CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended September 30, 2016

TABLE OF CONTENTS

Legal Notice	1	Notes to Unaudited Consolidated Financial Statements	24
Management's Discussion and Analysis	2	Contact Information	35
Interim Unaudited Consolidated Financial Statements	20		

LEGAL NOTICE

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of Capstone Infrastructure Corporation (the "Corporation") based on information currently available to the Corporation. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "intend", "estimate", "plan", "believe" or other similar words, and include, among other things, statements found in "Results of Operations" and "Financial Position Review". These statements are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation ("MD&A") for the year ended December 31, 2015 under the headings "Changes in the Business","Results of Operations"and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com).

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

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

For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 29, 2016, as supplemented by disclosure of risk factors contained in any subsequent annual information form, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim management's discussion and analysis and information circulars filed by the Corporation with the securities commissions or similar authorities in Canada (which are available under the Corporation's SEDAR profile at www.sedar.com).

The assumptions, risks and uncertainties described above are not exhaustive and other events and risk factors could cause actual results to differ materially from the results and events discussed in the forward-looking statements. The forward-looking statements within this document reflect current expectations of the Corporation as at the date of this document and speak only as at the date of this document. Except as may be required by applicable law, the Corporation does not undertake any obligation to publicly update or revise any forward-looking statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated operating results for the three and nine months ended September 30, 2016 and cash flows for the nine months ended with the comparative prior periods and the Corporation's financial position as at September 30, 2016 and December 31, 2015. This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at, and for the three and nine months ended September 30, 2016, and the financial statements and MD&A for the year ended December 31, 2015. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 29, 2016 and its Annual Report for the year ended December 31, 2015. These filings are available under the Corporation's profile on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com. This MD&A is dated November 10, 2016, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

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

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the periods ended	**Average**	**Spot**	**Average**	**Spot**
Year ended December 31, 2015	0.1516	0.1638	1.9540	2.0407
Quarter ended March 31, 2016	0.1624	0.1602	1.9648	1.8652
Quarter ended June 30, 2016	0.1569	0.1526	1.8484	1.7225
Quarter ended September 30, 2016	0.1531	0.1530	1.7124	1.7069

CHANGES IN THE BUSINESS

During the first nine months of 2016, Capstone's power segment received notification that the Ontario Electricity Financial Corporation ("OEFC") must pay retroactive amounts owing. In addition, Capstone's ownership and key management changed, Värmevärden was refinanced, several financings were completed, the wind development projects were progressed, and the preferred shares' dividend rate was reset.

OEFC Settlement

On March 12, 2015, the Ontario Superior Court of Justice determined that the OEFC had not properly calculated the price paid for electricity produced under its power purchase agreements with Cardinal, Wawatay and Dryden, and a number of other power producers in Canada. The OEFC filed an appeal in the Court of Appeal for Ontario (the "Court of Appeal") which was dismissed by the Court of Appeal on April 19, 2016. The OEFC filed an application to seek leave of the Supreme Court of Canada on June 17, 2016, which remains under review by the Supreme Court of Canada. During the third quarter, the OEFC brought several legal motions to defer paying the judgment, which were ultimately denied by the Court of Appeal on September 19, 2016.

As at September 30, 2016, Capstone recognized retroactive payments in the statement of income. This resulted in increases of $33,288 in revenue and $2,288 of interest income, with a corresponding increase in accounts receivable, as part of the statement of financial position. In addition, a $12,049 increase in operating expenses and accounts payable was recognized for associated obligations.

Wind Development Projects Achieved Commercial Operations

In the first nine months of 2016, Capstone achieved commercial operations ("COD") on three wind development projects, which included:

- On February 26, 2016, Grey Highlands ZEP, a 10 MW facility located in Ontario with a PPA expiring in 2036;
- On May 6, 2016, Ganaraska a 18 MW facility located in Ontario with a PPA expiring in 2036; and
- On September 21, 2016, Grey Highlands Clean a 18 MW facility located in Ontario with a PPA expiring in 2036.

Acquisition of Capstone by iCON III

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

Key Management Changes

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

Värmevärden Refinancing

On May 26, 2016, Värmevärden made an in-kind distribution of 1,095,000 SEK to its shareholders, representing gains recognized from a restructuring, of which Capstone's portion was 365,000 SEK. Capstone subsequently reinvested these gains back in to Värmevärden in return for a new shareholder loan.

On June 30, 2016, Värmevärden completed a third-party financing raising 1,425,000 SEK, which was used to repay the 1,000,000 SEK senior secured bonds. The excess proceeds were used to repay the early call premium, transaction costs as well as a portion of the pre-existing shareholder loan. The net excess proceeds, including operating cash flows generated from the business, were used to repay 162,424 SEK to Capstone. In the third quarter, Capstone used 160,000 SEK of the proceeds to partially repay the SEK denominated promissory note to Irving.

In addition, Capstone and its co-shareholder are considering strategic options for Värmevärden. These options include the potential for a sale of Capstone's interest in Värmevärden, but no definitive conclusion has been made to date.

Financing Changes - Snowy Ridge, CPC, Cardinal and Grey Highlands Clean

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

In the first six months of 2016, Capstone reached financial close on the CPC Credit Agreement for an aggregate amount of $125,000. In addition, Capstone, through wholly owned subsidiaries, closed an $83,000 financing for the Cardinal gas cogeneration plant and a financing that provides up to $55,100 to construct the Grey Highlands Clean wind project. Refer to note 13, "Long-term Debt" in the accompanying interim consolidated financial statements for details.

Preferred Shares Dividend Rate Reset

On July 4, 2016, Capstone announced to preferred shareholders the applicable fixed and floating dividend rates for its cumulative five-year rate reset preferred shares, which took effect on July 31, 2016. In accordance with the terms of the share agreement, all preferred shares accrue dividends at a fixed rate of 3.271% per annum and preferred dividends are paid quarterly.

SUBSEQUENT EVENTS

Snowy Ridge COD

Snowy Ridge, a 10 MW facility located in Ontario with a PPA expiring in 2036, completed construction during the third quarter and achieved COD on October 5, 2016.

OEFC Proceeds

On October 21, 2016, $35,576 was received from the OEFC related to the retroactive revenue settlement.

Settlers Landing Construction

Effective September 23, 2016, the Settlers Landing wind project successfully completed the Environmental Review Tribunal ("ERT") appeal process resulting from the Ministry of Environment and Climate Change amending the project's renewable energy approval ("REA") to include, among other things, removal of one turbine reducing the project nameplate capacity from 10 MW to 8 MW. Construction has now commenced and COD is expected in early 2017.

ADDITIONAL GAAP AND NON-GAAP PERFORMANCE MEASURES

While the accompanying interim consolidated financial statements have been prepared in accordance with IFRS, this MD&A also contains figures that are performance measures not defined by IFRS. These additional GAAP and non-GAAP performance measures do not have any standardized meaning prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other issuers. The Corporation believes that these indicators are useful since they provide additional information about the Corporation's earnings performance and cash generating capabilities and facilitate comparison of results over different periods. The additional GAAP and non-GAAP measures used in this MD&A are defined below.

Additional GAAP Measure

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

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

Non-GAAP Measures

Adjusted EBITDA

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

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

Adjusted Funds from Operations ("AFFO")

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

AFFO is calculated from Adjusted EBITDA by:

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

Reconciliation of GAAP and Non-GAAP Performance Measures

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

	Three months ended		Nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Net income	(18,781)	5,021	(37,136)	4,903
Interest expense	14,378	14,130	43,918	42,567
Depreciation and amortization	21,635	21,909	65,273	61,911
Income tax expense (recovery)	4,413	3,821	5,897	5,141
EBITDA	21,645	44,881	77,952	114,522
Goodwill impairment charge	58,000	—	58,000	—
Foreign exchange (gain) loss	(604)	(2,145)	2,042	(2,720)
Other (gains) and losses, net	(14,045)	(2,168)	(12,441)	10,689
Contractual settlements in other gains and (losses)	2,283	1,358	6,235	2,256
Equity accounted (income) loss	501	892	(211)	1,579
Distributions from equity accounted investments	318	25	6,053	4,767
Net pension interest income	(764)	(713)	(2,466)	(2,218)
NCI portion of Adjusted EBITDA	(15,026)	(15,473)	(40,726)	(43,902)
Adjusted EBITDA	52,308	26,657	94,438	84,973
Cash flow from operating activities	19,784	2,823	42,488	77,809
Cash flow from operating activities of businesses with NCI	(14,805)	(21,712)	(44,110)	(72,187)
Distributions paid to Capstone from businesses with NCI	1,444	2,050	5,433	5,159
Distributions from equity accounted investments	318	25	6,053	4,767
Foreign exchange on loans receivable from Värmevärden	209	(74)	341	(149)
Loans receivable principal repayments	—	427	—	1,088
Power maintenance capital expenditures	(561)	(1,037)	(2,492)	(2,738)
Power and corporate scheduled principal repayments	(5,610)	(4,805)	(17,223)	(14,462)
Power and corporate working capital changes	25,833	25,190	30,639	12,871
Dividends on redeemable preferred shares	(938)	(938)	(2,813)	(2,813)
AFFO	25,674	1,949	18,316	9,345

RESULTS OF OPERATIONS

Overview

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

Capstone's Adjusted EBITDA performance reflected:

- Higher power segment results, primarily attributable to net OEFC proceeds awarded for retroactive payments to Cardinal and the hydro facilities as well as contributions from the new wind facilities, which consist of Grey Highlands ZEP and Ganaraska (collectively, "GHG"),Goulais, and Grey Highlands Clean. In addition, Capstone's operating wind and hydro facilities generally experienced favourable wind and hydrology conditions producing higher revenue; and
- Higher dividends and interest income from Värmevärden; partially offset by
- Higher corporate expenses, which primarily reflect costs associated with the acquisition of Capstone by iCON III, including professional fees and staff costs; and
- Lower results from Bristol Water, reflecting lower revenues, primarily attributable to a rate decrease in AMP 6 and unfavourable foreign currency translation, and lower expenses, primarily due to favourable foreign currency translation, which was partially offset by fees accrued for the notice of termination of the operations and maintenance ("O&M") agreement.

Capstone's AFFO was also affected by lower year-to-date dividends from Bristol Water.

	Three months ended		Nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Revenue	113,628	84,140	285,212	255,782
Expenses	(52,358)	(44,628)	(167,910)	(137,304)
Interest income	3,463	1,235	5,574	3,374
Contractual settlements in other gains and (losses)	2,283	1,358	6,235	2,256
Distributions from equity accounted investments	318	25	6,053	4,767
Less: NCI	(15,026)	(15,473)	(40,726)	(43,902)
Adjusted EBITDA	52,308	26,657	94,438	84,973
Adjusted EBITDA of consolidated businesses with NCI	(15,294)	(15,534)	(41,180)	(44,073)
Distributions from businesses with NCI	1,444	2,050	5,433	5,159
Principal from loans receivable	—	427	—	1,088
Interest paid	(5,323)	(4,497)	(16,745)	(17,151)
Dividends paid on Capstone’s preferred shares	(938)	(938)	(2,813)	(2,813)
Income taxes (paid) recovery	(352)	(374)	(1,102)	(638)
Maintenance capital expenditures	(561)	(1,037)	(2,492)	(2,738)
Scheduled repayment of debt principal	(5,610)	(4,805)	(17,223)	(14,462)
AFFO	25,674	1,949	18,316	9,345

Revenue for the quarter was $29,488, or 35%, higher in 2016 and $29,430 higher year to date. For both periods, revenue was higher for all of the power assets, except Whitecourt, and lower for Bristol Water.

Power segment revenue increased by $39,082 for the quarter and $47,650 year to date, primarily due to proceeds awarded of $33,288 for retroactive revenue adjustments from the OEFC for Cardinal and the Ontario hydro facilities. New wind facilities also contributed $2,218 and $8,716, for the quarter and year to date, respectively. In addition, year-to-date revenue increased by $2,561 due to higher production because of better resources from the hydro and solar facilities. These were partially offset by $2,901 of lower year-to-date revenue at Whitecourt due to lower power rates.

Bristol Water's revenue decreased by $9,594 for the quarter and $18,220 year to date, primarily due to lower regulated water tariffs since April 1, 2015 and unfavourable foreign currency translation.

Expenses for the quarter were $7,730, or 17%, higher in 2016 and $30,606, or 22%, higher year to date.

- **Operating expenses** increased by $7,596 during the quarter and $11,258, year to date. This was primarily due to higher power segment expenses of $13,401 for the quarter and $14,894 year to date, mainly because of a one time increase in fuel expenses of $12,049 that is directly related to the OEFC settlement. In addition, expenses increased $1,793 year to date for costs incurred for tower repairs for the Ferndale site, net of an interim insurance recovery as part of Capstone's insurance claim. These were partially offset by lower Bristol Water expenses of $5,805 for the quarter and $3,636 year to date, primarily due to a $6,050 year-to-date recovery of past service costs on closing the defined benefit pension plan and $5,810 of non-recurring costs in 2015 related to the CMA process. Foreign currency translation also reduced Bristol Water's expenses. These were partially offset by $13,941 of costs accrued for the termination of Bristol Water's O&M agreement.
- **Administrative expenses** decreased by $131 during the quarter and increased $9,210, year to date. The year-to-date increase primarily reflects higher non-recurring staff costs of $8,763 because of the iCON III acquisition, including long-term incentive plan payments and employee separation costs.
- **Project development costs** increased by $265 for the quarter and $10,138, year to date. The year-to-date increase consisted of $11,835 of non-recurring corporate development costs related to the iCON III acquisition, partially offset by $1,439 of lower acquisition due diligence costs, and $258 of expenses to advance the wind development projects.

Contractual settlements in other gains and (losses) increased by $925 for the quarter and $3,979 year to date, due to revenue sharing receipts in Whitecourt's fuel supply agreement with Millar Western.

Distributions from equity accounted investments for the quarter were $293 higher in 2016 and $1,286, or 27%, higher year to date, due to $1,630 higher dividends from Värmevärden in 2016, partially offset by lower distributions from the Glen Dhu wind facility.

Distributions from businesses with non-controlling interests for the quarter were $606, or 30%, lower in 2016, and $274, or 5%, higher year to date. The year-to-date increase primarily reflects higher distributions of $1,606 from the power segment, mainly from the new wind facilities, partially offset by lower dividends from Bristol Water.

Interest paid increased by $826, or 18%, during the quarter and decreased by $406, or 2%, year to date. The year-to-date decrease was primarily due to the Amherstburg refinancing, completed in the third quarter of 2015, and lower corporate interest, resulting from the settlement of the convertible debentures and corporate credit facility on April 29, 2016. In addition, lower interest on amortizing debt for the wind facilities contributed to the decrease. These year-to-date decreases were partially offset by higher interest in the third quarter at CPC and Cardinal due to the new debt facilities put in place in 2016.

Interest paid by businesses with significant NCI are excluded from Capstone's definition of AFFO and represent the primary difference between interest expense included in consolidated net income and interest paid in AFFO. The remaining difference between interest expense and interest paid was attributable to amortization of financing costs and accrued interest to September 30, 2016.

Scheduled repayment of debt principal increased by $805, or 17%, during the quarter and $2,761, or 19%, year to date. These variances are primarily due to payments on Cardinal's new debt which was completed in March 2016, as well as higher debt amortization at Amherstburg, the hydro facilities, SkyGen, Glace Bay and Erie Shores.

Results by Segment

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

Performance measures

Capstone's performance measures for each business segment are shown before several large one-time transactions in 2016. In addition, Capstone's consolidated performance measures are shown before and after these one-time transactions, which include the net OEFC proceeds awarded for retroactive payments to Cardinal and the Ontario hydro facilities, corporate costs relating to the iCON acquisition and Bristol Water's goodwill impairment charge.

	Net income			Adjusted EBITDA			AFFO		
Three months ended Sep 30,	2016	2015	Change	2016	2015	Change	2016	2015	Change
Power	24,883	(1,997)	26,880	42,034	14,840	27,194	28,225	5,294	22,931
Utilities – water	(43,710)	9,675	(53,385)	11,535	13,495	(1,960)	—	—	—
Utilities – district heating	2,558	2,385	173	1,050	703	347	1,050	703	347
Corporate	(2,512)	(5,042)	2,530	(2,311)	(2,381)	70	(3,601)	(4,048)	447
	(18,781)	5,021	(23,802)	52,308	26,657	25,651	25,674	1,949	23,725
Add: Goodwill impairment	58,000	—	58,000	—	—	—	—	—	—
Add: Costs relating to the iCON acquisition, including staff costs	184	—	184	184	—	184	184	—	184
Less: Net OEFC proceeds	(23,526)	—	(23,526)	(23,526)	—	(23,526)	(23,526)	—	(23,526)
	15,877	5,021	10,856	28,966	26,657	2,309	2,332	1,949	383

Nine months ended Sep 30,	2016	2015	Change	2016	2015	Change	2016	2015	Change
Power	27,737	(10,241)	37,978	85,983	52,046	33,937	46,324	19,512	26,812
Utilities – water	(35,955)	26,725	(62,680)	30,926	38,223	(7,297)	660	1,992	(1,332)
Utilities – district heating	3,918	3,092	826	6,967	4,561	2,406	6,967	4,561	2,406
Corporate	(32,836)	(14,673)	(18,163)	(29,438)	(9,857)	(19,581)	(35,635)	(16,720)	(18,915)
	(37,136)	4,903	(42,039)	94,438	84,973	9,465	18,316	9,345	8,971
Add: Goodwill impairment	58,000	—	58,000	—	—	—	—	—	—
Add: Costs relating to the iCON acquisition, including staff costs	20,598	—	20,598	20,598	—	20,598	20,598	—	20,598
Less: Net OEFC proceeds	(23,526)	—	(23,526)	(23,526)	—	(23,526)	(23,526)	—	(23,526)
	17,936	4,903	13,033	91,510	84,973	6,537	15,388	9,345	6,043

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

Infrastructure - Power

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

Three months ended September 30,	Gas	Wind(1)	Biomass(1)	Hydro(2)	Solar	Development & Corporate(3)	2016 Total	2015 Total	Change
Power generated (GWh)	82.5	127.0	52.9	28.2	12.9	n/a	303.5	224.5	79.0
Capacity factor	25.3%	22.1%	99.1%	35.8%	29.3%	n/a	n.m.f	n.m.f	n.m.f
Availability	100.0%	98.2%	100.0%	99.5%	99.8%	n/a	n.m.f	n.m.f	n.m.f
Revenue	39,692	14,419	1,236	5,367	5,431	—	66,145	27,063	39,082
Expenses	(17,006)	(3,514)	(2,583)	(1,190)	(305)	(981)	(25,579)	(11,959)	(13,620)
Interest income	2,113	63	1	178	2	(19)	2,338	318	2,020
Contractual settlements (4)	—	—	2,283	—	—	—	2,283	1,358	925
Distributions from equity accounted investments	—	318	—	—	—	—	318	25	293
Less: NCI	—	(3,493)	—	—	—	22	(3,471)	(1,965)	(1,506)
Adjusted EBITDA	24,799	7,793	937	4,355	5,128	(978)	42,034	14,840	27,194
Adjusted EBITDA of consolidated businesses with NCI	—	(3,783)	—	—	—	24	(3,759)	(2,039)	(1,720)
Distributions from businesses with NCI	—	1,384	—	—	—	60	1,444	2,050	(606)
Principal from loans receivable	—	—	—	—	—	—	—	344	(344)
Interest paid	(491)	(1,847)	—	(1,054)	(785)	(1,146)	(5,323)	(4,059)	(1,264)
Maintenance capital expenditures	—	(303)	(120)	(138)	—	—	(561)	(1,037)	476
Scheduled repayment of debt principal	(811)	(2,311)	—	(470)	(2,018)	—	(5,610)	(4,805)	(805)
AFFO	23,497	933	817	2,693	2,325	(2,040)	28,225	5,294	22,931

Nine months ended September 30,	Gas	Wind(1)	Biomass(1)	Hydro(2)	Solar	Development & Corporate(3)	2016 Total	2015 Total	Change
Power generated (GWh)	88.6	454.3	148.3	137.4	32.9	n/a	861.5	689.4	172.1
Capacity factor	9.0%	27.8%	93.2%	58.5%	25.0%	n/a	n.m.f	n.m.f	n.m.f
Availability	99.6%	98.2%	96.2%	99.1%	99.4%	n/a	n.m.f	n.m.f	n.m.f
Revenue	49,549	50,139	3,361	15,944	13,819	—	132,812	85,162	47,650
Expenses	(22,050)	(11,014)	(8,056)	(3,257)	(886)	(2,389)	(47,652)	(33,016)	(14,636)
Interest income	2,117	122	4	181	6	15	2,445	1,034	1,411
Contractual settlements (4)	—	—	6,235	—	—	—	6,235	2,256	3,979
Distributions from equity accounted investments	—	1,886	—	—	—	—	1,886	2,230	(344)
Less: NCI	—	(9,800)	—	—	—	57	(9,743)	(5,620)	(4,123)
Adjusted EBITDA	29,616	31,333	1,544	12,868	12,939	(2,317)	85,983	52,046	33,937
Adjusted EBITDA of consolidated businesses with NCI	—	(10,313)	—	—	—	59	(10,254)	(5,850)	(4,404)
Distributions from businesses with NCI	—	4,673	—	—	—	100	4,773	3,167	1,606
Principal from loans receivable	—	—	—	—	—	—	—	1,005	(1,005)
Interest paid	(1,140)	(5,766)	—	(3,221)	(2,380)	(1,956)	(14,463)	(13,656)	(807)
Maintenance capital expenditures	(72)	(1,869)	(260)	(291)	—	—	(2,492)	(2,738)	246
Scheduled repayment of debt principal	(1,653)	(7,339)	—	(3,345)	(4,886)	—	(17,223)	(14,462)	(2,761)
AFFO	26,751	10,719	1,284	6,011	5,673	(4,114)	46,324	19,512	26,812

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

(2) On August 23, 2016, BC Hydro exercised its right to terminate the existing electricity purchase agreement ("EPA") with Capstone's Sechelt hydro facility. The current Sechelt EPA will expire on February 28, 2017 and Capstone is in discussions for a new EPA with the relevant parities.

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

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

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2015:

Three months	Nine months	Explanations
23,526	23,526	Adjusted EBITDA contributions from OEFC proceeds awarded for retroactive payments to Cardinal and the Ontario hydro facilities.
1,406	4,195	Adjusted EBITDA contributions from the new wind facilities, consisting of Goulais which reached COD on May 21, 2015, and the GHG and Grey Highlands Clean wind facilities, which reached COD in 2016.
34	2,561	Higher revenue from the hydro facilities (excluding the OEFC proceeds awarded) and Amherstburg due to higher production, resulting from strong hydrology and solar resources.
808	2,249	Higher revenue from the operating wind facilities (excluding new facilities) due to increased production and payments to curtail, reflecting better wind resource.
444	2,414	Lower operating expenses at Cardinal due to lower fuel and repair expenses (excluding payments to suppliers resulting from the OEFC proceeds awarded).
(569)	(1,793)	Higher operating expenses at SkyGen to repair a tower at Ferndale, net of interim insurance recovery.
1,545	785	Various other changes.
27,194	33,937	Change in Adjusted EBITDA.
(1,720)	(4,404)	Change in Adjusted EBITDA attributable to non-controlling interests.
(2,448)	(4,749)	Higher debt service at Cardinal and CPC, due to the financings completed in 2016.
—	(1,243)	Higher maintenance capital expenditures on gearboxes at Erie Shores.
1,247	3,480	Higher distributions from Goulais and GHG, which did not distribute in the prior periods.
(1,342)	(209)	Various other changes.
22,931	26,812	Change in AFFO.

Project development

The Grey Highlands ZEP(1), Ganaraska(1) and Grey Highlands Clean wind development projects reached COD on schedule and within budget and began contributing to Capstone's operating results on February 26, 2016, May 6, 2016 and September 21, 2016 respectively.

As at September 30, 2016, Capstone's development pipeline included the rights to net 19 MW (gross 28 MW) as follows:

Project	Expected COD	Expected Ownership Interest	Net Capacity	Counterparty	Expected PPA Expiry	Status
Snowy Ridge (1)	2016	50%	5.0 MW	IESO	2036	COD on October 5, 2016
Settlers Landing (1)	2017	50%	4.0 MW	IESO	2037	Under construction (2)
Riverhurst	2019	100%	10.0 MW	SaskPower	2039	Interconnection agreement (3)

(1) Capstone expects to share control of these projects.
(2) The ERT ordered the Ministry of Environment and Climate Change to amend the project's REA to include, among other things, removal of one turbine (thus reduction in project nameplate capacity from 10 MW to 8 MW). The amendment to the REA took effect September 23, 2016.
(3) As at September 30, 2016, Capstone continues to progress the PPA and interconnection agreement with SaskPower.

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

Seasonality

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

Infrastructure - Utilities

Water

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

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

	Three months ended			Nine months ended		
	Sep 30, 2016	Sep 30, 2015	Change	Sep 30, 2016	Sep 30, 2015	Change
Water supplied (megalitres)	21,869	21,347	522	63,271	62,096	1,175
Revenue	47,483	57,077	(9,594)	152,400	170,620	(18,220)
Operating expenses	(24,424)	(30,229)	5,805	(90,694)	(94,330)	3,636
Interest income	31	155	(124)	203	215	(12)
Adjusted EBITDA before non-controlling interest	23,090	27,003	(3,913)	61,909	76,505	(14,596)
Less: NCI	(11,555)	(13,508)	1,953	(30,983)	(38,282)	7,299
Adjusted EBITDA	11,535	13,495	(1,960)	30,926	38,223	(7,297)
Adjusted EBITDA of consolidated businesses with NCI	(11,535)	(13,495)	1,960	(30,926)	(38,223)	7,297
Dividends from businesses with NCI	—	—	—	660	1,992	(1,332)
AFFO	—	—	—	660	1,992	(1,332)

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2015:

Three months	Nine months	Explanations
—	(6,970)	Higher operating expenses reflecting accrued termination fees for the O&M agreement.
(174)	(5,420)	Lower revenue due to the decrease in regulated water tariffs.
—	3,025	Lower operating expenses for non-recurring recovery of past service costs on closing of the defined benefit pension plan in 2016.
331	2,905	Lower operating expenses due to 2015 non-recurring costs for restructuring and participating in the CMA process.
(1,895)	(1,172)	Impact of foreign exchange.
(222)	335	Various other changes.
(1,960)	(7,297)	Change in Adjusted EBITDA.
—	(1,332)	Lower dividends received during 2016.
—	(1,332)	Change in AFFO.

Seasonality

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

District Heating

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

On May 26, 2016, Värmevärden made an in-kind distribution to Capstone, which was immediately reinvested in return for a new shareholder loan. In addition, on June 30, 2016, Värmevärden refinanced the outstanding senior secured bonds with new bank debt and repaid a portion of the pre-existing shareholder loan. Refer to page 3 of "Changes in the Business" in this MD&A for details.

	Three months ended			Nine months ended		
	Sep 30, 2016	Sep 30, 2015	Change	Sep 30, 2016	Sep 30, 2015	Change
Heat and steam production (GWh)	108	117	(9)	687	685	2
Equity accounted income (loss) [1]	—	(400)	400	—	(1,504)	1,504
Interest income	1,050	703	347	2,800	2,024	776
Dividends	—	—	—	4,167	2,537	1,630
Adjusted EBITDA and AFFO	1,050	703	347	6,967	4,561	2,406

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

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2015:

Three months	Nine months	Explanations
—	1,630	Higher distributions received.
825	1,148	Higher interest income attributable to the new shareholder loan.
(478)	(372)	Lower interest income on the pre-existing shareholder loan.
347	2,406	Change in Adjusted EBITDA and AFFO.

Seasonality

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

Corporate

Corporate activities primarily comprise growth initiatives, 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, 2016	Sep 30, 2015	Change	Sep 30, 2016	Sep 30, 2015	Change
Administrative expenses	(2,079)	(2,210)	131	(17,370)	(8,160)	(9,210)
Project development costs	(276)	(230)	(46)	(12,194)	(1,798)	(10,396)
Interest income	44	59	(15)	126	101	25
Adjusted EBITDA	(2,311)	(2,381)	70	(29,438)	(9,857)	(19,581)
Principal from loans receivable	—	83	(83)	—	83	(83)
Interest paid	—	(438)	438	(2,282)	(3,495)	1,213
Dividends paid on Capstone's preferred shares	(938)	(938)	—	(2,813)	(2,813)	—
Income taxes (paid) recovery	(352)	(374)	22	(1,102)	(638)	(464)
AFFO	(3,601)	(4,048)	447	(35,635)	(16,720)	(18,915)

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2015:

Three months	Nine months	Explanations
(184)	(11,835)	Higher professional fees attributable to the iCON III acquisition.
—	(8,763)	Higher staff costs related to the iCON III acquisition, including final long-term incentive plan payments and employee separation costs.
(60)	(726)	Lower HST recovery in 2016.
—	1,448	Lower professional fees attributable to 2015 acquisition due diligence costs.
314	295	Various other changes.
70	(19,581)	Change in Adjusted EBITDA.
—	773	Lower interest paid on convertible debentures following redemption on April 29, 2016.
377	(107)	Various other changes.
447	(18,915)	Change in AFFO.

FINANCIAL POSITION REVIEW

Overview

On April 29, 2016, Capstone was acquired by iCON III, refer to page 3 of "Changes in the Business" in this MD&A for details. Overall, iCON III's investment in Capstone consists of a combination of common shares and a promissory note including foreign currency components, which was issued in exchange for common shares of the Corporation. In addition, a new CPC Credit Agreement was completed and the former corporate credit facility was settled.

As at September 30, 2016, Capstone performed the annual goodwill impairment test at Bristol Water, which resulted in a $58,000 goodwill impairment charge during the periods ended September 30, 2016.

In addition, Capstone was in a $247,437 net current liabilities position, compared with $54,580 as at December 31, 2015. Excluding items that Capstone does not expect to fund from current assets, the working capital surplus of $43,796 sufficiently meets foreseeable current commitments.

Liquidity

Working capital

As at	Sep 30, 2016	Dec 31, 2015
Power	7,370	(34,929)
Utilities – water	27,549	26,239
Corporate	(282,356)	(45,890)
Net current assets (liabilities)	(247,437)	(54,580)
Corporate - promissory note payable (1)	291,233	—
Corporate - 2016 convertible debentures (2)	—	42,278
Working capital	43,796	(12,302)

(1) The Promissory note is with Capstone's common shareholder and is classified as current due to the demand feature of the note. On September 2, 2016, Capstone repaid $24,992 of the promissory note. Capstone does not expect to settle the remaining promissory note from the current liquidity. Refer to page 13 of the financial position review for details.

(2) The 2016 convertible debentures were redeemed as part of the iCON III acquisition.

Capstone's working capital was $56,098 higher than December 31, 2015, due to increases of $42,299 for the power segment, $12,489 for corporate, and $1,310 for Bristol Water.

The power segment working capital increase primarily reflects the $23,527 increase in accounts receivable for the net OEFC proceeds awarded and a $10,469 decrease in accounts payable as large accruals were paid for the Wind Works development projects as construction progressed. In addition, there was a reduction of $2,510 in the current portion of long-term debt, primarily due to SkyGen's $20,802 extension of the project debt with its current lender and $9,966 promissory note repayment on February 8, 2016. These decreases were partially offset by a $22,600 increase attributable to the current portion of the new CPC credit facility.

The corporate working capital increase primarily reflects excess proceeds of $11,663 from Cardinal, as well as ongoing distributions to Capstone from the power segment, partially offset by costs resulting from the iCON III acquisition.

Cash and cash equivalents

As at	Sep 30, 2016	Dec 31, 2015
Power	24,473	43,705
Utilities – water	21,950	25,495
Corporate	11,488	5,192
Unrestricted cash and cash equivalents	57,911	74,392
Less: cash with access limitations		
Power	(24,473)	(22,056)
Utilities – water	(21,950)	(25,495)
Cash and cash equivalents available to corporate	11,488	26,841

Unrestricted cash represents funds freely available for corporate to pay preferred share dividends, administrative expenses, as well as to fund future acquisitions or capital and development investments. The unrestricted cash and cash equivalents decrease of $16,481 was attributable to decreases of $19,232 and $3,545 at the power segment and Bristol Water, respectively, partially offset by a $6,296 increase at corporate.

Distributions from the power segment to corporate under the new CPC Credit agreement accounted for the power segment cash decrease and the corporate cash increase. In the power segment, the remaining decrease in cash was primarily due to funding for the wind development projects.

Cash and cash equivalents available to corporate were net of power segment and Bristol Water cash of $24,473 and $21,950, respectively, which are only periodically accessible to Capstone through distributions. The power segment's cash and cash equivalents are accessible to Capstone through distributions under the terms of the new CPC Credit Agreement, which allows for distributions to Capstone, subject to certain conditions. In turn, CPC receives distributions from its subsidiary power assets, which are subject to the terms of their project-specific credit agreements.

Restricted cash

Restricted cash increased by $14,673, primarily due to draws on the new construction facilities to develop the Grey Highlands Clean, Grey Highlands ZEP, Ganaraska, and Snowy Ridge wind projects and additional funds into the maintenance reserve for Cardinal's new term facility. These increases were partially offset by releases of the remaining construction reserves at Goulais and Saint-Philémon and development projects' letters of credit in 2016.

Cash flow

Capstone’s consolidated cash and cash equivalents decreased by $16,481 in the first nine months of 2016 compared with a decrease of $17,656 for the same period in 2015. The components of the change in cash, as presented in the consolidated statement of cash flows, were:

Nine months ended	Sep 30, 2016	Sep 30, 2015
Operating activities	42,488	77,809
Investing activities	(139,796)	(95,938)
Financing activities (excluding dividends to shareholders)	87,034	21,723
Dividends paid to shareholders	(1,979)	(22,746)
Effect of exchange rate changes on cash and cash equivalents	(4,228)	1,496
Change in cash and cash equivalents	(16,481)	(17,656)

Cash flow from operating activities generated $35,321 less cash and cash equivalents during 2016 due to lower cash flow of $19,771 from the utilities segment, $15,914 from corporate and $364 from the power segment. Cash flows from the utilities segment decreased primarily due to lower Bristol Water revenue, resulting from lower water tariffs and unfavourable foreign currency translation, while cash flows from the corporate segment decreased primarily due to costs associated with iCON III's acquisition of Capstone.

Cash flow used in investing activities was $43,858 higher during 2016. In 2016, cash of $94,960 (2015 - $57,188) was used in the construction of projects under development in the power segment. In addition, cash of $53,462 (2015 - $79,892) was used to fund capital asset additions and restricted cash increased by $16,691 primarily due to debt draws on the construction facilities to develop the Grey Highlands Clean, Snowy Ridge and GHG projects (2015 - $35,431 decrease in restricted cash). Capstone also received $23,432 from Värmevärden as a partial settlement of the pre-existing shareholder loan receivable.

Cash flows from financing activities increased by $65,311 during 2016. In 2016, proceeds from debt draws were $147,870 higher, primarily due to the new debt raised for CPC, Cardinal, GHG, Grey Highlands Clean and Snowy Ridge. In addition, repayments of debt principal were $16,059 lower in 2016 primarily due to the repayment of Amherstburg's old project debt in 2015. These increases were partially offset by $53,836 paid to partially settle the promissory note issued to iCON III, and $43,176, to redeem the convertible debentures.

Dividends paid to shareholders were $20,767 lower during the first nine months of 2016, due to the suspension of common share dividends because of the iCON III acquisition. Refer to page 3 of "Changes in the Business" in this MD&A.

Promissory Note Payable

On April 29, 2016, Capstone issued a $316,225 demand interest-free promissory note to Irving, the holder of all outstanding common shares. Refer to page 3 of "Changes in the Business" in this MD&A for details on the iCON III acquisition. On September 2, 2016, 160,000 SEK ($24,992) was repaid to Irving, decreasing the promissory note to $291,233.

As at September 30, 2016, the promissory note consisted of three tranches: £106,000, 552,700 SEK, and $10,370 which are repayable at either the holder or borrower's option any time prior to the maturity date of December 31, 2021. Settlement of each tranche can occur in cash in the source currency or by transferring the equity securities of Bristol Water or Värmevärden at an agreed upon fair market value for the respective tranche. In addition, the promissory note is convertible at the holder's option into common shares of Capstone at fair value using the respective foreign exchange rates as at April 29, 2016. In addition, IFRS requires the promissory note to be classified as a current liability because it is due on demand.

Long-term Debt

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

	Dec 31, 2015	Additions	Repayments & Redemptions	Foreign Exchange	Other	Sep 30, 2016
Long-term debt [1]						
Power [2], [3], [4] and [5]	529,211	270,659	(31,315)	—	(118)	768,437
Utilities – water	712,584	—	—	(115,878)	(20)	596,686
Corporate [6]	116,869	7,000	(127,546)	—	3,677	—
Deferred financing fees	(14,127)	(5,458)	1,259	715	674	(16,937)
	1,344,537	272,201	(157,602)	(115,163)	4,213	1,348,186
Less: current portion of long-term debt [4]	(101,203)	(21,261)	52,355	—	13,090	(57,019)
	1,243,334	250,940	(105,247)	(115,163)	17,303	1,291,167

(1) Refer to page 3 of "Changes in the Business" in this MD&A for details of Capstone's financing changes.
(2) Power completed financings of $85,000 for the CPC credit facilities and $70,000 of project debt at Cardinal and made draws of $115,428 for the construction of the Grey Highlands Clean, GHG, and Snowy Ridge wind development projects.
(3) Power made $21,349 of scheduled debt payments. In addition, $9,966 of SkyGen promissory notes were repaid on February 8, 2016.
(4) On August 5, 2016, SkyGen and its existing lenders extended the term loan maturity date to February 2018.
(5) The power segment has a cumulative $39,851 utilized on its letter of credit facilities.
(6) On April 29, 2016, Capstone redeemed or converted the 2016 and 2017 convertible debentures and settled the corporate credit facility.

Power

As at September 30, 2016, the power segment's long-term debt consisted of $85,000 for the CPC credit facility and $683,437 of project debt. The current portion of long-term debt was $57,019, consisting primarily of scheduled debt amortization.

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

On August 26, 2016, the GHG construction facility converted to a term facility maturing on August 26, 2021, which has regular principal and interest payments fully amortizing over the remaining term and bears interest at a fixed annual rate of 3.08%.

The new CPC credit facilities include $85,000 drawn on the non-revolving facility and $33,242 utilized on the revolving letter of credit facility. In addition, CPC has undrawn credit capacity of $5,000 as a source for future capital and development expenditures. The new CPC credit facilities mature on April 29, 2019 and bear interest at a variable rate plus an applicable margin. In addition, fixed annual minimum repayments are required, which are paid quarterly from excess cash as defined in the credit agreement.

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

Utilities - water

As at September 30, 2016, Bristol Water had approximately 78% of its long-term debt with maturity dates of greater than 10 years. The earliest maturity is on December 7, 2017 for $34,138. In addition, Bristol Water had $119,483 of undrawn credit capacity available to fund future capital expenditures.

Equity

Shareholders' equity comprised:

As at	Sep 30, 2016	Dec 31, 2015
Common shares [(1), (2)]	37,913	715,989
Class B exchangeable units [(1)]	—	26,710
Preferred shares [(3)]	72,020	72,020
Share capital	109,933	814,719
Other equity items	—	9,284
Accumulated other comprehensive income (loss)	2,600	51,151
Retained earnings (deficit) [(2), (4)]	(13,913)	(366,579)
Equity attributable to Capstone shareholders	98,620	508,575
Non-controlling interests [(2)]	219,312	273,505
Total shareholders' equity	317,932	782,080

(1) Refer to page 3 of "Changes in the Business" in this MD&A for details on the iCON III acquisition which closed on April 29, 2016.

(2) Opening equity balances have been revised to reflect historical adjustments to non-controlling interests associated with Bristol Water, resulting in an increase to non-controlling interests of $11,960 as at December 31, 2014, September 30, 2015 and December 31, 2015, and a corresponding decrease to opening retained earnings (deficit). This revision did not impact previously reported net income or cash flows.

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

(4) On April 29, 2016, the deficit balance of $389,178 was released to share capital on the iCON III acquisition.

Contractual Obligations

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

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

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

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business, aside from the iCON III acquisition and related changes. Refer to page 3 of "Changes in the Business" in this MD&A for details. In addition, Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

Capstone's significant equity accounted investments were:

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

(1) Capstone does not currently record equity accounted income (losses) from Värmevärden, since the cumulative equity accounted losses and distributions exceeded the carrying value. Until cumulative unrecognized losses and dividends become positive, Capstone will carry its investment at nil and recognize dividends received in other gains and losses on the statement of income. As at September 30, 2016, Capstone has not recognized cumulative losses and distributions of $3,945 in equity accounted investments. Additional information about Capstone's investment in Värmevärden is included in the "Results of Operations" on page 10 of this MD&A.

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

Capital Asset Expenditure Program

Capstone's $140,302 of capital expenditures include $49,619 and $90,683 of additions to capital assets and projects under development, respectively. The breakdown of additions by operating segment was:

	Three months ended		Nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Power	33,700	31,385	101,837	97,655
Utilities – water	13,514	16,845	38,465	54,817
	47,214	48,230	140,302	152,472

In 2016, capital expenditures for the power segment mainly related to $58,099 and $38,658 to develop and construct the Wind Works and Grey Highlands Clean development projects, respectively.

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

Intangible Asset Impairments

At the end of each reporting period, Capstone reviews its non-amortizing intangible assets, including goodwill, to determine if any indicators of impairment exist. Capstone's goodwill only consists of the Bristol Water cash generating unit ("CGU"). As at September 30, 2016, the annual impairment test was performed for the Bristol Water CGU, within the utilities - water segment and management noted that the CGU was impaired based on recent external market pricing information. Consequently, Capstone’s comprehensive analysis for this CGU found that the recoverable amount was lower than the carrying amount. No other CGU’s exhibited indicators of impairment at September 30, 2016.

For the purposes of this analysis, Capstone used a fair value less costs to sell ("FVLCS") approach to determine the recoverable amount of $198,000 for Capstone's portion of the CGU, reflecting market pricing information for the CGU. For context, Capstone's recoverable amount under the FVLCS of $198,000 exceeds its original investment of $144,524 for 50% of Bristol Water.

The result of this analysis is a pre-tax impairment charge of $58,000 recognized against the carrying value of Bristol Water’s goodwill on the statement of financial position, leaving a remaining balance of $89,435 as at September 30, 2016.

Retirement Benefit Plans

During the first nine months of 2016, the Bristol Water retirement benefit surplus decreased $44,519 to a balance of $54,039 as at September 30, 2016. The decrease primarily reflected a $29,098 valuation allowance based on accessibility of the surplus to Bristol Water, a $16,557 decrease due to foreign exchange, and a $7,518 actuarial loss. These were partially offset by a $6,050 reversal of past service costs on curtailment which occurred March 31, 2016.

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

Income Taxes

The third quarter and year to date current income tax expense of $1,528 and $1,344, respectively, primarily relate to Bristol Water. The year to date deferred tax expense of $4,553 reflected the $33,997 decrease in deferred income tax liabilities less $29,098 reclassified against the retirement benefit surplus and $9,452 recognized through other comprehensive income or a component of equity.

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

Deferred income tax liabilities of $169,908 (December 31, 2015 - $204,125) represented $72,061 (December 31, 2015 - $64,619) for Capstone’s Canadian operations and $97,847 (December 31, 2015 - $139,506) for Bristol Water. Deferred income tax liabilities primarily represent historical tax depreciation in excess of accounting depreciation for intangible and capital assets.

DERIVATIVE FINANCIAL INSTRUMENTS

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

As at	Sep 30, 2016	Dec 31, 2015
Derivative contract assets	15,551	166
Derivative contract liabilities	(14,935)	(6,540)
Net derivative contract assets (liabilities)	616	(6,374)

Net derivative contracts increased by $6,990 from December 31, 2015 to a net asset, primarily due to comprehensive gains of $13,506, partially offset by contractual settlement payments of $6,235 received from Millar Western, in accordance with Whitecourt's fuel supply agreement.

In 2016, Cardinal, Grey Highlands Clean and Snowy Ridge entered into swap agreements to convert floating interest rate obligations under the respective credit agreements to a fixed rate. The swap agreements are effective until 2034, covering the remaining debt amortization periods for Cardinal, Grey Highlands Clean and Snowy Ridge.

The fair value changes of derivatives in the interim consolidated statements of income and comprehensive income comprised:

	Three months ended		Nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Whitecourt embedded derivative	14,426	4,273	23,938	101
Foreign currency contracts	12	(242)	115	(1,476)
Interest rate swap contracts	(156)	11,853	(7,669)	10,507
Cardinal gas purchase agreement	—	—	—	4,364
Cardinal embedded derivatives	—	(1)	—	168
Forward gas sale and purchase contracts	—	—	—	(3,329)
Gains (losses) on derivatives in net income	14,282	15,883	16,384	10,335
Interest rate swap contracts in OCI	192	(1,292)	(2,878)	(274)
Gains (losses) on derivatives in comprehensive income	14,474	14,591	13,506	10,061

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

FOREIGN EXCHANGE

The foreign exchange changes from 2015 primarily reflect the partial settlement and translation of Capstone's SEK-denominated shareholder loan receivable with Värmevärden. The foreign exchange gain of $604 in the third quarter was primarily due to a $784 gain realized on the partial settlement of the SEK-denominated promissory note. The year-to-date foreign exchange loss of $2,042 compared to a year-to-date gain in 2015, was primarily due to a depreciation of the Swedish krona against the Canadian dollar in 2016, thereby decreasing the carrying value of the loan in Canadian dollars.

RISKS AND UNCERTAINTIES

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

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

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone monitors developments with respect to environmental, health and safety regulation. On October 3, 2016, the federal government announced a minimum price on carbon that would apply throughout Canada. The price would start at $10/tonne in 2018 and increase annually by $10/tonne to $50/tonne by 2022. The financial impact on renewable projects and Capstone is currently unclear, but will continue to be monitored. Please refer to the Corporation's prior environmental, health and safety regulation disclosure in its Annual Report for the year ended December 31, 2015 and "Environmental, Health and Safety Matters" section of the Corporation's Annual Information Form dated March 29, 2016, which are available on the SEDAR website at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

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

		2016			2015			2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	113,628	83,115	88,469	89,201	84,140	81,403	90,239	116,683
Net income (loss) (1)	(9,488)	(18,170)	(4,507)	8,885	301	(9,273)	222	(7,599)
Adjusted EBITDA	52,308	12,201	29,929	30,327	26,657	28,768	29,549	47,017
AFFO	25,674	(9,616)	2,257	1,888	1,949	932	6,464	19,022
Preferred dividends	938	938	938	938	938	938	938	938

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

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

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

Future Accounting Changes

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

Accounting Estimates

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

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

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

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

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

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

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

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Sep 30, 2016	Dec 31, 2015
Current assets			
Cash and cash equivalents		57,911	74,392
Restricted cash		43,737	29,064
Accounts receivable	18	104,280	77,175
Other assets		12,227	10,904
Current portion of derivative contract assets	7	12	58
		218,167	191,593
Non-current assets			
Loans receivable	6	11,354	37,271
Derivative contract assets	7	15,539	108
Equity accounted investments	8	21,718	23,392
Capital assets	9	1,657,506	1,702,233
Projects under development	10	50,382	106,200
Intangible assets	11	271,817	362,514
Retirement benefit surplus	12	54,039	98,558
Deferred income tax assets		—	220
Total assets		2,300,522	2,522,089
Current liabilities			
Accounts payable and other liabilities		115,877	143,903
Promissory note payable	7 & 14b	291,233	—
Current portion of derivative contract liabilities	7	731	254
Current portion of finance lease obligations		744	813
Current portion of long-term debt	13	57,019	101,203
		465,604	246,173
Long-term liabilities			
Derivative contract liabilities	7	14,204	6,286
Deferred income tax liabilities		169,908	204,125
Deferred revenue		32,473	32,063
Finance lease obligations		2,243	3,261
Long-term debt	13	1,291,167	1,243,334
Liability for asset retirement obligation		6,991	4,767
Total liabilities		1,982,590	1,740,009
Equity attributable to shareholders' of Capstone (1)		98,620	508,575
Non-controlling interest (1)		219,312	273,505
Total liabilities and equity		2,300,522	2,522,089
Commitments and contingencies	18		
Subsequent events	19		

(1) Opening equity balances have been revised to reflect historical adjustments to non-controlling interests associated with Bristol Water, resulting in an increase to non-controlling interests of $11,960 as at December 31, 2015, and a corresponding decrease to opening equity attributable to shareholders' of Capstone. This revision did not impact previously reported net income or cash flows.

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital (1)	Other Equity Items (2)	AOCI (3)	Retained Earnings (Deficit)	NCI (4)	Total Equity
Balance, December 31, 2014 (5)		812,142	9,284	19,994	(336,674)	202,033	706,779
Other comprehensive income (loss)		—	—	28,565	6,297	26,794	61,656
Net income (loss) for the period		—	—	—	(8,750)	13,653	4,903
Dividends declared to common shareholders of Capstone	14a	1,934	—	—	(21,869)	—	(19,935)
Dividends declared to preferred shareholders of Capstone (6)	14a	—	—	—	(2,900)	—	(2,900)
Dividends declared to NCI		—	—	—	—	(4,825)	(4,825)
Balance, September 30, 2015		814,076	9,284	48,559	(363,896)	237,655	745,678

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital (1)	Other Equity Items (2)	AOCI (3)	Retained Earnings (Deficit)	NCI (4)	Total Equity
Balance, December 31, 2015 (5)		814,719	9,284	51,151	(366,579)	273,505	782,080
Other comprehensive income (loss) from January 1 - April 29, 2016		—	—	(29,743)	(10,004)	(32,192)	(71,939)
Net income (loss) from January 1 - April 29, 2016 included in retained earnings reset		—	—	—	(20,600)	6,501	(14,099)
Dividends declared to common shareholders of Capstone		617	—	—	—	—	617
Dividends declared to preferred shareholders of Capstone (6)	14a	—	—	—	(1,279)	—	(1,279)
Redemption of Capstone's 2016 convertible debentures	3	—	(9,284)	—	9,284	—	—
Dividends declared to NCI from January 1 - April 29, 2016		—	—	—	—	(1,060)	(1,060)
Convertible debenture advances, net (7)		—	—	—	—	3,077	3,077
Elimination of deficit	3	(389,178)	—	—	389,178	—	—
Issuance of promissory note in exchange for common shares	3	(316,225)	—	—	—	—	(316,225)
April 29, 2016 (8)		109,933	—	21,408	—	249,831	381,172
Other comprehensive income (loss) after April 29, 2016		—	—	(18,808)	(964)	(14,972)	(34,744)
Net income (loss) after April 29, 2016		—	—	—	(11,565)	(11,472)	(23,037)
Dividends declared to preferred shareholders of Capstone (6)	14a	—	—	—	(1,384)	—	(1,384)
Dividends declared to NCI after April 29, 2016		—	—	—	—	(1,304)	(1,304)
Convertible debenture advances, net (7)		—	—	—	—	(2,771)	(2,771)
Balance, September 30, 2016		109,933	—	2,600	(13,913)	219,312	317,932

(1) After April 29, 2016, share capital consists of common and preferred shares. Prior to April 29, 2016, share capital comprised common shares, preferred shares and Class B exchangeable units.
(2) Other equity items include the equity portion of Capstone's 2016 convertible debentures, which was redeemed on April 29, 2016, resulting in an increase in retained earnings.
(3) Accumulated other comprehensive income (loss) ("AOCI").
(4) Non-controlling interest ("NCI").
(5) Opening equity balances have been revised to reflect historical adjustments to non-controlling interests associated with Bristol Water, resulting in an increase to non-controlling interests of $11,960 as at December 31, 2014, September 30, 2015 and December 31, 2015, and a corresponding decrease to opening retained earnings (deficit). This revision did not impact previously reported net income or cash flows.
(6) Dividends declared to preferred shareholders of Capstone include deferred income taxes of $31 prior to April 29, 2016 and $38 after April 29, 2016 (2015 - $89).
(7) Capital contributions, net of repayments are with One West Holdings Ltd. ("Concord"), the agreed future 50% partner on the GHG, Snowy Ridge and Settlers Landing projects.
(8) Refer to note 3 for changes related to the iCON III acquisition.

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Notes	Three months ended Sep 30, 2016	Three months ended Sep 30, 2015	Nine months ended Sep 30, 2016	Nine months ended Sep 30, 2015
Revenue	18	113,628	84,140	285,212	255,782
Operating expenses	15	(49,022)	(41,426)	(135,957)	(124,699)
Administrative expenses	15	(2,079)	(2,210)	(17,370)	(8,160)
Project development costs	15	(1,257)	(992)	(14,583)	(4,445)
Goodwill impairment charge	11	(58,000)	—	(58,000)	—
Equity accounted income (loss)	8	(501)	(892)	211	(1,579)
Interest income		3,463	1,235	5,574	3,374
Net pension interest income		764	713	2,466	2,218
Other gains and (losses), net	16	14,045	2,168	12,441	(10,689)
Foreign exchange gain (loss)		604	2,145	(2,042)	2,720
Earnings before interest expense, taxes, depreciation and amortization		21,645	44,881	77,952	114,522
Interest expense		(14,378)	(14,130)	(43,918)	(42,567)
Depreciation of capital assets	9	(18,232)	(18,505)	(55,123)	(52,237)
Amortization of intangible assets	11	(3,403)	(3,404)	(10,150)	(9,674)
Income before income taxes		(14,368)	8,842	(31,239)	10,044
Income tax recovery (expense)					
Current		(1,528)	1,163	(1,344)	2,345
Deferred		(2,885)	(4,984)	(4,553)	(7,486)
Total income tax recovery (expense)		(4,413)	(3,821)	(5,897)	(5,141)
Net income (loss)		(18,781)	5,021	(37,136)	4,903
Net income (loss) attributable to:					
Shareholders of Capstone		(9,488)	301	(32,165)	(8,750)
Non-controlling interest		(9,293)	4,720	(4,971)	13,653
		(18,781)	5,021	(37,136)	4,903

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Sep 30, 2016	Three months ended Sep 30, 2015	Nine months ended Sep 30, 2016	Nine months ended Sep 30, 2015
Cumulative differences on translation of foreign operations		(4,825)	14,686	(81,523)	49,240
Other comprehensive income on equity accounted investments	8	—	—	—	80
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2016 - $106 expense and $575 recovery, 2015 - $229 recovery and $13 expense)		84	(1,026)	(3,224)	(258)
Total of items that may subsequently be reclassified to net income		(4,741)	13,660	(84,747)	49,062
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2016 - $2,823 recovery and $14,418 expense, 2015 - $2,431 and $3,149 expense) - will not be reclassified to net income		(4,674)	9,724	(21,936)	12,594
Other comprehensive income (loss)		(9,415)	23,384	(106,683)	61,656
Net income (loss)		(18,781)	5,021	(37,136)	4,903
Total comprehensive income (loss)		(28,196)	28,405	(143,819)	66,559
Comprehensive income (loss) attributable to:					
Shareholders of Capstone		(14,480)	13,155	(91,684)	26,112
Non-controlling interest		(13,716)	15,250	(52,135)	40,447
		(28,196)	28,405	(143,819)	66,559

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended	Notes	Sep 30, 2016	Sep 30, 2015
Operating activities:			
Net income (loss)		(37,136)	4,903
Deferred income tax expense		4,553	7,486
Depreciation and amortization		65,273	61,911
Goodwill impairment charge		58,000	—
Non-cash other gains and losses (net)		(6,206)	(158)
Amortization of deferred financing costs and non-cash financing costs		2,312	1,501
Equity accounted (income) loss	8	(211)	1,579
Unrealized foreign exchange (gain) loss		1,701	(2,571)
Change in non-cash working capital		(45,798)	3,158
Total cash flows from operating activities		42,488	77,809
Investing activities:			
Receipt of loans receivable	6	23,432	979
Distributions from equity accounted investments	8	1,885	4,732
Investment in projects under development	10	(94,960)	(57,188)
Investment in capital assets and intangibles	9	(53,462)	(79,892)
Decrease (increase) in restricted cash		(16,691)	35,431
Total cash flows used in investing activities		(139,796)	(95,938)
Financing activities:			
Proceeds from long-term debt		277,659	129,789
Convertible debenture advances, net		306	—
Settlement of interest rate swaps		85	—
Repayment of long-term debt and finance lease obligations		(86,171)	(102,230)
Repayment of promissory note		(53,836)	—
Redemption of debentures	3	(43,176)	—
Transaction costs on debt issuance		(5,469)	(1,011)
Dividends paid to non-controlling interests		(2,364)	(4,825)
Dividends paid to common and preferred shareholders		(1,979)	(22,746)
Total cash flows from (used in) financing activities		85,055	(1,023)
Effect of exchange rate changes on cash and cash equivalents		(4,228)	1,496
Increase (decrease) in cash and cash equivalents		(16,481)	(17,656)
Cash and cash equivalents, beginning of year		74,392	58,842
Cash and cash equivalents, end of period		57,911	41,186
Supplemental information:			
Interest paid		47,152	47,184
Taxes paid (recovery)		(507)	2,568

See accompanying notes to these interim consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone is incorporated in British Columbia and domiciled in Canada and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. As at September 30, 2016, Capstone owns Capstone Power Corp. (100% ownership) which owns, operates and develops thermal and renewable power generation facilities in Canada with a total installed net capacity of 500 megawatts. In addition, Capstone has significant investments in two utilities businesses in Europe, Bristol Water (50% ownership), a water utility in the United Kingdom, and Värmevärden (33.3% ownership), a district heating business in Sweden.

2. BASIS OF PREPARATION

Statement of Compliance

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

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on November 10, 2016.

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

3. ACQUISITION OF CAPSTONE BY ICON III

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

Convertible debentures

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

Common Shares and Class B Units

The Class B Units acquired by Irving were exchanged for 3,249,390 common shares. All 103,827,939 outstanding common shares were acquired by Irving and cancelled after being replaced by the promissory notes described below and the same number of newly issued common shares without par value. Additionally, the deficit as at April 29, 2016 of $389,178 was reclassified to share capital, resulting in the new shares being recorded at a carrying value of $37,913.

Promissory Notes

Capstone issued a demand interest-free promissory note to Irving for $316,225 in exchange for common share capital. On acquisition, the promissory note consists of three tranches: £106,000, 712,700 SEK, and $10,370 which can be repaid at any time prior to the maturity date of December 31, 2021. Settlement of each tranche can occur in cash in the underlying currency or by transferring the equity securities of Bristol Water or Värmevärden at an agreed upon fair market value. In addition, the promissory note is convertible at the holder's option into common shares of Capstone at fair value using the respective foreign exchange rates as at April 29, 2016. Refer to note 14(B) for further details. On April 29, 2016, Capstone also issued a $29,628 promissory note to Irving in exchange for common share capital which was settled in cash on the same day.

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

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

4. SEASONALITY

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

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

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Measurement

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

Future Accounting Changes

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

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

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

6. LOANS RECEIVABLE

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

	September 30, 2016		December 31, 2015	
	SEK	$	SEK	$
Opening balance - January 1	227,541	37,271	227,541	33,744
Principal repayments of pre-existing loan receivable (1)	(153,333)	(23,432)	—	—
Foreign exchange gain (loss)	—	(2,485)	—	3,527
	74,208	11,354	227,541	37,271
Issuance of new loan receivable (2)	365,134	57,363	—	—
Contra-asset (2)	(365,134)	(57,363)	—	—
Ending balance	74,208	11,354	227,541	37,271

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

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

7. FINANCIAL INSTRUMENTS

(A) Classification by Level

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

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Sep 30, 2016	Dec 31, 2015
Derivative contract assets:					
Whitecourt embedded derivative (2)	—	—	14,555	14,555	—
Interest rate swap contracts (3)	—	996	—	996	—
Foreign currency contracts	—	—	—	—	166
Less: Current portion	—	(12)	—	(12)	(58)
	—	984	14,555	15,539	108
Promissory note payable (1)	—	291,233	—	291,233	—
Derivative contract liabilities:					
Whitecourt embedded derivative (2)	—	—	—	—	3,148
Interest rate swap contracts (3)	—	9,786	—	9,786	1,121
Interest rate swap contracts for hedging	—	5,149	—	5,149	2,271
Less: Current portion	—	(731)	—	(731)	(254)
	—	14,204	—	14,204	6,286

(1) Capstone's demand interest-free promissory note to Irving is designated as fair value through profit and loss.
(2) Whitecourt's embedded derivative consists of a $19,234 fair value asset, offset by $4,679 of amortized contra-asset, set up on inception (2015 - $1,796 fair value asset, fully offset by $4,944 of amortized contra-asset).
(3) In 2016, Cardinal, Grey Highlands Clean and Snowy Ridge entered into interest rate swap contracts (2015 - GHG Wind Development LP ("GHG") entered into interest rate swap contracts).

Financial instruments not recorded at fair value

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

	Fair value	Carrying value
Finance lease obligations	2,973	2,987
Long-term debt	1,633,126	1,348,186

(B) Fair Value Determination

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

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

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

(C) Significant Assumptions

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

Fair value as at Sep 30, 2016	Unobservable input	Estimated input	Relationship of input to fair value
14,555	Forward Alberta power pool prices	From $20/MWh to $134/MWh until 2029.	A reasonably possible increase in estimated forward prices of 5% or a decrease of 5%, would cause fair value to decrease by $3,930 and increase by $4,185, respectively.

(D) Level 3 Fair Value Continuity

	Net, level 3 derivatives
As at January 1, 2016	(3,148)
Change in value of the Whitecourt embedded derivative included in other gains and (losses) in net income	23,673
Settlement of Whitecourt embedded derivative during the period	(6,235)
Amortization of Whitecourt embedded derivative inception value included in other gains and (losses) in net income	265
As at September 30, 2016	14,555

8. EQUITY ACCOUNTED INVESTMENTS

As at	Ownership %	Sep 30, 2016 Carrying value	Dec 31, 2015 Carrying value
Värmevärden (1)	33.3%	—	—
Glen Dhu (2)	49.0%	21,181	22,814
Fitzpatrick	50.0%	537	578
		21,718	23,392

(1) Capstone does not currently record equity accounted income (losses) from Värmevärden, since the cumulative equity accounted losses and distributions exceeded the carrying value. Until cumulative unrecognized losses and dividends become positive, Capstone will carry its investment at nil and recognize dividends received in other gains and losses on the statement of income. As at September 30, 2016, Capstone has not recognized cumulative losses and distributions of $3,945 in equity accounted investments.

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

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

Three months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distributions	Ending balance
September 30, 2016	22,537	(501)	—	(318)	21,718
September 30, 2015	23,744	(892)	—	(27)	22,825

Nine months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distributions	Ending balance
September 30, 2016	23,392	211	—	(1,885)	21,718
September 30, 2015	29,056	(1,579)	80	(4,732)	22,825

9. CAPITAL ASSETS

As at January 1, 2016	1,702,233
Additions	49,619
Disposals	(875)
Transfers (1)	134,276
Depreciation	(55,123)
Foreign exchange	(172,624)
As at September 30, 2016	1,657,506

(1) Includes transfers from projects under development of $135,501 for Grey Highlands ZEP, Ganaraska and Grey Highlands Clean, upon reaching the commercial operation date ("COD"), less transfer to intangibles of $1,225. Refer to notes 10 and 11, respectively.

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

	Nine months ended	
	Sep 30, 2016	Sep 30, 2015
Additions	49,619	78,543
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	5,700	(412)
Net foreign exchange difference	(1,857)	1,761
Cash additions	53,462	79,892

10. PROJECTS UNDER DEVELOPMENT ("PUD")

As at January 1, 2016	106,200
Capitalized costs during the period (1)	90,683
Transferred to capital assets (2) (refer to note 9)	(135,501)
Transferred to intangibles (2) (refer to note 11)	(11,000)
As at September 30, 2016	50,382

(1) Includes $1,413 of capitalized borrowing costs during the construction of the Grey Highlands ZEP, Ganaraska, Snowy Ridge and Grey Highlands Clean wind development projects using the interest rate of the long-term debt (2015 - $1,393 during the construction of Goulais).
(2) Amounts were transfered on COD of Grey Highlands ZEP, Ganaraska and Grey Highlands Clean.

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

	Nine months ended	
	Sep 30, 2016	Sep 30, 2015
Additions	90,683	73,929
Adjustment for change in PUD included in accounts payable and accrued liabilities	4,277	(16,741)
Cash additions	94,960	57,188

11. INTANGIBLE ASSETS

As at January 1, 2016	362,514
Transfers (1)	12,225
Amortization	(10,150)
Goodwill impairment charge	(58,000)
Foreign exchange	(34,772)
As at September 30, 2016	271,817

(1) Includes transfers of $1,225 from capital assets and $11,000 from projects under development. Refer to notes 9 and 10 respectively.

(A) Impairment

At the end of each reporting period, Capstone reviews its non-amortizing intangible assets, including goodwill, to determine if any indicators of impairment exist. Capstone's goodwill only consists of the Bristol Water cash generating unit ("CGU"). As at September 30, 2016, the annual impairment test was performed for the Bristol Water CGU, within the utilities - water segment and management noted that the CGU was impaired based on recent external market pricing information. Consequently, Capstone's comprehensive analysis for this CGU found that the recoverable amount was lower than the carrying amount. No other CGU's exhibited indicators of impairment at September 30, 2016.

For the purposes of this analysis, Capstone used a fair value less costs to sell ("FVLCS") approach to determine the recoverable amount of $198,000 for Capstone's portion of the CGU, reflecting market pricing information for the CGU. Previously, Capstone used a discounted cash flow approach to determine the FVLCS. Both techniques are considered a level 3 estimate per the financial instrument hierarchy.

The result of this analysis is a pre-tax impairment charge of $58,000 recognized against the carrying value of Bristol Water's goodwill on the statement of financial position, leaving a remaining balance of $89,435 as at September 30, 2016.

12. RETIREMENT BENEFIT PLANS

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

As at September 30, 2016, the retirement benefit surplus was $54,039. Assumptions used were updated, by the actuary using a consistent method of calculation as at December 31, 2015, to reflect market conditions and expectations (December 31, 2015 - $98,558).

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

IFRS restricts the value of a retirement benefit surplus to the present value of economic benefits available in the form of plan refunds or reductions in future contributions. For Bristol Water, the benefit is now only available as a plan refund as no additional defined pension benefits will be earned. In the UK, a withholding tax of 35% is applicable to a refund of a defined benefit surplus and is applied regardless of the company's tax position. This amount has therefore been treated as an expense that arises on any future refund and, in accordance with IFRIC 14, this expense has been netted against the gross value of the retirement benefit surplus. Accordingly, the surplus recorded in respect of Bristol Water is a gross surplus of $83,137,reduced by a 35% withholding tax of $29,098.

13. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Sep 30, 2016	Dec 31, 2015
CPC credit facility (1)	85,000	—
Project debt		
Wind - Operating (2), (3), (4)	425,140	321,395
Wind - Development (5)	20,600	30,234
Hydros	81,851	85,196
Solar	87,499	92,386
Gas	68,347	—
Power (6)	768,437	529,211
Bank loans	119,238	142,381
Term loans	447,460	534,366
Debentures	2,251	2,676
Irredeemable cumulative preferred shares	27,737	33,161
Utilities – water	596,686	712,584
Corporate credit facility (7)	—	47,000
Convertible debentures - 2016 (8)	—	42,278
Convertible debentures - 2017 (8)	—	27,591
Corporate	—	116,869
	1,365,123	1,358,664
Less: deferred financing costs	(16,937)	(14,127)
Long-term debt	1,348,186	1,344,537
Less: current portion	(57,019)	(101,203)
	1,291,167	1,243,334

(1) CPC reached financial close on the CPC Credit Agreement as described in note 3. Since inception, the effective interest rate was 3.62%.
(2) Wind - Operating project debt consists of Erie Shores, Amherst, SkyGen, Skyway8, Glace Bay, Saint-Philémon and Goulais. In addition, 2016 includes the GHG and Grey Highlands Clean project debt which was transferred from wind - development on COD.
(3) On February 8, 2016, SkyGen $9,966 promissory notes were repaid. On August 5, 2016, SkyGen and its existing lenders extended the term loan maturity date to February 2018.
(4) On August 26, 2016, GHG's construction facility converted to a term facility maturing on August 26, 2021 with a 3.08% fixed annual interest rate.
(5) Wind - Development project debt consists of the Snowy Ridge construction facility in 2016 (2015 - GHG).
(6) The power segment has a cumulative $39,851 utilized on its letter of credit facilities.
(7) On January 31, 2016, the corporate credit facility capacity decreased to $90,000. Concurrent with the Cardinal financing on March 18, 2016, the capacity was further decreased to $60,000 and settled concurrently with the proceeds from debt raised by CPC on April 29, 2016.
(8) All outstanding convertible debentures were either redeemed by Capstone or converted and then cancelled on April 29, 2016. Refer to note 3.

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

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

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

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

14. SHAREHOLDERS' EQUITY AND PROMISSORY NOTE PAYABLE

(A) Equity

The share capital of the Corporation was:

As at	Sep 30, 2016	Dec 31, 2015
Common shares (1)	37,913	715,989
Class B exchangeable units (1)	—	26,710
Preferred shares (2)	72,020	72,020
	109,933	814,719

(1) After April 29, 2016, share capital consists of common and preferred shares, previously share capital also included the publicly listed common shares and Class B exchangeable units. Refer to note 3 for details.
(2) The Series A cumulative five-year rate reset preferred shares accrue dividends at a fixed rate of 3.271% per annum effective July 31, 2016.

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

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

	Three months ended		Nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Preferred shares (1)	729	978	2,663	2,900

(1) Includes $7 and $69 of deferred income taxes, for the quarter and year to date respectively (2015 - $41 and 89, respectively).

(B) Promissory Note Payable

On April 29, 2016, as part of the acquisition of Capstone by iCON III described in note 3, Capstone issued a demand interest-free promissory note to Irving for $316,225 in exchange for common share capital. On September 2, 2016, 160,000 SEK ($24,992) was repaid to Irving, decreasing the promissory note to $291,233. The promissory note is repayable at either the holder or borrower's option any time prior to the maturity date of December 31, 2021.

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

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

As at Sep 30, 2016	Principal Amount	Exchange Rate (1)	Fair Value
Tranche 1 - UK Pound Sterling denominated	£106,000	1.8352	$194,531
Tranche 2 - Swedish Krona ("SEK" or "kr") denominated	552,700kr	0.1562	$86,332
Tranche 3 - Canadian dollar denominated	$10,370	1.0000	$10,370
			291,233

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

15. EXPENSES BY NATURE

	Three months ended Sep 30, 2016				Three months ended Sep 30, 2015			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	16,446	—	—	16,446	20,698	—	—	20,698
Fuel and transportation (1)	16,149	—	—	16,149	2,238	—	—	2,238
Wages and benefits	8,206	1,427	605	10,238	9,163	1,809	189	11,161
Maintenance	2,353	—	—	2,353	1,840	—	—	1,840
Professional fees (2)	1,419	177	570	2,166	2,630	46	732	3,408
Bad debts	1,332	—	—	1,332	1,543	—	—	1,543
Leases	529	127	—	656	448	83	—	531
Insurance	579	68	—	647	525	(300)	—	225
Property taxes	544	—	—	544	576	—	—	576
Manager fees	411	—	—	411	433	—	—	433
Utilities	395	—	—	395	499	—	—	499
Other	659	280	82	1,021	833	572	71	1,476
Total	49,022	2,079	1,257	52,358	41,426	2,210	992	44,628

	Nine months ended Sep 30, 2016				Nine months ended Sep 30, 2015			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	58,017	—	—	58,017	65,931	—	—	65,931
Wages and benefits	25,566	13,965	1,732	41,263	25,865	5,931	1,401	33,197
Professional fees (2)	4,713	1,345	12,638	18,696	7,670	1,091	2,751	11,512
Fuel and transportation (1)	18,082	—	—	18,082	4,396	—	—	4,396
O&M charge (3)	13,941	—	—	13,941	—	—	—	—
Maintenance	7,738	—	—	7,738	6,397	—	—	6,397
Pension closure recovery	(6,050)	—	—	(6,050)	—	—	—	—
Bad debts	3,457	—	—	3,457	4,329	—	—	4,329
Insurance	1,824	167	—	1,991	1,608	(225)	—	1,383
Leases	1,596	366	—	1,962	1,379	256	—	1,635
Utilities	1,666	—	—	1,666	1,470	—	—	1,470
Property taxes	1,591	—	—	1,591	1,547	—	—	1,547
Manager fees	1,289	—	—	1,289	1,285	—	—	1,285
Other	2,527	1,527	213	4,267	2,822	1,107	293	4,222
Total	135,957	17,370	14,583	167,910	124,699	8,160	4,445	137,304

(1) Fuel and transportation expenses include $12,049 of accrued fuel expenses resulting from OEFC settlement. Refer to note 18 for further details.
(2) Professional fees include legal, audit, tax and other advisory services.
(3) Refer to note 18 for further details on the termination of the O&M agreement.

16. OTHER GAINS AND LOSSES

	Three months ended		Nine months ended	
	Sep 30, 2016	Sep 30, 2015	Sep 30, 2016	Sep 30, 2015
Unrealized gains on derivative financial instruments	14,270	15,883	16,321	10,335
Realized loss on settlement of interest rate swaps (1)	—	(13,045)	—	(13,045)
Losses on settlement of convertible debentures (2)	—	—	(3,324)	—
Losses on disposal of capital assets	(237)	(594)	(621)	(7,888)
Realized losses on foreign currency contracts (3)	12	—	63	—
Other	—	(76)	2	(91)
Other gains and (losses), net	14,045	2,168	12,441	(10,689)

(1) Realized loss resulted from the termination of the Amherstburg interest rate swap, as part of the refinancing in 2015.
(2) Capstone's 2016 and 2017 convertible debentures were redeemed and converted as part of the iCON III acquisition. Refer to note 3 for details.
(3) Realized losses from the settlement of Capstone's UK Pound Sterling and Swedish Krona foreign currency contracts.

17. SEGMENTED INFORMATION

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

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

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

	Three months ended Sep 30, 2016					Three months ended Sep 30, 2015				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	66,145	47,483	—	—	113,628	27,063	57,077	—	—	84,140
Depreciation of capital assets	(10,666)	(7,548)	—	(18)	(18,232)	(9,572)	(8,901)	—	(32)	(18,505)
Amortization of intangible assets	(2,511)	(892)	—	—	(3,403)	(2,374)	(1,019)	—	(11)	(3,404)
Goodwill impairment charge	—	(58,000)	—	—	(58,000)	—	—	—	—	—
Interest income	2,338	31	1,050	44	3,463	318	155	703	59	1,235
Interest expense	(8,921)	(5,385)	—	(72)	(14,378)	(6,643)	(5,645)	—	(1,842)	(14,130)
Income tax recovery (expense)	(9,395)	4,270	—	712	(4,413)	(873)	(2,469)	(14)	(465)	(3,821)
Net income (loss)	24,883	(43,710)	2,558	(2,512)	(18,781)	(1,997)	9,675	2,385	(5,042)	5,021
Cash flow from operations	3,616	15,566	(231)	833	19,784	(23,376)	22,616	(1,066)	4,649	2,823
Additions to capital assets	6,404	13,514	—	35	19,953	(2,846)	16,844	—	—	13,998
Additions to PUD	27,261	—	—	—	27,261	34,232	—	—	—	34,232

	Nine months ended Sep 30, 2016					Nine months ended Sep 30, 2015				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	132,812	152,400	—	—	285,212	85,162	170,620	—	—	255,782
Depreciation of capital assets	(30,745)	(24,325)	—	(53)	(55,123)	(26,143)	(25,999)	—	(95)	(52,237)
Amortization of intangible assets	(7,343)	(2,799)	—	(8)	(10,150)	(6,734)	(2,903)	—	(37)	(9,674)
Goodwill impairment charge	—	(58,000)	—	—	(58,000)	—	—	—	—	—
Interest income	2,445	203	2,800	126	5,574	1,034	215	2,024	101	3,374
Interest expense	(22,816)	(18,087)	—	(3,015)	(43,918)	(20,191)	(17,082)	—	(5,294)	(42,567)
Income tax recovery (expense)	(12,394)	2,843	—	3,654	(5,897)	433	(6,552)	—	978	(5,141)
Net income (loss)	27,737	(35,955)	3,918	(32,836)	(37,136)	(10,241)	26,725	3,092	(14,673)	4,903
Cash flow from operations	26,882	42,047	2,788	(29,229)	42,488	26,518	63,247	1,359	(13,315)	77,809
Additions to capital assets	11,119	38,465	—	35	49,619	23,726	54,817	—	—	78,543
Additions to PUD	90,683	—	—	—	90,683	73,929	—	—	—	73,929

	As at Sep 30, 2016					As at Dec 31, 2015				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	1,121,749	1,154,053	12,935	11,785	2,300,522	1,010,669	1,465,683	39,795	5,942	2,522,089
Total liabilities	890,677	796,435	108	295,370	1,982,590	649,625	965,335	—	125,049	1,740,009

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

18. COMMITMENTS AND CONTINGENCIES

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

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

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

OEFC Settlement

On March 12, 2015, the Ontario Superior Court of Justice determined that the OEFC had not properly calculated the price paid for electricity produced under its power purchase agreements with Cardinal, Wawatay and Dryden, and a number of other power producers in Canada. The OEFC filed an appeal in the Court of Appeal for Ontario (the "Court of Appeal") which was dismissed by the Court of Appeal on April 19, 2016. The OEFC filed an application to seek leave of the Supreme Court of Canada on June 17, 2016, which remains under review by the Supreme Court of Canada. During the third quarter, the OEFC brought several legal motions to defer paying the judgment, which were ultimately denied by the Court of Appeal on September 19, 2016 and these payments were received on October 21, 2016.

As at September 30, 2016, Capstone recognized retroactive payments in the statement of income. This resulted in increases of $33,288 in revenue and $2,288 of interest income, with a corresponding increase in accounts receivable, as part of the statement of financial position. In addition, a $12,049 increase in operating expenses and accounts payable was recognized for associated obligations.

19. SUBSEQUENT EVENTS

Snowy Ridge COD

Snowy Ridge, a 10 MW facility located in Ontario with a PPA expiring in 2036, completed construction during the third quarter and achieved COD on October 5, 2016.

OEFC Proceeds

On October 21, 2016, $35,576 was received from the OEFC related to the retroactive revenue settlement.

Settlers Landing Construction

Effective September 23, 2016, the Settlers Landing wind project successfully completed the Environmental Review Tribunal ("ERT") appeal process resulting from the Ministry of Environment and Climate Change amending the project's renewable energy approval ("REA") to include, among other things, removal of one turbine reducing the project nameplate capacity from 10 MW to 8 MW. Construction has now commenced and COD is expected in early 2017.

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