReD's operating wind power facilities in the fourth quarter of the year, partially offset by higher administration expenses and transaction-related costs. The other assumptions underlying our forecast are described on page 2 of this report under the heading "Caution Regarding Forward-Looking Statements."

Thank you for your continuing support as we execute our strategy to build value for shareholders.

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 nine months ended September 30, 2013, and the consolidated cash flows for the nine months ended September 30, 2013 with the comparative prior periods, and the Corporation's financial position as at September 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 nine months ended September 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 November 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
Quarter ended September 30, 2013	0.159	0.160	1.611	1.664

CHANGES IN THE BUSINESS

No significant changes occurred at Capstone's businesses during the first nine months of 2013. The financial results of Renewable Energy Developers Inc. ("ReD") will be consolidated beginning October 1, 2013, the date Capstone completed the acquisition.

SUBSEQUENT EVENTS

Acquisition of ReD

On October 1, 2013, Capstone completed the previously announced acquisition of 100% of the issued and outstanding shares of ReD by issuing common shares of Capstone, pursuant to a plan of arrangement (the "Arrangement"). At closing, each ReD shareholder received 0.26 of a Capstone common share ("Capstone Share") and $0.001 in cash in exchange for each share of ReD. Capstone issued 19,699 common shares to acquire Renewable Energy Developers Inc. resulting in a total of 92,719 common shares outstanding as at October 1, 2013.

In addition, each outstanding option to purchase ReD Shares ("ReD Option") was exchanged for an option to acquire Capstone Shares ("Replacement Option"). A Replacement Option entitles the holder thereof to purchase 0.26026 of a

Capstone Share for each ReD Option being replaced. The obligations of ReD with respect to its outstanding common share purchase warrants have been assumed by Capstone in accordance with the terms of the warrant indenture whereby each warrant is now exercisable to receive 0.26 of a Capstone Share and $0.001 in cash.

Also pursuant to the Arrangement, on October 1, 2013, the 6.75% convertible unsecured subordinated debentures of ReD due December 31, 2017 (the "ReD Debentures") became convertible into Capstone Shares and cash pursuant to the terms of the debenture indenture, while remaining outstanding obligations of ReD. The Corporation has agreed to provide credit support for the ReD Debentures (TSX: RDZ.DB) and ReD has agreed to provide credit support for the obligations of Capstone under its 6.50% convertible unsecured subordinated debentures (TSX: CSE.DB.A) due December 31, 2016.

Subsequent to the acquisition, Capstone will consolidate the assets, liabilities and attributable net income of ReD from October 1, 2013. As at and for the year-ended December 31, 2012, ReD had total assets of $236,816, total liabilities of $164,274 total revenue of $16,688 and a net loss of $8,069.

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 an expected net 79 MW of capacity, and international investments in regulated water and district heating businesses.

Corporate Credit Facility

On November 12, 2013, the Corporation entered into a new corporate credit facility with a three-year term maturing in October 2016, and repaid the CPC-Cardinal credit facility. The new facility is structured as a revolver and bears an initial effective interest rate of approximately 3.5%.

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 declared as dividends to common shareholders. The payout ratio is calculated as dividends declared divided by AFFO.

Reconciliation of Non-GAAP Performance measures

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

	Three months ended		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
EBITDA	37,843	37,084	131,089	118,242
Foreign exchange (gain) loss	(994)	(492)	(1,715)	(944)
Other (gains) and losses, net	466	(2,432)	(9,251)	(1,672)
Equity accounted (income) loss	2,078	2,145	3,183	1,302
Distributions from equity accounted investments	—	—	3,104	983
Net pension interest income	(491)	(738)	(1,302)	(2,167)
Non-controlling interest ("NCI") portion of Adjusted EBITDA	(12,649)	(11,024)	(34,679)	(26,467)
Adjusted EBITDA	26,253	24,543	90,429	89,277
Cash flow from operating activities	32,858	17,594	95,058	72,694
Bristol Water cash flow from operating activities	(23,068)	(15,174)	(54,382)	(47,058)
Bristol Water dividends paid to Capstone	1,687	—	4,775	4,868
Distributions from equity accounted investments	—	—	3,104	983
Foreign exchange on loans receivable from Värmevärden	(16)	55	14	(481)
Chapais loans receivable principal repayments	278	248	811	727
Power maintenance capital expenditures	(2,358)	(1,349)	(3,504)	(4,675)
Power and corporate scheduled principal repayments	(3,899)	(3,015)	(11,344)	(9,661)
Power and corporate working capital changes	(1,198)	5,960	(5,713)	7,421
Dividends on redeemable preferred shares	(938)	(938)	(2,813)	(2,813)
AFFO	3,346	3,381	26,006	22,005

RESULTS OF OPERATIONS

Overview

During the third quarter and year-to-date, Capstone's operating activities generated higher Adjusted EBITDA than in 2012. AFFO was marginally lower in the third quarter of 2013 but higher year-to-date.

Capstone's Adjusted EBITDA performance was primarily a function of:
- Cardinal third quarter revenue was higher due to higher power rates and year-to-date revenue was also higher due to fewer outage hours than in 2012 when the hot gas path maintenance was completed;
- Hydro revenue was higher due to strong water flows during the third quarter;
- Bristol Water revenue was higher in the quarter and year-to-date due to an increase in regulated water tariffs;
- Erie Shores and Amherstburg third quarter revenue was lower, due to less power generation as a result of lower wind and solar conditions respectively; and
- Corporate project development expenses were higher in the quarter and year-to-date due to the ReD acquisition.

In addition, Capstone's AFFO was affected by:
- Bristol Water's dividend frequency changed to quarterly in 2013 from semi-annual in 2012;
- Cardinal's third quarter maintenance capital expenditures were higher than in 2012 due to scheduled work but lower year-to-date due to the cost of the hot gas path maintenance completed in the second quarter of 2012; and
- Corporate taxes paid were higher in 2013, due to the final 2012 tax installment on preferred dividends.

	Three months ended		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Revenue	91,418	84,951	279,212	262,956
Expenses	(53,469)	(50,502)	(160,282)	(152,188)
Interest income	953	1,118	3,074	3,993
Distributions from equity accounted investments	—	—	3,104	983
Less: non-controlling interest (“NCI”)	(12,649)	(11,024)	(34,679)	(26,467)
Adjusted EBITDA	26,253	24,543	90,429	89,277
Adjusted EBITDA of consolidated businesses with NCI	(12,630)	(11,026)	(34,629)	(38,124)
Dividends from businesses with non-controlling interests	1,687	—	4,775	4,868
Principal from loans receivable	278	248	811	727
Interest paid	(4,675)	(4,989)	(15,536)	(17,072)
Dividends paid on Capstone’s preferred shares	(938)	(938)	(2,813)	(2,813)
Income taxes (paid) recovery	(372)	(93)	(2,183)	(522)
Maintenance capital expenditures	(2,358)	(1,349)	(3,504)	(4,675)
Scheduled repayment of debt principal	(3,899)	(3,015)	(11,344)	(9,661)
AFFO	3,346	3,381	26,006	22,005
AFFO per share	0.044	0.045	0.342	0.294
Payout ratio	171.0%	167.3%	65.9%	128.1%
Dividends declared per share	0.075	0.075	0.225	0.375

Revenue for the quarter was $6,467, or 7.6%, higher than in 2012 and $16,256, or 6.2%, higher on a year-to-date basis. The increases were primarily due to Bristol Water, where higher regulated water tariffs and higher water consumption contributed to increases of $5,349 and $9,519 during the quarter and year-to-date periods, respectively. In the power segment, revenue was $1,118 higher for the quarter and $6,737 higher on a year-to-date basis, primarily due to higher electricity generation at Cardinal and the hydro power facilities.

Expenses for the quarter were $2,967, or 5.9%, higher than in 2012, and $8,094, or 5.3%, higher year-to-date.
- Operating expenses increased by $987 during the quarter and $5,580 on a year-to-date basis, primarily due to Bristol Water and Cardinal. Bristol Water's operating expenses increased by $2,004 for the quarter and $4,336 on a year-to-date basis mostly due to higher repairs and maintenance activities, and inflationary increases for energy, consumables, wages and salaries. For Cardinal, fuel expenses were $1,288 lower during the quarter primarily due to lower gas transportation costs and less gas required for production due to the facility's scheduled combustion inspection. On a year-to-date basis, Cardinal's fuel expenses were $1,038 higher due to fuel volume to support higher production.
- Administrative expenses were $247 higher for the quarter, primarily due to higher professional fees. On a year-to-date basis, administrative expenses were $833 lower, primarily due to overall lower staff costs and lower professional fees.

- Project development costs increased by $1,733 during the quarter and $3,347 on a year-to-date basis, primarily due to higher business development activities related to the acquisition of ReD.

Distributions from equity accounted investments were unchanged for the quarter but were $2,121, or 216%, higher than in 2012 on a year-to-date basis due to Värmevärden's distribution of surplus cash attributable to prior years' performance.

Dividends from businesses with non-controlling interests for the quarter were $1,687, higher than in 2012 and $93, or 1.9%, lower on a year-to-date basis. The increase for the quarter was primarily due to the change in payment frequency at Bristol Water from semi-annually to quarterly since the beginning of 2013. Year-to-date, the partial sale of Bristol Water on May 10, 2012 resulted in lower dividends to Capstone in 2013 compared with 2012.

Interest paid for the quarter was $314, or 6.3%, lower than in 2012 and $1,536, or 9.0%, lower on a year-to-date basis. The year-to-date decrease was primarily attributable to the senior debt facility and the CPC-Cardinal debt facility which were wholly and partially repaid in 2012 respectively. Interest paid on these two facilities was $2,074 lower in 2013. This was partially offset by a $1,107 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 accrued interest to September 30, 2013.

Maintenance capital expenditures for the quarter were $1,009, or 74.8%, higher than in 2012 and $1,171, or 25.0%, lower on a year-to-date basis. The increase for the quarter was primarily due to costs of the scheduled combustion inspection at Cardinal while the year-to-date decrease was attributable to Cardinal's 2012 hot gas path maintenance outage, which occurs every three years.

Scheduled repayment of debt principal for the quarter was $884, or 29.3%, higher than in 2012 and $1,683, or 17.4%, higher on a year-to-date basis. The increases were primarily attributable to the new hydro facilities' amortizing debt, which was issued in June 2012.

Results by Segment

Capstone's results are segmented into power in Canada and utilities in Europe. All remaining results relate to corporate activities. The power segment includes gas cogeneration, hydro, wind, biomass and solar power, as well as power development activities. The utilities segments 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			Nine months ended		
	Sep 30, 2013	Sep 30, 2012	Change	Sep 30, 2013	Sep 30, 2012	Change
Power	16,846	15,104	1,742	60,527	55,591	4,936
Utilities – water	12,630	11,026	1,604	34,629	38,124	(3,495)
Utilities – district heating	722	672	50	5,231	3,660	1,571
Corporate	(3,945)	(2,259)	(1,686)	(9,958)	(8,098)	(1,860)
Adjusted EBITDA	26,253	24,543	1,710	90,429	89,277	1,152
Power	6,502	6,358	144	33,255	29,285	3,970
Utilities – water	1,687	—	1,687	4,775	4,868	(93)
Utilities – district heating	722	672	50	5,231	3,660	1,571
Corporate	(5,565)	(3,649)	(1,916)	(17,255)	(15,808)	(1,447)
AFFO	3,346	3,381	(35)	26,006	22,005	4,001

Power

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

Change for the three and nine months ended September 30, 2013		
Three months	**Nine months**	**Explanations**
(159)	3,862	Impact of Cardinal scheduled maintenance outages for hot gas path inspection in the second quarter of 2012 and the combustion inspection in the third quarter of 2013.
(486)	(1,623)	Higher operating expenses at Cardinal primarily due to price increases for fuel.
495	1,576	Higher revenue at Cardinal due to a PPA rate increase.
1,374	1,374	Impact of TCPL rate decrease on Cardinal gas transportation charges.
147	387	Higher revenue at Whitecourt primarily attributable to higher average power pool prices.
769	4	Impact of variations in wind, hydrology and sunlight on revenue.
(257)	(595)	Project development costs of the power development operation formed in December 2012.
(141)	(49)	Various other changes.
1,742	4,936	Change in Adjusted EBITDA.
(619)	(2,221)	Higher debt service payments primarily for the hydro facilities' since bond issue in June 2012.
(1,009)	1,171	Higher maintenance capital expenditures in 2012 due to Cardinal's hot gas path inspection.
30	84	Various other changes.
144	3,970	Change in AFFO.

Utilities – water

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

Change for the three and nine months ended September 30, 2013		
Three months	**Nine months**	**Explanations**
—	(6,135)	Impact of sale of 20% interest in Bristol Water on May 10, 2012.
1,335	2,621	Business performance increase primarily due to higher revenue as a result of annual increase in regulated water tariffs, offset by higher operating expenses.
269	19	Impact of foreign exchange on Adjusted EBITDA.
1,604	(3,495)	Change in Adjusted EBITDA.
—	(1,391)	Impact of sale of 20% interest in Bristol Water on May 10, 2012.
1,611	1,611	Impact of change in dividend frequency to quarterly from semi-annual.
76	(227)	Other business performance variances.
—	(86)	Impact of foreign exchange on AFFO
1,687	(93)	Change in AFFO.

Utilities – district heating

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

Change for the three and nine months ended September 30, 2013		
Three months	**Nine months**	**Explanations**
—	(728)	Lower interest income since the March 2012 partial repayment of the shareholder loan from Värmevärden refinancing proceeds.
—	2,070	Higher dividend due to distribution of surplus cash attributable to prior years' performance.
50	229	Impact of foreign exchange.
50	1,571	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 and nine months ended September 30, 2013		
Three months	**Nine months**	**Explanations**
(247)	833	Lower administrative expenses due to lower professional fees and staff costs in the first six months of 2013. The increase in third quarter expenses was due to communication initiatives and integration expenses.
(1,476)	(2,752)	Higher project development costs primarily due to costs related to the acquisition of ReD.
37	59	Higher interest income due to higher average cash balances.
(1,686)	(1,860)	Change in Adjusted EBITDA.
49	2,074	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.
(279)	(1,661)	Higher taxes paid primarily due to the final payment of 2012 taxes for the preferred share dividends.
(1,916)	(1,447)	Change in AFFO.

Net income

Net income for each business segment was as follows:

	Three months ended		Nine months ended	
Net Income	**Sep 30, 2013**	**Sep 30, 2012**	**Sep 30, 2013**	**Sep 30, 2012**
Power	3,733	7,770	30,983	18,157
Utilities – Water	23,559	13,087	40,557	33,010
Utilities – District Heating	(363)	(912)	683	2,931
Corporate	(6,263)	(7,564)	(21,023)	(25,058)
Total	20,666	12,381	51,200	29,040

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

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2013**	**Sep 30, 2012**	**Sep 30, 2013**	**Sep 30, 2012**
Adjusted EBITDA	26,253	24,543	90,429	89,277
Adjustment of Värmevärden distributions to equity accounted income	(2,078)	(2,145)	(6,287)	(2,285)
NCI portion of Adjusted EBITDA	12,649	11,024	34,679	26,467
Other gains and (losses), net	(466)	2,432	9,251	1,672
Foreign exchange gain (loss)	994	492	1,715	944
Interest expense	(11,427)	(10,528)	(33,613)	(38,121)
Net pension interest income	491	738	1,302	2,167
Depreciation and amortization	(15,252)	(14,688)	(44,718)	(42,776)
Income tax recovery (expense)	9,502	513	(1,558)	(8,305)
Net income	20,666	12,381	51,200	29,040

Infrastructure - Power

Capstone's power segment includes gas cogeneration, wind, biomass, hydro and solar and are located in Ontario, Alberta, British Columbia and Quebec. In addition, Capstone established power development activities in December 2012.

Three months ended Sep 30, 2013	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	292.2	30.5	52.0	41.7	12.2	n/a	428.6
Capacity factor	93.9%	13.9%	97.4%	52.8%	27.5%	n/a	n.m.f
Availability	95.1%	95.3%	97.7%	98.5%	99.9%	n/a	n.m.f
Revenue	25,099	2,994	4,026	3,230	5,153	—	40,502
Expenses	(19,083)	(1,021)	(2,154)	(966)	(329)	(257)	(23,810)
Interest income	22	25	83	14	10	—	154
Adjusted EBITDA	6,038	1,998	1,955	2,278	4,834	(257)	16,846
Principal from loans receivable	—	—	278	—	—	—	278
Interest paid	(70)	(1,427)	—	(1,203)	(1,665)	—	(4,365)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(1,487)	(486)	(293)	(92)	—	—	(2,358)
Scheduled repayment of debt principal	(750)	(1,397)	—	(200)	(1,552)	—	(3,899)
AFFO	3,731	(1,312)	1,940	783	1,617	(257)	6,502

Three months ended Sep 30, 2012	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	300.1	32.5	48.7	23.5	13.4	n/a	418.2
Capacity factor	96.3%	14.9%	96.4%	29.9%	30.3%	n/a	n.m.f
Availability	98.4%	96.7%	97.7%	95.1%	99.2%	n/a	n.m.f
Revenue	24,897	3,192	3,879	1,948	5,468	—	39,384
Expenses	(20,371)	(1,216)	(1,881)	(847)	(255)	—	(24,570)
Interest income	13	20	234	13	10	—	290
Adjusted EBITDA	4,539	1,996	2,232	1,114	5,223	—	15,104
Principal from loans receivable	—	—	248	—	—	—	248
Interest paid	(182)	(1,507)	—	(1,264)	(1,677)	—	(4,630)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(271)	(306)	(198)	(574)	—	—	(1,349)
Scheduled repayment of debt principal	—	(1,317)	(33)	(151)	(1,514)	—	(3,015)
AFFO	4,086	(1,134)	2,249	(875)	2,032	—	6,358

(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.

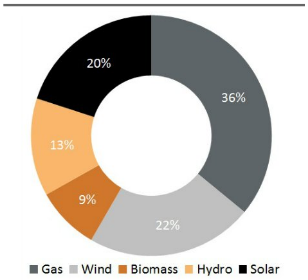
Nine months ended Sep 30, 2013	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	947.6	167.5	148.6	126.1	30.7	n/a	1,420.5
Capacity factor	97.2%	25.8%	96.4%	53.8%	23.3%	n/a	n.m.f
Availability	97.9%	96.7%	96.8%	98.9%	99.8%	n/a	n.m.f
Revenue	85,096	16,444	11,818	10,436	13,102	—	136,896
Expenses	(63,166)	(2,853)	(7,007)	(2,453)	(924)	(595)	(76,998)
Interest income	82	75	399	42	31	—	629
Adjusted EBITDA	22,012	13,666	5,210	8,025	12,209	(595)	60,527
Principal from loans receivable	—	—	811	—	—	—	811
Interest paid	(338)	(4,342)	—	(3,646)	(4,909)	—	(13,235)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(1,726)	(854)	(475)	(449)	—	—	(3,504)
Scheduled repayment of debt principal	(1,250)	(4,129)	—	(2,229)	(3,736)	—	(11,344)
AFFO	18,698	4,341	5,546	1,701	3,564	(595)	33,255

Nine months ended Sep 30, 2012	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	893.5	163.9	149.5	118.2	33.8	n/a	1,358.9
Capacity factor	90.7%	25.2%	96.3%	50.4%	25.7%	n/a	n.m.f
Availability	93.8%	97.9%	97.0%	98.3%	98.8%	n/a	n.m.f
Revenue	78,750	16,069	11,431	9,859	14,050	—	130,159
Expenses	(62,128)	(3,184)	(6,469)	(2,435)	(943)	—	(75,159)
Interest income	42	36	475	16	22	—	591
Adjusted EBITDA	16,664	12,921	5,437	7,440	13,129	—	55,591
Principal from loans receivable	—	—	727	—	—	—	727
Interest paid	(475)	(4,578)	(4)	(2,539)	(5,101)	—	(12,697)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(2,543)	(435)	(829)	(868)	—	—	(4,675)
Scheduled repayment of debt principal	—	(3,894)	(96)	(2,059)	(3,612)	—	(9,661)
AFFO	13,646	4,014	5,235	1,974	4,416	—	29,285

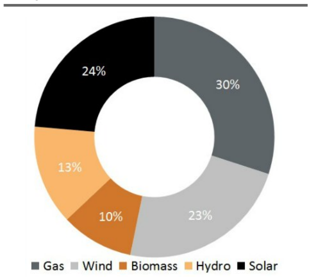
(1) Includes receipts from interest and loan receivable on Capstone's 31.3% equity interest in the Chapais facility. Statistics for power generated, capacity factors and availability do not include the Chapais facility.

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

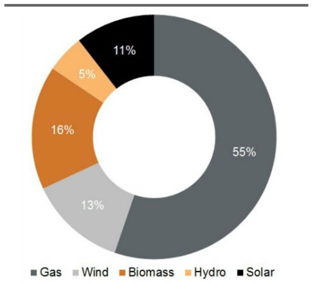
Adjusted EBITDA YTD 2013



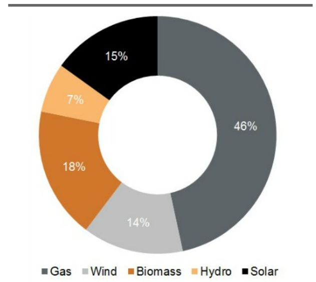
Adjusted EBITDA YTD 2012



AFFO YTD 2013



AFFO YTD 2012



Revenue for the quarter was $1,118, or 2.8%, higher than in 2012 and $6,737, or 5.2%, higher year-to-date. Solid performance in both periods at the hydro power facilities and at Cardinal led to higher power generation, which, combined with higher average power pool prices at Whitecourt and rate increases at Cardinal, resulted in higher revenue. These increases were partially offset by lower power generation at Amherstburg due to a less favourable solar resource in 2013 compared with 2012.

Expenses for the quarter were $760, or 3.1%, lower than in 2012 and $1,839, or 2.4%, higher year-to-date. Lower quarterly expenses reflected a $1,288 decline in fuel costs at Cardinal mostly attributable to lower fuel transportation costs due to a decline in TCPL rates, as well as lower production due to the scheduled combustion inspection. On a year-to-date basis, Cardinal's operating expenses were $1,038 higher, primarily due to increased fuel consumption to support higher production. Power project development costs were $257 and $595 higher in the quarter and year-to-date periods, respectively. Power project development costs mainly include salaries and overhead for Capstone's power development subsidiary, which was established in December 2012.

Interest income for the quarter was $136, or 46.9%, lower than in 2012 and $38, or 6.4%, higher year-to-date. Capstone had less interest income during the quarter because an unscheduled interest payment was received from Chapais in the prior comparable period. The year-to-date increase was primarily attributable to a higher average cash balance in 2013.

Interest paid for the quarter was $265, or 5.7%, lower than in 2012 and $538, or 4.2%, higher in the year-to-date period. Less interest was paid during the quarter due to a lower average debt balance resulting from debt amortization. The year-to-date increase was primarily due to the hydro facilities' debt which was established in June 2012. This was partially offset by $428 less interest paid on the debt at Amherstburg and Erie Shores resulting from debt amortization.

Maintenance capital expenditures for the quarter were $1,009 higher than in 2012 and $1,171 lower year-to-date. The increase for the quarter was primarily due to the scheduled combustion inspection performed at Cardinal and the lower year-to-date cost in 2013 was primarily attributable to Cardinal's hot gas path inspection in 2012.

Scheduled repayment of debt principal for the quarter was $884, or 29.3%, higher than in 2012 and $1,683, or 17.4%, higher year-to-date. The increases in both periods were primarily due to higher payments under the CPC-Cardinal credit facility since renewal in the third quarter of 2012, which resulted in increases of $750 and $1,250 for the quarter and year-to-date, 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	Q3	Q1	Q2	Q3	Q4	Annual
Gas	Cardinal	2014	292.2	343.4	281.4	302.3	333.3	1,260.4
Wind	Erie Shores	2026	30.5	76.9	53.0	33.5	76.9	240.3
Biomass	Whitecourt	2014	52.0	50.2	45.5	50.3	49.3	195.3
Hydro	Various	2017 - 2042	41.7	31.6	57.2	30.4	40.9	160.1
Solar	Amherstburg	2031	12.2	6.4	13.1	12.4	5.9	37.8
Total			428.6	508.5	450.2	428.9	506.3	1,893.9

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

Outlook

In 2013, Capstone expects higher revenue from the power segment, reflecting the contribution from the newly acquired wind power facilities as well as stable performance from the balance of the power portfolio. Higher revenue will be partially offset by higher project development costs.

Capstone's existing power facilities are expected to perform consistently with long-term average production, subject to variations in wind, water flows, ambient temperatures and sunlight. Capstone expects Cardinal 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. The 2013 rate went into effect on July 1, 2013.

The activities of Capstone Power Development, Capstone's power development subsidiary, are 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 higher Adjusted EBITDA in 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		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Water supplied (megalitres)	21,820	20,248	61,753	61,370
Revenue	50,916	45,567	142,316	132,797
Operating expenses	(25,668)	(23,664)	(73,246)	(68,910)
Interest income	31	147	238	704
Adjusted EBITDA before non-controlling interest	25,279	22,050	69,308	64,591
Less: non-controlling interest ("NCI")	(12,649)	(11,024)	(34,679)	(26,467)
Adjusted EBITDA	12,630	11,026	34,629	38,124
Adjusted EBITDA of consolidated businesses with NCI	(12,630)	(11,026)	(34,629)	(38,124)
Dividends from businesses with NCI	1,687	—	4,775	4,868
AFFO	1,687	—	4,775	4,868

Revenue for the quarter was $5,349, or 11.7%, higher than in 2012 and $9,519, or 7.2%, higher year-to-date. Excluding foreign currency, revenue was $4,057 or 8.7% higher for the quarter and $9,452, or 7.1% on a year-to-date basis. The increase in both periods was primarily due to the annual increase in water tariffs, which occurred on April 1, 2013, along with higher consumption.

Operating expenses for the quarter were $2,004, or 8.5%, higher than in 2012 and $4,336, or 6.3%, higher year-to-date. Excluding foreign currency, operating expenses were $1,332, or 5.4%, higher for the quarter and $4,302, or 6.2%, higher year-to-date. The variance in both periods was mostly due to higher repairs and maintenance activities, as well as inflationary increases for energy, consumables, wages and salaries.

Interest income for the quarter was $116, or 78.9%, lower than in 2012 and $466, or 66.2%, lower year-to-date, reflecting lower average cash and short-term investment balances due to the use of 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 since October 5, 2011 and ITOCHU's 20% interest beginning May 10, 2012.

Dividends paid to Capstone by Bristol Water for the quarter were $1,687 higher than in 2012 and $93 lower on a year-to-date basis. The increase for the quarter was due to changing the payment frequency from semi-annually to quarterly.The year-to-date dividends were lower in 2013 due to the reduction in Capstone's ownership interest in Bristol Water on May 10, 2012, which was partially offset by the dividend frequency change.

Capital expenditures

The approved and planned capital expenditures for the current asset management plan ("AMP5") period, which concludes in March 2015, are approximately $475,000, or £286,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at September 30, 2013, cumulative capital expenditures incurred during AMP5 were $344,000, which were $23,000 lower than the original plan agreed with the Water Services Regulation Authority ("Ofwat"). Bristol Water's focus on meeting the AMP5 capital target has reduced the shortfall by 32% as cumulative capital expenditures for regulatory purposes increased $45,000 during the quarter ended September 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 capital 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

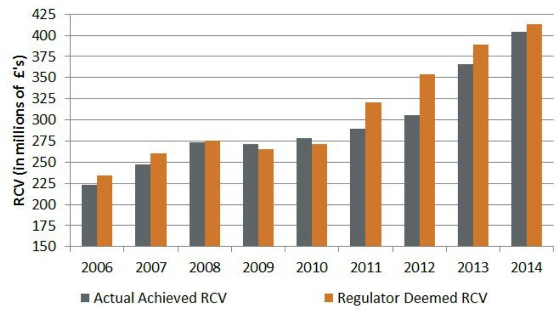
Bristol Water is a regulated business subject to supervision by Ofwat.

Management is 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.

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.

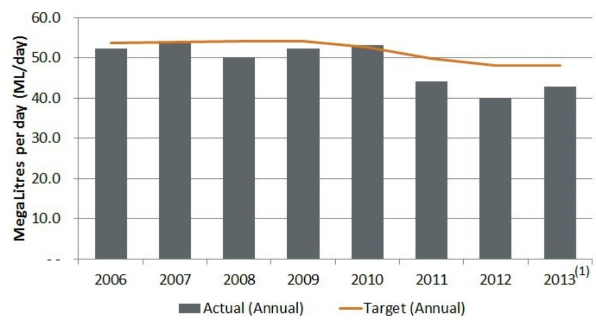
For the three months ended September 30, 2013, Bristol Water achieved leakage levels of 44.2 Ml/d (for the regulatory year ended March 31, 2013 – 42 Ml/d) and had a SIM score of 85.2 (for the regulatory year ended March 31, 2013 – 86, which ranked fourth overall in the industry).

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 nine months ended September 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 $130,000 (£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 comprises loans receivable and equity. In 2012, the business completed a bond offering, resulting in repayment of a portion of the loans due to shareholders.

Värmevärden is focused on maintaining strong customer relationships and managing fuel costs to optimize performance.

During the third quarter, a period of lower heat demand, Värmevärden's overall financial performance was lower than in the prior comparable period primarily due to unexpected maintenance costs in 2013 and insurance proceeds received in 2012. Year-to-date financial performance was similarly lower than 2012 primarily due to a higher use of alternative, more expensive heat production systems during periods when primarily systems were undergoing maintenance. Overall, Värmevärden cash flow to support interest and dividend payments to shareholders remained strong.

	Three months ended		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Heat and steam production (GWh)	127	125	768	726
Equity accounted income (loss)	(2,078)	(2,142)	(3,181)	(1,299)
Interest income	722	672	2,127	2,677
Dividends	—	—	3,104	983
Adjusted EBITDA and AFFO	722	672	5,231	3,660

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 $2,127 in interest income from Värmevärden during the first nine months of 2013, which was $550 lower than 2012 due to the lower shareholder loan balance.

Dividends

Capstone's dividends received from Värmevärden were $2,121 higher year-to-date than in the first nine months of 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 $1,882 lower than in the first nine months of 2012 primarily due to a higher use of alternative, more expensive heat production systems during periods when primarily systems were undergoing maintenance

Seasonality

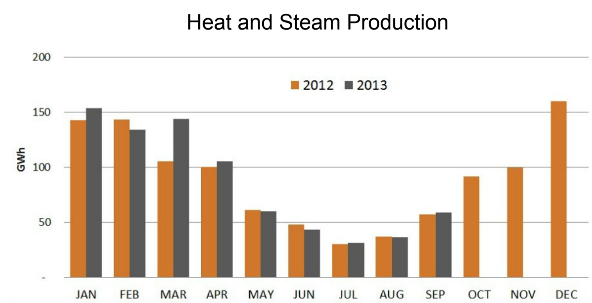
Heat production is typically highest during the first quarter, which represents the coldest months of the year. The first and fourth quarters combined have historically accounted for approximately 65% of Värmevärden's annual revenue.

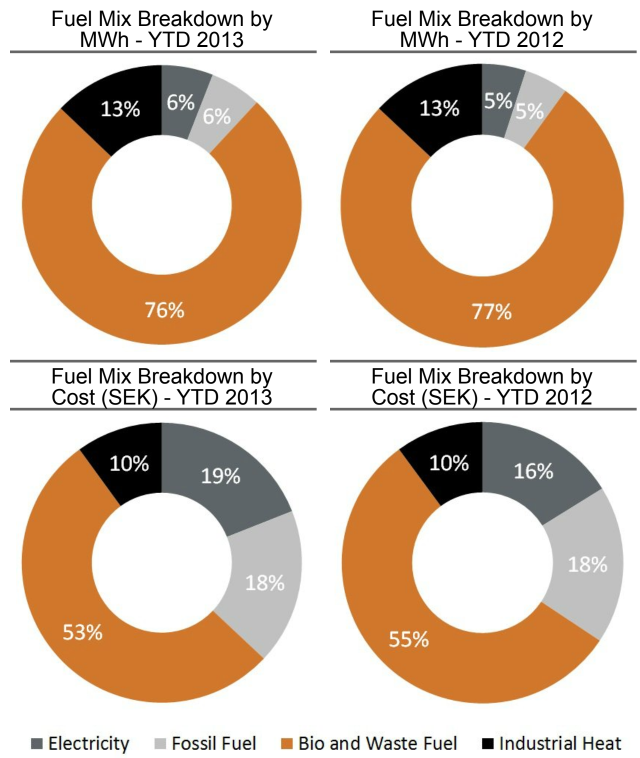
Outlook

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		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Administrative expenses	(2,511)	(2,264)	(7,200)	(8,033)
Project development costs	(1,480)	(4)	(2,838)	(86)
Interest income	46	9	80	21
Adjusted EBITDA	(3,945)	(2,259)	(9,958)	(8,098)
Interest paid	(310)	(359)	(2,301)	(4,375)
Dividends paid on Capstone's preferred shares	(938)	(938)	(2,813)	(2,813)
Income taxes (paid) recovery	(372)	(93)	(2,183)	(522)
AFFO	(5,565)	(3,649)	(17,255)	(15,808)

Administrative expenses

	Three months ended		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Staff costs	1,652	1,580	4,572	4,787
Other administrative expenses	859	684	2,628	3,246
	2,511	2,264	7,200	8,033

Staff costs for the quarter were $72, or 4.6%, higher than in 2012 and $215, or 4.5%, lower on a year-to-date basis. The year-to-date decrease 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 $175, or 25.6%, higher than in 2012 and $618, or 19.0%, lower year-to-date. The decrease on a year-to-date basis 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 $1,476 higher than in 2012 and $2,752 higher year-to-date, primarily due to costs related to the acquisition of ReD.

Interest income for the quarter was $37, or 411%, higher than in 2012 and $59, or 281%, higher year-to-date, primarily due to higher average cash balances in 2013.

Interest paid for the quarter was $49, or 13.6%, lower than in 2012 and $2,074, or 47.4%, lower year-to-date, primarily due to $112,375 less corporate debt than during the first six months of 2013. 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 in the first six months of 2012.

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 $279, or 300%, higher and $1,661, or 318%, 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 project development costs to be above historical levels, while staffing levels will increase above 2012 levels due to the acquisition of ReD.

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 September 30, 2013, Capstone had a consolidated working capital surplus of $23,897 compared with $30,821 at December 31, 2012. The decrease of $6,924 primarily reflected lower cash held by the utilities – water segment, where Bristol Water reduced its surplus cash to fund the ongoing capital expenditure program, partially offset by higher cash held at corporate. Consolidated working capital included surpluses of $25,812 and $3,204 at the power and utilities – water segments, respectively, and a deficit of $5,119 at corporate.

Unrestricted cash and cash equivalents totaled $41,388 on a consolidated basis with the power segment and corporate contributing $20,354 and $18,590, respectively.

As at September 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 decreased from 57.6% to 57.1% on a book value basis. On a fair value basis, the change was primarily due to a 4.5% decrease in the share price since December 31, 2012. As at September 30, 2013, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	Sep 30, 2013	Dec 31, 2012
Power	25,812	31,041
Utilities – water	3,204	10,123
Corporate	(5,119)	(10,343)
Working capital	23,897	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, as well as the current portion of long-term debt. The reduction in the corporate deficit since December 31, 2012 reflected the accumulation of cash primarily from distributions received from Capstone businesses during the first nine months of 2013.

On a consolidated basis, current assets decreased by $118, or 0.1%, since December 31, 2012, primarily due to Bristol Water's use of cash to fund capital expenditures. This was partially offset by a cash increase of $15,247 at corporate. Current liabilities increased by $6,806, or 5.3%, since December 31, 2012, primarily due to the increasing portion of the CPC-Cardinal credit facility classified as current versus long-term.

Cash and cash equivalents

As at	Sep 30, 2013	Dec 31, 2012
Power	20,354	20,941
Utilities – water	2,444	25,315
Corporate	18,590	3,343
Unrestricted cash and cash equivalents	41,388	49,599
Less: cash with access limitations		
Power	(9,205)	(8,386)
Utilities – water	(2,444)	(25,315)
Cash and cash equivalents available to Capstone	29,739	15,898

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The $8,211 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 $73,212 of credit availability to fund the longer term cash requirements of the capital projects. For the power segment, $9,205 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 increased by $1,551 from December 31, 2012 to $20,780 at September 30, 2013, primarily due to the hydro facilities' bond indenture. During the quarter, the bond indenture required the debt service reserve to be increased by $1,800. The remaining difference relates to foreign exchange translation on Bristol Water's restricted cash, less funding Amherstburg's maintenance reserve by way of letter of credit in 2013 instead of cash funding in 2012. Restricted cash represents reserve accounts of $11,629 and $9,151 at the power segment and Bristol Water, respectively.

Cash flow

Capstone's cash and cash equivalents decreased by $8,211 in the first nine months of 2013 compared with a decrease of $651 in 2012. Details of the decrease are presented in the consolidated statement of cash flows and are summarized as follows:

Nine months ended	Sep 30, 2013	Sep 30, 2012
Operating activities	95,058	72,694
Investing activities	(105,916)	33,337
Financing activities (excluding dividends to shareholders)	20,730	(86,252)
Dividends paid to shareholders	(17,645)	(20,764)
Effect of exchange rate changes on cash and cash equivalents	(438)	334
Change in cash and cash equivalents	(8,211)	(651)

Cash flow from operating activities generated $22,364 more cash and cash equivalents than in first nine months of 2012. Operating cash flows increased by $9,899 and $7,324 at the power and utilities - water segments, respectively and $6,512 at corporate. This was partially offset by a decrease of $1,371 at Värmevärden. Higher cash flows at the power and utilities - water segments were primarily attributable to higher revenues. The corporate cash flow increase was attributable to changes in working capital liabilities. Lower cash flow from Värmevärden was due to less interest income in 2013 based on a lower shareholder loan balance.

Cash flow from investing activities was $139,253 lower in 2013, primarily because Capstone received $47,964 of proceeds in 2012 from the recapitalization of Värmevärden. In addition, in 2012, Bristol Water's funding of capital expenditures using short-term deposits was $84,653 higher than in 2013.

Cash flow from financing activities was $106,982 higher in the first nine months of 2013 than in the prior year, primarily because repayment of debt was $213,194 lower in 2013, partially offset by proceeds from new debt which was $37,333 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 $68,984 from the partial sale of Bristol Water.

Dividends paid to shareholders were $3,119 lower in the first nine 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:

	Sep 30, 2013		Dec 31, 2012	
As at	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power	284,986	286,449	305,497	297,792
Utilities – water (1)	293,077	266,932	259,830	236,768
Corporate	42,882	40,946	44,416	40,631
Deferred financing fees	—	(6,589)	—	(7,328)
	620,945	587,738	609,743	567,863
Equity				
Shareholders' equity (2)	348,535	442,076	363,248	418,848
Total capitalization	969,480	1,029,814	972,991	986,711
Debt to capitalization	64.0%	57.1%	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:

			Sep 30, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC-Cardinal credit facility	2014	5.25%	10,800	10,800	12,050	12,050
Erie Shores project debt	2016 & 2026	5.28 – 6.15%	98,823	93,574	106,538	97,703
Amherstburg Solar Park project debt	2016	7.32%	86,824	86,824	90,560	90,560
Hydro facilities senior secured bonds	2040	4.56%	69,833	75,008	76,347	77,237
Hydro facilities subordinated secured bonds	2041	7.00%	18,706	20,243	20,002	20,242
			284,986	286,449	305,497	297,792

As at September 30, 2013, approximately 95% of the power segment's long-term debt was scheduled to amortize over the lives of the facilities' 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 nine 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:

			Sep 30, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Bank loans	2017	1.19 - 5.73%	75,445	75,030	31,540	31,430
Term loans	2032 - 2041	5.92 – 6.94%(1)	478,835	429,651	457,563	413,746
Debentures	Irredeemable	3.50 – 4.25%	2,288	2,144	2,346	2,072
Cumulative preferred shares	Irredeemable	8.75%	29,586	27,038	28,211	26,289
Consolidated long-term debt			586,154	533,863	519,660	473,537
Less: non-controlling interest			(293,077)	(266,932)	(259,830)	(236,769)
Capstone share of long-term debt			293,077	266,932	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 September 30, 2013, approximately 82% 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 expand Bristol Water's network. In 2013, Bristol Water borrowed $13,311 and $43,261 during the quarter and year-to-date periods, respectively. As at September 30, 2013, $73,212 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 nine 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:

			Sep 30, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Convertible debentures	2016	6.50%	42,882	40,946	44,416	40,631
			42,882	40,946	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	Sep 30, 2013	Dec 31, 2012
Common shares	634,764	632,474
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	733,494	731,204
Equity portion of convertible debentures	9,284	9,284
Accumulated other comprehensive income (loss)	5,580	(809)
Retained earnings (deficit)	(306,282)	(320,831)
Equity to Capstone shareholders	442,076	418,848
Non-controlling interests	114,813	91,610
Total equity	556,889	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:

	Nine months ended Sep 30, 2013	
($000s and 000s of shares)	Shares	Amount
Opening balance	72,445	632,474
Dividend reinvestment plan (DRIP)	574	2,290
Ending balance	73,019	634,764

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

As at	Sep 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	$3.85	73,019	281,125	$4.03	72,445	291,955
Class B units	$3.85	3,249	12,510	$4.03	3,249	13,093
Preferred shares	$18.30	3,000	54,900	$19.40	3,000	58,200
			348,535			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 nine 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. Generally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business.

During the quarter, Cardinal placed a purchase order for $19,000 for a new rotor and exhaust cylinder in advance of the scheduled major maintenance in 2015. This purchase order includes a termination fee that escalates with the passage of time. As at September 30, 2013, the termination fee was approximately $850 and is scheduled to increase to approximately $1,000 in November 2013 and $3,000 in January 2014. Capstone's first installment payment of approximately $4,000 for the rotor and exhaust cylinder will be made in January 2014. In addition, subsequent to September 30, 2013, Capstone replaced the CPC-Cardinal credit facility and assumed various contractual obligations through the acquisition of ReD. Both subsequent events are described on page 6 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 $36,948 in capital expenditures during the third quarter of 2013. Below is the breakdown of the investment by operating segment:

	Three months ended		Nine months ended	
	Sep 30, 2013	**Sep 30, 2012**	**Sep 30, 2013**	**Sep 30, 2012**
Power	2,444	1,847	4,627	4,709
Utilities – water	34,504	32,640	99,864	106,131
Corporate	—	17	11	79
	36,948	34,504	104,502	110,919

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 capital expenditures in 2013 primarily related to scheduled maintenance with the exception of a $947 investment in WindBOOST at Erie Shores, software that facilitates higher power production. 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 September 30, 2013, the defined benefit retirement plan was in a $48,544 surplus position. During the first nine months of 2013, the surplus increased by $10,969, 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 nine months ended September 30, 2013 were $809 and $2,400, respectively. The expense is incurred entirely at Bristol Water.

The total defined contribution pension expense recorded in the consolidated statement of income for the nine months ended September 30, 2013 was $1,094. The expense comprised $955 for Bristol Water and $139 for Cardinal.

Income Taxes

The third quarter current income tax expense of $492 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	Sep 30, 2013	Dec 31, 2012 (1)
Deferred income tax assets	593	3,038
Deferred income tax liabilities	(156,719)	(155,495)
	(156,126)	(152,457)

(1) $25,681 of deferred income tax assets have been reclassified against deferred income tax liabilities to conform to the 2013 presentation.

Capstone's total deferred income tax assets are attributable to its Canadian operations and relate to income tax loss carry forwards.

Deferred income tax liabilities of $55,974 ($55,227 at December 31, 2012) were attributable to Capstone's Canadian operations while $100,745 ($100,268 at December 31, 2012) was attributable to Bristol Water. Deferred income tax liabilities primarily relate to differences between the accounting and tax amortization of intangible and capital assets.

Capstone's net deferred income tax liability increased by $3,669 during the first nine months of 2013, primarily due to differences between accounting and tax depreciation for capital assets. The deferred tax expense of $1,298 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 net deferred income tax liabilities as at September 30, 2013 were calculated using a tax rate of 20%. 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 caused Bristol Water's net deferred income tax liabilities to decline, which are 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	Sep 30, 2013	Dec 31, 2012
Derivative contract assets	1,490	2,021
Derivative contract liabilities	(18,242)	(30,651)
Net derivative contract liabilities	(16,752)	(28,630)

Net derivative contract liabilities decreased by $11,878, which is included in the $10,462 gain as part of gains on derivatives in net income for the nine months ended September 30, 2013.

The gains on derivatives in the interim consolidated statements of income and comprehensive income comprised:

	Three months ended		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Interest rate swap contracts	844	34	6,017	(91)
Foreign currency option contracts	(563)	(427)	(1,037)	(884)
Embedded derivative	394	2,987	5,482	3,563
Gains on derivatives in net income	675	2,594	10,462	2,588
Interest rate swap contracts in OCI	(54)	(425)	545	(476)
Gains on derivatives in comprehensive income	621	2,169	11,007	2,112

The gain on derivatives for the quarter and first nine 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 $744 and $5,355 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 gain of $994 for the third quarter of 2013 was $502, or 102%, higher than in 2012. The gain reflects the appreciation of the Swedish Krona against the Canadian dollar thereby increasing the carrying value of the loan in Canadian dollars.

Additionally, Capstone's year-to-date foreign exchange gain of $1,715 was primarily attributed to the Swedish Krona appreciation during the first and third quarters, 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. In addition, the acquisition of ReD subjected Capstone to the near term risk of successfully integrating ReD to achieve the desired benefits of the transaction and longer term development risk associated with sourcing, permitting, financing and constructing new power facilities.

The Corporation's risks and uncertainties could impact the business, prospects, financial condition, financial performance and cash flows could be materially adversely impacted. In addition, the ability of the Corporation to make payments of interest or dividends or upon redemption or maturity, as applicable, to its securityholders could be adversely affected. Finally, the trading price of securities of the Corporation could decline and investors could lose all or part of their investment in such securities.

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. As a result of the acquisition of ReD, Capstone has added Nova Scotia to its monitoring program. This program will be expanded as power facilities are developed in new jurisdictions. 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 the "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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4 [1]
Revenue	91,418	93,539	94,255	94,654	84,951	85,849	92,156	91,663
Net income (loss) [2]	8,887	10,015	12,019	12,909	5,836	(4,184)	13,681	(4,591)
Adjusted EBITDA	26,253	31,834	32,342	31,074	24,542	27,516	37,211	31,036
AFFO	3,346	9,014	13,644	13,560	3,381	3,707	14,915	9,722
Common dividends [3]	5,720	5,709	5,696	5,579	5,655	10,231	12,299	11,569
Preferred dividends	938	938	938	938	938	938	938	1,264
Earnings Per Share – Basic	0.104	0.119	0.145	0.147	0.065	(0.068)	0.171	(0.082)
Earnings Per Share – Diluted	0.102 [4]	0.117 [4]	0.141 [4]	0.143 [4]	0.065	(0.068)	0.165 [4]	(0.082)
AFFO per share	0.044	0.119	0.180	0.179	0.045	0.049	0.200	0.136
Dividends declared per common share	0.075	0.075	0.075	0.075	0.075	0.135	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. Capstone will modify its program for the acquisition of ReD.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Sep 30, 2013	Dec 31, 2012	Jan 1, 2012
			(note 4)	(note 4)
Current assets				
Cash and cash equivalents		41,388	49,599	57,587
Restricted cash		20,780	19,229	14,947
Short-term deposits		9,151	6,471	82,202
Accounts receivable		76,170	75,386	70,854
Other assets		10,216	7,218	7,448
Current portion of loans receivable	6	1,277	1,096	984
Current portion of derivative contract assets	7	73	174	261
		159,055	159,173	234,283
Non-current assets				
Loans receivable	6	38,735	37,909	85,824
Derivative contract assets	7	1,417	1,847	2,883
Equity accounted investments	8	11,300	16,990	15,993
Capital assets	9	1,169,141	1,086,407	977,456
Intangible assets	10	285,617	283,919	288,304
Retirement benefit surplus	11	48,544	37,575	60,104
Deferred income tax assets		593	3,038	3,382
Total assets		1,714,402	1,626,858	1,668,229
Current liabilities				
Accounts payable and other liabilities		107,410	106,767	81,734
Current portion of derivative contract liabilities	7	3,068	3,106	3,088
Current portion of finance lease obligations		520	3,502	5,256
Current portion of long-term debt	12	24,160	14,977	230,899
		135,158	128,352	320,977
Long-term liabilities				
Derivative contract liabilities	7	15,174	27,545	31,055
Electricity supply and gas purchase contracts	10	2,045	3,260	4,894
Deferred income tax liabilities		156,719	155,495	148,686
Deferred revenue		12,005	6,298	1,363
Finance lease obligations		3,524	3,699	6,727
Long-term debt	12	830,509	789,655	704,145
Liability for asset retirement obligation		2,379	2,096	2,412
Total liabilities		1,157,513	1,116,400	1,220,259
Equity attributable to shareholders' of Capstone		442,076	418,848	413,520
Non-controlling interest		114,813	91,610	34,450
Total liabilities and equity		1,714,402	1,626,858	1,668,229
Commitments and contingencies	19			
Subsequent events	21			

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	—	—	1,448	(13,954)	(11,167)	(23,673)
Net income for the period	4	—	—	—	15,334	13,706	29,040
Dividends declared to common shareholders of Capstone	13b	4,578	—	—	(28,185)	—	(23,607)
Dividends declared to preferred shareholders of Capstone	13b	—	—	—	(2,813)	—	(2,813)
Dividends declared by Bristol Water		—	—	—	—	(2,088)	(2,088)
Disposal of partial interest in Bristol Water		—	—	749	15,726	51,659	68,134
Balance, September 30, 2012		730,080	9,284	(4,532)	(328,518)	86,560	492,874

	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	—	—	6,389	3,696	7,626	17,711
Net income for the period	4	—	—	—	30,921	20,279	51,200
Dividends declared to common shareholders of Capstone	13a&b	2,290	—	—	(17,125)	—	(14,835)
Dividends declared to preferred shareholders of Capstone [4]	13b	—	—	—	(2,943)	—	(2,943)
Dividends declared by Bristol Water		—	—	—	—	(4,702)	(4,702)
Balance, September 30, 2013		733,494	9,284	5,580	(306,282)	114,813	556,889

(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 $130 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 Sep 30, 2013	Three months ended Sep 30, 2012	Nine months ended Sep 30, 2013	Nine months ended Sep 30, 2012
			(note 4)		(note 4)
Revenue		91,418	84,951	279,212	262,956
Operating expenses	16	(49,221)	(48,234)	(149,649)	(144,069)
Administrative expenses	16	(2,511)	(2,264)	(7,200)	(8,033)
Project development costs	16	(1,737)	(4)	(3,433)	(86)
Equity accounted income (loss)	8	(2,078)	(2,145)	(3,183)	(1,302)
Interest income		953	1,118	3,074	3,993
Net pension interest income		491	738	1,302	2,167
Other gains and (losses), net		(466)	2,432	9,251	1,672
Foreign exchange gain (loss)		994	492	1,715	944
Earnings before interest expense, taxes, depreciation and amortization		37,843	37,084	131,089	118,242
Interest expense		(11,427)	(10,528)	(33,613)	(38,121)
Depreciation of capital assets	9	(12,521)	(12,083)	(36,612)	(35,238)
Amortization of intangible assets	10	(2,731)	(2,605)	(8,106)	(7,538)
Income before income taxes		11,164	11,868	52,758	37,345
Income tax recovery (expense)					
Current		(492)	(490)	(260)	(998)
Deferred		9,994	1,003	(1,298)	(7,307)
Total income tax recovery (expense)		9,502	513	(1,558)	(8,305)
Net income		20,666	12,381	51,200	29,040
Net income attributable to:					
Shareholders of Capstone		8,887	5,838	30,921	15,334
Non-controlling interest		11,779	6,543	20,279	13,706
		20,666	12,381	51,200	29,040
Earnings per share	14				
Basic		0.104	0.065	0.368	0.167
Diluted		0.102	0.065	0.359	0.167

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Sep 30, 2013	Three months ended Sep 30, 2012	Nine months ended Sep 30, 2013	Nine months ended Sep 30, 2012
			(note 4)		(note 4)
Cumulative differences on translation of foreign operations		12,175	(1,823)	9,499	1,288
Other comprehensive loss on equity accounted investments	8	408	292	700	218
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2013 - ($82) and ($208), respectively; 2012 - $68 and $84, respectively)		(136)	(510)	120	(797)
Total of items that may be reclassified subsequently to net income		12,447	(2,041)	10,319	709
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2013 - $2,200 and ($459), respectively; 2012 - $4,475 and $7,793, respectively) - will not be reclassified to net income		(1,512)	(14,120)	7,392	(24,382)
Other comprehensive income (loss)		10,935	(16,161)	17,711	(23,673)
Net income		20,666	12,381	51,200	29,040
Total comprehensive income		31,601	(3,780)	68,911	5,367
Comprehensive income attributable to:					
Shareholders of Capstone		15,757	2,824	41,006	2,828
Non-controlling interest		15,844	(6,604)	27,905	2,539
		31,601	(3,780)	68,911	5,367

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended	Notes	Sep 30, 2013	Sep 30, 2012
Operating activities:			
Net income		51,200	29,040
Deferred income tax expense (recovery)		1,298	7,307
Depreciation and amortization		44,718	42,776
Other gains and losses (net)		(9,251)	(1,672)
Amortization of deferred financing costs and non-cash financing costs		6,663	8,060
Equity accounted (income) loss	8	3,183	1,302
Unrealized foreign exchange (gain) loss on loan receivable	6	(1,729)	(463)
Change in non-cash working capital	18	(1,024)	(13,656)
Total cash flows from operating activities		95,058	72,694
Investing activities:			
Receipt of loans receivable		811	48,693
Change in restricted cash and short term deposits		(3,670)	77,781
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	(105,288)	(94,158)
Total cash flows from (used in) investing activities		(105,916)	33,337
Financing activities:			
Proceeds from long-term debt		63,288	100,621
Proceeds from partial sale of Bristol Water	5	—	68,984
Repayment of long-term debt and finance lease obligations		(37,147)	(250,341)
Dividends paid to common and preferred shareholders		(17,645)	(20,764)
Dividends paid to non-controlling interests		(4,702)	(2,088)
Transaction costs on debt issuance		(709)	(3,339)
Transaction costs on issuance of common and preferred shares		—	(89)
Total cash flows from (used in) financing activities		3,085	(107,016)
Effect of exchange rate changes on cash and cash equivalents		(438)	334
Increase (decrease) in cash and cash equivalents		(8,211)	(651)
Cash and cash equivalents, beginning of year		49,599	57,587
Cash and cash equivalents, end of period		41,388	56,936
Supplemental information:			
Interest paid		33,210	33,848
Taxes paid (recovery)		2,579	522

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.

Certain items in the consolidated statements of financial position as at December 31, 2012 and January 1, 2012 have been reclassified to conform to the September 30, 2013 presentation. Refer to note 20.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on November 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 nine 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:

Adjustments to consolidated statement of income	Three months ended Sep 30, 2013	Three months ended Sep 30, 2012	Nine months ended Sep 30, 2013	Nine months ended Sep 30, 2012
Net pension interest income	491	738	1,302	2,167
Interest expense	208	132	618	402
Operating expense	(154)	(151)	(406)	(424)
Deferred income tax recovery (expense)	(125)	(151)	(348)	(493)
Change to net income	420	568	1,166	1,652
Net income before accounting change	20,246	11,813	50,034	27,388
Net income after accounting change	20,666	12,381	51,200	29,040
Net income after accounting change attributable to:				
Shareholders of Capstone	8,887	5,838	30,921	15,334
Non-controlling interest	11,779	6,543	20,279	13,706
Net income after accounting change	20,666	12,381	51,200	29,040

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.

Adjustments to Earnings Per Share ("EPS")	Three months ended Sep 30, 2013	Three months ended Sep 30, 2012	Nine months ended Sep 30, 2013	Nine months ended Sep 30, 2012
Basic EPS before accounting change	0.101	0.061	0.360	0.154
Change to net income attributable to the shareholders' of Capstone per share	0.003	0.004	0.008	0.013
Basic EPS after accounting change	0.104	0.065	0.368	0.167
Diluted EPS before accounting change	0.100	0.061	0.352	0.154
Change to net income attributable to the shareholders' of Capstone per share	0.002	0.004	0.007	0.013
Diluted EPS after accounting change	0.102	0.065	0.359	0.167

Adjustments to consolidated statement of comprehensive income	Three months ended Sep 30, 2013	Three months ended Sep 30, 2012	Nine months ended Sep 30, 2013	Nine months ended Sep 30, 2012
Decrease in other comprehensive income for actuarial gains and losses recognized in respect of retirement benefit obligations	(545)	(719)	(1,514)	(2,145)
Increase in other comprehensive income for deferred income taxes	125	151	348	493
Change to net income	420	568	1,166	1,652
Change to comprehensive income	—	—	—	—
Comprehensive income before and after accounting change	31,601	(3,780)	68,911	5,367
Comprehensive income after accounting change attributable to:				
Shareholders of Capstone	15,757	2,824	41,006	2,828
Non-controlling interest	15,844	(6,604)	27,905	2,539
Comprehensive income after accounting change	31,601	(3,780)	68,911	5,367

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	Sep 30, 2013	Dec 31, 2012
Värmevärden	36,497	34,768
Chapais	3,426	4,237
Macquarie Long Term Care L.P. ("MLTCLP")	89	—
	40,012	39,005
Less: current portion	(1,277)	(1,096)
Total long-term loans receivable	38,735	37,909

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

Nine months ended	Sep 30, 2013		Sep 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)	—	1,729	—	463
Ending balance	227,541	36,497	227,541	34,086

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 September 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	Sep 30, 2013	Dec 31, 2012
Derivative contract assets:					
Foreign currency contracts	—	708	—	708	849
Embedded derivative asset	—	—	782	782	1,172
Less: Current portion	—	(73)	—	(73)	(174)
	—	635	782	1,417	1,847
Derivative contract liabilities:					
Interest rate swap contracts	—	9,319	—	9,319	15,337
Interest rate swap contracts for hedging	—	2,637	—	2,637	3,156
Embedded derivative liability	—	—	6,286	6,286	12,158
Less: Current portion	—	(3,068)	—	(3,068)	(3,106)
	—	8,888	6,286	15,174	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, short-term deposits, loans receivable, accounts payable, finance lease obligations and long-term debt. The fair values of these items approximate their carrying values, except for finance lease obligations and long-term debt, which are summarized in the following table:

	Fair value	Carrying value
Finance lease obligations	4,171	4,044
Long-term debt	914,022	854,669

(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 Sep 30, 2013	Fair value at Unobservable inputs	Fair value at Estimated input	Fair value at Relationship of input to fair value
Asset	782	Natural gas price	Empress gas and Dawn gas spot and forward prices. Empress spot price of 1.889 dollars and Dawn spot price of 3.893 dollars.	10% increase in gas price results in an increase in fair value of $291.
		DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $34.
Liability	(6,286)	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $1,413.
	(5,504)			

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	5,482
Closing balance, September 30, 2013	(5,504)

8. EQUITY ACCOUNTED INVESTMENTS

As at	Sep 30, 2013 Carrying value	Dec 31, 2012 Carrying value
Macquarie Long Term Care L.P. (“MLTCLP”)	5	87
Värmevärden	11,295	16,903
Chapais	—	—
	11,300	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 September 30 was as follows:

Three month ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Return of capital	Ending balance
September 30, 2013	12,970	(2,078)	408	—	11,300
September 30, 2012	15,779	(2,145)	292	—	13,926

Nine months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Return of capital	Ending balance
September 30, 2013	16,990	(3,183)	700	(3,207)	11,300
September 30, 2012	15,993	(1,302)	218	(983)	13,926

9. CAPITAL ASSETS

	Jan 1, 2013	Additions	Disposals	Foreign exchange	Transfers	Sep 30, 2013
Cost						
Land	2,766	—	—	81	162	3,009
Equipment and vehicles	15,650	770	(1,053)	568	(1,420)	14,515
Property and plant	851,726	3,867	(3,624)	13,201	20,723	885,893
Infrastructure assets	346,530	42,888	—	15,612	30,639	435,669
Construction in progress	51,209	56,977	(9)	1,503	(56,116)	53,564
	1,267,881	104,502	(4,686)	30,965	(6,012)	1,392,650
Accumulated depreciation						
Equipment and vehicles	(5,160)	(1,495)	1,004	(461)	—	(6,112)
Property and plant	(168,416)	(30,761)	2,342	(5,926)	—	(202,761)
Infrastructure assets	(7,898)	(4,356)	9	(2,391)	—	(14,636)
Net carrying value	1,086,407	67,890	(1,331)	22,187	(6,012)	1,169,141

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

	Nine months ended	
	Sep 30, 2013	Sep 30, 2012
Additions	104,502	110,919
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	56	(16,865)
Net foreign exchange difference	730	104
Cash additions	105,288	94,158

10. INTANGIBLES

	Jan 1, 2013	Additions	Foreign exchange	Transfers	Sep 30, 2013
Assets					
Computer software	7,544	60	1,241	6,012	14,857
Electricity supply and gas purchase contracts	108,048	—	—	—	108,048
Water rights	73,018	—	—	—	73,018
Licence	21,516	—	613	—	22,129
Goodwill	139,712	—	4,007	—	143,719
Accumulated amortization					
Computer software	(3,269)	(2,069)	(914)	—	(6,252)
Electricity supply and gas purchase contracts	(50,967)	(5,669)	—	—	(56,636)
Water rights	(11,683)	(1,583)	—	—	(13,266)
	283,919	(9,261)	4,947	6,012	285,617
Provisions					
Electricity supply and gas purchase contracts	12,257	—	—	—	12,257
Utilization	(8,997)	(1,215)	—	—	(10,212)
	3,260	(1,215)	—	—	2,045

11. RETIREMENT BENEFIT PLANS

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

Defined Contribution Plan

The total expense recorded in the consolidated statement of income for the three months ended September 30, 2013 was $402. The expense is composed of $355 for Bristol Water and $47 for Cardinal.

Defined Benefit Plan

The retirement benefit surplus on the statements of financial position at September 30, 2013 was $48,544 (December 31, 2012 - $37,575).

Employer contributions paid in the three months ended September 30, 2013 to the defined benefit plan were $809. The contributions were entirely incurred at Bristol Water.

12. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Sep 30, 2013	Dec 31, 2012
CPC-Cardinal credit facility	10,800	12,050
Erie Shores project debt	93,574	97,703
Amherstburg Solar Park project debt	86,824	90,560
Hydro facilities senior secured and subordinated bonds	95,251	97,479
Power	286,449	297,792
Bank loans	75,030	31,430
Term loans	429,651	413,746
Debentures	2,144	2,072
Irredeemable cumulative preferred shares	27,038	26,289
Utilities – water	533,863	473,537
Convertible debentures	40,946	40,631
Corporate	40,946	40,631
	861,258	811,960
Less: deferred financing costs	(6,589)	(7,328)
Long-term debt	854,669	804,632
Less: current portion	(24,160)	(14,977)
	830,509	789,655

(B) Long-term Debt Covenants

For the three and nine months ended and as at September 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	Sep 30, 2013	Dec 31, 2012
Common shares	634,764	632,474
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	733,494	731,204

(A) Common Shares

	Three months ended Sep 30, 2013		Nine months ended Sep 30, 2013	
($000s and 000s shares)	Shares	Carrying Value	Shares	Carrying Value
Opening balance	72,865	634,177	72,445	632,474
Dividend reinvestment plan	154	587	574	2,290
Ending balance	73,019	634,764	73,019	634,764

(B) Dividends Declared

	Three months ended		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
Common shares	5,476	5,411	16,394	26,869
Class B exchangeable units	244	244	731	1,316
	5,720	5,655	17,125	28,185
Preferred shares (includes $43 and $130 of deferred income taxes, for the quarter and year to date, respectively)	980	938	2,943	2,813

14. EARNINGS PER SHARE ("EPS")

	Three months ended		Nine months ended	
	Sep 30, 2013	Sep 30, 2012	Sep 30, 2013	Sep 30, 2012
		(note 4)		(note 4)
Net income	20,666	12,381	51,200	29,040
Non-controlling interest	(11,779)	(6,543)	(20,279)	(13,706)
Dividends declared on preferred shares	(980)	(938)	(2,943)	(2,813)
Net income available to common shareholders	7,907	4,900	27,978	12,521
Weighted average number of common shares (including Class B exchangeable units) outstanding	76,217	75,391	76,047	74,955
Basic EPS	0.104	0.065	0.368	0.167
Net income available to common shareholders	7,907		27,978	
Interest expense on convertible debt (net of tax)	514		1,542	
Net income used to determine diluted EPS	8,421		29,520	
Weighted average number of common shares (including Class B exchangeable units) outstanding	76,217		76,047	
Assumed conversion of convertible debentures	6,107		6,107	
Weighted average number of common shares (including Class B exchangeable units) outstanding for diluted EPS	82,324		82,154	
Diluted EPS	0.102	0.065	0.359	0.167

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

15. SHARE-BASED COMPENSATION

(A) Deferred Share Units (“DSU”)

Capstone granted 18,275 DSUs during the first nine months of 2013. The five-day volume weighted average price (“VWAP”) per DSU granted on January 2, 2013 was 4.00 dollars, 4.27 dollars on April 1, 2013 and 3.82 dollars on July 2, 2013. As at September 30, 2013, the $166 carrying value of the DSUs was based on a market price of 3.85 dollars.

(B) Long-term Incentive Plan

Capstone granted 243,886 Restricted Stock Units (“RSU”) and 133,917 Performance Share Units (“PSU”) during the first nine 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 September 30, 2013, the carrying value of the RSUs was $1,140 and $571 for the PSUs based on a market price of 3.85 dollars.

16. EXPENSES – ANALYSIS BY NATURE

	Three months ended Sep 30, 2013				Three months ended Sep 30, 2012			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	17,500	—	—	17,500	18,952	—	—	18,952
Raw materials, chemicals and supplies	18,915	—	—	18,915	17,381	—	—	17,381
Wages and benefits	5,476	1,652	227	7,355	6,237	1,580	—	7,817
Maintenance	970	—	—	970	1,043	—	—	1,043
Manager fees	384	—	—	384	389	—	—	389
Insurance	486	42	—	528	471	32	—	503
Professional fees for legal, audit, tax and other advisory	941	222	1,455	2,618	636	137	4	777
Leases	327	108	—	435	256	98	—	354
Property taxes	356	—	—	356	263	—	—	263
Bad debts	2,863	—	—	2,863	1,828	—	—	1,828
Other	1,003	487	55	1,545	778	417	—	1,195
Total	49,221	2,511	1,737	53,469	48,234	2,264	4	50,502

	Nine months ended Sep 30, 2013				Nine months ended Sep 30, 2012			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	58,805	—	—	58,805	57,342	—	—	57,342
Raw materials, chemicals and supplies	52,857	—	—	52,857	53,408	—	—	53,408
Wages and benefits	21,009	4,572	485	26,066	18,285	4,787	—	23,072
Maintenance	2,706	—	—	2,706	3,261	—	—	3,261
Manager fees	1,147	—	—	1,147	1,185	—	—	1,185
Insurance	1,463	98	—	1,561	1,428	108	—	1,536
Professional fees for legal, audit, tax and other advisory	2,524	786	2,838	6,148	1,379	1,062	86	2,527
Leases	1,028	291	—	1,319	977	280	—	1,257
Property taxes	913	—	—	913	871	—	—	871
Bad debts	4,244	—	—	4,244	2,507	—	—	2,507
Other	2,953	1,453	110	4,516	3,426	1,796	—	5,222
Total	149,649	7,200	3,433	160,282	144,069	8,033	86	152,188

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 Sep 30, 2013					Three months ended Sep 30, 2012				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	40,502	50,916	—	—	91,418	39,384	45,567	—	—	84,951
Depreciation of capital assets	(6,492)	(5,928)	—	(101)	(12,521)	(6,736)	(5,247)	—	(100)	(12,083)
Amortization of intangible assets	(2,015)	(691)	—	(25)	(2,731)	(2,003)	(581)	—	(21)	(2,605)
Interest income	154	31	722	46	953	290	147	672	9	1,118
Interest expense	(4,622)	(5,501)	—	(1,304)	(11,427)	(1,257)	(4,715)	—	(4,556)	(10,528)
Income tax recovery (expense)	109	9,880	—	(487)	9,502	(116)	837	—	(208)	513
Net income (loss)	3,733	23,559	(363)	(6,263)	20,666	7,770	13,087	(912)	(7,564)	12,381
Cash flow from operations	11,889	23,068	(26)	(2,073)	32,858	4,541	15,174	672	(2,793)	17,594
Additions to capital assets	2,444	34,504	—	—	36,948	1,847	32,640	—	17	34,504

	Nine months ended Sep 30, 2013					Nine months ended Sep 30, 2012				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	136,896	142,316	—	—	279,212	130,159	132,797	—	—	262,956
Depreciation of capital assets	(19,297)	(17,048)	—	(267)	(36,612)	(20,008)	(14,937)	—	(293)	(35,238)
Amortization of intangible assets	(6,009)	(2,036)	—	(61)	(8,106)	(6,019)	(1,482)	—	(37)	(7,538)
Interest income	629	238	2,127	80	3,074	591	704	2,677	21	3,993
Interest expense	(13,888)	(15,744)	—	(3,981)	(33,613)	(13,221)	(16,267)	—	(8,633)	(38,121)
Income tax recovery (expense)	(5,907)	4,732	—	(383)	(1,558)	(6,257)	(1,102)	—	(946)	(8,305)
Net income (loss)	30,983	40,557	683	(21,023)	51,200	18,157	33,010	2,931	(25,058)	29,040
Cash flow from operations	52,146	54,382	1,306	(12,776)	95,058	42,247	47,058	2,677	(19,288)	72,694
Additions to capital assets	4,627	99,864	—	11	104,502	4,709	106,131	—	79	110,919

	As at Sep 30, 2013					As at Dec 31, 2012				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	603,999	1,041,524	48,788	20,091	1,714,402	637,441	932,307	51,923	5,187	1,626,858
Total liabilities	292,838	729,654	23	134,998	1,157,513	297,526	668,537	2,245	148,092	1,116,400

18. NON-CASH WORKING CAPITAL

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

	Nine months ended	
	Sep 30, 2013	Sep 30, 2012
Accounts receivable	(1,639)	(6,322)
Other assets	(3,171)	(2,472)
Accounts payable and other liabilities	3,786	(4,862)
	(1,024)	(13,656)

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. Generally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business.

During the quarter, Cardinal placed a purchase order for $19,000 for a new rotor and exhaust cylinder in advance of the scheduled major maintenance in 2015. This purchase order includes a termination fee which escalates with the passage of time. As at September 30, 2013 the termination fee was approximately $850 and is scheduled to increase to approximately $1,000 in November 2013 and $3,000 in January 2014. Capstone's first installment payment of approximately $4,000 for the rotor and exhaust cylinder will be made in January 2014. In addition, subsequent to September 30, 2013, Capstone replaced its credit facility and assumed various contractual obligations through the acquisition of ReD. Both subsequent events are described in note 21.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the September 30, 2013 presentation. As at December 31, 2012, deferred income tax assets of $25,681 were reclassified against deferred income tax liabilities. Similarly, as at January 1, 2012, deferred income tax assets of $29,515 were reclassified. These reclassifications did not impact previously reported net income or cash flows of any period.

21. SUBSEQUENT EVENTS

Acquisition of ReD

On October 1, 2013, Capstone completed the previously announced acquisition of 100% of the issued and outstanding shares of ReD by issuing common shares of Capstone, pursuant to a plan of arrangement (the “Arrangement”). At closing, each ReD shareholder received 0.26 of a Capstone common share ("Capstone Share") and $0.001 in cash in exchange for each share of ReD. Capstone issued 19,699 common shares to acquire Renewable Energy Developers Inc. resulting in a total of 92,719 common shares outstanding as at October 1, 2013.

In addition, each outstanding option to purchase ReD Shares (“ReD Option”) was exchanged for an option to acquire Capstone Shares (“Replacement Option”). A Replacement Option entitles the holder thereof to purchase 0.26026 of a Capstone Share for each ReD Option being replaced. The obligations of ReD with respect to its outstanding common share purchase warrants have been assumed by Capstone in accordance with the terms of the warrant indenture whereby each warrant is now exercisable to receive 0.26 of a Capstone Share and $0.001 in cash.

Also pursuant to the Arrangement, on October 1, 2013, the 6.75% convertible unsecured subordinated debentures of ReD due December 31, 2017 (the “ReD Debentures”) became convertible into Capstone Shares and cash pursuant to the terms of the debenture indenture, while remaining outstanding obligations of ReD. The Corporation has agreed to provide credit support for the ReD Debentures (TSX: RDZ.DB) and ReD has agreed to provide credit support for the obligations of Capstone under its 6.50% convertible unsecured subordinated debentures (TSX: CSE.DB.A) due December 31, 2016.

Subsequent to the acquisition, Capstone will consolidate the assets, liabilities and attributable net income of ReD from October 1, 2013. As at and for the year-ended December 31, 2012, ReD had total assets of $236,816, total liabilities of $164,274 total revenue of $16,688 and a net loss of $8,069. Management is preparing the purchase equation of ReD during the fourth quarter and therefore it is impracticable to disclose the purchase price allocation.

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 an expected net 79 MW of capacity, and international investments in regulated water and district heating businesses.

Corporate Credit Facility

On November 12, 2013, the Corporation entered into a new corporate credit facility with a three-year term maturing in October 2016, and repaid the CPC-Cardinal credit facility. The new facility is structured as a revolver and bears an initial effective interest rate of approximately 3.5%.

PORTFOLIO

UTILITIES

- Utilities

REGULATED WATER UTILITY
UK • Bristol Water

DISTRICT HEATING
SE • Värmevärden

POWER INFRASTRUCTURE

- *Operating*

WIND
ON • Erie Shores
• Three other facilities
NS • Glace Bay
• Amherst
• Glen Dhu
• Four other facilities

BIOMASS
AB • Whitecourt
QC • Chapais

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

GAS COGENERATION
ON • Cardinal

SOLAR
ON • Amherstburg

- *Development projects*

WIND
ON • Skyway 8
• Goulais
• Five other projects
PQ • St. Philemon
SK • Riverhurst

POWER

Type of Facility	Province	Year Built	Ownership Interest	Total Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Gas Cogeneration									
Cardinal	ON	1994	100%	156	OPA	2014	Husky	2015	18
Wind									
Operating	ON	2002 - 2009	100%	121	OPA	2021 - 2032	n/a	n/a	10
	NS	2006 - 2012	49% - 100%	74	NSPI	2021 - 2037	n/a	n/a	2
Development	ON	2014 / 2015E	50% - 100%	57	OPA	2034	n/a	n/a	n/a
	PQ	2014E	51%	12	Hydro Quebec	2034	n/a	n/a	n/a
	SK	2015E	100%	10	SaskPower	2035	n/a	n/a	n/a
Biomass(1)									
Whitecourt	AB	1994	100%	25	TransAlta	2014	Millar Western	2016	34
Hydro									
Sechelt and Hluey Lakes	BC	1997 - 2000	100%	19	BC Hydro	2017 - 2020	n/a	n/a	n/a
Wawatay and Dryden	ON	1986 - 1992	100%	17	OEFC	2020 - 2042	n/a	n/a	n/a
Solar									
Amherstburg	ON	2011	100%	20	OPA	2031	n/a	n/a	n/a

(1) Biomass includes Capstone's 31.3% equity accounted interest in Chapais.

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.	317 kilometres	163,000	No	89
Bristol Water	50%	Average daily supply of 266 million litres	Mix of commercial and residential customers.	6,671 kilometres	1.2 million	Ofwat	547

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