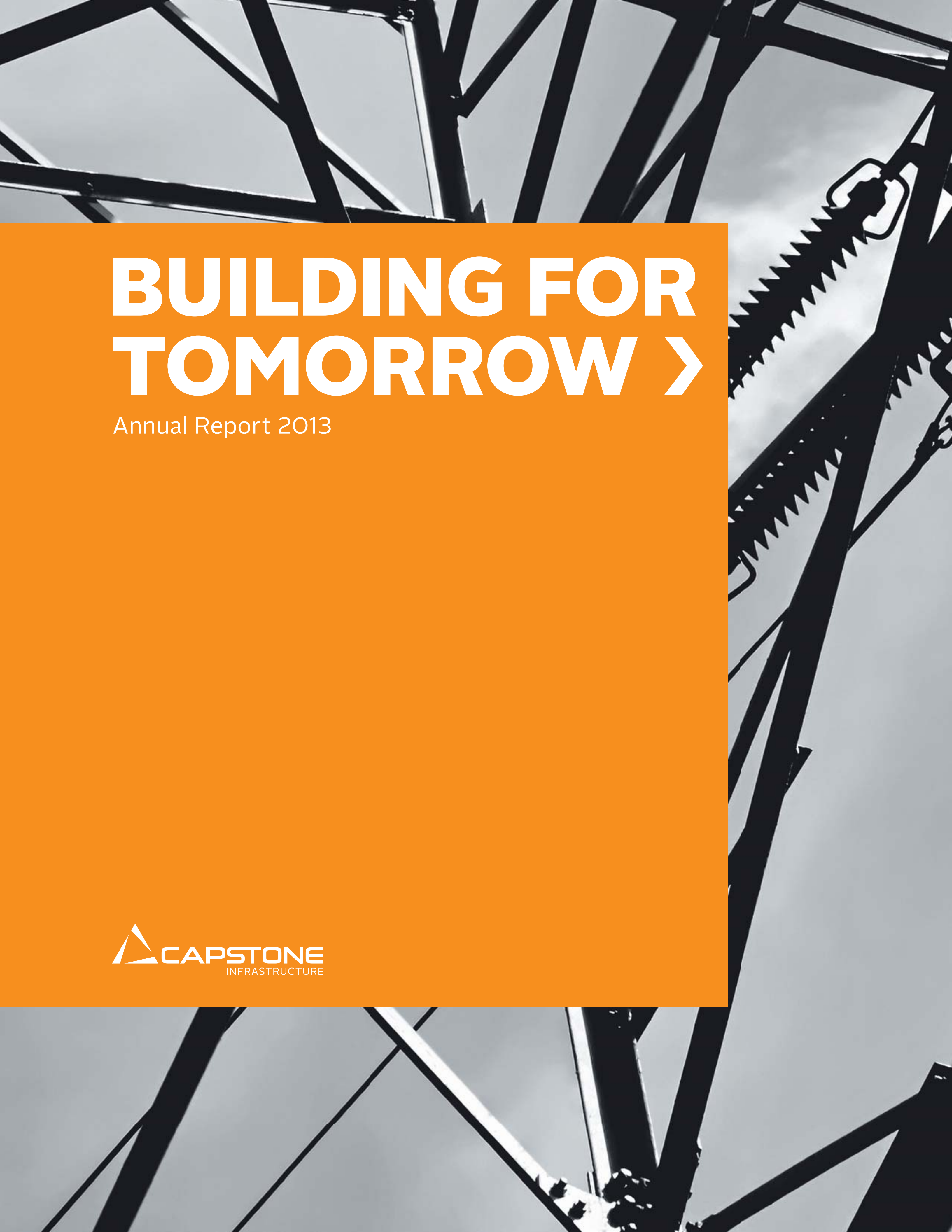
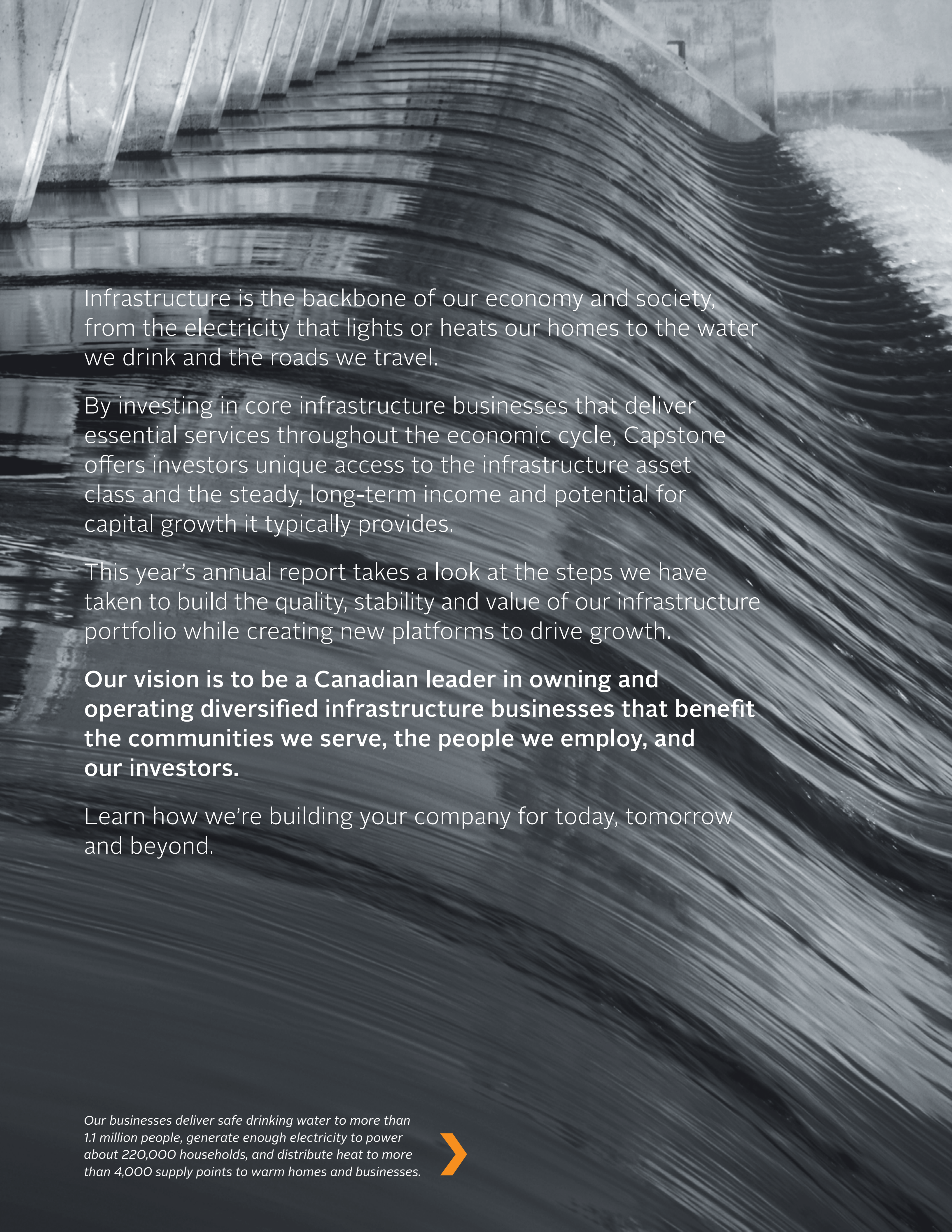


BUILDING FOR TOMORROW ›

Annual Report 2013

CAPSTONE INFRASTRUCTURE



Infrastructure is the backbone of our economy and society, from the electricity that lights or heats our homes to the water we drink and the roads we travel.

By investing in core infrastructure businesses that deliver essential services throughout the economic cycle, Capstone offers investors unique access to the infrastructure asset class and the steady, long-term income and potential for capital growth it typically provides.

This year's annual report takes a look at the steps we have taken to build the quality, stability and value of our infrastructure portfolio while creating new platforms to drive growth.

Our vision is to be a Canadian leader in owning and operating diversified infrastructure businesses that benefit the communities we serve, the people we employ, and our investors.

Learn how we're building your company for today, tomorrow and beyond.

Our businesses deliver safe drinking water to more than 1.1 million people, generate enough electricity to power about 220,000 households, and distribute heat to more than 4,000 supply points to warm homes and businesses.

FINANCIAL HIGHLIGHTS ›

Capstone's mission is to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally.

Since inception, we have significantly diversified our portfolio, increased revenue and enhanced cash flow while lowering our risk profile and creating a stable platform for continuing growth.

HISTORICAL REVENUE (in millions of dollars)(2)

18.6%

CAGR in revenue since 2004.

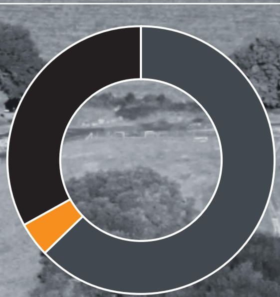
ADJUSTED EBITDA (in millions of dollars)(1)(2)

20.2%

CAGR in Adjusted EBITDA since 2004.(1)

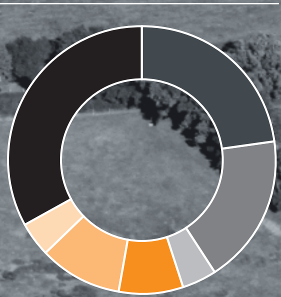
ADJUSTED EBITDA IN 2013 BY GEOGRAPHY(3)

- 63% Canada
- 4% Sweden
- 33% United Kingdom



ADJUSTED EBITDA IN 2013 BY BUSINESS(3)

- 23% Gas Cogeneration Power
- 18% Wind Power
- 4% Biomass Power
- 8% Hydro Power
- 10% Solar Power
- 4% District Heating
- 33% Water Utility



(1) Excludes internalization costs.
(2) Information from 2004 to 2009 is presented in Canadian GAAP and may not be comparable with information provided under IFRS for 2010 to 2013.
(3) Chart illustrates contribution for the businesses and excludes the development and corporate components.

OUR PLATFORMS ›

Capstone's strategy is to develop, acquire and manage a portfolio of high quality utilities, power and transportation infrastructure businesses and public-private partnerships in countries that are members of the Organization for Economic Cooperation and Development (OECD). Capstone focuses primarily on North America, the United Kingdom, and Northern and Western Europe, with Australia and New Zealand also being regions of interest.

Current Platforms

Utilities

Regulated or contractual businesses that provide essential community infrastructure.

Includes a 50% interest in Bristol Water, a growing, regulated water utility in the United Kingdom, and a 33% interest in Värmevärden, an established district heating business in Sweden. Future investments could include electricity transmission or distribution, or gas utilities. There are currently fewer near-term opportunities in this segment in Canada, shifting Capstone's emphasis to potential investments in the United States, the United Kingdom, and Northern and Western Europe.

282 M
Litres of water supplied daily by Bristol Water

300 KM
Length of Värmevärden's distribution network

26%
Growth in Bristol Water's regulated capital value, or rate base, over the regulatory period from 2010 to 2015

Power

Power generation facilities with a clean energy profile and long-term power purchase agreements, and a pipeline of wind power projects.

Includes operating gas-fired, wind, biomass, hydro and solar power generation facilities and a pipeline of contracted wind power projects in Canada. Capstone will continue to seek traditional and renewable power investment opportunities. In Canada, the market is slowing following several years of significant activity. Other markets of interest for operating and development-stage projects include the United States, the United Kingdom and Australia.

439 MW
Net installed capacity

79 MW
Expected net capacity of wind development projects

70
Employees directly engaged in the operation and development of our power portfolio

UTILITIES

Regulated Water Utility
UK • Bristol Water

District Heating
SE • Värmevärden

OPERATING POWER

Wind
ON • Erie Shores
• 3 other facilities
NS • Glace Bay
• Amherst
• Glen Dhu
• 4 other facilities

Solar
ON • Amherstburg

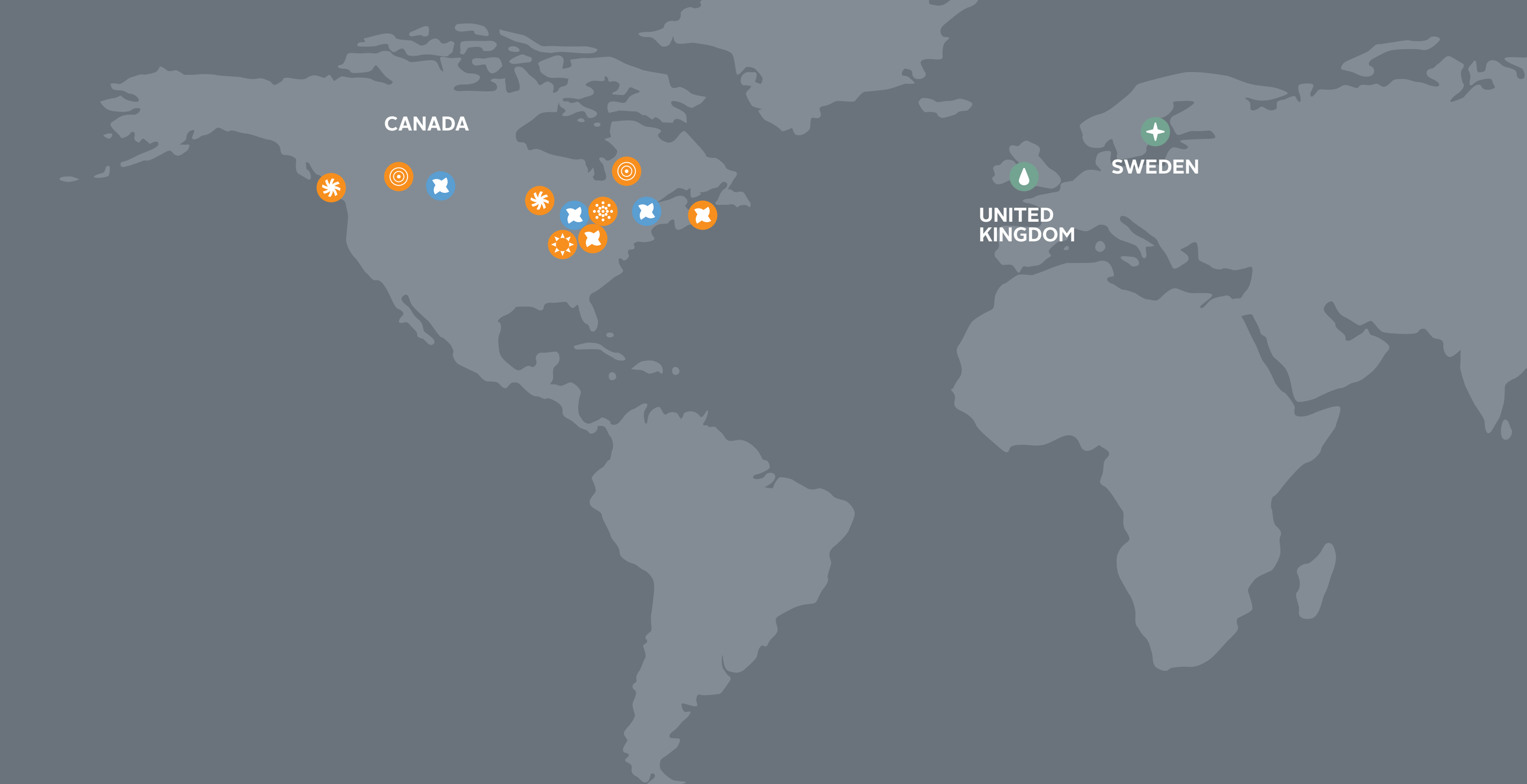
Biomass
AB • Whitecourt
QC • Chapais

Gas Cogeneration
ON • Cardinal

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

DEVELOPMENT PROJECTS

Wind
ON • Skyway 8
• Goulais
• 4 other projects
PQ • Saint-Philémon
SK • Riverhurst



Targeted New Platforms

Public-Private Partnerships

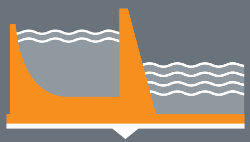
P3s, a partnership between the private sector and federal, regional or local governments, are an innovative approach to infrastructure development and service delivery, including for transportation, bridges and government buildings such as courthouses or schools. Opportunities for Capstone exist mostly in P3 markets in jurisdictions where the P3 model is well established, such as Canada, the United Kingdom, Western Europe and Australia. In addition, the P3 market is continuing to grow in the United States.

For taxpayers, P3s typically deliver higher long-term infrastructure quality and value for money. For investors, P3s with a strong project rationale offer predictable, government-backed cash flow with limited volatility.

Transportation

The transportation segment of the infrastructure market, which includes roads, rails and public transportation, offers considerable potential for investment. Over the next four decades, it is estimated that global passenger and freight travel will double over 2010 levels, reflecting increasing urbanization and requiring significant infrastructure renewal and expansion.

In most jurisdictions, more innovative funding and financing approaches are required given government fiscal constraints and competing demands on limited budget resources. Any of Capstone's targeted geographic regions offer various transportation opportunities.

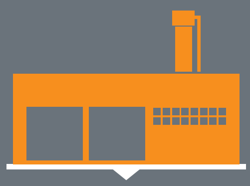


$520 M

Size of capital investment program being completed at Bristol Water between 2010 and 2015, which will increase the utility's regulated capital value.

95 MW

Net megawatts of installed wind capacity gained through acquisition of Renewable Energy Developers Inc.



17

Number of consecutive years at Cardinal without a lost-time injury.

OPERATING POWER
DEVELOPMENT PROJECTS
UTILITIES

- Wind Power
- Biomass Power
- Hydro Power
- Gas Cogeneration
- Solar Power
- Water Infrastructure
- District Heating

Our portfolio is increasingly diversified by asset category, fuel source and geographic location. See how Capstone has evolved at: capstoneinfrastructure.com/About/OurStory.aspx

MESSAGE TO SHAREHOLDERS ›

Our portfolio today features a lower risk profile and higher growth potential than it did a few years ago. We expect our portfolio's value to increase as our new wind power projects move into commercial operations and as Bristol Water's regulated capital value grows.

Dear Fellow Shareholders:

In 2013, Capstone delivered strong financial performance. We also advanced our strategy to transform our business, lower our risk profile and build for tomorrow.

We achieved Adjusted EBITDA of $128.4 million, at the higher end of our range of expectations, reflecting strong operations across our businesses as well as three months of contribution from the operating wind power facilities we added to our portfolio in October 2013.

We also realized two of the three priorities we set for ourselves in 2013 while making significant progress on the third.

Our Priorities

We executed our growth strategy by acquiring Renewable Energy Developers Inc. (ReD)

The acquisition of ReD, a proven wind power developer, expands our complement of operating wind power facilities to a total of 194 net megawatts in Ontario and Nova Scotia, and establishes a new foothold in the wind power development arena. With a contracted development pipeline totalling an expected net 79 megawatts, we are now cultivating a higher return niche within our portfolio that will begin to contribute new cash flow to Capstone starting in 2014 and beyond as our development projects reach commercial operations, delivering accretive growth and value for shareholders. Two of our new development projects started construction in November 2013 with a third expected to get underway in 2014.

We maximized performance by enhancing the cash flow potential of our businesses

We constantly challenge ourselves to find new ways to enhance the efficiency and quality of our operations. These initiatives include predictive and preventive maintenance, detailed planning for capital expenditures that boost value, and the deployment of innovative tools to generate additional cash flow from our businesses. In 2013, these tools included the sale of renewable energy credits by Whitecourt, which contributed approximately $1 million in revenue, and the installation of WindBOOST at Erie Shores, a software tool that we expect to increase the facility's annual production by about 1% to 3%. At Bristol Water, we continued to work closely with management to execute the company's approximately C$520 million capital expenditure program for the current regulatory period that began in April 2010 and concludes in March 2015. This program, which is aimed at improving and expanding the company's network of reservoirs, treatment facilities, water mains and pipes, will drive growth in Bristol Water's regulated capital value, and accordingly, value for Capstone and our shareholders.

Our Corporate Objectives

Grow

Create shareholder value by adding infrastructure businesses that increase scale, expand future opportunities and potentially offer synergies.

Engage

Provide a work environment that attracts and retains skilled employees.

"WE ARE WORKING TO PROVIDE OUR SHAREHOLDERS WITH AN ATTRACTIVE TOTAL RETURN ON THEIR INVESTMENT."

Michael Bernstein, President and Chief Executive Officer

We made steady progress toward achieving a new PPA for Cardinal but did not cross the finish line
We were unsuccessful in finalizing a new power purchase agreement (PPA) for Cardinal in 2013, although steady progress was made. We anticipate securing a new 20-year PPA for the facility, and are working to bring the process to a conclusion in advance of the December 31, 2014 expiry of Cardinal's current PPA. In the meantime, we are doing what we can to ready the plant and team for the work that lies ahead to convert the facility and prepare it for dispatchable operations. Cardinal is an exceptionally high quality facility that delivers significant value to Ontario and to ratepayers — today, tomorrow and for years to come.

Building for Tomorrow

As a shareholder myself, I recognize that the lack of clarity surrounding Cardinal's future has been frustrating for our investors. Understandably, concern about this facility has overshadowed the overall high quality of our portfolio and affected our share price detrimentally.

Yet the journey we began in 2009 to broaden Capstone's scope, diversify our portfolio and build for tomorrow has effectively transformed our business and multiplied the opportunities available to us. Over the past three years, we have deliberately re-focused our portfolio to reduce risk, extend our cash flow profile and establish a solid platform for the future. In particular, our investments in Bristol Water and Värmevärden have fundamentally changed Capstone's risk profile by offering perpetual, increasing cash flow and the potential for considerable organic growth. And the establishment of a new power development platform positions us to deliver greater returns to our shareholders.

Combined, I believe these initiatives represent an inflection point for our company. Ten years after our debut as an income fund, and through years of transition and some challenge, Capstone today is poised to be a Canadian leader in owning and operating diversified infrastructure businesses that benefit the communities we serve, the people we employ, and our investors. As a result of the investment decisions made over the past few years, our portfolio in 2014 has greater growth potential than it did as recently as a few years ago, is significantly more diversified than the single asset we started with in 2004, and will increase in value as our new wind projects move into commercial operations and as Bristol Water's regulated capital value grows.

Perform
Improve performance by entering infrastructure segments that diversify Capstone's portfolio.

Deliver
Maximize Capstone shareholders' risk-adjusted return.

Sustain
Operate infrastructure businesses in a responsible and sustainable manner.

Our Values

Integrity

In all we do, we act honestly, ethically and fairly, abiding by both the spirit and letter of our commitments and by our Code of Conduct and Ethics. We are accountable for our decisions and seek to communicate with transparency.

Strive for Profitability

We are committed to managing and growing our businesses profitably, which supports an attractive total return for our investors.

Our Strategy

Capstone's mission is to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally. Our strategy to accomplish this mission includes:

Growing value through acquisitions that increase our scale, diversify our portfolio and expand future opportunities

Our strategy is to develop, acquire and manage a portfolio of high quality power, utilities and transportation infrastructure businesses and public-private partnerships (P3s). Geographically, we are focusing our business development efforts primarily on North America, the United Kingdom, and Western and Northern Europe, with Australia and New Zealand remaining markets of interest. All are member countries of the Organization for Economic Cooperation and Development where there is relative political, legal, regulatory and economic stability and where we can effectively manage risks.

When pursuing new investment opportunities, we are mindful of the quality of future cash flow streams and risks. We carefully screen each investment opportunity to ensure long-term accretion to cash flow and a strong strategic fit. Our goal is to realize a total return in the range of 10% on the investments we make. We seek to invest in:

- A combination of lower risk opportunities where cash flow is contractually defined such as operating power facilities or P3s;
- Utility-like opportunities that offer the potential for predictable cash flow and steady growth; and
- Higher return investments such as our new power development projects or user-pay forms of infrastructure such as toll roads.

We plan to remain active on the growth front in 2014, with a particular focus on the utilities and P3s segments. And while we focus on wholly-owned businesses, we remain open to collaborating or co-investing with like-minded partners, an approach that has been successful for us at Bristol Water and Värmevärden.

Pursuing organic growth initiatives

Bristol Water is a regulated business with a secure competitive position in a stable country and an attractive growth profile that we expect to be a significant driver of value for Capstone's shareholders in the years ahead. In the current regulatory period, which runs from 2010 to 2015, Bristol Water's real regulated rate base will grow by approximately 26% compared with an industry average of approximately 8%. We currently anticipate similar growth in the next regulatory period, which spans from April 2015 to March 2020, subject to regulatory approval of the draft business plan Bristol Water submitted to the Water Services Regulation Authority (Ofwat) in December 2013.

At Värmevärden, we are exploring the potential for the business to complete tack-on acquisitions and to increase its footprint in the fragmented Swedish district heating market.

Increasing our power development footprint

Our power development arm, Capstone Power Development, is focused on developing, acquiring and re-powering clean electricity generation projects in North America, targeting markets where there is a defined need for new capacity and energy supply. These early or later-stage opportunities offer the prospect of substantially higher investment returns than operating assets while also broadening our pipeline and creating a quality destination for capital. We are also focused on advancing our new pipeline of wind projects on time and budget. These projects, currently slated to enter commercial operations between 2014 and 2016, will extend our weighted average PPA term remaining and strengthen our long-term cash flow profile.

Commitment

We are committed to managing Capstone Infrastructure in the best interests of our investors, which includes acting as a responsible corporate citizen in the communities where our businesses operate.

Fulfillment for Our People

We foster a professional, safe work environment where our people have the tools and resources to excel and be successful and where they are recognized for their service and contributions.

Teamwork

As a team, we work cooperatively and constructively to build Capstone Infrastructure and share a focus on achieving optimal performance.

Highest Standards

We strive for excellence, innovation and creativity in the management and growth of our business and seek to effectively manage and mitigate risk.

Responsibly operating our businesses with concern for all stakeholders

Our overall approach to managing our businesses is embedded in our commitment to corporate responsibility and the principles of honesty, transparency and respect. Across our businesses, workplace safety is a priority for all employees and contractors. Environmental and social consciousness is also an integral element of our business strategy and fundamental to sustained operating performance.

Ensuring the safe and reliable operation of our businesses is a complex and demanding task. Through hard work and commitment, our businesses have earned strong safety and environmental records. In 2014, we will continue to focus on ensuring the safety of our employees and the communities where we operate while protecting the environment.

Our Outlook

We are looking forward to a productive, successful year in 2014. We expect annual Adjusted EBITDA to be $140 million to $150 million, which reflects our expectation of continuing stable performance from our power assets, some growth from our utilities businesses, and a full year of contribution from the operating wind facilities we acquired from ReD[1].

Our team worked exceptionally hard in 2013. While the outcome of our efforts has not yet been fully reflected in our share price, our portfolio is sound operationally and our businesses are running well. Moreover, our strategy of portfolio diversification has shifted the mix and cash flow characteristics of the businesses we own, creating a much stronger foundation for our company.

I am optimistic about the tomorrow we are building for this company, and expect our strategy to deliver long-term income and capital appreciation to shareholders in the years ahead.

Capstone is pursuing its strategy at a time of great global demand for new infrastructure spending fuelled by fiscal austerity, large and growing government deficits, and demographic trends. Global infrastructure requirements over the next 20 years are, in a word, staggering. With trillions of dollars needed, the private sector has a vital role to play in improving and building the new, more sustainable infrastructure that is required to unleash renewed economic growth and improved quality of life in Canada and internationally. For our shareholders, an investment in Capstone affords access to the infrastructure asset class and the ability to benefit from its investment merits, such as consistent demand, steady inflation-linked cash flow and a long, predictable life.

I would like to thank our Board of Directors for their continuing guidance and counsel and our employees for their excellent work and commitment to Capstone.

Finally, I would like to thank our shareholders for their investment in Capstone and continuing support. We are committed to delivering results that reward your trust, and look forward to reporting our progress to you over 2014.

Sincerely,

MICHAEL BERNSTEIN
President and Chief Executive Officer

1 See page 20 for a description of various other material factors or assumptions underlying our outlook.

Our Business Code of Conduct outlines our commitment to respecting our stakeholders and to communicating with transparency. Read it online at: www.capstoneinfrastructure.com/About/Governance.aspx

MESSAGE FROM THE CHAIRMAN ›

Capstone's vision is to be a Canadian leader in owning and operating diversified infrastructure businesses that benefit the communities we serve, the people we employ and our investors.

Dear Fellow Shareholders:

This year, we mark the occasion of Capstone Infrastructure Corporation's 10-year anniversary.

From our initial public offering in 2004 with about $230 million in total assets and one power facility, Capstone today has nearly $2 billion in total assets and a diversified portfolio including power infrastructure and utilities businesses in Canada and internationally.

We now have approximately 100 employees across Canada with about another 600 at our businesses in the United Kingdom and Sweden, and relationships and partnerships that span the globe, including corporations, infrastructure developers and fund managers, investors, financiers, municipalities and First Nations communities.

We have also strengthened our company for shareholders by investing in long-life utilities businesses — Bristol Water and Värmevärden — that feature perpetual cash flow and an attractive organic growth profile. Indeed, Bristol Water has been in operation for 168 years, reflecting the essential nature and longevity of water utilities.

We have broadened our power footprint beyond the Cardinal gas cogeneration plant to include wind, hydro, biomass and solar power generation. In addition, we now have a development arm engaged in building wind power development projects and sourcing growth opportunities in the power arena in Canada and the United States. This new capability puts us in an excellent position to build and develop a pipeline of accretive power projects in the years to come.

Building today for tomorrow — the underlying theme of this report — is the foundation of our approach to managing and governing Capstone. It permeates the decisions we make across our businesses. It's why Bristol Water is executing the largest capital expenditure program in its history, to improve its network of pipes and expand its operations while driving significant growth in rate base, and accordingly, value for shareholders. It's why we carefully plan for and invest in maintenance at our power facilities. It informs our company's strategic direction and investment focus, including the quality and risk profile of businesses we seek to acquire in the utilities, power, transportation and public-private partnership infrastructure segments. And it speaks to the community impact of investing in infrastructure: economic growth and a better quality of life.

With the solid foundation laid over the past 10 years, Capstone's vision is to be a Canadian leader in owning and operating diversified infrastructure businesses that benefit the communities we serve, the people we employ, and our investors.

The Board of Directors supports this vision in a number of ways, including working with management to establish Capstone's strategy and objectives, approving significant decisions that affect Capstone and its results, monitoring the company's financial performance and risk management practices, setting the dividend policy and overseeing Capstone's stakeholder relationships and reporting obligations.

Key Governance Principles

Independence

At all times, a majority of directors must be independent directors (as defined under applicable securities regulations). A director is independent when he or she does not have a direct or indirect material relationship with Capstone or its subsidiaries.

“BUILDING TODAY FOR TOMORROW IS THE FOUNDATION OF OUR APPROACH TO MANAGING AND GOVERNING CAPSTONE.”

V. James Sardo, Chairman of the Board of Directors

A few highlights of our approach to governance include:

- Audit and Corporate Governance and Compensation committees composed entirely of independent directors (as defined by applicable securities laws);
- Governance policies and procedures that apply equally to the individual businesses in Capstone’s portfolio, ensuring consistency and reliability in reporting and risk management;
- A Code of Business Conduct and Ethics that encourages and promotes a culture of ethical business conduct and must be followed by all directors, executive officers, employees and contractors of Capstone;
- An annual evaluation of the effectiveness of the Board and individual directors to ensure the Board is fulfilling its oversight role in the most effective manner; and
- A majority voting policy, which requires director nominees to be elected by a majority of shareholder votes.

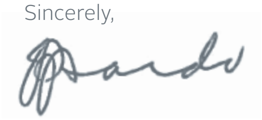
In 2014, Capstone is poised to build on its successes. We have a strong financial foundation, a growing portfolio of quality businesses, and a seasoned management team with more than 100 years of combined experience in acquiring, financing, developing and managing diverse infrastructure businesses in Canada and internationally. This team has a deeply personal interest in Capstone’s success. A significant proportion of management’s short- and long-term incentive compensation is bound to financial performance metrics as well as to share price performance and the total return we deliver to shareholders. This structure promotes prudent decision-making that maximizes long-term shareholder value.

Indeed, the development, improvement and delivery of core infrastructure services in Canada and internationally is a critical task requiring a long-term focus and commitment. Canada’s infrastructure deficit alone — the investment needed in roads, transportation, electricity, water and other essential services — is estimated to be as high as $570 billion. The magnitude of this deficit is echoed globally in OECD countries. Private sector involvement will increasingly be required to maintain, rejuvenate and build the critical, essential infrastructure upon which economic growth and quality of life depends. As a result, I am confident there are tremendous opportunities for Capstone to grow and diversify its portfolio while delivering increasing value for shareholders. And we are fortunate to have talented, disciplined employees at all levels of the organization who are ready to take on new challenges and who are motivated to succeed.

Simply, we are building Capstone to stand the test of time: for today, tomorrow, the next 10 years, and decades beyond. As we execute our strategy, we are committed to serving shareholders’ interests with integrity, discipline and transparency.

The people of Capstone and I deeply appreciate the investment you have made in our company and thank you for your continuing support.

Sincerely,



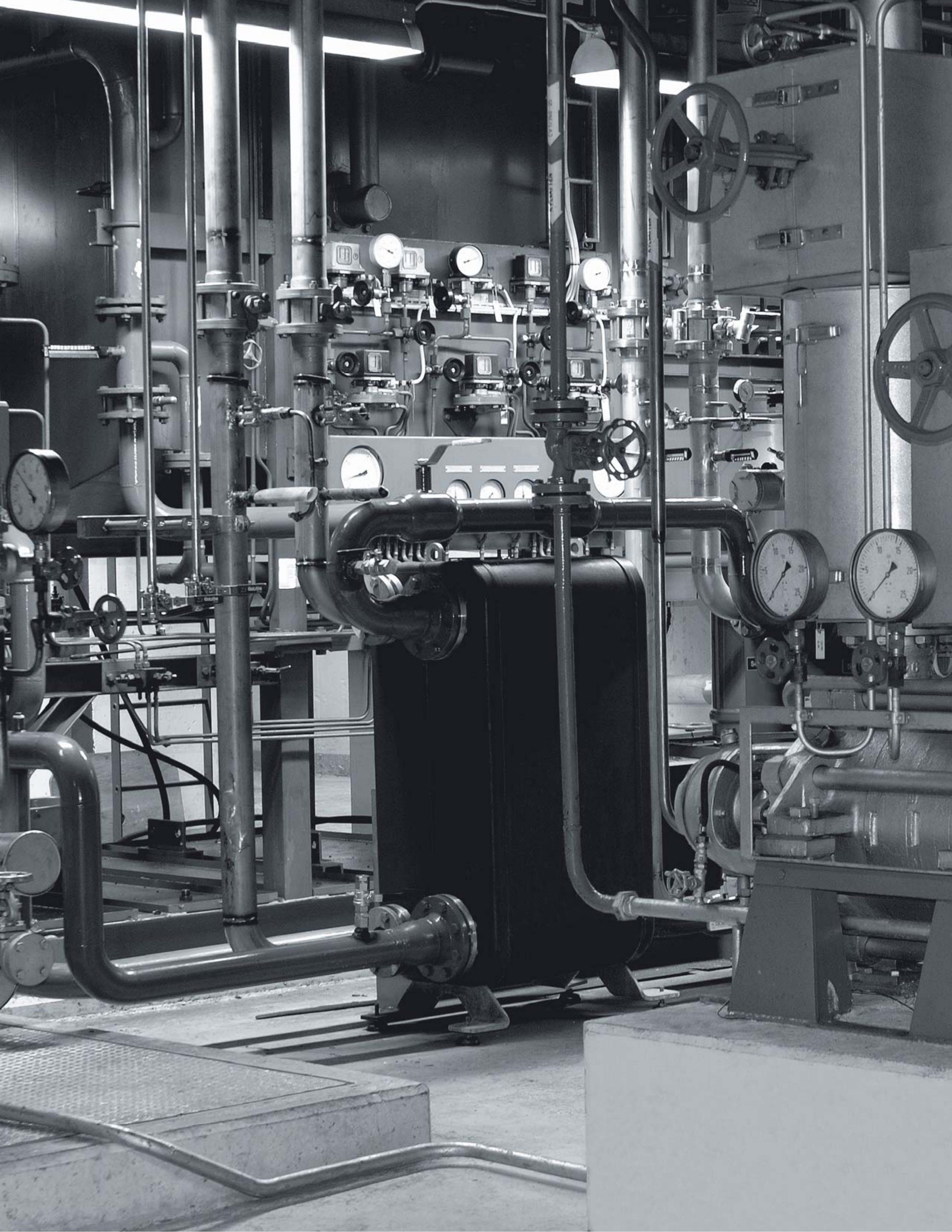
V. JAMES SARDO
Chairman of the Board of Directors

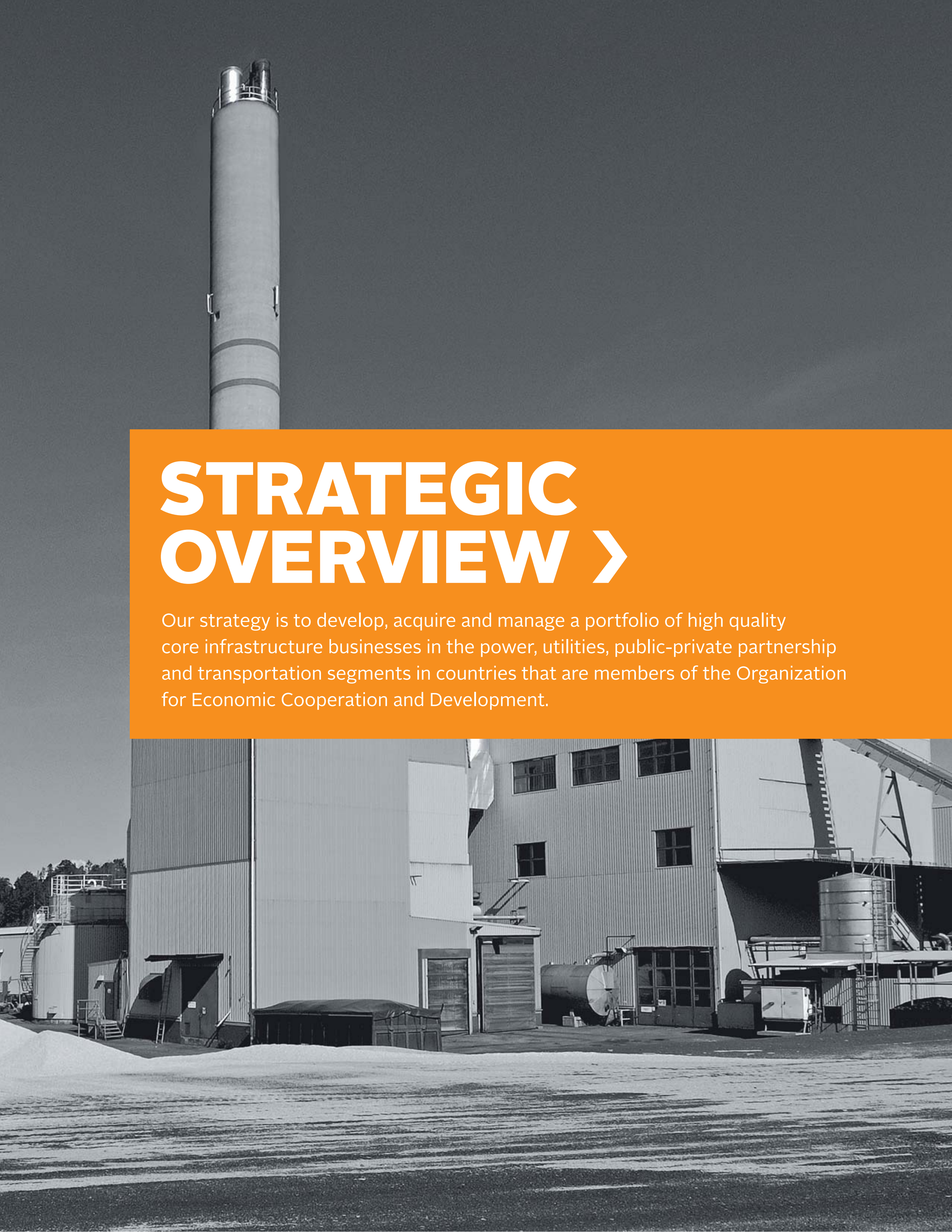
Integrity and Professionalism

We seek out directors who have demonstrated integrity and high ethical standards, a proven record of sound business judgment and who are committed to representing the long-term interests of Capstone’s shareholders.

Performance

We seek to build a Board with a diversity of backgrounds, skills and experience and annually review the competencies, skills and personal qualities of each director to maintain the composition of the Board in a way that bolsters the overall stewardship of the company.





STRATEGIC OVERVIEW ›

Our strategy is to develop, acquire and manage a portfolio of high quality core infrastructure businesses in the power, utilities, public-private partnership and transportation segments in countries that are members of the Organization for Economic Cooperation and Development.

OVERVIEW

Vision, Mission and Strategy

In December 2013, Capstone updated its corporate vision and mission statements following an analysis of its goals, opportunities, strengths, values and stakeholder audiences. Capstone's vision is to be a Canadian leader in owning and operating diversified infrastructure businesses that benefit the communities we serve, the people we employ, and our investors. Our mission is to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally.

Infrastructure businesses provide services that meet critical, long-term community needs, such as power generation, electricity transmission, water systems, and roads and transportation networks. These businesses typically benefit from some form of barrier to entry, stable and growing demand, and other competitive advantages that provide stability in cash flow.

Over the long term, Capstone's growth strategy to is to develop, acquire and manage a portfolio of high quality core infrastructure businesses in the power, utilities, public-private partnership ("P3") and transportation segments in countries that are members of the Organization for Economic Cooperation and Development ("OECD") with the aim of providing an attractive, risk-adjusted return to investors. We focus on wholly-owned businesses while remaining open to collaborating with like-minded partners, an approach that has historically been successful for us with investments such as Bristol Water and Värmevärden. Specifically, we seek to invest in:

- A combination of lower risk opportunities where cash flow is contractually defined such as operating power facilities and P3s;
- Utility-like opportunities that offer the potential for predictable cash flow and steady growth; and
- Higher return investments such as power development projects or user-pay forms of infrastructure such as toll roads.

CORPORATE OBJECTIVES

Corporate Objective	Strategic Approach
Maximize Capstone shareholders' risk-adjusted return	• Build a portfolio of high quality infrastructure businesses that are regulated or operate within a contractually-defined framework, which typically feature a lower risk profile, provide stable dividends and offer the potential for growth and capital appreciation. • Increase Capstone's cash flow to fund growth and support growing dividends over time. • Improve economies of scale, thereby minimizing costs.
Improve performance by entering infrastructure segments that diversify Capstone's portfolio mix	• Creating a diversified portfolio across four infrastructure pillars: power, utilities, public-private partnerships and transportation. • Manage Capstone's mix of infrastructure businesses to reduce the company's risk profile and achieve better returns.
Create shareholder value by adding infrastructure businesses that increase scale, expand future opportunities and potentially offer synergies	• Achieve scale by reducing the average cost of managing Capstone's businesses and adding new capabilities. • Expand the scope and size of growth opportunities available to Capstone by building the scale of the company's portfolio. • Seek to capture synergies across our business through the transfer of skills or sharing of activities.
Operate infrastructure businesses in a responsible and sustainable manner	• Partner with the communities in which Capstone operates to provide socially-responsible services with due consideration to the environment, health and safety. • Apply a long-term philosophy to the maintenance and operation of Capstone's businesses. • Manage business risks to reduce likelihood and impact of adverse events.
Provide a work environment that attracts and retains skilled employees	• Offer competitive overall compensation. • Foster an enjoyable culture that promotes collaboration, learning and growth. • Create career development opportunities to enhance expertise and engage employees.

OUR PLATFORMS AND PERFORMANCE DRIVERS

Power

Our power platform includes gas cogeneration, wind, hydro, biomass and solar power generation facilities in Canada, totalling approximately 439 net megawatts of installed capacity. We are also developing a pipeline of wind power projects totalling an expected 79 net megawatts of capacity. The operating facilities and development projects have power purchase agreements with creditworthy customers. See Figure 1.

The key performance drivers for the power platform in 2014 are to:

- Achieve consistently high availability to help maximize production. See Figure 2.
- Maintain or improve the quality of each facility by focusing on routine and preventive maintenance and implementing technological and operational enhancements. See Figure 3.
- Efficiently manage operating costs at each facility.
- Complete the Skyway 8 and Saint-Philémon wind power development projects on time and on budget and advance the balance of the project pipeline.
- Operate facilities safely with a goal of zero lost-time injuries.

Figure 1: Counterparty Credit Ratings

Counterparty	Credit Rating
Ontario Electricity Financial Corporation ("OEFC")	AA (low)/Stable – DBRS
Ontario Power Authority ("OPA")	A (high)/Stable – DBRS
Nova Scotia Power Incorporated ("NSPI")	A (low)/Stable - DBRS
TransAlta	BBB/Stable – DBRS
BC Hydro	AA (high)/Stable – DBRS

Figure 2: Consistently High Availability

Facility	2013	Five-Year Average
Cardinal	98.2%	96.9%
Wind power facilities (1)	97.2%	97.2%
Hydro power facilities	99.1%	98.5%
Whitecourt	96.1%	92.9%
Amherstburg (2)	99.6%	n/a

(1) Includes Erie Shores and the operating wind power facilities acquired from ReD on October 1, 2013.

(2) Amherstburg commenced operations in June 2011.

Figure 3: Enhancing Cash Flow at Erie Shores

In 2013, Erie Shores installed WindBOOST, a turbine control system that helps to increase annual energy output, thereby increasing revenue.

Utilities

Capstone's utilities platform currently includes interests in a regulated water utility and a district heating business.

Water

We hold a 50% equity interest in Bristol Water, a regulated business in the United Kingdom that earns a return on its regulated capital value ("RCV"), or asset base. Bristol Water is the sole water supplier in the Bristol region, serving a population of more than 1.1 million people.

Bristol Water is currently executing a significant capital program aimed at maintaining and improving Bristol Water's infrastructure and operations while continuing to meet water quality requirements and support growth arising from an increasing population and expanded business activity in the region. This program will drive growth in Bristol Water's RCV, which over time will increase the cash flow we receive from this investment and its overall value for Capstone's shareholders.

The key performance drivers for Bristol Water in 2014 are to:

- Provide safe, reliable drinking water that is cost-effective for customers.
- Operate in compliance with all regulatory and environmental requirements. See Figure 3.
- Operate efficiently to manage costs.
- Execute the company's approximately $520 million regulator-approved capital expenditure program for the current regulatory period, resulting in RCV growth.

In addition, a key focus for 2014 is working with Bristol Water's management to bring the Price Review 14 ("PR14") process to a satisfactory regulatory conclusion. The PR14 outcome will establish the company's business plan for the next five-year regulatory period ("AMP6").

Figure 3: Key Regulatory Outputs

Key Regulatory Output	AMP5 Objective	Actual Performance [1]
Reduce amount of water that leaks from the network's pipes and mains	Reduce water leakage to 49 million litres of water per day ("Ml/d") with a 2014 target of less than 49Ml/d	Achieved water leakage of 42 Ml/day
Save water	Achieve a base service water efficiency target of 4.0 Ml/d over the regulatory period	Cumulative 3.77 Ml/d since the start of the AMP5 period in 2010
Strong performance on regulator's security of supply index, which measures reliability of water supply	Achieve a 100% grade	100%
Stable serviceability	Maintain stable serviceability	Achieved stable serviceability
Exceptional customer service as measured by regulator's Service Incentive Mechanism ("SIM")	Deliver top-quartile performance as measured through customer satisfaction surveys and quantitative data	Bristol Water ranked 4th out of 19 companies in the industry

(1) In the regulatory year ended March 31, 2013.

District Heating

We hold a 33.3% equity interest in Värmevärden, a district heating business in Sweden operating in 10 communities that serves residential customers, which includes multi-residential complexes and municipal users, and also has long-term contracts with industrial customers.

Our key performance drivers for Värmevärden in 2014 are to:

- Manage fuel costs, Värmevärden's largest operating expense, by using cost-effective fuels.
- Maintain strong customer relationships by providing highly reliable, quality service to customers, thereby increasing potential for contract renewals and the signing of new customers.
- Ensure high plant availability and operational efficiency, which helps to maximize revenue potential while minimizing the use of more expensive peak fuel.

Targeted Platforms

Public-Private Partnerships

A P3 is a partnership between the public and private sectors, built on the expertise of each partner, which best meets clearly defined public infrastructure needs through an optimal allocation of resources, risks and rewards, resulting in higher long-term infrastructure quality and value for taxpayers. There are a variety of P3 models available for delivery of public infrastructure, ranging from designing, building and financing an asset to designing, building, financing, maintaining and operating an asset. P3 models are used to deliver a variety of large-scale infrastructure, from roads to energy or government buildings such as schools and hospitals. For investors, P3s with a strong project rationale offer predictable, government-backed cash flow with limited volatility.

Transportation

Transportation infrastructure includes toll roads, railways, public transportation systems, ports and airports, all of which are required to support passenger and freight travel. Over the next four decades, the International Energy Agency estimates global passenger and freight travel will double over 2010 levels, requiring new infrastructure to be built at significant cost. In addition, many cities require significant investments to modernize and expand their transit systems to deal with increasing gridlock. A 2013 study by the CD Howe Institute estimated that traffic and transit gridlock costs the Greater Toronto Area up to $11 billion each year. More innovative funding and financing approaches will be required in many jurisdictions given government fiscal constraints and competing demands on limited budget resources.

MARKET FUNDAMENTALS

Effective infrastructure supports economic growth and ensures a high quality of life. Globally, infrastructure investment requirements are significant and growing, driven by underinvestment as well as major factors of change such as global economic growth, technological progress, climate change, urbanization and growing congestion. It is estimated that US$57 trillion in infrastructure investment is required between 2013 and 2030 simply to keep up with projected growth in global gross domestic product ("GDP"), including investments for transport (road, rail, ports and airports), power, water and telecommunications.[1] Reaching this level of investment will require a 60% increase in the level of infrastructure investment globally from current expenditures, and may still be insufficient to address major infrastructure deficiencies.[1]

In Capstone's targeted jurisdictions, there is a significant gap between the infrastructure investments required for the future and the capacity of the public sector to meet those requirements from traditional sources.

(1) *"Infrastructure Productivity: How to save $1 trillion a year,"* McKinsey Global Institute, January 2013.

Canada

In Canada, it is estimated that the infrastructure deficit --- for public buildings, roads, bridges, sewers, electrical grids, water purification plants and other critical infrastructure --- ranges up to approximately $570 billion.[1] There is significant private investment in infrastructure in Canada and P3s are a well-established model for infrastructure delivery in several provinces, notably Ontario, British Columbia, Alberta and Quebec, and at the federal level.

In Canada, Capstone continues to explore opportunities in the power sector, including operating facilities and development-stage projects, and believes the public-private partnership segment offers potential opportunities.

In the electricity sector, it is estimated that about $294 billion will need to be invested between 2010 and 2030 to maintain existing generation, transmission and distribution infrastructure, meet market growth and accommodate a changing generation mix.[2] In addition, the renewable energy sector is expected to continue to experience activity in Canada, although at a slower pace than in recent years, reflecting government policy imperatives with respect to carbon reduction, climate change management and job creation.

Canada enjoys an increasingly centralized and coordinated P3 market. There are currently 206 P3 projects across the country, primarily at the provincial or federal level, either in operation or in development representing an estimated cumulative investment of approximately $63.5 billion.[3] Canada's P3 pipeline is increasingly diverse, featuring a growing number of urban transit projects and offering the potential for more water/wastewater projects as municipalities must meet more stringent federal government compliance standards. Across Canada, the infrastructure spending of municipalities is comparable to that of the provinces yet the number and total value of P3 projects delivered by municipalities lags in comparison, creating the potential for increased adoption of the P3 model.

Capstone is primarily targeting P3 opportunities in transportation, such as roads and public transit, bridges and tunnels; water and wastewater; and government buildings such as schools or hospitals. Capstone emphasizes market P3 opportunities where the project is operational or near to completion, thereby offering greater cash flow predictability with a low risk profile.

United States

In the United States, infrastructure spending as a percentage of GDP has shrunk to about 2.4% from its peak of more than 3% during the 1960s.[4] In 2013, the condition of America's infrastructure --- including water, transportation, public facilities, and energy --- was assigned an overall grade of D+ by the America Society for Civil Engineers, which measures infrastructure conditions and needs according to eight criteria, including capacity, condition, funding, future need, operation and maintenance, public safety, resilience and innovation. Since 1998, grades have averaged only Ds due to delayed maintenance and underinvestment across most categories.[5]

In the United States, Capstone is primarily targeting opportunities in the power sector, both operating and development-stage projects, and utilities. The U.S. also has significant, unmet transportation infrastructure needs.

While slow economic growth and a declining manufacturing sector have dampened current demand for power in the United States, the electrical grid is aging and requires significant investment by utilities to reduce power failures and interruptions and to meet evolving government policy imperatives with respect to carbon reduction and climate change management. These two factors are expected to support continuing opportunities in renewable power generation as well as the building of new baseload generation capacity, primarily gas-fired, to replace power facilities reaching the end of their useful lives and to meet future demand growth.

The water sector also offers investment opportunities. The U.S. Environmental Protection Agency estimates water infrastructure investment needs in the United States over the next 20 years at more than US$500 billion.

In addition, the P3 market in the U.S. is expected to continue to grow, with the strengthening of project pipelines in states that were early adopters of the P3 model, with more public authorities turning to the P3 method of procurement, and with increasing acceptance of P3s by the U.S. construction industry.

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(1) *"The Foundations of a Competitive Canada: The Need for Strategic Infrastructure Investment,"* Canadian Chamber of Commerce, December 2013.
(2) *"Canada's Electricity Infrastructure: Building a Case for Investment,"* Canadian Electricity Association, April 2011.
(3) Canadian Council for Public-Private Partnerships, 2013.
(4) *"Infrastructure 2013: Global Priorities, Global Insights,"* Ernst & Young, 2013.
(5) *"2013 Report Card for America's Infrastructure,"* American Society of Civil Engineers, 2013.

United Kingdom and Europe

In 2012-2013, the UK's global competitiveness ranking for "quality of overall infrastructure" was 24th --- equal to the US and below all other G7 economies except Italy, pointing to the country's significant infrastructure deficit.[1] In Europe, the public funding of infrastructure is at historically low levels for many governments despite increasing infrastructure investment requirements.[2] The European Commission estimates that funding needs for infrastructure development in the EU, covering transport, energy, and information and communication networks, could total up to €2 trillion by 2020.[3]

Capstone believes there are potential opportunities in operating and development-stage power projects, utilities and P3s in the UK, and Western and Northern Europe.

Overall, infrastructure investment opportunities are increasing in these markets as governments seek funding solutions to meet investment needs and due to the maturity of the public-private partnership market, particularly in the United Kingdom. There is also likely to be a shift to divestment of infrastructure assets, in part by private infrastructure funds as they approach the end of their fund terms.

The UK and Europe, similar to other OECD countries, are challenged to balance security, stability and affordability in energy supply while complying with stringent carbon reduction requirements, with major new investment in energy and utilities infrastructure required. In addition, the UK and EU have set requirements for renewable energy to comprise 15% and 20%, respectively, of electricity generation capacity by 2020.

Furthermore, many European countries are in acute need of upgrades and improvements to their roads and transportation infrastructure, reflecting aging infrastructure and years of underinvestment.

At the same time, public debt burdens have increased since the global financial crisis, creating the potential for the sale of public infrastructure assets. There is also the potential for the sale of non-core infrastructure assets by corporations and utilities as they seek to reduce debt and reposition.

Australia

In Australia, Capstone is primarily interested in P3 opportunities. Australia was a pioneer of the P3 model and features an active project pipeline and increasing market opportunities since the global financial crisis.

(1) *"Global Competitiveness Report 2012-2013,"* World Economic Forum, 2013.
(2) *"Private Infrastructure Finance and Investment in Europe,"* European Investment Bank, February 2013.
(3) *"Top 10 Investor Questions for 2013: Global Public Private Partnership Infrastructure Investment,"* Standard & Poor's, 2012.

CAPSTONE'S STRENGTHS AND ABILITY TO DELIVER RESULTS

Capstone is positioned to capitalize on emerging opportunities and trends in the global infrastructure market. A number of strengths enable us to deliver on our mission. They include:

Asset Management and Leadership

We have significant expertise in infrastructure investment and management across core infrastructure categories in Canada and internationally, which equips us to offer tangible, proven knowledge and experience to governments and prospective partners.

Our corporate management team comprises executives with decades of combined expertise in managing and financing infrastructure businesses. Our employees with Capstone Power Development also bring decades of experience in successfully developing and delivering power projects in Canada and the United States.

In addition, our Board of Directors comprises seasoned executives with a broad mix of skills in finance, operations, strategy, government and corporate governance.

Access to Opportunities

We have strong relationships within the infrastructure industry and with multinational partners, including, among others, Agbar and ITOCHU, our partners in Bristol Water, and the Macquarie group, our partner in Värmevärden, which enhance our ability to forge new partnerships across borders and to stimulate deal flow and access to unique opportunities.

Capstone has proven its ability to successfully pursue growth opportunities internationally and to integrate new businesses into its portfolio with the acquisitions of the Amherstburg Solar Park (2010), our interests in Bristol Water and Värmevärden (2011), and ReD (2013).

Professionalism

We bring a highly disciplined approach to managing our portfolio and to evaluating the growth opportunities we pursue, maintaining a focus on high quality, low risk businesses that will enhance value for shareholders while strengthening Capstone's reputation.

We are committed to operational excellence, working closely with our managerial teams or investment partners to improve productivity, manage costs and enhance long-term operations, and to ensuring a safe work environment for our employees and contractors.

In addition, we are committed to professionalism and transparency in our governance practices and financial reporting, which was recognized in 2013 by the Chartered Professional Accountants of Canada with an Award of Excellence in Corporate Reporting.

Agility

We anticipate, plan for and have an ability to adapt to changes in our business and the competitive landscape in order to capitalize on and respond quickly to value-building opportunities, reflecting the strength of our team and coordinated internal processes.

Analysis

Each of our businesses undergoes a comprehensive annual strategic and business planning exercise to assess progress against goals and to determine how we can further improve the efficiency, quality and performance of our operations. We likewise apply this discipline to the evaluation of growth opportunities, including completing a thorough financial analysis, and applying strong due diligence practices and risk management principles and procedures, which helps to safeguard Capstone's performance.

Capital Management

We continually monitor, analyze and seek to minimize the risks within our capital structure with a view to maintaining an optimal financing mix that aligns with the cash flows, risk profile and duration of our businesses and that generates value for shareholders.

We also seek to maintain a flexible capital structure that enables us to capitalize on growth opportunities when they arise. We are focused on:

- Ensuring an appropriate capital structure at the corporate and subsidiary level that aligns with the cash flow profile and duration of our businesses;
- Maintaining sufficient liquidity to meet short- and medium-term operating needs; and
- Building and maintaining strong relationships with investors and lenders.

As a result, we believe we have access to the resources we need to support growth.

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MANAGEMENT'S DISCUSSION AND ANALYSIS ›

In 2013, Capstone achieved Adjusted EBITDA of $128.4 million, which was at the high end of our forecasted range and reflected strong operations across our businesses as well as three months of contribution from our new wind power facilities.

Financial Highlights

	As at and for the year ended December 31		
	2013	2012	2011
Revenue	389,503	357,610	215,967
Net income (loss)[1]	67,210	45,971	(2,837)
Earnings (loss) per share[1]			
Basic	0.462	0.315	(0.102)
Diluted	0.425	0.315	(0.103)
AFFO per share	0.493	0.473	0.541
Cash dividends per share			
Common	0.300	0.450	0.660
Preferred	1.250	1.250	0.421
Total assets	2,025,724	1,626,858	1,668,229
Total long-term liabilities	1,219,507	988,048	899,282
Total liabilities	1,357,561	1,116,400	1,220,259

(1) Net income (loss) and earnings (loss) per share have been restated for changes required by IFRS to implement IAS 19 – Employee Benefits. This change, which became effective, retroactively, January 1, 2013, is described in note 2 of the consolidated financial statements for the year ended December 31, 2013.

LEGAL NOTICE

Caution Regarding Forward-Looking Statements

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of Capstone Infrastructure Corporation (the "Corporation") based on information currently available to the Corporation. Forward-looking statements and financial outlook are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements and financial outlook use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "estimate", "plan", "believe" or other similar words, and include, among other things, statements found in the "Message to Shareholders", "Strategic Overview" and "Results of Operations". These statements and financial outlook are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and financial outlook and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements and financial outlook within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation ("MD&A") for the year ended December 31, 2013 under the heading "Results of Operations", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's profile on www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements and financial outlook contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that there will be no material delays in the Corporation's power infrastructure development projects achieving commercial operation; that the Corporation's power infrastructure facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; an effective TCPL gas transportation toll of approximately $1.65 per gigajoule in 2014; that there will be no material change in the level of gas mitigation revenue historically earned by the Cardinal facility; that there will be no material changes to the Corporation's facilities, equipment or contractual arrangements, no material changes in the legislative, regulatory and operating framework for the Corporation's businesses, no material delays in obtaining required approvals and no material changes in rate orders or rate structures for the Corporation's power infrastructure facilities, Värmevärden or Bristol Water, no material changes in environmental regulations for the power infrastructure facilities, Värmevärden or Bristol Water and no significant event occurring outside the ordinary course of business; that the amendments to the regulations governing the mechanism for calculating the Global Adjustment (which affects the calculation of the DCR escalator under the PPA for the Cardinal facility and price escalators under the PPAs for the hydro power facilities located in Ontario) will continue in force; that there will be no material change to the accounting treatment for Bristol Water's business under International Financial Reporting Standards, particularly with respect to accounting for maintenance capital expenditures; that there will be no material change to the amount and timing of capital expenditures by Bristol Water; that there will be no material changes to the Swedish krona to Canadian dollar and 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 AMP5, including, among others: real and inflationary increases in Bristol Water's revenue, Bristol Water's expenses increasing in line with inflation, and capital investment, leakage, customer service standards and asset serviceability targets being achieved.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements and financial outlook, actual results may differ from those suggested by the forward-looking statements and financial outlook for various reasons, including: risks related to the Corporation's securities (dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation's securities; shareholder dilution; and convertible debentures credit risk, subordination and absence of covenant protection); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; foreign currency exchange rates; acquisitions and development (including risks related to the integration of the business operated by Renewable Energy Developers Inc.; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); risks related to the Power Infrastructure Facilities (power purchase agreements; operational performance; fuel costs and supply; contract performance; land tenure and related rights; environmental; and regulatory environment); risks related to Bristol Water (Ofwat price determinations; failure to deliver capital investment programs; economic conditions; operational performance; failure to deliver water leakage target; SIM and the serviceability assessment; pension plan obligations; regulatory environment; competition; seasonality and climate change; and labour relations); and risks related to Värmevärden (operational performance; fuel costs and availability; industrial and residential contracts; environmental; regulatory environment; and labour relations). For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's annual information form dated March 21, 2013, as supplemented by disclosure of risk factors contained in any subsequent annual information form, material change reports (except confidential material changes reports), business acquisition reports, interim financial statements, interim MD&A and information circulars filed by the Corporation with the securities commissions or similar authorities in Canada (which are available under the Corporation's profile on profile on www.sedar.com).

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

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 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.

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated financial position, operating results and cash flows as at and for the years ended December 31, 2013 and 2012.

This MD&A should be read in conjunction with the accompanying audited consolidated financial statements of the Corporation and notes thereto as at and for the years ended December 31, 2013 and 2012. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2012, quarterly financial reports of Capstone and other public filings of the Corporation will be available under the Corporation's profile on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

The information contained in this MD&A reflects all material events up to March 6, 2014, 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 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 consolidated financial statements are presented in Canadian dollars ("presentation currency"), which is Capstone's functional currency. The exchange rates used in the translation to the presentation currency are:

	Swedish Krona (SEK)		**UK Pound Sterling (£)**	
As at and for the year ended	**Average**	**Spot**	**Average**	**Spot**
Dec 31, 2012	0.1476	0.1528	1.5840	1.6178
Dec 31, 2013	**0.1581**	**0.1655**	**1.6113**	**1.7627**

CHANGES IN THE BUSINESS

Acquisition of ReD

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

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

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

Capstone has consolidated the assets, liabilities and attributable net income of ReD from October 1, 2013.

With the addition of ReD, Capstone is a larger infrastructure company with power generation facilities across Canada totaling approximately net 439 MW of installed capacity, an attractive pipeline of contracted development opportunities in Canada representing an expected net 79 MW of capacity, and international investments in regulated water and district heating businesses.

NON-GAAP AND ADDITIONAL GAAP PERFORMANCE MEASURE DEFINITIONS

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

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

EBITDA is net income (loss), including that net income (loss) related to the non-controlling interest ("NCI"), interest income and net pension interest excluding interest expense, income taxes, depreciation and amortization. EBITDA represents Capstone's continuing capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

Adjusted EBITDA

Adjusted EBITDA is calculated as revenue less operating and administrative expenses and project development costs plus interest income and dividends or distributions received from equity accounted investments. Amounts attributed to any non-controlling interest are deducted. Adjusted EBITDA for investments in subsidiaries with non-controlling interests are included at Capstone's proportionate ownership interest. The reconciliation of Adjusted EBITDA to EBITDA is provided below.

Adjusted Funds from Operations ("AFFO")

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

AFFO is calculated from Adjusted EBITDA by:

Deducting:

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

Adding:

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

Deducting items for businesses without significant non-controlling interests:

- Interest paid
- Income taxes paid
- Dividends paid on the preferred shares included in shareholders' equity
- Maintenance capital expenditure payments
- Scheduled repayments of principal on debt, net of changes to the levelization liability up to repayment on June 6, 2012

Payout Ratio

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

Reconciliation of Non-GAAP Performance Measures

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

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
EBITDA	**185,058**	163,471
Foreign exchange (gain) loss	**(2,924)**	(1,620)
Other (gains) and losses, net	**(9,789)**	(1,294)
Equity accounted (income) loss	**2,638**	(2,294)
Distributions from equity accounted investments	**3,982**	2,001
Net pension interest income	**(1,817)**	(2,934)
Non-controlling interest ("NCI") portion of Adjusted EBITDA	**(48,727)**	(36,987)
Adjusted EBITDA	**128,421**	120,343
Cash flow from operating activities	**135,676**	114,678
Cash flow from operating activities from businesses with non-controlling interests	**(87,655)**	(76,474)
Distributions paid to Capstone from businesses with non-controlling interests	**8,111**	8,091
Distributions from equity accounted investments	**3,982**	2,001
Foreign exchange on loans receivable from Värmevärden	**(34)**	(415)
Chapais loans receivable principal repayments	**1,096**	984
Power maintenance capital expenditures	**(4,387)**	(5,398)
Power and corporate scheduled principal repayments	**(14,886)**	(12,581)
Power and corporate working capital changes	**1,781**	8,427
Dividends on redeemable preferred shares	**(3,750)**	(3,750)
AFFO	**39,934**	35,563

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both higher than in 2012. Adjusted EBITDA performance primarily reflected the following:

- Bristol Water's revenue increased due to higher regulated water tariffs. This was partially offset by higher non-controlling interest due to the reduction in ownership interest in May 2012;
- The Cardinal gas cogeneration facility's ("Cardinal") revenue increased due to higher power rates and more production in 2013 due to fewer outage hours;
- The ReD wind facilities added $4,352 of Adjusted EBITDA since acquisition on October 1, 2013;
- Erie Shores Wind Farm ("Erie Shores") revenue increased due to higher power generation as a result of more favourable wind conditions, including contributions from the WindBOOST, a wind turbine control system installed in 2013; and
- Corporate project development costs increased due to the acquisition of ReD. Project development costs for power were also higher in 2013 due to the activities of our new development subsidiary launched in December 2012.

In addition, Capstone's AFFO was affected by:

- Corporate taxes paid increased due to payment of the final 2012 tax installment on preferred dividends in the first quarter of 2013;
- Debt service costs increased primarily due to higher project debt following the ReD acquisition. In addition, the interest payments were higher for the hydro facilities as the debt was outstanding for a full year in 2013 compared with six months in 2012; and
- Cardinal's maintenance capital expenditures decreased in 2013 following the hot gas path inspection, required every three years, completed in 2012.

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Revenue	**389,503**	357,610
Expenses	**(220,433)**	(207,167)
Interest income	**4,096**	4,886
Distributions from equity accounted investments	**3,982**	2,001
Less: non-controlling interest ("NCI")	**(48,727)**	(36,987)
Adjusted EBITDA	**128,421**	120,343
Adjusted EBITDA of consolidated businesses with NCI	**(48,693)**	(48,202)
Distributions from businesses with NCI	**8,111**	8,091
Principal from loans receivable	**1,096**	984
Interest paid	**(23,444)**	(23,312)
Dividends paid on Capstone's preferred shares	**(3,750)**	(3,750)
Income taxes (paid) recovery	**(2,534)**	(612)
Maintenance capital expenditures	**(4,387)**	(5,398)
Scheduled repayment of debt principal	**(14,886)**	(12,581)
AFFO	**39,934**	35,563
AFFO per share	**0.493**	0.473
Payout ratio	**60.9%**	94.9%
Dividends declared per share	**0.300**	0.450

Revenue increased by $31,893, or 8.9%, primarily due to Bristol Water where higher regulated water tariffs and water consumption increased revenue by $17,183. In the power segment, ReD represented $5,714 of the increase while higher electricity generation at Cardinal and Erie Shores contributed $9,060.

Expenses increased by $13,266, or 6.4%, as follows:

- **Operating expenses** increased by $8,802, or 4.5%, primarily due to Bristol Water where higher repairs and maintenance activities, and inflationary increases for energy, consumables, wages and salaries, were the major factors. In the power segment, ReD contributed $1,475 while Cardinal increased by $580 primarily due to higher fuel expenses as more fuel was required for production, partially offset by lower gas transportation costs.
- **Project development costs** increased by $5,165, or 1,415%, primarily due to $4,278 of costs for the acquisition of ReD. In addition, Capstone's power development costs increased by $1,146, which includes $829 related to Capstone's power development subsidiary, while $317 was for costs on the wind projects under construction.
- **Administrative expenses** decreased by $701, or 6.3%, due to lower staff costs, offset partially by higher professional fees.

Interest income decreased by $790, or 16.2%, primarily due to $495 and $476 related to Värmevärden and Bristol Water, respectively. The Värmevärden decrease reflected a reduction in the interest rate and lower outstanding shareholder loans in 2013, following the 2012 recapitalization. The Bristol Water decrease was attributable to a lower average cash balance in 2013 due to the funding of the capital expenditure program.

Distributions from equity accounted investments were $1,981, or 99%, higher in 2013 due to the receipt of $878 from the ReD businesses and $1,103 of higher dividends provided by Värmevärden.

Interest paid increased by $132, reflecting $938 of higher interest for the power segment, which was offset by lower interest paid at corporate attributable to refinancing activity in 2012.

Interest paid by Bristol Water and the Amherst wind facility ("Amherst") is excluded from Capstone's definition of AFFO and is the primary difference between interest expense included in consolidated net income (loss) and interest paid in AFFO. The remaining difference between interest expense and interest paid was attributable to the amortization of financing costs and timing differences between accrual and payment basis.

Scheduled debt repayments increased by $2,305, or 18.3%, which included $659 of payments for the ReD facilities. The remainder of the variance was primarily due to higher payments in the power segment mostly related to $1,000 of additional payments under the CPC-Cardinal credit facility.

Maintenance capital expenditures decreased by $1,011, or 18.7%, primarily due to fewer scheduled outages at Cardinal. A hot gas path inspection, which occurs every three years, was completed in 2012.

Results by Segment

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

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

Non-GAAP performance measures

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

Adjusted EBITDA	For the year ended		
	Dec 31, 2013	Dec 31, 2012	Change
Power	**89,130**	78,178	10,952
Utilities – water	**47,877**	48,202	(325)
Utilities – district heating	**5,965**	5,357	608
Corporate	**(14,551)**	(11,394)	(3,157)
Total	**128,421**	120,343	8,078

AFFO	For the year ended		
	Dec 31, 2013	Dec 31, 2012	Change
Power	**53,439**	43,859	9,580
Utilities – water	**6,547**	8,091	(1,544)
Utilities – district heating	**5,965**	5,357	608
Corporate	**(26,017)**	(21,744)	(4,273)
Total	**39,934**	35,563	4,371

Power

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

Change	Explanations
4,173	ReD operating wind facilities contributed additional Adjusted EBITDA since acquisition on October 1, 2013.
3,862	Impact of Cardinal scheduled maintenance outages for hot gas path inspection in the second quarter of 2012 and the combustion inspection in the third quarter of 2013.
2,748	Impact of TransCanada Pipeline ("TCPL") rate decrease on Cardinal gas transportation charges.
(2,478)	Higher expenses at Cardinal primarily due to fuel supplier and other fuel transportation rate increases.
2,044	Higher revenue at Cardinal due to a PPA rate increase.
1,733	Impact of variations in wind, hydrology and sunlight on revenue.
(829)	Higher costs due to the power development subsidiary launched in December 2012.
(301)	Various other changes.
10,952	Change in Adjusted EBITDA.
(1,399)	Higher debt service payments primarily for the hydro power facilities since bond issue in June 2012.
(592)	Debt service on the ReD businesses and adjustment for Amherst to reflect distributions since October 1, 2013.
666	Higher maintenance capital expenditures in 2012 due to Cardinal's hot gas path inspection.
(47)	Various other changes.
9,580	Change in AFFO.

Utilities – water

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

Change	Explanations
(6,135)	Impact of sale of 20% interest in Bristol Water on May 10, 2012.
4,985	Business performance increase primarily due to higher revenue as a result of annual increase in regulated water tariffs, offset by higher operating expenses.
825	Impact of foreign exchange on Adjusted EBITDA.
(325)	Change in Adjusted EBITDA.
(1,391)	Impact of sale of 20% interest in Bristol Water on May 10, 2012.
(158)	Dividend reduction due to payment of higher operational and management fees for outperformance.
5	Impact of foreign exchange on AFFO.
(1,544)	Change in AFFO.

Utilities – district heating

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

Change	Explanations
1,052	Higher dividend due to distribution of surplus cash attributable to prior years' performance.
(728)	Lower interest income following the March 2012 partial repayment of the shareholder loan from Värmevärden refinancing proceeds.
284	Impact of foreign exchange.
608	Change in Adjusted EBITDA and AFFO.

Corporate

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

Change	Explanations
(4,019)	Higher project development costs primarily due to acquisition costs for ReD.
701	Lower administrative expenses primarily due to lower staff costs.
161	Higher interest income due to higher average cash balances.
(3,157)	Change in Adjusted EBITDA.
(1,922)	Higher taxes paid primarily due to the final payment of 2012 taxes for the preferred share dividends.
806	Lower interest paid on debt primarily due to second quarter 2012 repayment of the senior debt facility and the corporate component of the CPC-Cardinal debt facility.
(4,273)	Change in AFFO.

Net income (loss)

Net income (loss) for each business segment was as follows:

Net Income (loss)	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Power	**35,009**	19,788
Utilities – water	**51,477**	41,052
Utilities – district heating	**2,850**	7,936
Corporate	**(22,126)**	(22,805)
Total	**67,210**	45,971

Capstone's net income (loss) comprises cash measures included in Adjusted EBITDA and non-cash measures required by IFRS. The major items are summarized below:

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Adjusted EBITDA	**128,421**	120,343
Adjustment from distributions from equity accounted investments to equity accounted income	**(6,620)**	293
NCI portion of Adjusted EBITDA	**48,727**	36,987
Other gains and (losses), net	**9,789**	1,294
Foreign exchange gain (loss)	**2,924**	1,620
Interest expense	**(47,471)**	(49,168)
Net pension interest income	**1,817**	2,934
Depreciation and amortization	**(62,167)**	(57,552)
Income tax recovery (expense)	**(8,210)**	(10,780)
Net Income (loss)	**67,210**	45,971

Infrastructure – Power

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

95

Net megawatts of operating wind facilities acquired from ReD on October 1, 2013.

17

Number of consecutive years without a lost-time injury at Cardinal.

4,000

Approximate number of households capable of being powered by Amherstburg's green electricity each year.

For the year ended December 31, 2013

	Gas	Wind (1)	Biomass (1)	Hydro	Solar	Development	Total
Power generated (GWh)	**1,287.5**	**469.3**	**198.4**	**168.7**	**36.6**	**n/a**	**2,160.5**
Capacity factor	**97.9%**	**29.2%**	**95.8%**	**53.9%**	**20.9%**	**n/a**	**n.m.f**
Availability	**98.2%**	**97.2%**	**96.1%**	**99.1%**	**99.6%**	**n/a**	**n.m.f**
Revenue	118,005	30,571	15,385	14,373	15,594	—	193,928
Expenses	(84,668)	(5,482)	(9,636)	(3,533)	(1,185)	(1,169)	(105,673)
Interest income	105	116	474	48	38	—	781
Distributions from equity accounted investments	—	878	—	—	—	—	878
Less: non-controlling interest ("NCI")	—	(784)	—	—	—	—	(784)
Adjusted EBITDA	33,442	25,299	6,223	10,888	14,447	(1,169)	89,130
Adjusted EBITDA of consolidated businesses with NCI	—	(816)	—	—	—	—	(816)
Distributions from businesses with NCI	—	1,564	—	—	—	—	1,564
Principal from loans receivable	—	—	1,096	—	—	—	1,096
Interest paid	(475)	(6,430)	—	(4,846)	(6,511)	—	(18,262)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(1,910)	(983)	(918)	(576)	—	—	(4,387)
Scheduled repayment of debt principal	(1,250)	(6,206)	—	(3,550)	(3,880)	—	(14,886)
AFFO	29,807	12,428	6,401	1,916	4,056	(1,169)	53,439

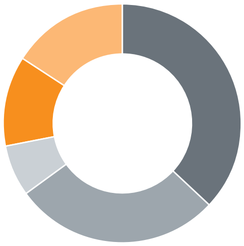
For the year ended December 31, 2012

	Gas	Wind (1)	Biomass (1)	Hydro	Solar	Development	Total
Power generated (GWh)	**1,231.9**	**233.4**	**197.0**	**157.0**	**39.5**	**n/a**	**1,858.8**
Capacity factor	**92.9%**	**26.8%**	**95.3%**	**50.1%**	**22.5%**	**n/a**	**n.m.f**
Availability	**95.0%**	**97.9%**	**95.9%**	**98.5%**	**97.4%**	**n/a**	**n.m.f**
Revenue	110,926	22,876	15,202	13,826	16,388	—	179,218
Expenses	(84,088)	(4,265)	(8,890)	(3,289)	(1,246)	(23)	(101,801)
Interest income	64	54	588	22	33	—	761
Adjusted EBITDA	26,902	18,665	6,900	10,559	15,175	(23)	78,178
Principal from loans receivable	—	—	984	—	—	—	984
Interest paid	(672)	(6,065)	(5)	(3,778)	(6,804)	—	(17,324)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(2,576)	(536)	(1,130)	(1,156)	—	—	(5,398)
Scheduled repayment of debt principal	(250)	(5,231)	(128)	(3,265)	(3,707)	—	(12,581)
AFFO	23,404	6,833	6,621	2,360	4,664	(23)	43,859

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

The following charts show the composition of the power segment's Adjusted EBITDA and AFFO for the years ended December 31, 2013 and 2012:

ADJUSTED EBITDA 2013

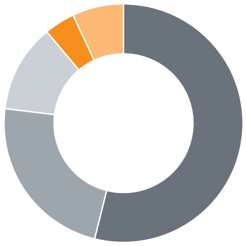


- 37% Gas
- 28% Wind
- 7% Biomass
- 12% Hydro
- 16% Solar

ADJUSTED EBITDA 2012

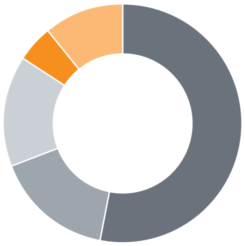
- 34% Gas
- 24% Wind
- 9% Biomass
- 14% Hydro
- 19% Solar

AFFO 2013



- 54% Gas
- 23% Wind
- 12% Biomass
- 4% Hydro
- 7% Solar

AFFO 2012



- 53% Gas
- 16% Wind
- 15% Biomass
- 5% Hydro
- 11% Solar

Revenue increased by $14,710, or 8.2%, while total power production increased by 301.7 GWh, or 16.2%. Higher revenue was primarily attributable to higher power generation and power rates at Cardinal and to the contribution from the wind power facilities. The facilities acquired from ReD on October 1, 2013 added $5,714 of revenue while Erie Shores benefited from more favourable wind conditions in 2013, adding $1,981 of revenue. All other facilities had higher revenue in 2013, except Amherstburg Solar Park ("Amherstburg"), which experienced less sunlight than in 2012.

Expenses increased by $3,872, or 3.8%, with ReD's wind facilities contributing $1,475 and project development costs increasing by $1,146 for salaries and overhead of Capstone's power development subsidiary, which was launched in December 2012. In addition, Cardinal's operating expenses increased by $580 due to more fuel being consumed as a result of higher production, partially offset by lower fuel transportation costs due to a decline in TCPL rates.

Distributions from equity accounted investments increased $878, primarily due to receipts from Capstone's 49% indirect ownership interest in the Glen Dhu wind facility.

Non-controlling interests and distributions from businesses with NCI increased by $786 and $1,565, respectively, due to Capstone's partner's share of the Adjusted EBITDA in Amherst and distributions received from Amherst.

Interest paid increased by $938, or 5.4%, primarily due to $1,068 for the hydro power facilities' debt, which was established in June 2012, followed by $681 of additional interest paid by ReD's wind facilities. This was partially offset by $609 less interest paid on the debt of Amherstburg and Erie Shores as a result of amortization.

Maintenance capital expenditures decreased by $1,011, primarily due to Cardinal's 2012 hot gas path inspection, which occurs every three years.

Scheduled repayments of debt principal increased by $2,305, or 18.3%, primarily due to $1,000 higher payments for the CPC-Cardinal credit facility. In addition, debt repayments increased by $659 for debt on the ReD wind facilities.

Project development

With the acquisition of ReD on October 1, 2013, Capstone gained the rights to net 79 MW from nine wind development projects. Seven of these projects are being developed in Ontario under power purchase agreements ("PPAs") awarded by the Ontario Power Authority ("OPA"), one project in Quebec with a PPA awarded by Hydro-Québec and one project in Saskatchewan with a PPA awarded by SaskPower. Three of the projects are characterized as near-term, with construction commencing on two of these projects in the fourth quarter of 2013. Capstone currently expects all of the near-term projects to be completed on time and without material cost over-runs. The remaining six development-stage projects are expected to be completed over the mid-term. All projects not yet under construction are at various stages and require certain regulatory approvals and permits to proceed with construction and meet the expected commercial operations dates ("COD").

A summary of Capstone's near-term projects is as follows:

Project	Expected COD	Ownership Interest	Net Capacity	Counterparty	PPA Expiry	Status
Goulais	2015	51%	12.75 MW	OPA	20 years from COD	Pre-construction
Saint-Philémon	Q4 2014	51%	12.24 MW	Hydro-Québec	20 years from COD	Under construction
Skyway 8	Q3 2014	100%	9.48 MW	OPA	20 years from COD	Under construction

Capstone expects to fund these development projects with a combination of equity and project-level debt financing. Capstone's equity contributions will be funded from existing cash and available credit in combination with equity partners, including First Nations and municipalities. The project debt financing for the near-term projects, which is expected to be established between the first and fourth quarters of 2014, is expected to be specific to each project, non-recourse to Capstone and on comparable terms to typical wind power projects.

The mid-term projects have expected CODs from 2015 to 2016.

Seasonality

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

		Actual	Average long-term production (GWh) (1)				
Type	PPA Expiry	2013	Q1	Q2	Q3	Q4	Annual
Gas	2014	**1,287.5**	343.4	281.4	302.3	334.1	1,261.2
Wind (2)	2020 - 2037	**469.3**	140.6	105.6	75.4	135.9	457.5
Biomass (2)	2014	**198.4**	50.2	45.5	50.3	49.3	195.3
Hydro	2017 - 2042	**168.7**	31.5	57.2	30.4	41.0	160.1
Solar	2031	**36.6**	6.4	13.1	12.4	5.9	37.8
Total		**2,160.5**	572.1	502.8	470.8	566.2	2,111.9

(1) Average long-term production is from March 2005 to December 31, 2013, except for Erie Shores, which is from June 2006, and Amherstburg, which is from July 2011 and the ReD wind facilities, which are from January 2013.
(2) The average long-term production excludes the production of Capstone's equity investments (the Chapais biomass facility and the Glen Dhu and Fitzpatrick wind facilities).

In addition, the PPAs for Cardinal, and the Wawatay and Dryden hydro facilities provide for higher prices to be paid for electricity delivered during winter months than electricity delivered during summer months.

Outlook (1)

In 2014, production and revenue are expected to increase based on a full year of ownership of the ReD facilities. This will be offset by higher project development costs as construction of the wind power projects progresses.

All power facilities are expected to perform consistently with their long-term average production, subject to variations in wind, water flows, ambient temperatures and sunlight. In addition, we expect two of Capstone's development projects to contribute after COD.

For Cardinal, transportation costs will be lower, reflecting a full year of the reduced TCPL rate.

Finally, we expect lower maintenance capital expenditures than in 2013.

Overall, Capstone expects the net impact of these factors to result in higher Adjusted EBITDA for the power segment in 2014 compared with 2013.

(1) See page 20 for a description of various other material factors or assumptions underlying our outlook.

Infrastructure – Utilities

Water

Capstone's water utilities segment includes a 50% ownership interest in Bristol Water, which is located in the United Kingdom. Capstone acquired a 70% interest in October 2011 from Suez Environnement through its subsidiary, Agbar (Sociedad General de Aguas de Barcelona) and subsequently sold a 20% indirect interest in Bristol Water to a subsidiary of ITOCHU Corporation in May 2012.

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Water supplied (megalitres)	**82,125**	81,245
Revenue	**195,575**	178,392
Operating expenses	**(100,030)**	(93,954)
Interest income	**275**	751
Adjusted EBITDA before non-controlling interest	**95,820**	85,189
Less: non-controlling interest [1]	**(47,943)**	(36,987)
Adjusted EBITDA	**47,877**	48,202
Adjusted EBITDA of consolidated businesses with non-controlling interests	**(47,877)**	(48,202)
Dividends from businesses with non-controlling interests	**6,547**	8,091
AFFO	**6,547**	8,091

(1) Starting from May 10, 2012, the non-controlling interest increased to 50% from 30%.

Revenue increased by $17,183, or 9.6%, primarily due to a 6.9% annual increase in water tariffs, which occurred on April 1, 2013, along with higher water consumption. Foreign exchange contributed $3,059.

Operating expenses increased by $6,076, or 6.5%, mostly due to higher repairs and maintenance activities, as well as inflationary increases for energy, consumables, wages and salaries. Foreign exchange contributed $1,611.

Interest income decreased by $476, or 63.4%, due to lower average cash and short-term investment balances as cash was used to fund the capital expenditure program.

Non-controlling interest increased on May 10, 2012 following the partial sale of Capstone's interest in Bristol Water to ITOCHU. Capstone's Adjusted EBITDA is reduced for Agbar's 30% interest over the entire period and ITOCHU's 20% interest beginning May 10, 2012.

Dividends paid to Capstone by Bristol Water decreased by $1,544, or 19.1%, mainly due to the reduction in Capstone's ownership interest on May 10, 2012.

Capital expenditures

The approved and planned capital expenditures for the current asset management plan ("AMP5") period, which concludes in March 2015, is approximately $520,000, or £294,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at December 31, 2013, the cumulative capital expenditure incurred during AMP5 was $394,000, which was $20,000 lower than the original plan agreed with the Water Services Regulation Authority ("Ofwat"). Bristol Water's focus on meeting the AMP5 capital target has reduced the shortfall by 60% as cumulative capital expenditures for regulatory purposes increased by $167,000 during 2013. The shortfall was primarily the result of delays at the start of AMP5 due to the Competition Commission review process. Capstone expects its expenditures over AMP5 to achieve the regulator-approved capital expenditure.

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.

Regulatory

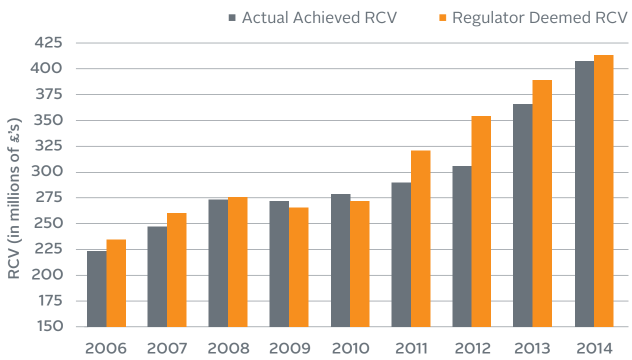
Bristol Water is a regulated business subject to supervision by the industry regulator, Ofwat.

The company submitted its five-year business plan for the 2014 price review ("PR14") in early December. In 2014, Ofwat will respond to Bristol Water's submission and approve the pricing Bristol Water is permitted to apply to customers' charges in the five-year AMP6 period commencing in April 2015.

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

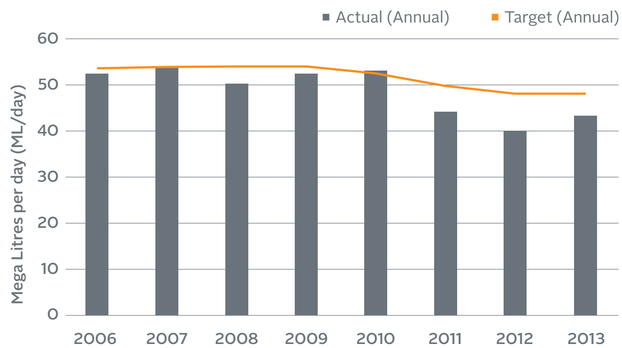
For the regulatory year ended March 31, 2013, Bristol Water achieved leakage levels of 42 Ml/d, and had a SIM score of 86, which ranked fourth overall out of 19 companies in the industry. For the nine months ended December 31, 2013 of the current regulatory year, which excludes the seasonally high period for pipe bursts, Bristol Water had leakage levels of 40 Ml/d and was ranked 12th after the first three SIM survey scores.

GROWTH IN REGULATED CAPITAL VALUE



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

WATER LEAKAGE VERSUS TARGET



Outlook [(1)]

Bristol Water is expected to continue its strong operational performance, which will generate cash flow for dividends and reinvestment in the capital expenditure program. In 2014, Capstone expects Bristol Water's financial results to reflect:

- Revenue growth from a 6.4% approximate increase in the regulated water tariff commencing April 1 2014;
- Operating costs to grow between 4% and 5% primarily from inflation and price increases, thereby partially offsetting revenue growth; and
- Regulated capital value ("RCV") nominal growth between 5% and 6% as Bristol Water delivers its capital expenditures of approximately $123,000 (£70,000). Growth in RCV leads to future revenue growth as the system expands. In 2014, expenditures on capital projects will begin to taper off in the second half of the year as Bristol Water approaches its AMP5 approved expenditures.

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

Bristol Water will continue its work on PR14 to gain Ofwat approval for a business plan that includes future pricing for services and capital expenditure plans for AMP6.

Overall, Capstone expects these factors to contribute to higher Adjusted EBITDA for the utilities-water segment in 2014 compared with 2013.

(1) See page 20 for a description of various other material factors or assumptions underlying our outlook.

Infrastructure – Utilities

District heating

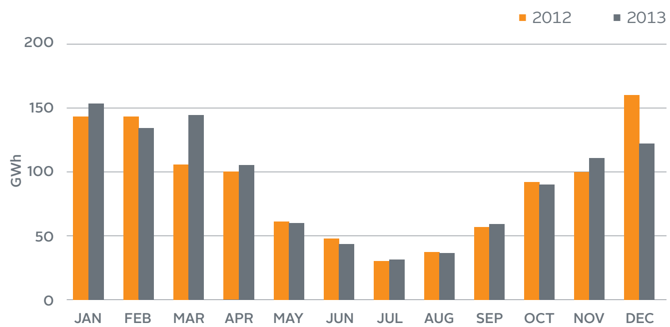
Capstone's district heating utilities segment comprises a 33.3% interest in Värmevärden, located in Sweden. Capstone's investment includes loans receivable and equity. In 2012, the business completed a bond offering, resulting in repayment of a portion of the loans due to shareholders.

Värmevärden's overall financial performance in 2013 was below 2012, primarily due to the use of alternative, more expensive heat production systems during periods when primary systems required maintenance.

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

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Heat and steam production (GWh)	**1,091**	1,078
Equity accounted income (loss) proportionate to Capstone	**(2,950)**	2,315
Interest income	**2,861**	3,356
Dividends	**3,104**	2,001
Adjusted EBITDA and AFFO	**5,965**	5,357

HEAT AND STEAM PRODUCTION



Interest income

During the first four months of 2012, Värmevärden used the bond issuance proceeds to reduce Capstone's shareholder loan from$81,587 to $33,628. As a result, in 2013, Capstone received $495 less interest income.

Dividends

Capstone received $1,103 higher dividends from Värmevärden in 2013. The increase was primarily due to distribution of surplus cash attributable to prior years' performance.

Equity accounted income (Loss)

Equity accounted income (loss) included in Capstone's net income was $5,265 lower than in 2012, mostly due to a decrease in enacted tax rates that resulted in a deferred tax recovery. In addition, during 2013, more expensive heat production systems were used in periods when primary systems required maintenance.

Seasonality

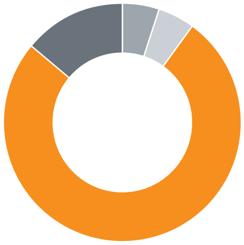
Heat production is typically highest during the first quarter, which coincides with the coldest months of the year. The first and fourth quarters combined have historically accounted for approximately 65% of Värmevärden's annual revenue.

Outlook (1)

Interest income from the shareholder loan is expected to be consistent with 2013 while dividends are expected to be higher in 2014, resulting in higher Adjusted EBITDA from the district heating segment compared with 2013.

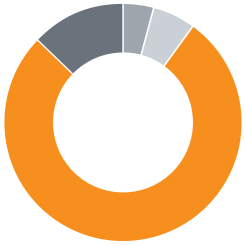
(1) See page 20 for a description of various other material factors or assumptions underlying our outlook.

FUEL MIX BREAKDOWN BY MWH 2013



- 14% Industrial Heat
- 5% Electricity
- 5% Fossil Fuel
- 76% Bio and Waste Fuel

FUEL MIX BREAKDOWN BY MWH 2012



- 13% Industrial Heat
- 4% Electricity
- 6% Fossil Fuel
- 77% Bio and Waste Fuel

FUEL MIX BREAKDOWN BY COST (SEK) 2013

- 11% Industrial Heat
- 18% Electricity
- 16% Fossil Fuel
- 56% Bio and Waste Fuel

FUEL MIX BREAKDOWN BY COST (SEK) 2012

- 11% Industrial Heat
- 17% Electricity
- 13% Fossil Fuel
- 59% Bio and Waste Fuel

Corporate

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

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Administrative expenses	**(10,369)**	(11,070)
Project development costs	**(4,361)**	(342)
Interest income	**179**	18
Adjusted EBITDA	**(14,551)**	(11,394)
Interest paid	**(5,182)**	(5,988)
Dividends paid on Capstone's preferred shares	**(3,750)**	(3,750)
Income taxes (paid) recovery	**(2,534)**	(612)
AFFO	**(26,017)**	(21,744)

Administrative expenses

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Staff costs	**6,133**	6,749
Other administrative expenses	**4,236**	4,321
	10,369	11,070

Staff costs decreased by $616, or 9.1%, primarily due to the CEO's deferral of short-term incentive plan ("STIP") amounts, which were taken as a grant under the long-term incentive plan ("LTIP"). The LTIP grant is recognized in net income over the period up to vesting, whereas STIP payments are accrued in the year earned. This decrease was partially offset by higher LTIP expense for new grants since January 2013 and the addition of corporate staff who joined following the ReD acquisition on October 1, 2013.

Other administrative expenses increased by $85, or 2.0%, primarily including expenses for audit fees, investor relations costs, office administration and premises costs and professional fees other than for business development. Other administrative expenses also include costs assumed by Capstone following the ReD acquisition on October 1, 2013.

Project development costs increased by $4,019, primarily due to $4,278 in costs related to the acquisition of ReD.

Interest income increased by $161, or 894%, primarily due to higher average cash balances in 2013.

Interest paid decreased by $806, or 13.5%, primarily due to a $112,375 reduction in corporate debt during the first six months of 2012. The debt was repaid from the proceeds of the Värmevärden recapitalization, new debt on the hydro power facilities and sale of a 20% interest in Bristol Water in the first six months of 2012. This interest decrease was partially offset by $1,146 of interest paid on the new ReD Debentures.

Preferred share dividends paid and taxes paid

Dividends on Capstone's preferred shares are paid quarterly equivalent to a fixed rate of 5.0% per year. Taxes paid relate to the preferred share dividends and are available to offset future income taxes of the Corporation. Taxes paid in 2013 were $1,922, or 314%, higher than in 2012. The increase primarily reflected $1,100 paid in the first quarter of 2013 for the final installment for 2012 taxes on the preferred share dividends. The remaining difference is attributable to all installments for 2013 being made in the year.

Outlook (1)

In 2014, Capstone expects financial results for corporate to reflect:

- Lower corporate project development expenses than in 2013 when ReD was acquired;
- Higher staffing costs as the corporate team expanded following the ReD acquisition; and
- Higher professional fees than in 2013 due to ongoing transition and integration for the ReD acquisition.
- Higher interest paid due to assumption of the ReD convertible debentures and refinancing of credit facility previously in the power segment.

Overall, Capstone expects these factors to result in slightly higher corporate expenses compared with 2013.

(1) See page 20 for a description of various other material factors or assumptions underlying our outlook.

FINANCIAL POSITION REVIEW

Overview

As at December 31, 2013, Capstone had a consolidated working capital surplus of $37,375 compared with $30,821 at December 31, 2012. The surplus improvement of $6,554 reflected a $1,770 increase from the businesses acquired with ReD, $1,242 for the other power businesses and $12,732 at corporate. These increases were offset by a $9,190 decline at utilities - water.

Unrestricted cash and cash equivalents totaled $45,768 on a consolidated basis at December 31, 2013 compared with $49,599 at December 31, 2012. The increase reflected $11,192 for the businesses acquired with ReD and a $2,844 increase at corporate offset by decreases of $16,185 and $1,682 in the utilities - water and other power businesses, respectively.

During 2013, Capstone's debt to capitalization ratio (refer to page 36) increased from 62.7% to 65.7% on a fair value basis and decreased from 57.6% to 57.3% on a book value basis. The increase in Bristol Water's debt to fund ongoing capital expenditures and foreign exchange translation increased the ratio on both a fair value and a book value basis. The year-over-year decline in Capstone's share price also contributed to the ratio's increase. This was offset by the ReD acquisition for which the ratio of debt assumed to equity issued was lower than Capstone's ratio prior to acquisition.

As at December 31, 2013, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	**Dec 31, 2013**	Dec 31, 2012
Power	**31,638**	31,041
Utilities – water	**933**	10,123
Corporate	**4,804**	(10,343)
Working capital	**37,375**	30,821

The power segment working capital as at December 31, 2013 was $646 higher for the ReD businesses acquired. For the remaining power facilities, working capital changes from December 31, 2012 were primarily attributable to timing of cash distributions to corporate, higher revenue receivables and restricted cash increases in accordance with credit facility requirements. The utilities - water segment working capital reduction primarily reflected cash reduction to fund the capital expenditure program. The lower working capital balance at Bristol Water reflected a conscious effort to ensure more efficient management of surplus working capital. In addition to cash, Bristol Water has $70,508 of credit availability for liquidity and to fund the longer term capital projects. The increase in corporate working capital was primarily attributable to an accumulation of cash following the dividend change and stable distributions from Capstone's businesses.

Cash and cash equivalents

As at	**Dec 31, 2013**	Dec 31, 2012
Power	**28,991**	20,941
Utilities – water	**9,130**	25,315
Corporate	**7,647**	3,343
Unrestricted cash and cash equivalents	**45,768**	49,599
Less: cash with access limitations		
Power	**(18,096)**	(8,386)
Utilities – water	**(9,130)**	(25,315)
Cash and cash equivalents available to Capstone	**18,542**	15,898

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The decrease of $3,831 in cash from December 31, 2012 was primarily attributable to a $16,185 reduction in Bristol Water cash to fund the expenditure program. This was partially offset by the addition of $11,192 in cash from the businesses acquired with ReD, which is reflected in the power segment and corporate.

Cash and cash equivalents available to Capstone represent funds available for general purposes, including payment of dividends to shareholders. For the power segment, $18,096 of cash is only periodically accessible to Capstone through distributions under the terms of the credit agreements for the hydro power facilities, Erie Shores, Amherstburg and ReD's operating wind facilities, including Glace Bay, the SkyGen facilities, and Amherst.

Restricted cash

The restricted cash increase of $10,318 was due to $7,864 for debt service and maintenance reserve accounts of Glace Bay and ReD. Restricted cash represents reserve accounts of $13,609 and $9,695 at the power segment and Bristol Water, respectively, and corporate cash of $6,243 required to support letters of credit.

Cash flow

Capstone's consolidated cash and cash equivalents decreased by $3,831 in 2013 compared with a decrease of $7,988 in 2012. The components of the decrease, as presented in the consolidated statement of cash flows, are summarized as follows:

For the year ended	**Dec 31, 2013**	Dec 31, 2012
Operating activities	**135,676**	114,678
Investing activities	**(129,257)**	(4,949)
Financing activities (excluding dividends to shareholders)	**14,705**	(92,503)
Dividends paid to shareholders	**(25,446)**	(26,131)
Effect of exchange rate changes on cash and cash equivalents	**491**	917
Change in cash and cash equivalents	**(3,831)**	(7,988)

Cash flow from operating activities generated $20,998 more cash and cash equivalents than in 2012. Operating cash flow increased by $20,306 and $9,937 at the power and utilities - water segments, respectively. This was partially offset by decreases of operating cash flow of $8,625 and $620 for corporate and Värmevärden, respectively. The power segment increase was primarily attributable to revenue increases as well as $7,437 of cash flow from ReD's operating facilities since acquisition on October 1, 2013. Cash flow from the utilities - water segment increased primarily in response to higher revenue.

Cash flow used for investing activities increased by $124,308 primarily because Bristol Water used $69,639 in cash to fund the capital expenditure program. This included a $9,006 reduction in accounts payable related to capital expenditures. In addition, the 2012 use of cash was net of $47,964 of proceeds received from the Värmevärden recapitalization.

Cash flow from (used by) financing activities was a use of funds in 2012 and a source of funds in 2013. During the year, Bristol Water increased its debt by $70,896 to fund the capital expenditure program. This was partially offset by a $22,558 reduction of Bristol Water's revolving bank loan using surplus cash and $6,972 use of cash for the redemption of ReD debentures. In 2012, cash flow used by financing activities included corporate and power refinancing activities, which resulted in a net reduction of debt of $135,066. These uses of funds were offset by $68,952 from the partial sale of Bristol Water. In addition, scheduled debt repayments were $18,351 in 2013 and $17,624 in 2012.

Dividends paid to shareholders were $685 lower than in 2013 primarily due to reduction of Capstone's common share dividend since the second quarter of 2012. This was partially offset by higher dividends for the increase in shares for the acquisition of ReD on October 1, 2013.

Capital Structure

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

	Dec 31, 2013		Dec 31, 2012	
As at	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Long-term debt				
Power (1)	**346,244**	**349,807**	305,497	297,792
Utilities – water (1)	**313,816**	**288,017**	259,830	237,324
Corporate	**81,694**	**80,107**	44,416	40,631
Deferred financing fees	**—**	**(7,446)**	—	(7,884)
	741,754	**710,485**	609,743	567,863
Equity				
Shareholders' equity (2)	**388,058**	**529,550**	363,248	418,848
Total capitalization	**1,129,812**	**1,240,035**	972,991	986,711
Debt to capitalization	**65.7%**	**57.3%**	62.7%	57.6%

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

Power

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

As at			**Dec 31, 2013**		Dec 31, 2012	
	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
CPC-Cardinal credit facility	Repaid	4.53%	**—**	**—**	12,050	12,050
Erie Shores project debt	2016 & 2026	5.28 – 6.15%	**96,613**	**92,156**	106,538	97,703
Glace Bay project debt	2019 - 2032	4.72 - 6.36%	**17,104**	**17,243**	—	—
Sky Gen project debt	2016 - 2017	4.22 - 6.22%	**37,137**	**36,965**	—	—
Amherst project debt	2032	4.72%	**44,491**	**44,770**	—	—
Amherstburg project debt	2016	7.32%	**86,680**	**86,680**	90,560	90,560
Hydro facilities' senior secured bonds	2040	4.56%	**67,559**	**73,688**	76,347	77,237
Hydro facilities' subordinated secured bonds	2041	7.00%	**18,461**	**20,242**	20,002	20,242
			368,045	**371,744**	305,497	297,792
Less: non-controlling interest			**(21,801)**	**(21,937)**	—	—
Capstone share of long-term debt			**346,244**	**349,807**	305,497	297,792

During 2013, long-term debt in the power segment increased by $52,015 primarily due to $77,041 of debt assumed from the acquisition of ReD. The increase was partially offset by $12,976 of scheduled debt repayments at Erie Shores, Amherstburg and the hydro facilities, as well as a $12,050 repayment of the CPC-Cardinal credit facility, as the Corporation entered into a new corporate credit facility.

As at December 31, 2013, approximately 96.7% of the power segment's long-term debt was scheduled to amortize over the lives of the facilities' respective PPAs. All of the debt in the power segment is non-recourse to Capstone, except for a $5,000 limited recourse guarantee provided to the lenders of Erie Shores project debt by CPC, a $1,000 limited recourse guarantee provided by ReD to the lenders of the Amherst project and a $500 guarantee provided by ReD to lenders of the Fitzpatrick wind facility.

Covenant compliance

All of the power segment's long-term debt is subject to financial covenant requirements. Each debt agreement individually requires the respective business to maintain minimum debt service coverage ratios to allow for distributions to the Corporation. During 2013, Capstone's power segment complied with all covenants.

Utilities – water

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

As at			**Dec 31, 2013**		Dec 31, 2012	
	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Bank loans	2015-2017	1.23%- 5.73%	**87,056**	**87,329**	31,540	31,430
Term loans	2032 – 2041	5.70 – 6.74%(1)	**505,322**	**457,786**	457,563	414,857
Debentures	Irredeemable	3.50 – 4.25%	**2,424**	**2,275**	2,346	2,072
Cumulative preferred shares	Irredeemable	8.75%	**32,830**	**28,644**	28,211	26,289
Consolidated long-term debt			**627,632**	**576,034**	519,660	474,648
Less: non-controlling interest			**(313,816)**	**(288,017)**	(259,830)	(237,324)
Capstone share of long-term debt			**313,816**	**288,017**	259,830	237,324

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

Long-term debt for the utilities – water segment is used to fund current and ongoing capital expenditures to improve Bristol Water's network. The increase in long-term debt is related to draws for cash requirements related to the capital expansion.

As at December 31, 2013, approximately 80.2% of the utilities - water segments long-term debt had maturities of greater than 10 years. All of the debt in the utilities - water segment is non-recourse to Capstone.

The preferred shares are classified as long-term debt on the basis that they are irredeemable.

Covenant compliance

The principal debt agreements require Bristol Water to comply with covenants relating to the minimum levels of interest coverage and net debt in relation to regulatory capital value. During 2013, Bristol Water complied with all its covenants.

Corporate

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

			Dec 31, 2013		Dec 31, 2012	
As at	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Corporate credit facility	2016	3.52%	**11,300**	**11,300**	—	—
Convertible debentures - issued December 2009	2016	6.50%	**42,963**	**41,068**	44,416	40,631
Convertible debentures - assumed on acquisition of ReD	2017	6.75%	**27,431**	**27,739**	—	—
			81,694	**80,107**	44,416	40,631

During 2013, long-term debt at corporate increased $39,476 from 2012, primarily due to the acquisition of ReD and the refinancing of the CPC-Cardinal credit facility. Upon acquiring ReD, Capstone assumed $34,500 of redeemable, extendible convertible unsecured subordinated debentures, which remain obligations of ReD. Since acquisition, $6,972 of the debentures were redeemed and $100 were converted to shares of the Corporation, both at the holders' option. Capstone provides credit support for the ReD Debentures.

On November 12, 2013, the Corporation entered into a new corporate credit facility to repay the CPC-Cardinal credit facility and provide financial flexibility for general corporate purposes, including future acquisitions. The corporate credit facility was structured as a revolver with $32,500 of available credit. In January 2014, the available credit was increased by $17,500, bringing the total to $50,000 of credit of which $25,239 was drawn or committed as of December 31, 2013, of which $13,939 reflected committed letters of credit.

Covenant compliance

During 2013, Capstone complied with all covenants.

Shareholders' equity

Shareholders' equity comprised:

As at	**Dec 31, 2013**	Dec 31, 2012
Common shares	**710,662**	632,474
Class B exchangeable units	**26,710**	26,710
Preferred shares	**72,020**	72,020
Share capital	**809,392**	731,204
Other equity items (1)	**9,428**	9,284
Accumulated other comprehensive income (loss)	**17,013**	(809)
Retained earnings (deficit)	**(306,283)**	(320,831)
Equity to Capstone shareholders	**529,550**	418,848
Non-controlling interests	**138,613**	91,610
Total shareholders' equity	**668,163**	510,458

(1) Other equity items include the equity portion of convertible debentures, as well as the warrant and share option reserves.

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

	Year ended Dec 31, 2013		Year ended Dec 31, 2012	
($000s and 000s of shares)	**Shares**	**Amount**	Shares	Amount
Opening balance	**72,445**	**632,474**	70,957	626,861
Shares issued (1)	**19,719**	**75,453**	—	(89)
Dividend reinvestment plan (DRIP)	**670**	**2,635**	1,488	5,702
Conversion of convertible debentures	**20**	**100**	—	—
Ending balance	**92,854**	**710,662**	72,445	632,474

(1) During 2013, Capstone issued share capital in exchange for ReD shares on acquisition, which are net of $224 of transaction costs (2012 - $89).

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

As at	Dec 31, 2013			Dec 31, 2012		
($000s, except per share amounts)	**Market Price per Share**	**Outstanding Amount**	**Fair Value**	Market Price per Share	Outstanding Amount	Fair Value
Common shares	**$3.56**	**92,854**	**330,560**	$4.03	72,445	291,955
Class B units	**$3.56**	**3,249**	**11,568**	$4.03	3,249	13,093
Preferred shares	**$15.31**	**3,000**	**45,930**	$19.40	3,000	58,200
			388,058			363,248

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

Contractual Obligations

As at December 31, 2013, Capstone had outstanding contractual obligations with amounts due as follows:

	Within one year	**One year to five years**	**Beyond five years**	**Total**
Long-term debt (1)	63,839	479,569	934,549	1,477,957
Finance lease obligations (1)	691	4,005	925	5,621
Operating leases	2,027	9,542	21,066	32,635
Asset retirement obligations	—	—	13,112	13,112
Purchase obligations	146,720	39,017	11,161	196,898
Total contractual obligations	213,277	532,133	980,813	1,726,223

(1) Long-term debt and finance lease obligations include principal or minimum lease payments, respectively and interest payments.

Long-term debt

- Long-term debt is discussed on page 36 of this MD&A as a part of the Capital Structure section.

Finance lease obligations

- Bristol Water has finance leases for certain equipment and vehicles.

Operating leases

The following leases have been included in the table based on known minimum operating lease commitments as follows:

- The Corporation has operating leases for corporate offices and power development purposes. These leases have terms ranging from 2015 to 2018, with options to extend.
- Amherstburg leases the land on which it is located. The terms of the lease agreement extend to 2032.
- Capstone's operating wind facilities and wind development projects have entered into agreements for the use, or option to use, land in connection with the operation of existing and future wind farms. Payment under these agreements is typically a minimum amount with additional payments dependent on the amount of power generated by the wind facility. The agreements can be renewed and extend as far as 2047.

Capstone has additional operating lease commitments not included in the table with no minimum operating lease commitments required as follows:

- Capstone has agreements with the Provinces of Ontario and British Columbia for the lease of certain lands and water rights necessary for the operation of its hydro power facilities. The payments under these agreements vary based on actual power production. The terms of the lease agreements extend from 2023 and 2042.
- Cardinal leases the site on which it is located from Ingredion Canada Incorporated ("Ingredion"). Under the lease, Cardinal pays nominal rent. The lease extends to 2016 and expires concurrently with the energy savings agreement between Ingredion and Cardinal.

Asset retirement obligations

- Commitments associated with our asset retirement obligations for Capstone's power infrastructure facilities are projected to occur principally over the next 30 years.

Purchase obligations

Capstone enters into contractual commitments in the normal course of business. These contracts include capital commitments, natural gas purchase contract and operations and management agreements as follows:

Capital commitments

- As part of Capstone's power development operations, Capstone enters various construction and purchase agreements. As at December 31, 2013, Capstone had approximately $61,000 of construction and turbine supply agreements for the Saint-Philémon and Skyway 8 projects.
- Bristol Water has commitments for capital expenditures at December 31, 2013 of which $26,172 were contracted but had not yet occurred.
- Cardinal placed a purchase order for a $20,140 ($19,000 USD) rotor and exhaust cylinder to be installed during the scheduled major maintenance in 2015. The purchase order includes a termination fee that escalates with the passage of time. As at December 31, 2013, the penalty was $1,060 ($1,000 USD) and increases to $3,180 ($3,000 USD) by March 2014. Capstone's first installment payment of $2,120 was made in February 2014.

Natural gas purchase contract

- Cardinal has a long-term purchase agreement for natural gas that expires on May 1, 2015. The minimum purchase commitment for natural gas under the agreement is 9,289,104 MMBtu per year through to expiration in 2015, which is equivalent to 80% of the contract maximum.

Operations and management ("O&M") agreements

- Capstone has an agreement with Agbar, which provides management support to Bristol Water, with an initial five-year term that automatically extends indefinitely. Capstone has the ability to terminate the contract.
- Capstone has an O&M agreement with SunPower Energy Systems Canada Corporation to operate and maintain Amherstburg, expiring on June 30, 2031. Capstone has the ability to terminate the agreement during the term of the contract.
- Capstone has several turbine maintenance service agreements covering the turbines in operation on various wind farms. The agreements provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.
- Capstone has an O&M agreement with Regional Power OPCO Inc. ("Regional") to operate and maintain the hydro power facilities, expiring on November 15, 2016 with an automatic renewal term. Regional is paid a monthly management fee and is eligible for an annual incentive fee.

Other commitments

In addition to the commitments included in the table Capstone has the following other commitments with no fixed minimum payments:

Management services agreements

Capstone has agreements with the all of ReD's partially owned investments, including Glen Dhu, Fitzpatrick, Amherst and various development projects. For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue. The development projects additionally include a development fee for the successful completion of the projects, which pays an agreed fee per MW on completion of development.

Wood waste supply agreement

- Whitecourt has a long-term agreement with Millar Western to ensure an adequate supply of wood waste. The agreement expires in June 2016.

Energy savings agreement

- Under the terms of an energy savings agreement between Cardinal and Ingredion, Cardinal is required to sell up to 723 million pounds of steam per year to Ingredion for its manufacturing operations. The energy savings agreement matures on December 31, 2014 but may be extended by up to two years at Cardinal's option.

Guarantees

- Capstone has provided limited recourse guarantees on the project debt of Erie Shores, Amherst, and Fitzpatrick totaling $6,500 as at December 31, 2013.
- Capstone also provides three guarantees relating to Clean Power Income Fund's legacy obligations. As at December 31, 2013, no claims had been made on these guarantees.

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business. Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

Equity accounted investments were $22,061 higher in 2013, primarily due to the acquisition of ReD. As part of this transaction, Capstone acquired ownership interests of Glen Dhu and Fitzpatrick, operating wind projects in Nova Scotia, and SPWC, a project development company. These new investments all share the same controlling partner.

Capstone's equity accounted investments are summarized as follows:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31, 2013	2012	Principal activity
Värmevärden AB ("Värmevärden")[1]	Sweden	33.3%	33.3%	District heating
Glen Dhu Wind Energy Limited Partnership ("Glen Dhu")[2]	Canada	49%	Nil	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	50%	Nil	Power generation
Macquarie Long Term Care L.P. ("MLTCLP")[3]	Canada	45%	45%	Holding company
SPWC Development L.P. ("SPWC")[4]	Canada	50%	Nil	Development
Chapais Électrique Limitée ("Chapais")[4]	Canada	31.3%	31.3%	Power generation

(1) Värmevärden is further detailed in the results of operations on page 33 of this MD&A.

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

(3) MLTCLP had no significant activity in theyear ended December 31, 2013.

(4) No income has been recorded on the investment since its acquisition. Capstone does not expect to earn any future equity accounted income from this investment.

Capital Expenditure Program

Capstone incurred $135,696 in capital expenditures during 2013, which was attributable to each operating segment as follows:

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Power	**5,722**	5,432
Utilities – water	**129,925**	140,555
Corporate	**49**	86
	135,696	146,073

Capital expenditures for the power segment in 2013 were in the normal course of operations and primarily related to scheduled maintenance outages with the exception of a $947 investment in WindBOOST at Erie Shores. In 2012, capital expenditures in the power segment primarily related to Cardinal's hot gas path inspection.

For the utilities – water segment, expenditures included both growth initiatives and maintenance activities as outlined in Bristol Water's regulatory capital expenditure program. In aggregate, Bristol Water's capital expenditure program spans the AMP5 five-year period. Overall, Bristol Water's expenditures to date are $20,000 behind the five-year plan but are expected to be fully completed by the end of AMP5 in March 2015.

Retirement Benefit Plans

Bristol Water has a defined benefit plan for current and former employees, which is closed to new employees. This expense is incurred entirely at Bristol Water. There are also defined contribution plans for the employees of Bristol Water and Cardinal.

As at	**Dec 31, 2013**	Dec 31, 2012
Fair value of assets	**300,606**	271,650
Present value of defined benefit obligation	**(254,365)**	(234,075)
	46,241	37,575

As at December 31, 2013, the defined benefit plan was in a $46,241 surplus position for accounting purposes. The surplus is subject to a number of critical accounting estimates that can materially impact the balances, including foreign exchange translation. The fair values included in the surplus are calculated with the assistance of an actuary and assumptions used are considered to be reasonable by management.

For 2014, Bristol Water expects to contribute $4,374 compared with its actual contribution of $3,840 in 2013.

The total defined contribution pension expense recorded in the consolidated statement of income in 2013 was $1,563. The expense comprised $1,383 for Bristol Water and $180 for Cardinal.

Income Taxes

Current income tax expense was $2,004 for 2013. This was primarily attributable to $1,494 for Part XII.6 taxes and reassessments on the shortfall of Canadian Renewable and Conservation Expenses ("CRCE") arising from the flow-through shares issued by ReD.

Deferred income tax assets and liabilities are recognized on Capstone's consolidated statement of financial position based on temporary differences between the accounting and tax bases of existing assets and liabilities. Deferred income tax assets and liabilities are presented on a net basis where there is a legal right of offset within the same tax jurisdictions.

As at	**Dec 31, 2013**	Dec 31, 2012
Deferred income tax assets	**494**	3,038
Deferred income tax liabilities	**(182,567)**	(155,495)
	(182,073)	(152,457)

Capstone's deferred income tax assets of $494 ($3,038 at December 31, 2012) were attributable to the power segment and primarily relate to non-capital tax loss carry-forwards.

The deferred income tax liabilities balance comprised $74,074 ($53,226 at December 31, 2012) for Capstone's Canadian entities while $108,493 ($102,269 at December 31, 2012) was attributable to Bristol Water. Deferred income tax liabilities primarily relate to the defined benefit pension plan and differences in the amortization of intangible and capital assets for tax and accounting purposes.

In 2013 Capstone's net deferred income tax liability increased by $29,616 which includes $15,548 assumed on the acquisition of ReD. In addition, the net liability increased by $14,068, primarily due to differences between accounting and tax depreciation taken in 2013 and defined benefit pension plan at Bristol Water. These increases were partially offset by a $12,248 tax recovery attributable to a tax rate reduction in the United Kingdom from 23% to 20% effective April 1, 2015.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in notes 9 (Financial Instruments) and 10 (Financial Risk Management) in the consolidated financial statements for the year ended December 31, 2013. These notes contain further details on the implicit risks and valuation methodology employed for Capstone's financial instruments.

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

As at	**Dec 31, 2013**	Dec 31, 2012
Derivative contract assets	**1,328**	2,021
Derivative contract liabilities	**(13,840)**	(30,651)
Net derivative contract liabilities	**(12,512)**	(28,630)

The net derivative contract liabilities were $16,118 lower than at December 31, 2012, primarily due to a $12,815 change in the fair value of the underlying instruments, followed by the settlement of $2,407 for Erie Shores' interest rate swap, reducing a liability, and purchase of$896 for foreign exchange contracts, increasing an asset. The changes in fair value of the underlying instruments are included as part of other gain and losses of $11,833 in the statement of income, both realized and unrealized portions respectively and $982 in other comprehensive income.

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

	Year ended	
	Dec 31, 2013	Dec 31, 2012
Interest rate swap contracts	**6,764**	(100)
Foreign currency option contracts	**(1,295)**	(975)
Embedded derivative	**6,364**	3,680
Gains on derivatives in net income	**11,833**	2,605
Interest rate swap contracts in OCI	**982**	(642)
Gains on derivatives in comprehensive income	**12,815**	1,963

Unrealized gains on derivatives for the year ended December 31, 2013 were primarily attributable to the change in value of the interest rate swap contracts, followed by the embedded derivative at Cardinal, partially offset by losses on the foreign currency contracts.

The gain on interest rate swap contracts was primarily due to a gain of $6,217 on the interest rate swap on the Amherstburg debt. The fair value increased due to an increase in long-term interest rates.

The embedded derivative gain was primarily due to a decrease in the forecasted Direct Customer Rate ("DCR") and the passage of time. The liability portion of the embedded derivative is calculated by discounting Capstone's expected cash flows from Cardinal's fuel supply agreement. Cardinal may swap gas mitigation payments at DCR for a fixed rate, which means that declines in forecasted DCR reduce the fair value of the liability. Additionally, as time passes, fewer net payments are included in the calculation and the liability declines.

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

FOREIGN EXCHANGE

The foreign exchange gains were primarily due to translation of Capstone's SEK-denominated shareholder loan receivable with Värmevärden. Capstone recorded a $2,924 foreign exchange gain in 2013 compared with a $1,620 gain in 2012. In 2013, the Swedish krona appreciated by a greater margin against the Canadian dollar thereby increasing the carrying value of the loans in Canadian dollars, compared with 2012. The 2013 gain was partially offset by the decline in the shareholder loan balance following repayment of more than half of the balance in early 2012, reducing the impact of Swedish krona appreciation.

Capstone hedges the interest payments from Värmevärden, but not the outstanding loan receivable.

RISKS AND UNCERTAINTIES

Introduction

Risk is an inevitable aspect of operating any business. Decisions that balance risk exposure with intended financial rewards within risk tolerances are the responsibility of the Corporation's management under the supervision of the Board of Directors. When a risk exposure exceeds the Corporation's risk tolerance, the Corporation will, to the extent possible, take steps to eliminate, avoid, reduce or transfer such risk.

The Corporation recognizes the importance and benefits of timely identification, assessment and management of risks that may impact the Corporation's ability to achieve its strategic and financial objectives. In this respect, the Corporation is committed to prudent risk management practices within the context of an enterprise risk management ("ERM") framework. The Corporation maintains a registry of risks that is reviewed by management and the Board of Directors at least quarterly. The Corporation also undertakes an annual comprehensive review of its ERM framework and practices to continuously improve its risk management practices.

What follows is a description of the Corporation's key risk governance and risk processes to support achievement of strategic and financial performance objectives.

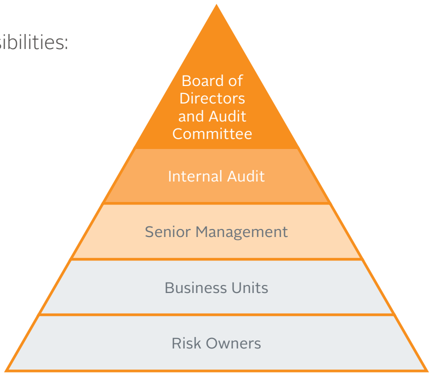
Risk Management Principles and Governance

The Corporation's ERM framework is based on five core principles which establish the culture and tone that guide risk management decisions. Risk management is:

- Everyone's responsibility;
- About decision making;
- Embedded within existing management routines;
- About people and culture; and
- Specific to each business unit.

The Corporation's implementation of the ERM framework includes the following hierarchy of responsibilities:

- **Board of Directors and Audit Committee** have overall governance responsibility for overseeing management's implementation of the risk management policy.
- **Internal Audit** is responsible for reviewing management's practices to manage risk and reporting to the Audit Committee.
- **Senior Management** is responsible for ensuring the implementation of the ERM framework to all applicable activities and reporting to the Audit Committee.
- **Business Units** are responsible for ensuring the application of a risk management framework to identify, monitor and report risk.
- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area.

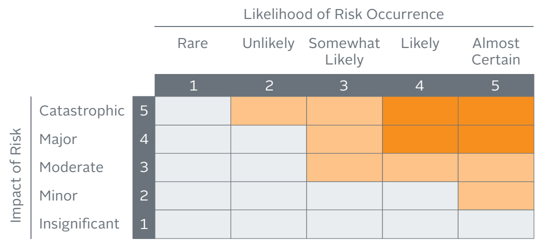


Risk Management Processes

The Corporation's framework relies on the following six key ERM processes to integrate risk management activities with strategic and operational planning, decision-making and day-to-day oversight of business activities.

- **Risk identification** is the process of identifying and categorizing risks that could impact the Corporation's objectives.
- **Risk assessment** is the process of determining the likelihood and impact of the risk. The Corporation uses a five point rating scale for likelihood and impact.
- **Risk prioritization** is the process of ranking risks as high, medium or low based on the net risk rating as described in the diagram below.
- **Risk management** responses are measures taken to optimize the Corporation's net risk exposure within overall tolerance to achieve the desired balance between risk and reward.
- **Monitoring and reporting** are the processes of assessing the effectiveness of risk management responses.
- **Training and support** ensure that personnel tasked with risk management responsibilities have sufficient knowledge and experience to complete their risk management obligations.

The Corporation's risk management approach is comprehensive. It combines the experience and specialized knowledge of individual business segments and corporate oversight functions as well as various analytic tools and methodologies, including a risk matrix (see chart to the right), to assist the Corporation in regularly assessing and updating the net exposure (including mitigants) of each known material risk facing the Corporation in the following four risk categories: operational; strategic; financial; and legal and regulatory. The Corporation's assessment process prioritizes risks.



Managing Risk

The Corporation requires that risk assessments (which encompass operational, strategic, financial and legal and regulatory risks) be performed at each business unit and at the corporate level (which takes into consideration the business unit risks that are significant to the consolidated organization). Those risks that have affected the Corporation's financial statements, and risks that are reasonably likely to affect them in the future are presented in the table below, grouped according to:

- Corporate and company-wide risks;
- Risks specific to Capstone's power infrastructure segment; and
- Risks specific to the utilities - water segment

Risks related to the utilities - district heating segment, which is accounted for using the equity method, have not been included on the basis that they are not considered to have a material financial impact to Capstone's consolidated results.

In addition to the risks described in this "Managing Risk" section, there are numerous other risk factors, many of which are beyond the Corporation's control and the effects of which can be difficult to predict, that could be material to investors or cause the Corporation's results to differ significantly from its plans, objectives and estimates. For a more comprehensive list and description of the risks affecting the Corporation, its power infrastructure facilities, Bristol Water and Värmevärden, please refer to the "Risk Factor" section of the Corporation's most recently filed Annual Information Form, as supplemented by risk factors contained in any of the following documents filed by the Corporation with securities commissions or similar authorities in Canada after the date of this annual MD&A, which are available on SEDAR at www.sedar.com: material change reports; business acquisition reports; interim financial statements; interim management's discussion and analysis; and information circulars.

Risks Related to the Corporation and its Businesses

Risk and Description	Impact	Monitoring and Mitigation
Corporate and Company-wide		
Financing risk is a financial risk concerning the ability to access timely and cost effective debt or equity to support construction of power facilities, Bristol Water's capital expenditure program, business acquisitions and replace maturing debt.	Inability to access cost effective debt or equity could result in higher interest costs, lower earnings or liquidity difficulties. For an acquisition, this could also prevent Capstone from realizing a growth opportunity preventing Capstone from achieving its strategic objectives.	Capstone maintains relationships with multiple financial institutions that have the resources to provide some or all financing requirements. Capstone endeavours to secure committed financing prior to making offers to acquire businesses. In addition, most existing project debt amortizes over the term of the PPAs and debt maturities are staggered.
Foreign currency risk is a financial risk concerning volatility of the Canadian dollar against currencies from countries where Capstone entities either operate or make purchases.	In the absence of mitigation, appreciation of the Canadian dollar could result in lower Canadian-dollar equivalent cash flows and earnings from foreign operations to Capstone. The fair value of businesses outside Canada may also decline if the Canadian dollar appreciates. Appreciation of the Canadian dollar could result in lower cost for acquisitions denominated in foreign currencies.	To the extent practicable and economic in the circumstances, Capstone typically enters into economic hedging arrangements that minimize the impact of foreign currency volatility on cash flows between Canada and foreign jurisdictions. However, Capstone usually does not enter into arrangements to hedge financial statement earnings or carrying values of its foreign businesses.
Expense management risk is a financial risk concerning unexpected non-recoverable increases in operating and administrative costs. Expenses with near-term exposures include Cardinal's and Whitecourt's fuel supply and transportation costs.	Unanticipated increases in costs could result in lower earnings and cash flow.	Capstone attempts to mitigate this risk by seeking high operating margin businesses that operate under long-term, fixed-price contracts and have contractual frameworks that accommodate cost escalation.

Risk and Description	Impact	Monitoring and Mitigation
Taxation risk is a financial risk concerning higher income and other taxes attributable to adverse legislation changes, including tax rate increases, or interpretations by tax authorities on audit. As a multi-national corporation, Capstone is exposed to global taxation initiatives or individual country differences from Canada.	Higher taxation results in both lower income and cash flow available for dividends to shareholders.	Capstone monitors the trends and policies of taxation authorities in the OECD jurisdictions where its businesses operate. Capstone minimizes exposures to adverse tax rulings by choosing structures that adhere to taxation regulations, are commonly used in practice and wherever practical supported by opinions of external advisers.
Integration risk is an operational risk concerning the ability to incorporate an acquired business in a timely manner and to realize the projected benefits and synergies from the acquisition. Capstone is currently integrating ReD.	Failure to integrate businesses in a timely manner could lead to cost overruns or lost revenues and delay future business development initiatives.	Capstone continuously improves its integration framework to promote the objectives of timeliness and cost effectiveness. Management is experienced in the acquisition and integration of businesses and has a track record for successfully integrating new businesses.
Human resources retention risk is an operational risk concerning the ability to attract, retain and motivate key staff.	Inability to retain key staff could prevent or delay Capstone from executing its business strategy, thereby causing the company to fall short of its financial forecasts.	Capstone mitigates this risk by providing competitive compensation as well as career and development opportunities.
Power		
Power purchase agreement renewal risk is an operational risk concerning the finite term of contracts for the sale of electricity and the ability to renew the agreements on favourable terms. Capstone's near-term PPA expiries are Cardinal in 2014, Whitecourt in 2014 and Sechelt in 2017.	Failure to secure PPA renewals for power facilities that have remaining useful lives could result in lost revenue, unanticipated shut down costs and impairment of asset carrying values.	Capstone enters into discussions with PPA counterparties as early as possible to maximize the potential for renewal on favourable terms. Where renewal is not possible, Capstone pursues alternative arrangements, including pursuing bilateral arrangements and alternative revenue streams, including market pricing. For debt on facilities with PPAs, Capstone fully amortizes the debt up to the expiry of the PPA.
Renewable resources risk is an operational risk concerning the dependence of power production on adequate resources such as wind, sunlight and water flow.	Inadequate wind, sunlight or water flow leads to lower power production which results in lower revenues.	Capstone maintains facilities in quality condition to maximize availability for power generation when renewable resources are available and strongest. Capstone also seeks to diversify its portfolio of businesses to mitigate the dependency on a single resource or geography.
Development risk is an operational risk concerning the construction of new power generation facilities in line with the requirements of awarded PPAs.	Delays and cost overruns in the construction of new facilities could lead to lower earnings and where PPA requirements are not met, cancellation of the PPA resulting in lost revenue and impairment of any capitalized costs for the facility.	Capstone has professional project management processes and uses experienced contractors and advisors. Capstone contracts include a combination of incentives, liquidated damages, or fixed-pricing to align suppliers interests to achieve the commercial operations dates.
Utilities - Water		
Capital Program Delivery Risk is an operational risk concerning the ability to complete capital expenditures required by Bristol Water's approved AMP5 business plan on a timely basis.	Inability to complete projects in a timely manner would result in a lower RCV, which would reduce future revenues. In addition, shortfalls in the capital expenditure program would result in financial penalties from the regulator.	Bristol Water has monitoring and professional project management processes together with appropriate construction arrangements, which include contingency and risk provisions. This is used in conjunction with overall program management to minimize the risk to achieving required delivery dates.
Health and Safety Risk is an operational risk concerning failure of Bristol Water's policies and procedures to prevent an accident or water quality incident.	Accidents and other incidents could have harmful impacts on employees or the communities that Bristol Water serves, leading to reputational damage, penalties and remediation costs resulting in lower net income.	Bristol Water minimizes its accident and incident rate by monitoring and following procedures implemented to meet the standards and legislation applicable to the water industry and companies operating in the UK.
Price Review Risk is a regulatory risk concerning an adverse decision by Ofwat on Bristol Water's proposed business plan for AMP6.	An adverse regulatory decision for price or capital expenditure plans could result in lower revenues and earnings.	Bristol Water submits its proposal to Ofwat following dialogue with Ofwat and careful consultation of the public and consumer councils. When necessary, Bristol Water can choose to appeal to the Competition Commission. Ofwat also has a primary duty to ensure that water companies are able to finance themselves including earning a reasonable return on capital.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone's Canadian power facilities and the water distribution and district heating businesses, respectively, operated by Bristol Water and Värmevärden (collectively the "Facilities") hold all material permits and approvals required for their operations and are managed to comply with environmental, health and safety laws. Bristol Water is also subject to the CRC Energy Efficiency Scheme, a mandatory UK carbon emissions reduction plan for significant consumers of energy. Costs for 2012-2013 are projected to be an immaterial amount.

The Facilities are subject to complex and stringent environmental, health and safety regulatory regimes, which primarily focus on:

- Air emissions;
- Taking of water, management of water and discharges into water, including seasonality issues;
- The storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual materials (such as chemicals);
- The prevention of releases of hazardous materials into the environment;
- The presence and remediation of hazardous materials in soil and ground water, both on and off site;
- Workers' and adjacent landowner health and safety issues;
- Sound and vibration matters; and
- Bird, bat and other wildlife impacts.

Due to the nature of their operations, the Facilities are not subject to any material contingent environment liabilities or environmental remediation costs upon the retirement of assets.

Greenhouse Gases and other Air Pollutants

Certain of the Facilities have an impact on the environment, particularly the Cardinal and Whitecourt facilities, which both emit greenhouse gases ("GHGs"), such as carbon dioxide ("CO_2") and nitrous oxides ("NOx"). All Facilities comply in all material respects with the applicable Canadian, UK, Swedish and European Union legislation and guidelines regarding GHGs and other emissions. There are a number of draft proposals in respect of changes to such legislation and guidelines (including proposed limits on GHG emissions) in various stages of development. However, it is difficult to predict how these changes may apply to the Facilities.

Capstone mitigates the potential impact of future changes to environmental legislation and guidelines by remaining diligent in the operation of the Facilities, including stringent policies and procedures to prevent the improper discharge of emissions or other pollutants. Capstone's environmental footprint is also mitigated by the renewable profile of its wind, hydro, biomass and solar power facilities, which could generate GHG offset credits, where eligible.

Cardinal

There is currently no restriction on the amount of CO_2 that the Cardinal facility may emit, although the facility is required to report its CO_2 emissions under various federal and provincial regulations. Environmental regulations in Ontario also provide for, among other things, the reporting, allocation and retirement of NOx emissions. NOx emissions from Cardinal's generating equipment are lower than the levels mandated by legislation.

Whitecourt

The Whitecourt facility uses biomass combustion technology to convert the energy content in wood waste into electricity. Biomass is generally considered to be carbon-neutral as the amount of CO_2 arising from combustion is equal to what would be emitted if the biomass were to decompose naturally. As a result, electricity generated from biomass is regarded as an environmentally-friendly form of power generation.
The Whitecourt facility is subject to limits governing the emissions of carbon monoxide, NOx and particulates in accordance with the facility's Environmental Approval. Average annual emission levels at the Whitecourt facility are below the levels of permitted emissions for the facility. The Whitecourt facility is also subject to certain federal and provincial GHG reporting requirements and is in compliance with these requirements.

Hydro Facilities

Capstone's hydro facilities do not produce GHGs. However, their operations are governed by water management plans, which specify the hydrological conditions during which production may occur.

Wind Farms

Capstone's wind farms, including Erie Shores, Glace Bay, Sky Gen, Amherst, Glen Dhu and Fitzpatrick, do not produce GHGs, but are subject to regulations and/or approvals relating to birds, mammals, other animals, and to sound.

Amherstburg Solar Park

The operation of Amherstburg does not generate GHGs.

Värmevärden

In 2007, the European Union adopted a long-term climate change target, commonly referred to as 20-20-20. The goal of the target is for member states (including Sweden) to reduce energy use by 20%, reduce CO_2 emissions by 20%, and increase their proportion of renewable energy to 20%, all by 2020. The government of Sweden has subscribed to the 20-20-20 targets and has made biomass-fired and waste-fired heating facilities, which would encompass facilities such as Värmevärden, an important component of its overall plan to meet its CO_2 reduction commitments.

Bristol Water

Energy use in water treatment and other activities carried out by Bristol Water results in indirect emissions of GHGs. Bristol Water is subject to the UK Climate Change Levy, although the forecast cost for 2013-2014 is an immaterial amount due to credits arising from Bristol Water's purchase of green energy.

Further information regarding Environmental, Safety and Health Regulations matters is contained in the Corporation's Annual Information Form (which is available under the Corporation's profile on www.sedar.com).

RELATED PARTY TRANSACTIONS

Capstone's related party transactions in 2013 primarily comprised management fees paid by Capstone's equity accounted investments and compensation to key management.

Management fees earned from Capstone's equity accounted investments are reported in the consolidated statements of income as revenue. During 2013, Capstone earned fees of $115, primarily related to the management of Glen Dhu and Fitzpatrick.

Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Compensation awarded to key management consisted of salaries, directors' fees and short-term employee benefits. Eligible directors and senior management of the Corporation also receive forms of stock-based compensation. Key management compensation is described in note 28 (Related Party Transactions) in the consolidated financial statements for the year ended December 31, 2013.

Linking Management Compensation to Performance

Compensation plays an important role in achieving short- and long-term business objectives that ultimately drive the Corporation's business success in alignment with long-term shareholder goals. The objectives of the Corporation's compensation program are to:

- Attract and retain highly qualified employees with a history of proven success;
- Align the interests of employees with shareholders' interests and with the execution of the Corporation's business strategy;
- Establish performance goals that, if met, are expected to improve long-term shareholder value; and
- Tie compensation to those goals and provide meaningful rewards for achieving them.

Financial performance targets are set each year to provide management with an incentive to improve upon yearly budgeted financial results and are therefore aligned with shareholder interests.

The following table summarizes the link between the Corporation's executive and senior officer forms of compensation and performance:

	Salary	Short-term incentive plan ("STIP")	Long-term incentive plan ("LTIP")
Description	Salary is a fixed component of compensation that provides income certainty by establishing a base level of compensation for executives fulfilling their roles and responsibilities.	The STIP provides the possibility of an additional annual cash award based on the achievement of corporate and individual goals.	The LTIP provides the possibility of an additional award linked to the Corporation's common shares. This award is paid in cash or common shares purchased on the open market after meeting certain vesting conditions.
Purpose	To attract and retain qualified executives.	To motivate, attract and retain qualified executives.	To reward long-term performance and align interests of executives with security holders.
Link to performance	No direct link.	A significant portion of this award is based on actual business performance against Capstone's non-GAAP performance measures, Adjusted EBITDA and AFFO.	A significant portion of this award is directly linked to the performance of the Corporation's shares over the vesting period, as well as the total shareholder return relative to a comparator group.

For a comprehensive understanding of Capstone's compensation program please refer to the "Compensation Discussion and Analysis" section of the Corporation's most recently filed information circular.

SUMMARY OF QUARTERLY RESULTS

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

	2013				2012			
($000s, except for per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	**110,291**	**91,418**	**93,539**	**94,255**	94,654	84,951	85,849	92,156
Net income (loss) (1 and 3)	**10,441**	**8,887**	**10,015**	**12,019**	12,909	5,836	(4,184)	13,681
Adjusted EBITDA	**37,992**	**26,253**	**31,834**	**32,342**	31,074	24,542	27,516	37,211
AFFO	**13,930**	**3,346**	**9,014**	**13,644**	13,560	3,381	3,707	14,915
Common dividends (2)	**7,208**	**5,720**	**5,709**	**5,696**	5,579	5,655	10,231	12,299
Preferred dividends	**938**	**938**	**938**	**938**	938	938	938	938
Earnings Per Share – Basic (3)	**0.099**	**0.104**	**0.119**	**0.145**	0.147	0.065	(0.068)	0.171
Earnings Per Share – Diluted (3)	**0.096**	**0.102**	**0.117**	**0.141**	0.143	0.065	(0.068)	0.165
AFFO per share	**0.145**	**0.044**	**0.119**	**0.180**	0.179	0.045	0.049	0.200
Dividends declared per common share	**0.075**	**0.075**	**0.075**	**0.075**	0.075	0.075	0.135	0.165

(1) Net income (loss) attributable to the shareholders of Capstone.

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

(3) Net income (loss) and earnings (loss) per share have been restated for changes required by IFRS to implement IAS 19 - Employee Benefits. This change, which became effective, retroactively, January 1, 2013, is described in note 2 of the consolidated financial statements for the year ended December 31, 2013.

FOURTH QUARTER 2013 HIGHLIGHTS

	Three months ended	
	Dec 31, 2013	Dec 31, 2012
Revenue	**110,291**	94,654
Operating expenses	**(54,885)**	(51,663)
Administrative expenses	**(3,169)**	(3,037)
Project development costs	**(2,097)**	(279)
Equity accounted income (loss)	**545**	3,596
Interest income	**1,022**	893
Net pension interest income	**515**	767
Other gains and (losses), net	**538**	(378)
Foreign exchange gain (loss)	**1,209**	676
Earnings before, interest, taxes, depreciation and amortization	**53,969**	45,229
Interest expense	**(13,858)**	(11,047)
Depreciation of capital assets	**(14,571)**	(12,194)
Amortization of intangible assets	**(2,878)**	(2,582)
Income (loss) before income taxes	**22,662**	19,406
Income tax recovery (expense)		
Current	**(1,744)**	1,237
Deferred	**(4,908)**	(3,712)
Total income tax recovery (expense)	**(6,652)**	(2,475)
Net income	**16,010**	16,931
Net income attributable to:		
Shareholders of Capstone	**10,441**	12,909
Non-controlling interest	**5,569**	4,022
	16,010	16,931

Capstone's EBITDA increased by $8,740, or 19.3%, compared with the fourth quarter of 2012.

Revenue increased by $15,637, or 16.5%, due to increases of $7,973 from the power segment and $7,664 from Bristol Water. The power segment increase reflected $5,714 from the addition of ReD, $1,981 from increased power generation at Erie Shores due to better wind conditions, and $733 of higher revenue at Cardinal due to higher power rates. Bristol Water's revenue increased primarily due to a favourable foreign exchange rate and higher regulated water tariffs charged to customers, which adjust annually on April 1.

Expenses increased by $5,172, or 9.4%.

- **Operating expenses** increased by $3,222, primarily due to Bristol Water ($1,740) and the addition of ReD ($1,475). Bristol Water's increase was primarily due to foreign exchange appreciation.
- **Administrative expenses**, which included $260 in costs for ReD, were consistent with the fourth quarter of 2012.
- **Project development costs** increased by $1,818, primarily reflecting costs associated with the acquisition of ReD. In addition, Capstone's power development subsidiary, launched in December 2012, incurred $551 higher costs.

Equity accounted income (loss) decreased by $3,051, or 84.8%, primarily due to Värmevärden, which had a deferred tax recovery in 2012 based on a decrease in enacted tax rates. Glen Dhu and Fitzpatrick contributed $608.

Interest income increased by $129, or 14.4%, due to higher average cash balances at corporate in 2013.

Other gains and (losses) increased by $916, or 242%, primarily due to a gain of $1,253 on the fair value of the financial instruments, partially offset by losses on the disposal of capital assets at Bristol Water.

Foreign exchange gain (loss) increased by $533 due to the impact of the appreciation of the Swedish krona on the loan receivable.

Interest expense increased by $2,811, or 25.4%, primarily due to $1,887 of additional interest for ReD project debt and convertible debentures, and a $699 increase at Bristol Water as debt increased to fund capital expenditures.

Income tax provision was a net expense in both years. The 2013 current income tax expense of $1,744 was primarily due to $1,494 of Part XII.6 tax and reassessments for the shortfall of CRCE attributable to the flow-through shares originally issued by ReD. The 2012 current income tax recovery of $1,237 was due to Bristol Water's refund of prior years taxes paid. The deferred income tax expense in both years was primarily due to differences between accounting and income tax depreciation.

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

The consolidated financial statements have been prepared in accordance with IFRS.

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

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

Refer to note 2 (Summary of Significant Accounting Policies) to the December 31, 2013 annual consolidated financial statements for detail of the nature and impact of these changes to Capstone financial statements.

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

Future Accounting Changes

The IASB has previously issued the following standard which has not yet been adopted by the Corporation:

Title of the New IFRS (1)	Impact to Capstone
IFRS 9, Jan 1, 2015 - Financial Instruments	Capstone's assessment of the impact of this standard is ongoing.

(1) See note 2 to the consolidated financial statement for the year ended December 31, 2013 for further detail about the nature of these future accounting changes.

Accounting Estimates

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

Refer to note 2 (Summary of Significant Accounting Policies) to the December 31, 2013 annual consolidated financial statements for greater detail of the areas of significance and the related critical estimates and judgments.

Capstone's significant accounting estimates and judgments used in the preparation of the consolidated financial statements were:

Area of Significance	Critical Estimates and Judgments
Capital assets, projects under development and intangible assets:	
• Purchase price allocations	• Initial fair value of net assets.
• Depreciation on capital assets	• Estimated useful lives and residual value.
• Amortization on intangible assets	• Estimated useful lives.
• Asset retirement obligations	• Expected settlement date, amount and discount rate.
• Impairment assessments of capital assets, projects under development, intangibles and goodwill	• Future cash flows and discount rate.
Retirement benefits	• Future cash flows and discount rate.
Deferred income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	• Interest rate, natural gas price, and direct consumer rate.
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 and judgements were based on historical experience, 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

Capstone's CEO and CFO are required by the various provincial securities regulators to certify annually that they have designed, or caused to be designed, Capstone's disclosure controls and procedures, as defined in the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), and that they have evaluated the effectiveness of these controls and procedures in the applicable period. Disclosure controls are those controls and other procedures that are designed to provide reasonable assurance that the relevant information that Capstone is required to disclose is recorded, processed and reported within the time frame specified by such securities regulators.

Capstone's management, under the supervision of and with the participation of the CEO and CFO, has designed internal controls over financial reporting, as defined in NI 52-109. The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of Capstone's financial reporting, in accordance with IFRS, focusing in particular on controls over information contained in the audited annual and unaudited interim consolidated financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud.

During 2013, Capstone updated its internal controls and testing for changes in its operations, including the acquisition of ReD.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at December 31, 2013 to ensure that information required to be disclosed in reports that Capstone files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

As at December 31, 2013, Capstone's management had assessed the effectiveness of Capstone's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission in Internal Control – Integrated Framework. Based on this assessment, management has determined that Capstone's internal control over financial reporting was effective as at December 31, 2013.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The consolidated financial statements are the responsibility of Capstone Infrastructure Corporation and have been approved by the Corporation's Board of Directors. These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards and include amounts that are based on estimates and judgments. Financial information contained elsewhere in this annual report is consistent with the consolidated financial statements. Capstone Infrastructure Corporation maintains a system of internal controls that are designed to provide reasonable assurance that the financial records are reliable and accurate and form a proper basis for the preparation of consolidated financial statements.

The Board of Directors of Capstone Infrastructure Corporation appointed an Audit Committee which is composed entirely of independent directors. The Audit Committee reviews the consolidated financial statements with management and the external auditors before the consolidated financial statements are submitted to the Board of Directors for approval. The independent auditor, PricewaterhouseCoopers LLP, has examined the consolidated financial statements in accordance with Canadian generally accepted auditing standards. The independent auditor's responsibility is to express an opinion on the consolidated financial statements. The following report of PricewaterhouseCoopers LLP outlines the scope of its examination and its opinion on the consolidated financial statements.

MICHAEL BERNSTEIN
President and Chief Executive Officer
Toronto, Canada
March 6, 2014

MICHAEL SMERDON
Executive Vice President and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Capstone Infrastructure Corporation

We have audited the accompanying consolidated financial statements of Capstone Infrastructure Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013, December 31, 2012 and January 1, 2012 and the consolidated statements of changes in shareholders' equity, income, comprehensive income and cash flows for the years ended December 31, 2013 and December 31, 2012, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Capstone Infrastructure Corporation and its subsidiaries as at December 31, 2013, December 31, 2012 and January 1, 2012 and their financial performance and their cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 6, 2014

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	**Dec 31, 2013**	Dec 31, 2012	Jan 1, 2012
			(note 2)	(note 2)
Current assets				
Cash and cash equivalents	4	**45,768**	49,599	57,587
Restricted cash	4	**29,547**	19,229	14,947
Short-term deposits	5	**—**	6,471	82,202
Accounts receivable	6	**89,139**	75,386	70,854
Other assets	7	**9,640**	7,218	7,448
Current portion of loans receivable	8	**1,310**	1,096	984
Current portion of derivative contract assets	9a	**25**	174	261
		175,429	159,173	234,283
Non-current assets				
Loans receivable	8	**39,578**	37,909	85,824
Derivative contract assets	9a	**1,303**	1,847	2,883
Equity accounted investments	11	**39,051**	16,990	15,993
Capital assets	12	**1,356,682**	1,086,407	977,456
Projects under development	13	**21,674**	—	—
Intangibles	14	**345,272**	283,919	288,304
Retirement benefit surplus	15	**46,241**	37,575	60,104
Deferred income tax assets	16a	**494**	3,038	3,382
Total assets		**2,025,724**	1,626,858	1,668,229
Current liabilities				
Accounts payable and other liabilities	17a	**116,852**	106,767	81,734
Current portion of derivative contract liabilities	9a	**2,219**	3,106	3,088
Current portion of finance lease obligations	18	**609**	3,502	5,256
Current portion of long-term debt	19	**18,374**	14,977	230,899
		138,054	128,352	320,977
Long-term liabilities				
Derivative contract liabilities	9a	**11,621**	27,545	31,055
Electricity supply and gas purchase contracts	14	**1,634**	3,260	4,894
Deferred income tax liabilities	16a	**182,567**	155,495	148,686
Deferred revenue	17b	**15,589**	6,298	1,363
Finance lease obligations	18	**3,761**	3,699	6,727
Long-term debt	19	**1,001,042**	789,655	704,145
Liability for asset retirement obligation	20	**3,293**	2,096	2,412
Total liabilities		**1,357,561**	1,116,400	1,220,259
Equity attributable to shareholders of Capstone		**529,550**	418,848	413,520
Non-controlling interest	22	**138,613**	91,610	34,450
Total liabilities and shareholders' equity		**2,025,724**	1,626,858	1,668,229
Commitments and contingencies	27			

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

		Equity attributable to shareholders of Capstone					
	Notes	Share Capital (1)	Other Equity Items (2)	AOCI (3)	Retained Earnings	NCI (4)	Total Equity
Balance, Dec 31, 2011		725,591	9,284	(6,729)	(314,626)	34,450	447,970
Adjustment relating to changes in accounting policy	2	—	—	—	—	—	—
Balance, Jan 1, 2012	2	725,591	9,284	(6,729)	(314,626)	34,450	447,970
Common shares issued (5)		(89)	—	—	—	—	(89)
Other comprehensive income (loss)	2	—	—	5,171	(11,803)	(6,915)	(13,547)
Net income for the period	2	—	—	—	28,243	17,728	45,971
Dividends declared to common shareholders of Capstone	21a, f	5,702	—	—	(33,764)	—	(28,062)
Dividends declared to preferred shareholders of Capstone (7)	21f	—	—	—	(4,575)	—	(4,575)
Dividends declared by Bristol Water		—	—	—	—	(5,312)	(5,312)
Disposal of partial interest in Bristol Water		—	—	749	15,694	51,659	68,102
Balance, Dec 31, 2012	2	731,204	9,284	(809)	(320,831)	91,610	510,458
Other comprehensive income (loss)	2	—	—	17,822	1,442	12,690	31,954
Net income for the period		—	—	—	41,362	25,848	67,210
Common shares issued (5)	21a	75,453	—	—	—	—	75,453
Other equity items issued or assumed on acquisition of ReD (6)	3	—	85	—	—	—	85
Expense recognized through share option reserve		—	62	—	—	—	62
Debenture conversions, net of costs	21a	100	(3)	—	—	—	97
Dividends declared to common shareholders of Capstone	21a,f	2,635	—	—	(24,333)	—	(21,698)
Dividends declared to preferred shareholders of Capstone (7)	21f	—	—	—	(3,923)	—	(3,923)
Dividends declared to NCI	22	—	—	—	—	(7,773)	(7,773)
Contributions from NCI	22	—	—	—	—	3,405	3,405
NCI in net assets acquired of ReD	3	—	—	—	—	12,833	12,833
Balance, Dec 31, 2013		809,392	9,428	17,013	(306,283)	138,613	668,163

(1) Share capital includes common and preferred shares and Class B exchangeable units.

(2) Other equity items include the equity portion of convertible debentures, as well as, the warrant and share option reserves.

(3) Accumulated other comprehensive income (loss) ("AOCI").

(4) Non-controlling interest ("NCI"). See note 22.

(5) Shares issued are net of $224 transaction costs (2012 - $89).

(6) Capstone issued 302 replacement options and 1,357 replacement warrants with a fair values of $85 and $Nil respectively at the time of ReD acquisition.

(7) Dividends declared to preferred shareholders of Capstone include $173 of deferred income taxes (2012 - $200).

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	For the year ended Dec 31, 2013	Dec 31, 2012 (note 2)
Revenue		**389,503**	357,610
Operating expenses	25	**(204,534)**	(195,732)
Administrative expenses	25	**(10,369)**	(11,070)
Project development costs	25	**(5,530)**	(365)
Equity accounted income (loss)	11a	**(2,638)**	2,294
Interest income	9b	**4,096**	4,886
Net pension interest income	15	**1,817**	2,934
Other gains and (losses), net	26	**9,789**	1,294
Foreign exchange gain (loss)		**2,924**	1,620
Earnings before interest expense, taxes, depreciation and amortization		**185,058**	163,471
Interest expense	9b	**(47,471)**	(49,168)
Depreciation of capital assets	12	**(51,183)**	(47,432)
Amortization of intangible assets	14	**(10,984)**	(10,120)
Earnings before income taxes		**75,420**	56,751
Income tax recovery (expense)			
Current		**(2,004)**	239
Deferred		**(6,206)**	(11,019)
Total income tax recovery (expense)	16d	**(8,210)**	(10,780)
Net income (loss)		**67,210**	45,971
Net income (loss) attributable to:			
Shareholders of Capstone		**41,362**	28,243
Non-controlling interest	22	**25,848**	17,728
		67,210	45,971
Earnings per share	23		
Basic		**0.462**	0.315
Diluted		**0.425**	0.315

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the year ended Dec 31, 2013	Dec 31, 2012 (note 2)
Cumulative differences on translation of foreign operations		**27,397**	6,478
Other comprehensive income from equity accounted investments	11a	**1,183**	702
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2013 – ($325), 2012 – $13, respectively)		**490**	(642)
Total of items that may be reclassified subsequently to net income		**29,070**	6,538
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2013 – ($693), 2012 – $7,498, respectively) - will not be reclassified to net income	15	**2,884**	(20,085)
Other comprehensive income (loss)		**31,954**	(13,547)
Net income (loss)		**67,210**	45,971
Total comprehensive income (loss)		**99,164**	32,424
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		**60,626**	21,611
Non-controlling interest	22	**38,538**	10,813
		99,164	32,424

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the year ended Dec 31, 2013	Dec 31, 2012
Operating activities:			
Net income		**67,210**	45,971
Deferred income tax expense (recovery)		**6,206**	11,019
Depreciation and amortization		**62,167**	57,552
Other gains and losses (net)	26	**(9,789)**	(1,294)
Amortization of deferred financing costs and non-cash financing costs		**9,020**	9,893
Equity accounted (income) loss	11a	**2,638**	(2,294)
Unrealized foreign exchange (gain) loss		**(2,890)**	(1,206)
Change in non-cash working capital	30	**1,114**	(4,963)
Total cash flows from operating activities		**135,676**	114,678
Investing activities:			
Cash acquired on business acquisition	3	**10,464**	—
Change in restricted cash and short-term deposits		**5,583**	72,010
Return of capital from equity accounted investments	11a	**4,005**	2,001
Receipt of loans receivable		**2,514**	48,943
Investment in capital assets and computer software	12b	**(146,279)**	(127,941)
Investment in projects under development	13b	**(4,648)**	—
Proceeds from sale (purchase) of foreign currency contracts		**(896)**	38
Total cash flows used in investing activities		**(129,257)**	(4,949)
Financing activities:			
Proceeds from issuance of long-term debt		**82,196**	100,621
Contributions from non controlling interest	22	**3,405**	—
Proceeds from partial sale of Bristol Water	3	**—**	68,952
Repayment of long-term debt and finance lease obligations		**(58,681)**	(253,311)
Dividends paid to common and preferred shareholders		**(25,446)**	(26,131)
Dividends paid to non-controlling interests	22	**(7,773)**	(5,312)
Settlement of interest rate swaps		**(2,407)**	—
Transaction costs on debt issuance		**(1,811)**	(3,364)
Transactions costs on issuance of common shares		**(224)**	(89)
Total cash flows used in financing activities		**(10,741)**	(118,634)
Effect of exchange rate changes on cash and cash equivalents		**491**	917
Decrease in cash and cash equivalents		**(3,831)**	(7,988)
Cash and cash equivalents, beginning of year		**49,599**	57,587
Cash and cash equivalents, end of year		**45,768**	49,599
Supplemental information:			
Interest paid		**35,177**	40,670
Taxes paid (recovery)		**3,195**	929

See accompanying notes to these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

Capstone is incorporated and domiciled in Canada and principally located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. The mission of Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") is to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally. Capstone's portfolio comprises investments in Canada's power infrastructure, including gas cogeneration, wind, hydro, biomass and solar power generating facilities, representing approximately net 439 MW of installed capacity, and contracted wind power development projects totaling an expected net 79 MW of capacity. Capstone also invests in utilities, including a 33.3% interest in a district heating business in Sweden, and a 50% interest in a regulated water utility in the United Kingdom.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are used in the preparation of these consolidated financial statements.

Basis of Preparation

Statement of compliance

The consolidated financial statements of Capstone have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorized for issue by the Board of Directors on March 6, 2014.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value as explained in the accounting policies set out below and on a going concern basis of accounting (see note 9). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Contents

Consolidation

These consolidated financial statements are primarily made up of the assets, liabilities and results of operations of the Corporation's subsidiaries, which the Corporation controls; control is presumed to exist when the Corporation holds more than 50% of the voting power of another entity.

The following table lists the significant subsidiaries of the Corporation which are accounted for on a consolidated basis:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31, 2013	2012	Principal activity
Capstone Power Corp. ("CPC")	Canada	100%	100%	Power holding company
Renewable Energy Developers Inc. ("ReD")	Canada	100%	Nil	Power holding company
Cardinal Power of Canada, L.P. ("Cardinal")	Canada	100%	100%	Power generation
Erie Shores Wind Farm Limited Partnership ("Erie Shores")	Canada	100%	100%	Power generation
MPT Hydro LP ("Hydro")	Canada	100%	100%	Power generation
Whitecourt Power Limited Partnership ("Whitecourt")	Canada	100%	100%	Power generation
Helios Solar Star A-1 Partnership ("Amherstburg")	Canada	100%	100%	Power generation
Confederation Power Inc. ("Confed")	Canada	100%	Nil	Power generation
Glace Bay Lingan Wind Power Ltd. ("Glace Bay")	Canada	100%	Nil	Power generation
Sky Generation Inc. ("SkyGen")	Canada	100%	Nil	Power generation
SP Amherst Wind Power LP ("Amherst")	Canada	51%	Nil	Power generation
Capstone Power Development Canada Corp.	Canada	100%	100%	Development
Parc Éolien Saint-Philémon S.E.C. ("Saint-Philémon")	Canada	51%	Nil	Power generation under construction
SP Operating Limited Partnership ("SPOLP")	Canada	100%	Nil	Holding company
SP Development Limited Partnership ("SPDLP")	Canada	100%	Nil	Development operations
MPT Utilities Corp.	Canada	100%	100%	Utilities holding company
MPT Utilities Europe Ltd.	Canada	100%	100%	European utilities holding company
Bristol Water plc and group companies (collectively "Bristol Water")	United Kingdom	50%	50% (1)	Regulated water utility

(1) On May 10, 2012, Capstone sold a 20% interest in Bristol Water resulting in a 50% retained interest. Capstone continues to consolidate as Capstone still exercises control over Bristol Water.

The Corporation accounts for its controlled investments using the consolidation method of accounting from the date control is obtained and deconsolidates from the date that control ceases. All intercompany balances and transactions have been eliminated on consolidation.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Corporation's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Equity Accounted Investments

Companies in which the Corporation has the ability to exercise significant influence, but not control, over financial and operating policy decisions are accounted for using the equity method; significant influence is presumed to exist when the Corporation holds between 20% and 50% of the voting power of another entity.

The following table lists the significant associates of the Corporation, which are accounted for on an equity accounting basis:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31, 2013	2012	Principal activity
Sefyr Värme AB and Värmevärden AB (Värmevärden)	Sweden	33.3%	33.3%	District heating
Glen Dhu Wind Energy Limited Partnership ("Glen Dhu")	Canada	49%	Nil	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	50%	Nil	Power generation
Macquarie Long Term Care LP ("MLTCLP")	Canada	45%	45%	Holding company
SPWC Development LP ("SPWC")	Canada	50%	Nil	Development
Chapais Électrique Limitée ("Chapais")	Canada	31.3%	31.3%	Power generation

The consolidated financial statements include the Corporation's initial investment adjusted by its share of net income (loss) and other comprehensive income (loss) and reduced by any dividends paid to the Corporation. The Corporation assesses at each year end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of income (loss).

The Corporation's share of losses of an equity accounted investment that exceed its interest and net investment in the associate are not accounted for unless the Corporation has incurred contractual obligations or has made payments on behalf of the associate.

Any surplus of the investment cost over the Corporation's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the equity investment on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

Business Combinations

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the acquired business. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3R, Business Combinations ("IFRS 3R") are recognized at their fair value at the acquisition date.

Goodwill is recognized to the extent the fair value of consideration paid exceeds the fair value of the net carrying amounts of the identifiable assets acquired and the liabilities assumed, measured in accordance with IFRS on the acquisition date.

The Corporation recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Foreign Currency Translation

Functional and presentation currency

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

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the year ended	Average	Spot	Average	Spot
Dec 31, 2012	0.1476	0.1528	1.5840	1.6178
Dec 31, 2013	**0.1581**	**0.1655**	**1.6113**	**1.7627**

The financial statements of entities that have a functional currency different from that of the Corporation are translated into Canadian dollars as follows: assets and liabilities – at closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of income in "foreign exchange gain (loss)".

Cash and Cash Equivalents and Short-Term Deposits

Cash and cash equivalents are composed of highly liquid investments with original maturities of 90 days or less at the date of acquisition and are recorded at fair value.

Deposits with original maturities of greater than 90 days are classified as short-term deposits on the consolidated statement of financial position.

Inventories

Inventories are valued at the lower of purchase cost (calculated on a first in, first out basis) and net realizable value.

Loans Receivable

The Corporation has interest-bearing financial assets that consist of a series of loans receivable from Chapais and Värmevärden. These financial assets are carried at amortized cost.

Capitalized Interest

The Corporation capitalizes interest and borrowing costs when activities that are necessary to prepare the asset for its intended use are in progress and expenditures for the asset have been used or borrowed to fund the construction or development. Capitalization of interest and borrowing costs ceases when the asset is ready for its intended use. Capitalized interest is included in the statement of financial position as part of capital assets and projects under development.

Grants and Contributions

Grants are recognized at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants and contributions related to charges in the consolidated statement of income are netted against such expenditures as received.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying value of an asset is derecognized when replaced.

Major maintenance costs are capitalized in the carrying value of the assets as incurred, and depreciated over the period to the next scheduled major maintenance. Other repairs and maintenance costs are charged to the statement of income during the period incurred.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognized within the consolidated statement of income.

The Corporation allocates the amount initially recognized in respect of an item of capital assets to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. The major categories of capital assets are depreciated using the straight-line method as follows:

	Power	**Utilities – water**
Equipment and vehicles:		
Computer hardware, communications, meters and telemetry equipment	3 to 25 years	3 to 15 years
Vehicles and equipment	3 to 15 years	5 to 7 years
Property and plant:		
Operational properties and structures	20 to 45 years	15 to 100 years
Treatment, pumping and general plant	n/a	20 to 24 years
Water network	n/a	70 to 213 years

The water network refers to an integrated network of impounding and pumped raw water storage reservoirs and water mains and associated underground pipework. For accounting purposes, the water system is segmented into components representing categories of asset classes with similar characteristics and asset lives. Expenditure on such assets relating to increases in capacity, enhancements or planned maintenance of the network is treated as an addition to capital assets and is included at cost. The cost of the water network is the purchase cost together with incidental expenses of acquisition and directly attributable labour costs which are incremental to the Corporation.

Leased Assets

Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee are capitalized and depreciated over the shorter of their estimated useful lives and the lease term. The corresponding liability is recorded as borrowings. The capital element of the lease rental is deducted from the obligation to the lessor as paid. The interest element of lease rentals and the depreciation of the relevant assets are charged to the consolidated statement of income.

Operating lease rental payments are charged to the consolidated statement of income on a straight-line basis as incurred over the term of the lease.

Transfers of Assets from Customers

Where an item of capital assets, that must be used to connect customers to the network, is received from a customer, or where cash is received from a customer for the acquisition or construction of such an item, that asset is recorded and measured on initial recognition at its fair value in accordance with IFRIC 18. The period over which the credit is recognized depends upon the nature of the service provided by the Corporation as determined by the agreement with the customer. If the agreement does not specify a period, the revenue is treated as deferred income and recognized over a period no longer than the useful life of the transferred asset used to provide the ongoing service.

Projects Under Development

Capitalized costs related to an asset under development include all eligible expenditures incurred in connection with the development and construction of the power generating asset until it is available for its intended use. The Corporation capitalizes all direct project costs related to the development of the Corporation's electricity generation projects. Capitalization commences when the project is:

- Clearly identified;
- The technical feasibility has been established;
- Management has indicated its intention to construct, operate and maintain the project;
- A future market is identified or a Power Purchase Agreement ("PPA") awarded; and
- Adequate resources exist or are expected to be available to complete the project.

Upon a project becoming commercially operational, the capitalized costs, including capitalized borrowing costs, if any, are transferred to capital assets and are amortized on a straight-line basis over the estimated useful lives of the various components.

The recovery of project development costs is dependent upon continued access to the development sites, regulatory approval, sufficient project financing, and the successful commercialization of project sites for the profitable sale of electricity.

Intangible Assets

Identifiable intangible assets

The Corporation separately identifies acquired intangible assets, including computer software and system developments, electricity supply contracts, gas purchase contracts, water rights and licences, and records each at their fair value at the date of acquisition. The initial fair value is amortized over their estimated useful lives using the straight-line method as follows:

	Power	**Utilities – water**
Computer software	3 to 7 years	3 to 7 years
Electricity supply, gas purchase and other contracts	8 to 20 years	n/a
Water rights	10 to 35 years	n/a
Licences	n/a	Indefinite life

The expected useful lives of intangible assets are reviewed on an annual basis and adjusted prospectively.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Corporation's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Impairment losses are recognized in "other gains and (losses), net". Goodwill is allocated to each cash-generating unit ("CGU") or group of CGUs that are expected to benefit from the related business combination. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment of Non-financial Assets

The capital assets and intangible assets with finite lives are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell the assets and the value in use (being the present value of the expected future cash flows of the relevant assets or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The Corporation evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Goodwill and intangible assets with indefinite lives are reviewed for impairment annually or at any time when an indicator of impairment exists. Management monitors goodwill and intangible assets with indefinite lives for internal purposes based on its CGUs. For 2013 and 2012, all goodwill and indefinite life assets pertained to the utilities – water segment.

Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Corporation performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Retirement Benefit Plans

The Corporation operates both defined contribution and defined benefit pension plans through its subsidiaries. The employees of Bristol Water and Cardinal participate in a defined contribution plan. The defined benefit plan is provided through Bristol Water's membership in the Water Companies' Pension Scheme ("WCPS") via a separate section.

Costs of defined contribution pension plans are charged to the consolidated statement of income in the period in which they fall due. Administration costs of defined contribution plans are borne by Bristol Water and Cardinal.

Defined benefit plan liabilities are measured by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality corporate bonds of equivalent term and currency to the liability. The increase in the present value of the liabilities of Bristol Water's defined benefit pension plan expected to arise from employee service in the period is charged to operating expenses. The net pension surplus is increased by applying an interest rate, equal to the discount rate used to measure the plan liabilities, to the net pension surplus. This increase is included in net pension interest income or expense.

The net asset or liability recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation less the fair value of the plan's assets. Actuarial gains and losses arising from experience adjustments, changes in actuarial assumptions and amendments to pension plans are recognized in full in the period in which they occur in the consolidated statement of comprehensive income.

Past service costs are recognized immediately to income. When a settlement or a curtailment occurs the change in the present value of the plan liabilities and the fair value of the plan assets reflects the gain or loss which is recognized in the consolidated statement of income. Losses are measured at the date that Bristol Water becomes demonstrably committed to the transaction and gains when all parties whose consent is required are irrevocably committed to the transaction.

Asset Retirement Obligations

The Corporation recognizes a provision for the future retirement obligations associated with its operating plants. These obligations are initially measured at fair value, which is the discounted future cost of the liability. A reassessment of the expected costs associated with these liabilities is performed annually with changes in the estimates of timing or amount of cash flows added or deducted from the cost of the related asset. The liability grows until the date of expected settlement of the retirement obligations.

Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

On October 1, 2013, Capstone assumed the obligations under ReD's previously issued flow-through common shares. These shares transfer the tax deductibility of qualifying expenditures to the holders of the shares for expenditures incurred prior to December 31, 2013 up to $12,142.
Any shortfall from the $12,142 results in Part XII.6 penalty tax which is recognized as a current income tax liability included accounts payable and other liabilities on consolidated statement of financial position and a current income tax expense on the consolidated statement of income.

Exchangeable Securities

The Class B exchangeable units issued by MPT LTC Holding LP meet the criteria to be presented as equity, as set out in IAS 32.

Preferred Shares

The Corporation classifies its series A preferred shares as equity for reporting purposes given that the preferred shares may be converted into a fixed number of the Corporation's own equity instruments and there is no settlement required at a future date. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

The irredeemable preferred shares of Bristol Water have been classified as debt in accordance with IAS 39.

Warrants Reserve

On the acquisition of ReD, Capstone issued replacement warrants to the existing warrant holders of ReD and recorded them at fair value. The warrants reserve is non-distributable and will be transferred to share capital upon the exercise of warrants at the carrying value. In addition, holders of the ReD warrants will also receive $0.001 dollars in cash upon the exercise of each warrant. On expiry, the unexercised warrants are transferred to contributed surplus.

Option Plan and Share Option Reserve

On the acquisition of ReD, Capstone issued replacement options to the existing option holders of ReD and recorded them at fair value. The share option plan is for the former key employees, directors and service providers of ReD. Since October 1, 2013, this plan no longer grants share options. Changes in the value, based on non-market vesting conditions, are calculated using the Black-Scholes model each period end and are expensed with a corresponding adjustment to equity. When the options are exercised, the Corporation issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

Dividends

Dividends on common and series A preferred shares are recognized in the Corporation's consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Corporation.

Revenue and Expense Recognition

Revenue derived from the sale of electricity and steam is recognized upon delivery to the customer and priced in accordance with the provisions of the applicable electricity and steam sales agreements. Certain power purchase arrangements provide for an electricity rate adjustment, which is updated periodically both for the current and prior periods. The Corporation accounts for such adjustments when a reliable estimate of the adjustment can be determined. Revenue derived from Whitecourt electricity sales to the Alberta power pool in excess of the volume as stipulated in the PPA is recorded at the hourly power pool rate. Cardinal has a profit-sharing arrangement with Husky Energy Marketing Inc. ("Husky Marketing") to sell excess gas not used in its operations in the market. Net proceeds from gas mitigation are recognized as revenue when delivery has taken place.

Capstone follows Accounting for Government Grants and disclosure of Government Assistance (IAS 20) with respect to certain power contracts with provincial jurisdictions.

Capstone recognizes management fees and development-related incentive fees in revenue received from its equity accounted investments as earned based on the terms of its respective agreements.

Revenue from the sale of water is recognized upon delivery to the customer and priced in accordance with regulatory pricing. Revenue from metered supplies is based upon actual volumes of water invoiced plus estimated volumes of water not invoiced but delivered to customers during the year.

Interest income is earned with the passage of time and is recorded on an accrual basis.

Costs related to the purchases of fuel are recorded upon delivery. All other costs are recorded as incurred.

Project development costs are recorded as incurred. These costs include the activities to pursue and develop greenfield projects in the power segment and acquisition related business development expenses incurred at corporate.

Interest expense is incurred with the passage of time and is recorded on an accrual basis.

Deferred Share Unit Plan

The Corporation has a Deferred Share Unit ("DSU") plan for eligible directors and employees of Capstone as described in note 24 (a) to these consolidated financial statements. The Corporation accounts for DSUs as an expense over the vesting period of the DSUs using the fair value of the underlying common shares, as determined by the closing price of the Corporation's publicly traded common shares on the reporting date. Changes in the Corporation's liability subsequent to the vesting date of the award and prior to the settlement date, resulting from changes in the market value of Capstone's common shares, are recorded as a charge to income in the period incurred.

Long-term Incentive Plan

The Corporation has a long-term incentive plan ("LTIP") for members of senior management as described in note 24 (b). The Corporation accounts for its grants under this plan in accordance with IFRS 2 Share-Based Payments. Compensation expense is recognized over the vesting period of the LTIP units and is adjusted for any changes in market value of the Corporation's share price.

Income Taxes

Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized directly in equity, in which case, the income tax is also recognized directly in equity.

Current income tax is the amount recoverable or expensed based on the current year's taxable income using tax rates enacted, or substantively enacted, at the reporting period, and any adjustments to income tax payable or recoveries in respect of previous years.

The Corporation follows the liability method of accounting for deferred income tax whereby deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income tax assets and liabilities are determined using income tax rates that are both expected to apply when the deferred income tax asset or liability will be settled and that have been enacted or substantively enacted as at the date of the consolidated statement of financial position.

Deferred income tax assets are recognized to the extent that it is probable that the asset can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Basic and Diluted Earnings per Share

Basic earnings per share is calculated by dividing the net income attributable to the shareholders' of Capstone, less dividends declared to preferred shareholders by the weighted average number of common shares and Class B exchangeable units of MPT LTC Holding LP.

Diluted earnings per share is computed in a similar manner as the basic earnings per share but reflects any dilutive effect from the conversion of debentures into shares and the exercise of stock options and warrants. Debenture conversions and the exercise of stock options and warrants are excluded from the computation of diluted net income per share if their effect is anti-dilutive.

Comprehensive Income

Other comprehensive income ("OCI") represents changes in shareholders' equity during a period arising from transactions and other events, including unrealized gains and losses on translation of net assets of foreign operations, the equity share of OCI of equity accounted investments and actuarial gains recognized in respect of retirement benefit obligations. OCI also includes the effective portion of the change in fair value of designated cash flow hedges of Bristol Water less any amounts reclassified to interest and other expenses, net, in the period the underlying hedged item is also recorded in interest expense, net. Accumulated other comprehensive income ("AOCI") is included as a component in the consolidated statement of shareholders' equity.

Financial Instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial instruments are required to be measured at fair value on initial recognition. Measurement in subsequent periods depends on the classification of the financial instrument. The Corporation has designated each of its significant categories of financial instruments outstanding as follows:

Classification	Significant Categories	Measurement
Financial assets and liabilities at fair value through profit and loss	• Cash and cash equivalents • Restricted cash • Short-term deposits • Derivative contract assets • Derivative contract liabilities	• At fair value with changes in fair value recognized in the consolidated statement of income
Loans and receivables	• Accounts receivable • Loans receivable	• At amortized cost using the effective interest method
Other liabilities	• Accounts payable and other liabilities • Loans payable • Finance lease obligations • Long-term debt	• At amortized cost using the effective interest method

Transaction costs relating to financial instruments classified as loans and receivables and other liabilities are deferred and amortized over the expected life of the instrument using the effective interest method. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed as incurred.

The Corporation determines the fair value of its financial instruments based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the assets and settle the liabilities simultaneously. Capstone has recorded no material offsetting arrangements.

Derivative Financial Instruments

The Corporation's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. For the years ended December 31, 2013 and 2012, the Corporation's derivatives include interest rate swaps and foreign currency contracts.

Changes in the fair values of derivative financial instruments are reported in the consolidated statement of income, except for cash flow hedges that meet the conditions for hedge accounting. The portion of the gain or loss on the hedging instruments which are determined to be an effective hedge are recognized directly in other comprehensive income, and the ineffective portion in the consolidated statement of income. Gains or losses recognized in other comprehensive income are subsequently recognized in the statement of income in the same period in which the hedged underlying transaction or firm commitment is recognized in the statement of income.

In order to qualify for hedge accounting, the Corporation is required to document in advance the relationship between the item being hedged and the hedging instrument. The Corporation is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at the end of each reporting period to ensure that the hedge remains highly effective.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract. The Corporation has determined that Cardinal's gas purchase contract contains embedded derivatives requiring separation and measurement at fair value. The features requiring separation include mitigation options and indexing features (see note 9).

Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that financial assets which the Corporation does not adjust to fair value, are impaired. If such evidence exists, the Corporation recognizes an impairment loss in the consolidated statement of income. The loss is measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows, discounted by using the instrument's original effective interest rate. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

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

EBITDA is net income (loss), including that net income (loss) related to the non-controlling interest ("NCI"), interest income and net pension interest excluding interest expense, income taxes, depreciation and amortization. EBITDA represents Capstone's continuing capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

Changes to Accounting Policies

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

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

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

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

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

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

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

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

The following tables summarize the impact on financial statement captions:

Adjustments to consolidated statement of income	**Dec 31, 2013**	Dec 31, 2012
Net pension interest income	**1,817**	2,934
Interest expense	**826**	539
Operating expense	**(560)**	(554)
Deferred income tax recovery (expense)	**(479)**	(672)
Change to net income	**1,604**	2,247
Net income before accounting change	**65,606**	43,724
Net income after accounting change	**67,210**	45,971
Net income after accounting change attributable to:		
Shareholders of Capstone	**41,362**	28,243
Non-controlling interest	**25,848**	17,728
Net income after accounting change	**67,210**	45,971

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

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

Adjustments to Earnings Per Share ("EPS")	**Dec 31, 2013**	Dec 31, 2012
Basic EPS before accounting change	**0.452**	0.298
Change to net income attributable to the shareholders of Capstone per share	**0.010**	0.017
Basic EPS after accounting change	**0.462**	0.315
Diluted EPS before accounting change	**0.416**	0.298
Change to net income attributable to the shareholders of Capstone per share	**0.009**	0.017
Diluted EPS after accounting change	**0.425**	0.315

Adjustments to consolidated statement of comprehensive income	**Dec 31, 2013**	Dec 31, 2012
Decrease in other comprehensive income for actuarial gains and losses recognized in respect of retirement benefit obligations	**(2,083)**	(2,919)
Increase in other comprehensive income for deferred income taxes	**479**	672
Change to net income	**1,604**	2,247
Change to comprehensive income	**—**	—
Comprehensive income before and after accounting change	**99,164**	32,424
Comprehensive income after accounting change attributable to:		
Shareholders of Capstone	**60,626**	21,611
Non-controlling interest	**38,538**	10,813
Comprehensive income after accounting change	**99,164**	32,424

Future Accounting Changes

The IASB has previously issued the following standard which has not yet been adopted by the Corporation:

Title of the New IFRS	**Nature of the Impending Change to Capstone**	**Impact to Capstone**
IFRS 9, Jan 1, 2015 Financial Instruments	Replaces IAS 39 which addresses the classification and measurement of financial assets, as well as the measurement methodology for debt and equity instruments.	Capstone's assessment of the impact of this standard is ongoing.

Critical Accounting Estimates and Judgments

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a risk of causing a material adjustment to the carrying values of financial assets and financial liabilities within the next financial year.

Area of Significance	Critical Estimate	Critical Judgment
Capital assets, projects under development and intangible assets – carrying values Fair value estimates are required in the determination of the net assets acquired in a business combination and in the impairment assessment for our capital assets and the assignment of amounts to the asset retirement obligations, as well as assessing capitalization criteria for project development costs.	• Estimates are based on assumptions that are sensitive to change, which may have a significant impact on the valuations performed. • Impairment reviews of the carrying value of capital and other long-lived assets along with the asset retirement obligations require management to estimate fair value based on future cash flows, discount rates and business performance.	• Initial fair value of net assets • Estimated useful lives and residual value • Estimated future cash flows • Expected settlement date and amount • Discount rate • Decision criteria for capitalization of development costs
Retirement benefits The present value of defined benefit pension obligations is dependent on actuarial calculations, which include a number of assumptions.	• Assumptions include the discount rate, which is used to calculate the present value of the estimated future cash outflows that will be required to meet the pension obligations. In determining the discount rate to use, the Corporation considers market yields of high quality corporate bonds, denominated in UK pounds sterling, that have times to maturity approximating the terms of the pension liability.	• Future cash flows and discount rate
Deferred income taxes Estimates in the determination of deferred income taxes affect asset and liability balances.	• The determination of the deferred income tax balances of the Corporation requires management to make estimates of the reversal of existing temporary differences between the accounting and tax bases of assets and liabilities in future periods.	• Timing of reversal of temporary differences • Tax rates • Current and future taxable income
Financial instrument fair value measurements When observable prices are not available, fair values are determined by using valuation techniques that refer to observable market data. This is specifically related to Capstone's financial instruments.	• Management's valuation techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. • For embedded derivatives, fair values are determined from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate.	• Interest rate • Natural gas rate • Direct customer rate
Accounts receivable The allowance for doubtful accounts for Bristol Water is calculated based on an assessment of expected cash flows. Collective impairment losses on receivables with similar credit risk are calculated using a statistical model.	• The probability of failing to recover accounts receivable is determined by considering past experience, adjusted for changes in external factors. The accuracy of the impairment calculation would therefore be affected by unexpected changes to the economic situation, and to changes in customer behavior. To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by $528.	• Probability of a failure to recover accounts receivable when they fall into arrears
Accounting for investments in non-wholly owned subsidiaries When Capstone owns a partial interest in an entity, significant judgment is required to determine the proper accounting treatment. Capstone consolidates upon evaluating its ability to control a subsidiary.	• No critical estimates are involved in determining control.	• Determine how relevant activities are directed (either through voting rights or contracts) • Determine if Capstone has substantive or protective rights • Determine Capstone's ability to influence returns

NOTE 3. ACQUISITION AND DISPOSITION

Acquisition of Renewable Energy Developers

On October 1, 2013, Capstone acquired 100% of the issued and outstanding shares of ReD in exchange for common shares of Capstone issued pursuant to a plan of arrangement (the "Arrangement"). At closing, ReD shareholders received 0.26 of a Capstone common share ("Capstone Share") and $0.001 dollars in cash in exchange for each share of ReD. Capstone issued 19,699 common shares to acquire ReD.

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

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

The acquisition was accounted for using the acquisition method of accounting, which requires that Capstone recognize the identifiable assets acquired and liabilities assumed at their fair values on the date of acquisition. As at October 1, 2013, the non-controlling interest was calculated on the fair value of the net identifiable assets. Transaction costs on acquisition of $4,278 were expensed in the consolidated statement of income as part of project development costs and $192 were capitalized to equity as part of the share issuance.

The allocation of the purchase price is preliminary and may be revised up to 12 months after the acquisition date.

Consideration at October 1, 2013	
Cash	76
Share capital (1)	75,645
Warrants and share options	85
Total	75,806

(1) The fair value of the shares is calculated with reference to the quoted price of the shares of Capstone at the date of acquisition, October 1, 2013, which was $3.84 per share.

Recognized amounts of identifiable assets acquired and liabilities assumed at October 1, 2013	**Fair value**
Working capital (1)	437
Capital and other assets	130,029
Projects under development	12,683
Intangible assets – electricity supply and other contracts	52,041
Equity accounted investments	27,599
Less: net financial liabilities (net of $10,464 and $8,659 for cash and restricted cash acquired, respectively)	(115,825)
Other liabilities	(2,777)
Deferred income tax liability	(15,548)
Total identifiable net assets	88,639
Non-controlling interest	(12,833)
Total	75,806

(1) Working capital includes $3,286 of accounts receivable, no allowance for doubtful debts are recorded.

IFRS requires disclosure as though the acquisition date for the business combination had been at the beginning of the reporting period, as of January 1, 2013. The pro forma consolidated financial information of Capstone for the year ended December 31, 2013, was as follows:

	Revenue	**Net Income (loss)**
Capstone (excluding ReD)	383,788	68,275
ReD	21,813	(21,069)
	405,601	47,206

Since acquisition on October 1, 2013, ReD contributed revenue of $5,714 and a net loss of $1,062 to Capstone's financial results.

Partial Sale of Interest in Bristol Water

On May 10, 2012, Capstone sold a 20% indirect interest in Bristol Water plc to I-Environment Investments Ltd, a subsidiary of ITOCHU Corporation. I-Environment Investments Ltd acquired a 2/7ths ownership interest in CSE Water UK Limited, which indirectly owns a 70% interest in Bristol Water plc. Capstone received $68,952 of net proceeds on sale and used the funds to repay the remaining $28,975 on the senior debt facility and $39,000 on the CPC-Cardinal credit facility, retaining cash of $977.

Following this sale, Capstone retained a 50% beneficial interest in Bristol Water and continues to consolidate based on retention of control. Capstone recorded the transaction as a transfer of equity to non-controlling interest holders as follows:

As at May 10, 2012	
Proceeds on sale (£43,500)	70,274
Transaction costs	(1,322)
Net proceeds on sale	68,952
Taxes payable for gain on sale	(850)
Adjustment to total equity	68,102
Non-controlling interest adjustment	(52,408)
Retained earnings adjustment	15,694

In addition, the portion of cumulative differences on translation related to Bristol Water has been adjusted to the non-controlling interest acquired by ITOCHU Corporation as follows:

	AOCI	NCI
Non-controlling interest adjustment for partial sale of interest in Bristol Water	—	52,408
Transfer of cumulative differences on translation of foreign operations	749	(749)
Non-controlling interest adjustment, net	749	51,659

NOTE 4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Dec 31, 2013	Dec 31, 2012
Debt service and maintenance reserves	**23,231**	19,044
Cash on deposit in support of letters of credit	**6,243**	—
Cash on deposit	**73**	73
Construction holdbacks	**—**	112
Restricted cash	**29,547**	19,229
Unrestricted cash and cash equivalents	**45,768**	49,599
	75,315	68,828

Restricted cash is primarily cash that is held by the Corporation's subsidiaries in support of segregated bank accounts to support debt service reserves, and/or operating and maintenance reserves in support of specific long-term debt, as well as, various letters of credit.

NOTE 5. SHORT-TERM DEPOSITS

	Dec 31, 2013	Dec 31, 2012
Short-term cash deposits	**—**	6,471

For the year ended December 31, 2012, the effective interest rate on short-term cash deposits was 0.45% and these deposits had an average maturity date of 54 days.

NOTE 6. TRADE AND OTHER RECEIVABLES

	Dec 31, 2013	Dec 31, 2012
Power	**33,760**	31,618
Utilities – water	**53,373**	43,480
Corporate	**2,006**	288
Total trade and other receivables	**89,139**	75,386

Substantially all of the accounts receivable for the power segment are with government authorities. Refer to note 10 (b) and 10 (c) for further detail of credit risk and economic dependence.

The utilities – water segment accounts receivable are composed of:

	Dec 31, 2013	Dec 31, 2012
Trade receivables	**46,795**	39,181
Less: provision for impairment of receivables	**(25,775)**	(21,907)
Net trade receivables	**21,020**	17,274
Other receivables	**7,464**	6,044
Accrued revenue	**24,889**	20,162
	53,373	43,480

The aging of net trade receivables at Bristol Water was:

	Dec 31, 2013	Dec 31, 2012
Past due 0-30 days	**4,756**	3,255
Past due 31-120 days	**5,263**	4,744
Past due more than 120 days	**11,001**	9,275
	21,020	17,274

As at December 31, 2013, based on a review of collection rates, $25,775 of trade receivables in the utilities – water segment were considered impaired and have been provided for (December 31, 2012 – $21,907).

The increase in the provision for impairment of trade receivables at Bristol Water comprised:

	2013	2012
As at January 1	**(21,907)**	(21,438)
Charge to statement of income	**(5,954)**	(6,181)
Amounts written off during the year as uncollectable	**4,212**	6,225
Net foreign exchange difference	**(2,126)**	(513)
As at December 31	**(25,775)**	(21,907)

Charges for impaired receivables have been included in the consolidated statement of income as part of operating expenses.

The other classes within trade and other receivables do not contain impaired assets.

Bristol Water has created an IAS 39 portfolio provision, but cannot identify which receivables are specifically impaired. Bristol Water policy is to consider the receivables impairment to be allocated on a collective basis and only impaired for the purposes of IFRS 7 disclosures when the loss can be specifically identified with the receivable.

Bristol Water is required to continue providing residential customers with water regardless of payment.

NOTE 7. OTHER ASSETS

	Dec 31, 2013	Dec 31, 2012
Prepaid expenses	**5,855**	3,665
Inventory of spare parts and consumable supplies, net [(1)]	**3,785**	3,553
	9,640	7,218

(1) Inventory as at December 31, 2013 is net of $370 provision for obsolescence (December 31, 2012 - $383).

The cost of inventories recognized in operating expenses for the year ended December 31, 2013 was $6,419 (December 31, 2012 – $5,929).

NOTE 8. LOANS RECEIVABLE

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

	Maturity	Interest Rate	**Dec 31, 2013**	Dec 31, 2012
Värmevärden	2021	7.9%	**37,658**	34,768
MLTCLP	2014	—%	**89**	—
Chapais:				
Tranche A (original principal $ 9,391)	2015	10.8%	**2,579**	3,675
Tranche B (original principal $ 3,624)	2019	4.9%	**562**	562
			40,888	39,005
Less: current portion			**(1,310)**	(1,096)
Total long-term loans receivable			**39,578**	37,909

Accrued interest on the loans receivable in the amount of $113 for the year ended December 31, 2013 is included in accounts receivable (December 31, 2012 – $63).

The estimated fair values of the loans receivable as at December 31, 2013 and 2012 approximate the carrying values.

Värmevärden

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

For the year ended	**December 31, 2013**		December 31, 2012	
	SEK	**$**	SEK	$
Opening balance	**227,541**	**34,768**	551,808	81,587
Principal repayment	**—**	**—**	(324,267)	(47,959)
Unrealized foreign exchange gain (loss)	**—**	**2,890**	—	1,140
Ending balance	**227,541**	**37,658**	227,541	34,768

During the first quarter of 2012, Värmevärden's parent company, Sefyr Värme AB, in which Capstone holds a 33.3% indirect investment, completed an approximately $150,000 (1,000,000 SEK) offering of senior secured bonds to select institutional investors. The bonds have a five-year term, are non-amortizing and have a coupon of 7.0%.

Proceeds from the bond issuance were distributed to the owners of Sefyr Värme AB, with Capstone receiving approximately $49,400, which was used to repay a portion of the senior credit facility. The distribution of $49,400 was comprised of a $48,100 shareholder loan repayment and a payment of $1,300 of accrued interest. Refer to note 19 (Long-term debt).

In March 2012, the shareholder loan receivable from Värmevärden was amended including the annual interest rate which became 7.944%.

Chapais

Expected repayments of the Chapais loan receivable for the next five years and thereafter were as follows:

Year	Amount
2014	1,220
2015	1,359
2016	—
2017	—
2018	—
Thereafter	562
Total	3,141

NOTE 9. FINANCIAL INSTRUMENTS

(A) Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, short-term deposits, accounts receivable, loans receivable, accounts payable and other liabilities, finance lease obligations, long-term debt, interest rate swap contracts and foreign currency contracts. The Corporation also has embedded derivatives on one of its commodity contracts.

Financial instruments designated as held-for-trading

The Corporation invests its cash and cash equivalents and restricted cash balances in financial instruments of highly rated financial institutions and government securities with original maturities of 90 days or less. Short-term deposits have original maturities of greater than 90 days.

As at December 31, 2013, the carrying values of cash and cash equivalents, restricted cash and short-term deposits are considered to be approximately at their fair value due to their short-term nature, which is consistent with the prior year.

Derivative financial instruments and hedging instruments

Interest rate swap

The Corporation has interest rate swap contracts to effectively fix the interest cost on its long-term debt with variable rates, summarized as follows:

- Amherstburg project debt swap has a notional amount of $86,680. The Corporation pays a fixed rate of 4.1925% in return for a floating rate equal to 1.275%.
- Bristol Water has a swap with a notional amount of £10,000 for a bank loan drawn in October 2008 by Bristol Water. The swap exchanges LIBOR rates on a six monthly basis for a fixed rate of 5.025% and expires December 7, 2017. The swap meets the requirement to be accounted for as a cash flow hedge as it was assessed to be highly effective as at December 31, 2013.

Embedded derivative

The Corporation has determined that its gas purchase contract contains embedded derivative features, which include mitigation options and electricity indexing features requiring separation and measurement at fair value.

Foreign currency contracts

The Corporation has foreign currency contracts to mitigate the currency risk for interest payments on the shareholder loan due from Värmevärden in SEK and dividends from Bristol Water in pounds sterling. Capstone's options to sell foreign currencies as at December 31, 2013, are summarized as follows:

	Swedish Krona (SEK)		UK Pound Sterling (£)	
Expiry	**Notional Amount**	**Conversion Rate**	**Notional Amount**	**Conversion Rate**
2014	21,400	6.5165	£3,500	1.6230
2015	9,800	6.5165	£2,600	1.6230
2015	12,000	6.5165	£1,500	1.5500
2016	9,000	6.4000	£2,250	1.5500
2016	9,100	6.5165		
2017	15,000	6.4000		
2018	6,500	6.4000		
	82,800		£9,850	

The Corporation has determined the fair value of derivative financial instruments as follows:

Interest rate swap	• The fair value of the interest rate swap contracts fluctuates with changes in market interest rates. • A discounted cash flow valuation based on a forward interest rate curve was used to determine their fair value.
Interest rate swap (Cash flow hedges)	• The market price of comparable instruments at the statement of financial position date is used to determine the fair value of cash flow hedges at Bristol Water.
Embedded derivative	• The determination of the fair value of the Corporation's embedded derivatives requires the use of option pricing models involving significant judgment based on management's estimates and assumptions.
Foreign currency contracts	• The fair value of the foreign currency contracts fluctuates with changes in the relative currencies to the Canadian dollar. • A Black-Scholes model, based on the current spot price, discount rate, volatility in the underlying currency and time to maturity, is used to determine fair value.

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

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

Loans and receivables

The Corporation's accounts receivable, which consist of trade receivables and accrued interest on loans receivable, are recorded initially at fair value.

The Corporation's loans receivable are subsequently measured at amortized cost using the effective interest rate method.

The fair value of the Corporation's loans receivable may differ from the carrying value due to changes in interest rates and the underlying risk associated with the debtor. It is determined using a discounted cash flow analysis. See note 8 for further details.

Other liabilities

The Corporation's accounts payable and accrued liabilities and loans payable are short-term liabilities with carrying values that approximate their fair values as at December 31, 2013.

The Corporation's long-term debt and finance lease obligations are recorded at amortized cost using the effective interest rate method. The carrying amount of indexed linked borrowings increases annually in line with the retail price index ("RPI") with accretion being charged to the consolidated statement of income as interest expense.

The fair value of the Corporation's long-term debt is determined using level 1 and level 2 inputs as follows:

- Floating rate debt approximates its carrying value.

Use level 1 inputs:

- Convertible debentures are valued by multiplying the current market debenture price as per the Toronto Stock Exchange by the number of convertible shares outstanding as at year end. See note 19 for further details.
- Irredeemable preferred shares for Bristol Water plc (shown as debt within these financial statements) are listed on the London Stock Exchange. Their fair value is determined by the quoted market price.

Use level 2 inputs:

- Fixed-rate debt is determined through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an estimated margin.

The carrying value of the Corporation's finance leases approximates fair value.

The following table illustrates the classification of the Corporation's financial instruments that have been recorded at fair value as at December 31, 2013, within the fair value hierarchy:

	Level 1 Quoted prices in active markets for identical assets	**Level 2** Significant other observable inputs	**Level 3** Significant unobservable inputs	**Dec 31, 2013**	Dec 31, 2012
Cash and cash equivalents	45,768	—	—	**45,768**	49,599
Restricted cash	29,547	—	—	**29,547**	19,229
Short-term deposits	—	—	—	**—**	6,471
Recurring measurements:					
Derivative contract assets:					
Foreign currency contracts	—	450	—	**450**	849
Interest rate swap contracts	—	—	—	**—**	—
Embedded derivative asset	—	—	878	**878**	1,172
Less: Current portion	—	(25)	—	**(25)**	(174)
	—	425	878	**1,303**	1,847
Derivative contract liabilities:					
Interest rate swap contracts	—	6,166	—	**6,166**	15,337
Interest rate swap contracts for hedging	—	2,174	—	**2,174**	3,156
Embedded derivative liability	—	—	5,500	**5,500**	12,158
Less: Current portion	—	(2,219)	—	**(2,219)**	(3,106)
	—	6,121	5,500	**11,621**	27,545

No financial instruments were transferred between levels during the period.

Fair value continuity for level 3 inputs

	Net, embedded derivative
Opening balance, December 31, 2012	(10,986)
Other gains and (losses), net included in net income	6,364
Closing balance, December 31, 2013	(4,622)

(B) Income and Expenses From Financial Instruments

	Dec 31, 2013	Dec 31, 2012
Financial instruments designated as held-for-trading:		
Interest income on cash and cash equivalents, restricted cash and short-term deposits (2)	739	962
Financial instruments classified as held-for-trading:		
Unrealized loss on foreign currency contracts	(1,474)	(975)
Unrealized gain (loss) on interest rate swap contracts	6,648	(100)
Unrealized loss on embedded derivative asset	(294)	(152)
Unrealized gain on embedded derivative liability	6,658	3,832
	11,538	2,605
Realized gain on derivative financial instruments	295	—
Loans and receivables(1):		
Interest income from loans receivable (2)	3,357	3,924
Other liabilities:		
Interest expense on finance lease obligations	(46)	(226)
Interest expense on long-term debt with maturities under 12 months	—	(4,978)
Interest expense on long-term debt(3)	(47,425)	(43,964)
	(47,471)	(49,168)

(1) Foreign exchange gains and losses on loans receivable are also recognized in the statement of income as disclosed in note 8.
(2) Interest income for 2013 of $4,096 (2012 – $4,886) includes interest income from loans receivable, short-term deposits and cash balances.
(3) Interest expense on the long-term debt for 2013 includes amortization of deferred financing fees of $2,069 (2012 – $1,965).

NOTE 10. FINANCIAL RISK MANAGEMENT

The Corporation's normal operating, investing and financing activities expose it to a variety of financial risks, including market risk (including commodity price risk, interest rate and inflation risk, and foreign currency risk), credit risk, economic dependence and liquidity risk. The Corporation's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk.

(A) Market Risk

Market risk is the risk or uncertainty arising from possible price movements and their impact on the future performance of the business. The Corporation is exposed to gas and power prices (commodity price risk), interest rates, foreign currency exchange rates and other indices that could adversely affect the value of the Corporation's financial assets, liabilities or expected future cash flows.

Commodity price risk

Cardinal's gas purchase agreement mitigates Cardinal's risk to exposure to changes in the market price of gas. This agreement expires on May 1, 2015. Upon expiry of the agreement, Cardinal may choose to renegotiate the agreement or enter into a new agreement, and may not be able to do so on terms that are similar to the existing agreement, if at all, or buy gas at spot rates.

The majority of the electricity that is generated at the power facilities is sold to large utilities or creditworthy customers under fixed long-term PPAs providing a specified rate for a defined period of time. The excess power capacity of Whitecourt may be sold in the open market exposing certain assets to fluctuations in energy prices.

Bristol Water is exposed to risk in prices for materials and services used in its treatment processes, including for chemicals and electricity. Risk is minimized through actively monitoring the market and by the use of fixed price supply contracts extending over more than one year where considered appropriate.

Interest rate and inflation risk

Interest rate risk arises as changes in market interest rates affect the Corporation's future payments on debt obligations. The Corporation is exposed to interest rate risk on its floating rate debt. Currently, the Corporation has interest rate swap contracts to mitigate some of the risks associated with its long-term debt.

The terms of the contracts are as follows:

Entity	Maturity Date	Notional Amount	Swap Fixed Rate	Stamping Fee	Effective Interest Rate
Amherstburg	June 30, 2028	86,680	4.193%	3.13%	7.32%
Bristol Water	December 7, 2017	£10,000	5.025%	—	5.025%

The interest rate swap contracts at Bristol Water have been designated for hedge accounting. No other derivative contracts above have been designated for hedge accounting.

Inflation risk arises as changes to inflation rates cause future cash flows from financial instruments to fluctuate. The index linked long-term debt at Bristol Water is subject to inflation risk. Inflation risk is mitigated by the indexation to RPI included in the determination of Bristol Water's regulated revenue. Refer to note 19 (c)(ii) for further detail on this debt.

Foreign currency exchange risk

The Corporation's exposure to foreign currency exchange risk is primarily related to the investment in Bristol Water, Värmevärden and the SEK-denominated shareholder loan with Värmevärden. The power segment also has expenses and capital commitments exposed to foreign currency exchange risk.

Changes in the Canadian dollar and UK pound sterling currency rates impact the carrying value of assets, liabilities and components of the consolidated statement of income. Bristol Water has a foreign functional currency requiring movements in the UK pound sterling to be reflected by the Corporation on consolidation.

Capstone is also exposed to foreign exchange risk from the translation of foreign monetary assets. Changes in the Canadian dollar and SEK currency rates impact the value of the shareholder loan with Värmevärden resulting in a foreign exchange gain or loss which is included in the consolidated statement of income.

Capstone's power assets have expenses or capital commitments in currencies other than the Canadian dollars and expects that as new projects are built additional purchases will be made in foreign currencies. To mitigate these risks Capstone monitors the risk associated with foreign exchange rate fluctuations and, from time to time may enter into forward foreign exchange contracts or employ other hedging strategies. As at December 31, 2013, Capstone did not hold any foreign exchange contracts to hedge these purchase commitments.

(B) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to honour a financial obligation. Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents, restricted cash, short-term deposits, accounts and loans receivable and derivative contracts.

The Corporation deposits its cash and holds its short-term investments with reputable financial institutions and limits the exposure by counterparty, therefore management believes the risk of loss to be remote.

Credit risk concentration with respect to power trade receivables is limited due to the Corporation's customer base being predominantly government authorities. The table below summarizes power trade receivables from the sale of electricity by counterparty:

For the year ended	**Dec 31, 2013**	Dec 31, 2012
Ontario Power Authority ("OPA")	**3,408**	3,975
Ontario Electricity Financial Corporation ("OEFC")	**24,654**	23,948
Other	**7,754**	3,983
	35,816	31,906

There are no accounts receivable that are past due. Since the OPA and OEFC are government agencies, management considers credit risk to be minimal.

Bristol Water is required to supply water to all customers in its licenced area. Consequently, for residential customers Bristol Water is not able to disconnect services in the event of non-payment. For commercial customers, Bristol Water has the right of disconnection in the event of non-payment. For all customers, Bristol Water has implemented policies and procedures to assess the risk of non-payment, recoup debts and establish appropriate provisions.

The Corporation's derivative agreements expose Capstone to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect hedge. Counterparties to the Corporation's derivative contracts are major financial institutions that have been accorded investment grade ratings. Consequently, management believes there to be minimal credit risk associated with its derivative contracts.

(C) Economic Dependence

Economic dependence arises when an enterprise relies on a significant volume of business with another party that cannot be easily transferred at similar terms and conditions or is abnormal relative to expectations of similar entities. The table below summarizes revenue from the sale of electricity by counterparty for the power segment:

For the year ended	**Dec 31, 2013**	Dec 31, 2012
OPA	**37,962**	36,937
OEFC	**122,191**	113,684
Other	**33,775**	28,597
	193,928	179,218

For the utilities – water segment, no economic dependence exists. Bristol Water has a large number of customers and there is no significant loss on trade receivables that has not been provided for. Revenue is derived from water supply and related activities in the United Kingdom.

(D) Liquidity Risk

Liquidity risk is the risk that the Corporation may have insufficient cash or other resources to meet obligations as they come due.

Compliance with debt covenants

The Corporation has financial liabilities in the power and utilities – water operating segments, as well as at corporate. Refer to notes 17 (Accounts payable and other liabilities), 18 (Finance lease obligations) and 19 (Long-term debt) for further detail on financial liabilities. These financial liabilities contain a number of standard financial and other covenants.

Failure to comply with terms and covenants of the Corporation's credit agreements could result in a default, which, if not cured or waived, could result in accelerated repayment or the suspension of dividends.

In the event of default, there can be no assurance that the Corporation could:

(i) Generate sufficient cash flow from operations or that future dividends will be available in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs; or

(ii) Refinance these credit agreements or obtain additional financing on commercially reasonable terms, if at all. The credit agreements, and future borrowings may be, at variable rates of interest, which exposes the Corporation to the risk of increased interest rates.

Contractual maturities

The contractual maturities of the Corporation's financial liabilities as at December 31, 2013 were as follows:

Financial Liabilities	**Within one year**	**One year to five years**	**Beyond five years**	**Total**
Accounts payable and accrued liabilities	116,852	—	—	116,852
Derivative financial instruments				
Embedded derivatives	—	5,500	—	5,500
Interest rate swaps	2,219	4,263	1,858	8,340
	2,219	9,763	1,858	13,840
Finance lease obligations				
Minimum lease payments	652	3,423	353	4,428
Finance charges	39	582	572	1,193
	691	4,005	925	5,621
Long-term debt				
Principal payments	18,374	338,930	601,794	959,098
Interest payments	45,465	140,639	332,755	518,859
	63,839	479,569	934,549	1,477,957

(E) Sensitivity Analysis

The sensitivity analysis provided below discloses the effect on net income for the year ended December 31, 2013, assuming that a reasonably possible change in the relevant risk variable has occurred during the year and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities, where available, or historical data.

The sensitivity analysis has been prepared based on December 31, 2013 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments and the proportion of financial instruments in foreign currencies in place at December 31, 2013 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments under IFRS 7.

The sensitivity analysis provided is hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Corporation's actual exposure to market rates is constantly changing as the Corporation's portfolio of commodity, debt, foreign currency and equity contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates, hedging strategies employed by the Corporation or other mitigating actions that would be taken by the Corporation.

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

Embedded derivative	Dec 31, 2013	Unobservable inputs	Estimated input	Relationship of input to fair value
Asset	878	Natural gas price	Empress gas and Dawn gas spot and forward prices. Empress spot price of 3.95 dollars and Dawn spot price of 4.87 dollars.	10% increase in gas price results in an increase in fair value of $392.
		DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $28.
Liability	(5,500)	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $699.
	(4,622)			

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

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

	Carrying	Interest Rate Risk		Canadian $ to SEK Foreign Exchange Rate Risk	
For year ended Dec 31, 2013	Amount	(0.5)%	0.5%	(10)%	10%
Financial assets:					
Cash and cash equivalents (1)	45,768	(229)	229	—	—
Restricted cash	29,547	(148)	148	—	—
Short-term deposits	—	—	—	—	—
Loans receivable (2)	37,658	—	—	(3,766)	3,766
SEK – foreign exchange contracts	317	—	—	(460)	213
Financial liabilities:					
Finance lease obligations	4,370	22	(22)	—	—
Long-term debt (3)	99,435	497	(497)	—	—
Interest rate swap contracts, net (4)	6,165	2,929	(2,929)	—	—

(1) Cash and cash equivalents include deposits at call, which are at floating interest rates.
(2) Loans receivable exclude loans related to Chapais of $3,141.
(3) Long-term debt excludes all fixed-rate debt totaling $835,724 and variable rate debt that is covered by a swap instrument for fixed-rate debt totaling $86,680.
(4) Interest rate swaps exclude Bristol Water's cash flow hedge of $2,174 as changes flow through OCI.

UK pound sterling foreign exchange contracts have been excluded from this analysis as the change is considered insignificant with respect to currency fluctuation on consolidation.

Capstone's financial instruments are subject to changes in inflation and foreign exchange on Bristol Water's long-term debt. The following table summarizes the sensitivities as follows:

	Inflation Rate Risk (RPI)		Canadian $ to £ Foreign Exchange Rate Risk	
For year ended Dec 31, 2013	(1)%	1%	(1)%	1%
Impact on net income before taxes	2,934	(2,934)	—	—
Impact on equity	2,259	(2,259)	3,948	(3,948)

NOTE 11. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

	Dec 31, 2013		Dec 31, 2012	
As at	**Ownership %**	**Carrying Value**	Ownership %	Carrying Value
Värmevärden	**33.3%**	**12,009**	33.3%	16,903
Glen Dhu (1)	**49.0%**	**26,323**	—%	—
Others (2)	**31.3-50.0%**	**719**	31.3-45.0%	87
		39,051		16,990

(1) Under the limited partnership agreement, Capstone has the option to acquire an additional 1% interest in Glen Dhu from November 2017 to November 2018 at a price based on a predetermined calculation.
(2) Others include Capstone's investment in Fitzpatrick, MLTCLP, SPWC and Chapais. (December 31, 2012 - MLTCLP and Chapais)

Each equity accounted investment is subject to a shareholder or limited partnership agreement that governs distributions from these investments. In addition, distributions must also comply with the respective debt agreements. See note 8 for detail on loans receivable with Värmevärden, MLTCLP and Chapais.

The changes in the Corporation's total equity accounted investments for the years ended were as follows:

For the year ended	Opening Balance	Acquisition, Plus Costs, Less non-cash Return of Capital	Equity Accounted Income (Loss)	Equity Share of OCI	Distributions Received	Other	Ending Balance
Dec 31, 2013	**16,990**	**27,521**	**(2,638)**	**1,183**	**(4,005)**	**—**	**39,051**
Dec 31, 2012	15,993	—	2,294	702	(2,001)	2	16,990

(B) Summarized Information for Equity Accounted Investments

The Corporation has summarized the information of its equity accounted investments at their gross values as follows:

As at	Dec 31, 2013				Dec 31, 2012		
Summarized Statements of Financial Position	**Värmevärden**	**Glen Dhu**	**Others**	**Total**	Värmevärden	Others	Total
Assets							
Current	**63,081**	**7,916**	**8,469**	**79,466**	68,053	7,667	75,720
Non-Current	**331,531**	**130,652**	**27,074**	**489,257**	323,155	19,288	342,443
Liabilities						—	—
Current	**(15,332)**	**(6,690)**	**(34,405)**	**(56,427)**	(19,478)	(6,245)	(25,723)
Non-Current	**(338,667)**	**(108,116)**	**(6,095)**	**(452,878)**	(317,109)	(36,041)	(353,150)
Equity before fair value increments on purchase	**40,613**	**23,762**	**(4,957)**	**59,418**	54,621	(15,331)	39,290
Fair value increments, net of amortization	**(4,550)**	**29,959**	**1,587**	**26,996**	(3,861)	—	(3,861)
Equity including unamortized fair value increments on purchase	**36,063**	**53,721**	**(3,370)**	**86,414**	50,760	(15,331)	35,429
Capstone's ownership interest	**33.3%**	**49.0%**	**31.3-50.0%**		33.3%	31.3-45.0%	
Carrying value of investment	**12,009**	**26,323**	**719**	**39,051**	16,903	87	16,990

For the year ended	Dec 31, 2013				Dec 31, 2012		
Summarized Statements of Income	**Värmevärden**	**Glen Dhu**	**Others**	**Total**	Värmevärden	Others	Total
Revenue	**102,501**	**5,667**	**19,992**	**128,160**	97,182	19,390	116,572
Net Income	**(8,850)**	**1,256**	**4,069**	**(3,525)**	6,947	2,237	9,184
OCI	**3,545**	**—**	**—**	**3,545**	2,102	—	2,102
Total comprehensive Income	**(5,305)**	**1,256**	**4,069**	**20**	9,049	2,237	11,286
Capstone's ownership interest	**33.3%**	**49%**	**31.3-50.0%**		33.3%	31.3-45.0%	
	(1,767)	**615**	**(7)**	**(1,159)**	3,013	(17)	2,996
Amortization of fair value adjustments	**—**	**(285)**	**(11)**	**(296)**	—	—	—
	(1,767)	**330**	**(18)**	**(1,455)**	3,013	(17)	2,996

Capstone received distributions of $3,127 (2012 - $2,001) from Värmevärden and $878 (2012 - nil) from Glen Dhu, were received in 2013.

NOTE 12. CAPITAL ASSETS

(A) Continuity

	Jan 1, 2013	Business Acquisition	Additions	Disposals	Foreign Exchange	Transfers	Dec 31, 2013
Cost							
Land	2,766	817	—	—	242	165	3,990
Equipment and vehicles	15,650	21	866	(1,402)	1,879	(1,495)	15,519
Property and plant	851,726	127,053	4,906	(4,788)	40,375	23,470	1,042,742
Water network	346,530	—	54,165	—	45,406	33,743	479,844
Construction in progress	51,209	—	75,759	(9)	5,831	(62,515)	70,275
	1,267,881	127,891	135,696	(6,199)	93,733	(6,632)	1,612,370
Accumulated depreciation							
Equipment and vehicles	(5,160)	—	(2,035)	1,340	(1,422)	—	(7,277)
Property and plant	(168,416)	—	(43,141)	2,747	(18,331)	—	(227,141)
Water network	(7,898)	—	(6,007)	9	(7,374)	—	(21,270)
Net carrying value	1,086,407	127,891	84,513	(2,103)	66,606	(6,632)	1,356,682

	Jan 1, 2012	Additions	Disposals	Foreign Exchange	Transfers	Dec 31, 2012
Cost						
Land	2,707	—	—	59	—	2,766
Equipment and vehicles	8,389	1,001	(637)	534	6,363	15,650
Property and plant	790,178	4,517	(4,729)	9,906	51,854	851,726
Water network	271,485	59,571	—	9,542	5,932	346,530
Construction in progress	35,750	80,984	—	1,162	(66,687)	51,209
	1,108,509	146,073	(5,366)	21,203	(2,538)	1,267,881
Accumulated depreciation						
Equipment and vehicles	(3,568)	(1,847)	608	(353)	—	(5,160)
Property and plant	(126,465)	(40,516)	2,978	(4,413)	—	(168,416)
Water network	(1,020)	(5,069)	—	(1,809)	—	(7,898)
Net carrying value	977,456	98,641	(1,780)	14,628	(2,538)	1,086,407

(B) Reconciliation to Cash Additions

Year ended	Dec 31, 2013	Dec 31, 2012
Additions	**135,696**	146,073
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	**8,942**	(18,919)
Net foreign exchange difference	**1,641**	787
Cash additions	**146,279**	127,941

(C) Construction in Progress

The net book value of capital assets includes $5,451 (£3,092) of capitalized interest at Bristol Water in accordance with IAS 23. Capstone has used 5.5% as the interest rate to determine the amount capitalized.

As assets became available for use, their carrying values were transferred from construction in progress to the appropriate asset class at which time amortization over the asset useful life began. Carrying values within construction in progress are not amortized.

(D) Capital Assets Under Finance Leases

As at	Land	Equipment and Vehicles	Property and Plant	Water Network	Total
Dec 31, 2013	**—**	**5**	**16,584**	**1,410**	**17,999**
Dec 31, 2012	—	4	16,924	1,315	18,243

(E) Impairments

At the end of each reporting period, Capstone reviews its capital assets and amortizing intangible assets to determine if any indicators of impairment exist. As at December 31, 2013, Capstone identified the deficit of market capitalization to the carrying amount of owners' equity as an indicator of impairment. Consequently, Capstone performed a comprehensive analysis, which confirmed that the fair value of its assets was greater than the carrying amounts included in these consolidated financial statements. As a result, no impairments were recognized at December 31, 2013.

Capstone's determination of fair value was based on a discounted cash flow analysis of the expected future cash flows for each cash generating unit ("CGU"). The analysis then compared the recoverable amount of each CGU with the carrying amount included in the consolidated statement of financial position. For the purposes of this analysis, the recoverable amount was based on the present value of cash flows, which relies on management's current best estimate of the underlying cash flows and discount rate.

NOTE 13. PROJECTS UNDER DEVELOPMENT

(A) Continuity

	2013
As at January 1, 2013	**—**
Business acquisition	**12,683**
Capitalized costs during the year	**8,991**
As at December 31, 2013	**21,674**

As at December 31, 2013, projects under development did not include any capitalized interest costs.

(B) Reconciliation to Cash Additions

Year ended	**Dec 31, 2013**
Additions	**8,991**
Adjustment for change in additions to projects under development included in accounts payable and accrued liabilities	**(4,343)**
Cash additions	**4,648**

NOTE 14. INTANGIBLES

	Jan 1, 2013	**Business Acquisition**	**Additions**	**Foreign Exchange**	**Transfers**	**Dec 31, 2013**
Assets						
Computer software	7,544	—	79	3,549	6,632	17,804
Electricity supply, gas purchase and other contracts	108,048	52,041	—	—	—	160,089
Water rights	73,018	—	—	—	—	73,018
Licence	21,516	—	—	1,927	—	23,443
Goodwill	139,712	—	—	12,539	—	152,251
Accumulated amortization						
Computer software	(3,269)	—	(2,831)	(2,804)	—	(8,904)
Electricity supply and gas purchase contracts	(50,967)	—	(7,668)	—	—	(58,635)
Water rights	(11,683)	—	(2,111)	—	—	(13,794)
	283,919	52,041	(12,531)	15,211	6,632	345,272
Provisions						
Electricity supply and gas purchase contracts	12,257	—	—	—	—	12,257
Utilization	(8,997)	—	(1,626)	—	—	(10,623)
	3,260	—	(1,626)	—	—	1,634

	Jan 1, 2012	Additions	Foreign Exchange	Transfers	Dec 31, 2012
Assets					
Computer software	4,220	28	758	2,538	7,544
Electricity supply, gas purchase and other contracts	108,048	—	—	—	108,048
Water rights	73,018	—	—	—	73,018
Licence	21,012	—	504	—	21,516
Goodwill	135,512	—	4,200	—	139,712
Accumulated amortization					
Computer software	(550)	(2,060)	(659)	—	(3,269)
Electricity supply and gas purchase contracts	(43,395)	(7,572)	—	—	(50,967)
Water rights	(9,561)	(2,122)	—	—	(11,683)
	288,304	(11,726)	4,803	2,538	283,919
Provisions					
Electricity supply and gas purchase contracts	12,257	—	—	—	12,257
Utilization	(7,363)	(1,634)	—	—	(8,997)
	4,894	(1,634)	—	—	3,260

On the acquisition of Bristol Water, Capstone recognized an indefinite life intangible asset for the value of the licence to operate the water network granted by the regulator ("Ofwat"). The licence is related to the exclusive right to operate and invest in the water network within the licenced geographic area. Ofwat grants a perpetual licence with a 25-year notice.

Goodwill is attributed to the utilities – water reporting segment which forms a CGU.

NOTE 15. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

Bristol Water and Cardinal operate defined contribution retirement plans for certain employees. The total cost recorded in the statement of income for the year ended December 31, 2013 was $1,563 (December 31, 2012 – $1,319).

Defined Benefit Plan

Defined benefit pension arrangements for Bristol Water's employees are provided through Bristol Water's membership in the WCPS, which provides defined benefits based on final pensionable pay. Bristol Water's membership in the WCPS is through a separate section (the "Section") of the plan. The assets of the Section are held separately from those of Bristol Water and are invested by discretionary fund managers appointed by the trustees of the plan. The Section has been closed to new entrants and all new eligible employees are offered membership in the defined contribution pension plan.

In addition to providing benefits to employees and former employees of Bristol Water plc, the Section provides benefits to Bristol Water plc employees who transferred to Bristol Wessex Billing Services Ltd. The majority of the Section assets and liabilities relate to Bristol Water plc employees and former employees.

The Section funds are administered by trustees who are independent of the Company. Contributions are paid to the Section in accordance with the recommendations of an independent actuary.

Basis of Valuation

The formal actuarial valuation of Bristol Water's Section of the WCPS as at March 31, 2013 was updated to December 31, 2013, by Lane, Clark & Peacock LLP, using the following significant assumptions in accordance with IAS 19:

Assumptions	**2013**	2012
Inflation – Retail Price Index	**3.6%**	3.1%
Inflation – Consumer Price Index	**2.6%**	2.6%
Pension increases uncapped	**2.6%**	2.6%
Pension increases capped at 5%	**2.6%**	2.6%
Salary increases	**4.1%**	4.1%
Discount rate	**4.4%**	4.3%

Asset Allocation

The following table summarizes the market value of assets, present value of liabilities and resulting surplus for Bristol Water's Section of the defined benefits pension plan. The assets include a breakdown by the main asset classes.

As at	**Dec 31, 2013**		Dec 31, 2012	
	Amount	**Allocation**	Amount	Allocation
Equities	**23,784**	**8%**	22,788	8%
Diversified growth funds	**10,141**	**3%**	8,526	3%
Bonds	**254,566**	**85%**	229,192	85%
Emerging markets multi-asset funds	**5,410**	**2%**	5,366	2%
High yield bonds	**6,076**	**2%**	5,216	2%
Other	**629**	**—%**	562	—%
Market value of assets	**300,606**	**100%**	271,650	100%
Present value of liabilities	**(254,365)**		(234,075)	
Surplus	**46,241**		37,575	

The majority of the Section assets are held within instruments with quoted market prices in an active market.

Demographic Assumptions

The mortality assumptions have been drawn from actuarial table S1NA with a 95% adjustment to mortality rates and with future improvements in line with CMI 2012 projections from 2003, subject to a minimum increase of 1.3% and 1.0% per annum, for males and females, respectively. Per the mortality assumptions used the average life expectancy for a male pensioner currently aged 60 is 27.4 years and for a female pensioner currently aged 60 is 29.7 years (December 31, 2012 – 26.9 male, 29.2 female).

The allowance made for future improvements in longevity is such that a male member retiring at age 60 in 2038 (i.e. in 25 years' time) is assumed to have an increased average life expectancy from retirement of 29.9 years, and for a female retiring at age 60 in 2038 is assumed to have increased to 31.8 years (December 31, 2012 – 28.9 male, 30.8 female).

The weighted average duration of the expected benefit payments from the Section is around 16 years.

Contributions

Contributions paid in the year to the Section were $3,840 (£2,383) (December 31, 2012 – $4,400 (£2,778)). For normal employer contributions after April 1, 2012 Bristol Water was required to contribute at the rates of 29% for the main sub Section and 17% for the alternative benefits sub Section of the relevant payroll costs. Prior to April 1, 2012, Bristol Water contributed 21% and 10%, respectively.

The estimated amount of the total employer contribution expected to be paid to the Section for the year ending December 31, 2014 is $4,374 (£2,485).

Changes in Comprehensive Income

Analysis of operating expense, interest expense and amounts recognized in other comprehensive income:

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Current service cost	**2,219**	2,054
Past service cost	**18**	—
Section expenses	**520**	493
Total operating expense	**2,757**	2,547
Interest income on Section assets	**11,635**	12,465
Interest expense on Section obligation	**(9,818)**	(9,531)
Net pension interest income	**1,817**	2,934
Gain/(loss) from change in financial assumptions	**3,565**	(15,286)
Gain/(loss) from change in demographic assumptions	**(2,027)**	(1,864)
Experience gains/(losses)	**2,211**	(1,831)
Return on plan assets, excluding amounts included in interest income	**(1,558)**	(8,602)
Deferred tax (expense)/recovery	**693**	7,498
Actuarial gain/(loss) recognized in other comprehensive income ("OCI")	**2,884**	(20,085)

Changes in Financial Position

The following table summarizes the movement in the defined benefit surplus for the asset and liability components of the Section:

For the year ended	December 31, 2013			December 31, 2012		
	Asset	**Liability**	**Total**	Asset	Liability	Total
Opening surplus in Section	**271,650**	**(234,075)**	**37,575**	267,114	(207,010)	60,104
Current service cost	**—**	**(2,219)**	**(2,219)**	—	(2,054)	(2,054)
Past service cost	**—**	**(18)**	**(18)**	—	—	—
Pension interest	**11,635**	**(9,818)**	**1,817**	12,465	(9,531)	2,934
Section expenses	**(520)**	**—**	**(520)**	(493)	—	(493)
Re-measurements:						
Gain/(loss) from change in financial assumptions	**—**	**3,565**	**3,565**	—	(15,286)	(15,286)
Gain/(loss) from change in demographic assumptions	**—**	**(2,027)**	**(2,027)**	—	(1,864)	(1,864)
Experience gains/(losses)	**—**	**2,211**	**2,211**	—	(1,831)	(1,831)
Return on plan assets, excluding amounts included in interest income	**(1,558)**	**—**	**(1,558)**	(8,602)	—	(8,602)
Contributions by employer	**3,840**	**—**	**3,840**	3,726	—	3,726
Contributions by employees	**649**	**(649)**	**—**	675	(675)	—
Benefits paid	**(9,705)**	**9,705**	**—**	(9,604)	9,604	—
Foreign exchange	**24,615**	**(21,040)**	**3,575**	6,369	(5,428)	941
Ending surplus in Section	**300,606**	**(254,365)**	**46,241**	271,650	(234,075)	37,575

The actual return on the Section's assets for the year ended as at December 31, 2013 was a gain of $10,077 (£6,184) (December 31, 2012 – gain of $3,371 (£2,128)).

Risks and Sensitivity Analysis

Bristol Water's defined benefit plan is exposed to a number of risks, the following table summarizes the most significant risks:

Risk	**Impact**
Changes in bond yields A decrease in corporate bond yields will increase plan liabilities, although this will be partially offset by an increase in the value of the Section's bond holdings.	An increase in the discount rate would lead to a reduction in the value placed on the liabilities of the Section
Inflation The pension increases granted by the Section vary according to the benefit scale and period of service to which the pension relates. The majority of pensions in payment increase in line with the increases set out in government Pension Increase (Review) Orders, with some also being subject to a maximum increase of 5% per annum. The government has confirmed that in future Pension Increase Orders will be based on CPI inflation.	Higher inflation would lead to higher liabilities. The majority of the Section's assets are either unaffected by or loosely correlated with inflation, meaning that an increase in inflation would also reduce the Section surplus.
Asset Volatility The current investment strategy is to invest in a combination of risk-reducing assets (i.e. United Kingdom government bonds) and return-seeking assets (i.e. equities and other diversified assets), with the allocation to risk-reducing assets gradually increased so that by March 2027, 100% of the Section's assets are invested in risk-reducing assets.	The plan liabilities are calculated using a discount rate set with reference to yields on United Kingdom AA-rated corporate bonds. If plan assets under-perform this yield, it will create a deficit.
Life expectancy Post-retirement life expectancy contains considerable uncertainty, particularly when considering the projection of future changes in mortality rates.	Increases in life expectancy will result in an increase in the Section's liabilities. Inflationary increases result in higher sensitivity to changes in life expectancy.

Capstone has assessed the assumptions impacted by these risks provided the following indicative sensitivities:.

		Sensitivity - Impact on Retirement Benefit Surplus	
Significant Assumption	**Change in Assumption**	**Increase**	**Decrease**
Discount Rate	0.1%	3,701	(3,878)
Inflation	0.1%	(2,820)	2,820
Value of return seeking asset portfolio	25% (1)	11,281	(11,281)
Life expectancy	1 year	(7,756)	7,756

(1) This represents a 25% increase or decrease in the return on equities, diversified growth funds, emerging markets multi asset funds and high yield bonds.

The sensitivities have been calculated to show the movement in the defined benefit obligation or surplus in isolation, and assuming no other changes in market conditions. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

NOTE 16. INCOME TAXES

(A) Deferred Income Tax

As at	Dec 31, 2013	Dec 31, 2012
Deferred income tax assets	**494**	3,038
Deferred income tax liabilities	**(182,567)**	(155,495)
Net, deferred income tax liability	**(182,073)**	(152,457)

The net deferred income tax liability without taking into consideration the offsetting of balances within the same jurisdiction are detailed as follows:

As at	Dec 31, 2013	Dec 31, 2012
Non-capital loss carry-forwards	**45,520**	3,431
Loan premium and deferred financing costs	**13,076**	13,286
Financial Instruments	**3,319**	7,562
Levelization amounts	**1,505**	3,116
Asset retirement obligations	**873**	528
Other	**824**	625
Deferred income tax assets	**65,117**	28,548
Capital assets	**(193,516)**	(139,024)
Intangibles	**(44,246)**	(32,368)
Retirement benefit surplus	**(9,246)**	(8,712)
Other	**(182)**	(901)
Deferred income tax liabilities	**(247,190)**	(181,005)
Net, deferred income tax liability	**(182,073)**	(152,457)

A continuity of the net deferred income tax liability follows:

As at	Dec 31, 2013	Dec 31, 2012
Net, deferred income tax liability as at January 1	**(152,457)**	(145,304)
Recorded in earnings	**(6,206)**	(11,019)
Recognized in OCI	**(8,540)**	5,063
Business acquisition	**(15,548)**	—
Other	**678**	(1,197)
Net, deferred income tax liability as at December 31	**(182,073)**	(152,457)

(B) Timing of Deferred Income Tax Recovery

The timing of deferred income tax recovery is summarized as follows:

As at	Dec 31, 2013	Dec 31, 2012
Within 12 months	**4,731**	17,983
After more than 12 months	**(186,804)**	(170,440)
Net, deferred tax liability	**(182,073)**	(152,457)

The aggregate amount of temporary differences associated with investments in subsidiaries and equity-accounted investees, for which deferred tax liabilities have not been recognized, as at December 31, 2013 was $31,730 (December 31, 2012 – $12,612). These liabilities have not been recorded as the reversal of such differences are not expected to create a tax liability.

(C) Tax Loss Carry-forwards

Capstone's tax loss carry-forwards, and the portion recognized in deferred income tax assets were as follows:

	Expiry	Recognized	Unrecognized	Dec 31, 2013	Dec 31, 2012
Canadian – capital losses	No expiry	—	84,610	**84,610**	84,610
Canadian – non-capital losses	2025 – 2033	171,784	70,649	**242,433**	73,480
US – non-capital losses	2023 – 2027	—	15,379	**15,379**	14,385
UK – capital losses (£2,864)	No expiry	—	5,048	**5,048**	4,633
UK – advanced corporation tax (£3,922)	No expiry	—	6,913	**6,913**	6,345

The Corporation additionally has $17,544 of unused tax credits, which have not been recognized as a tax asset as at December 31, 2013 (December 31, 2012 – $14,659).

(D) Rate Reconciliation

The following table reconciles the expected income tax expense using the statutory tax rate to the expense:

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Income (loss) before income taxes	**75,420**	56,751
Statutory income tax rate	**25.9%**	25.5%
Income tax expense based on statutory income tax rate	**19,534**	14,472
Permanent differences	**492**	(1,461)
Tax rate differentials	**(14,812)**	(7,076)
Unrecognized losses arising in the year	**2,018**	4,075
Impact on attributes renounced to shareholders	**1,200**	—
Part XII.6 taxes and penalties	**294**	—
Other	**(516)**	788
Total income tax recovery	**8,210**	10,798

The statutory income tax rate of 25.9% (2012 – 25.5%) increased due to changes in Capstone's allocation of provincial taxable income.

(E) Current Income Taxes

Current income taxes payable of $2,581 are included in accounts payable and other liabilities on the statement of financial position (see note 17(a)).

NOTE 17. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(A) Current Payables and Accrued Liabilities

	Dec 31, 2013	Dec 31, 2012
Dividends payable	**7,833**	6,302
Income taxes payable	**2,581**	2,186
Other accounts payable and accrued liabilities	**106,438**	98,279
	116,852	106,767

Income taxes payable primarily comprised $318 (2012 - $1,099) for Part V.1 on preferred dividends and $1,494 (2012 - Nil) for Part XII.6 for Canadian Renewable and Conservation Expense ("CRCE") CRCE penalties, as well as potential claims which may arise as a result of possible reassessments denying personal tax deductions to the investors. Part XII.6 taxes arose from the acquisition of ReD as a result of obligations to incur qualifying CRCE for previously issued flow-through shares. The remaining $769 are attributable to current income taxes payable (2012 - $1,087).

(B) Deferred Revenue

Deferred revenue represents grants and contributions received by the utilities – water segment in respect of assets that are not related to the water network less amounts amortized to the statement of income:

	2013	2012
As at January 1	**6,298**	1,363
Contributions received	**7,933**	4,856
Amortized to statement of income	**(290)**	(55)
Net foreign exchange difference	**1,648**	134
As at December 31	**15,589**	6,298

NOTE 18. FINANCE LEASE OBLIGATIONS

	Interest Rate	Maturity	**Dec 31, 2013**	Dec 31, 2012
Utilities – water: equipment leases	3.61 - 4.10%	2014 – 2020	**4,370**	7,201
			4,370	7,201
Less: current portion			**(609)**	(3,502)
Non-current portion			**3,761**	3,699

For the year ended December 31, 2013, the Corporation repaid $3,339 (December 31, 2012 - $5,172) on finance leases, including interest of $126 (December 31, 2012 – $221).

The minimum lease payments in the next five years and thereafter are reconciled to the finance lease obligation as follow:

	Within one year	One year to five years	Beyond five years	Less: future finance charges	Total
Utilities – water	691	4,005	925	(1,251)	4,370

NOTE 19. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	**Dec 31, 2013**		Dec 31, 2012	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Power	**368,045**	**371,744**	305,497	297,792
Utilities – water	**627,632**	**576,034**	519,660	474,648
Corporate	**81,694**	**80,107**	44,416	40,631
	1,077,371	**1,027,885**	869,573	813,071
Less: deferred financing costs	**—**	**(8,469)**	—	(8,439)
Long-term debt	**1,077,371**	**1,019,416**	869,573	804,632
Less: current portion	**(26,743)**	**(18,374)**	(21,258)	(14,977)
	1,050,628	**1,001,042**	848,315	789,655

(B) Power

As at	**Dec 31, 2013**		Dec 31, 2012	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
CPC-Cardinal credit facility	**—**	**—**	12,050	12,050
Erie Shores project debt	**96,613**	**92,156**	106,538	97,703
Glace Bay project debt	**17,104**	**17,243**	—	—
Sky Gen project debt	**37,137**	**36,965**	—	—
Amherst project debt	**44,491**	**44,770**	—	—
Amherstburg project debt	**86,680**	**86,680**	90,560	90,560
Hydro facilities' senior secured and subordinated bonds	**86,020**	**93,930**	96,349	97,479
	368,045	**371,744**	305,497	297,792
Less: deferred financing costs	**—**	**(3,992)**	—	(5,080)
Long-term debt	**368,045**	**367,752**	305,497	292,712
Less: current portion	**(26,743)**	**(18,374)**	(21,258)	(14,977)
	341,302	**349,378**	284,239	277,735

(i) CPC-Cardinal credit facility

On November 12, 2013, the Corporation repaid the CPC-Cardinal credit facility from the proceeds of the new corporate credit facility.

(ii) Erie Shores Wind Farm

	Interest Rate	Maturity	**Dec 31, 2013**	Dec 31, 2012
Tranche A	5.96%	Apr 1, 2026	**54,198**	57,041
Tranche B	5.28%	Apr 1, 2016	**2,361**	3,223
Tranche C	6.15%	Apr 1, 2026	**35,597**	37,439
			92,156	97,703

The Erie Shores project debt was secured only by Erie Shores' assets, with no recourse to the Corporation's other assets, except for a $5,000 limited recourse guarantee provided by CPC to the lenders of the Erie Shores project debt. As at December 31, 2013, the carrying value of the assets of Erie Shores exceeded the total amount of project debt outstanding.

Under the agreement, Erie Shores must satisfy certain restrictive covenants as to minimum debt service coverage ratios. Additionally, Erie Shores is required to set aside $5,672 as restricted cash to cover the debt service and maintenance reserves.

(iii) Glace Bay project debt

	Interest Rate	Maturity	**Dec 31, 2013**	Dec 31, 2012
Term loan	6.36%	Apr 21, 2019	**8,533**	—
Term loan	5.99%	Apr 1, 2027	**3,570**	—
Term loan	4.72%	Oct 1, 2032	**5,140**	—
			17,243	—

Glace Bay project debt has regular principal and interest payments, over the term to maturity and is secured only by the assets of Glace Bay, with no recourse to the Corporation's other assets. As at December 31, 2013, the carrying value of the assets of Glace Bay exceeded the total amount of project debt outstanding.

Under the agreement, Glace Bay must satisfy certain restrictive covenants as to minimum debt service coverage ratios. Additionally, Glace Bay is required to set aside $1,600 as restricted cash to cover the debt service and operating and maintenance reserves.

(iv) Sky Gen project debt

	Interest Rate	Maturity	**Dec 31, 2013**	Dec 31, 2012
Term loans	4.22% to 5.06%	Dec 31, 2016	**26,372**	—
Term loan	6.22%	Sep 30, 2017	**608**	—
Promissory note payable	5.00%	Feb 1, 2016	**9,985**	—
			36,965	—

Sky Gen project debt has regular principal and interest payments, over the term to maturity and is secured only by the assets of Sky Gen, with no recourse to the Corporation's other assets. As at December 31, 2013, the carrying value of the assets of Sky Gen exceeded the total amount of project debt outstanding.

Under the agreement, Sky Gen must satisfy certain restrictive covenants as to minimum debt service coverage ratios.

(v) Amherst project debt

	Interest Rate	Maturity	**Dec 31, 2013**	Dec 31, 2012
Term loan	6.20%	Apr 30, 2032	**44,770**	—

Amherst's project debt has regular principal and interest payments, over the term to maturity and is secured only by the assets of Amherst, with no recourse to the Corporation's other assets, except for a $1,000 limited recourse guarantee provided by ReD to the lenders of the Amherst project debt. As at December 31, 2013, the carrying value of the assets of Amherst exceeded the total amount of project debt outstanding.

Under the agreement, Amherst must satisfy certain restrictive covenants as to minimum debt service coverage ratios. Additionally, Amherst is required to set aside $1,102 as letters of credit against the borrowing capacity of the corporate credit facility to cover the debt service and maintenance reserves.

(vi) Amherstburg project debt

	Interest Rate	Maturity	**Dec 31, 2013**	Dec 31, 2012
Project debt	7.32%	Jun 30, 2016	**86,680**	90,560

Amherstburg's project debt has regular principal and interest payments, over 17 years, with a five-year maturity and is secured only by the assets of Amherstburg, with no recourse to the Corporation's other assets. As at December 31, 2013, the carrying value of the assets of Amherstburg exceeded the total amount of project debt outstanding.

Under the agreement, Amherstburg must satisfy certain restrictive covenants as to minimum debt service coverage ratios. Additionally, Amherstburg is required to set aside $5,950 as letters of credit against the borrowing capacity of the corporate credit facility to cover the debt service and maintenance reserves.

As at December 31, 2013, Amherstburg's project debt had an interest rate swap contract to mitigate interest rate risk (see note 10(a)).

(vii) Hydro facilities' senior secured and subordinated secured bonds

As at	Interest Rate	Maturity	**Dec 31, 2013**	Dec 31, 2012
Senior secured bonds	4.56%	Jun 30, 2040	**73,688**	77,237
Subordinated secured bonds	7.00%	Jun 30, 2041	**20,242**	20,242
			93,930	97,479

On June 6, 2012, MPT Hydro LP completed a $100,621 debt offering to recapitalize the Dryden, Hluey Lakes, Sechelt and Wawatay facilities (the "hydro facilities"). The debt offering comprised $80,379 of senior secured bonds and $20,242 of subordinated secured bonds. The senior secured and subordinated secured bonds are fully amortizing over their respective terms.

The bonds are secured by the hydro facilities alone and are non-recourse to the Corporation's other businesses. As at December 31, 2013, the carrying value of the assets of the hydro facilities exceeded the total amount of bonds outstanding.

Under the agreement, the hydro facilities must satisfy certain restrictive covenants as to minimum debt service coverage ratios. Additionally, the hydro facilities are required to set aside $6,194 as restricted cash to cover the debt service and maintenance reserves.

(C) Utilities – water

	Dec 31, 2013		Dec 31, 2012	
As at	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Bank loans	**87,056**	**87,329**	31,540	31,430
Term loans	**505,322**	**457,786**	457,563	414,857
Debentures	**2,424**	**2,275**	2,346	2,072
Irredeemable cumulative preferred shares	**32,830**	**28,644**	28,211	26,289
	627,632	**576,034**	519,660	474,648
Less: deferred financing costs	**—**	**(2,047)**	—	(1,111)
Long-term debt	**627,632**	**573,987**	519,660	473,537
Less: current portion	**—**	**—**	—	—
	627,632	**573,987**	519,660	473,537

(i) Bank loans

			Dec 31, 2013	**Dec 31, 2013**	Dec 31, 2012
As at	Interest Rate	Maturity	**[£]**	**[$]**	[$]
Secured, variable interest at one month Libor plus a margin (principal £10,000(1))	1.23%	Dec 17, 2017	**9,771**	**17,224**	15,715
Secured, variable interest at six month Libor plus a margin (principal £10,000(1 and 2))	5.73%	Dec 17, 2017	**9,771**	**17,224**	15,715
HSBC plc (principal £26,000)	1.93%	Aug 17, 2017	**26,000**	**45,830**	—
The Royal Bank of Scotland plc (principal £4,000)	1.58%	Aug 17, 2015	**4,000**	**7,051**	—
				87,329	31,430

(1) The principal due on maturity is different from the balance as at December 31, 2012 in pounds sterling due to the fair value adjustment required on acquisition and deferred financing costs.

(2) The variable rate bank loan is fixed by an interest rate swap exchanging six month LIBOR for a fixed rate of 5.025%. The fixing dates of the swap match those of the loan (see note 10(a)). The loan has a bullet repayment on maturity.

The bank loans are fully repayable on maturity and incur non-utilization fees on the undrawn portion of the total available credit.

(ii) Term loans

			Dec 31, 2013	**Dec 31, 2013**	Dec 31, 2012
As at	Interest Rate	Maturity	**[£]**	**[$]**	[$]
Secured, principal index-linked to RPI, fixed interest at 3.635%(2) on the indexed principal (principal £118,664(1))	6.79%	Sep 30, 2032	**149,158**	**262,921**	237,462
Secured, fixed interest at 6.01%(2) (principal £57,500(1))	6.01%	Sep 30, 2033	**63,212**	**111,424**	102,730
Secured, principal index-linked to RPI, fixed interest at 2.701% on the indexed principal (principal £42,588(1))	5.77%	Mar 24, 2041	**47,337**	**83,441**	74,665
				457,786	414,857

(1) The principal due on maturity is different from the balance as at December 31, 2013 in pounds sterling due to the fair value adjustment made to the long-term debt on acquisition and deferred financing costs.

(2) Coupons as specified in loan documentation.

The interest rate on the £118,664 indexed-linked loan is adjusted in March and September, by reference to the Retail Price Index ("RPI"), with an eight-month lag.

The interest rate on the £42,588 indexed-linked loan is adjusted in March and September, by reference to the RPI, with a two-month lag.

(iii) Debentures

As at	Interest Rate	Maturity	**Dec 31, 2013 [£]**	**Dec 31, 2013 [$]**	Dec 31, 2012 [$]
Consolidated (principal £1,405[1])	4.00%	Irredeemable	**1,126**	**1,985**	1,806
Perpetual (principal £37[1])	4.25%	Irredeemable	**37**	**65**	59
Perpetual (principal £55[1])	4.00%	Irredeemable	**55**	**97**	89
Perpetual (principal £73[1])	3.50%	irredeemable	**73**	**128**	118
				2,275	2,072

(1) The principal due on maturity is different from the balance as at December 31, 2013 in pounds sterling as due to the fair value adjustment made to the long-term debt on acquisition.

The rate of interest is fixed and payable every six months.

(iv) Irredeemable cumulative preferred shares

As at	Interest Rate	Maturity	**Dec 31, 2013 [£]**	**Dec 31, 2013 [$]**	Dec 31, 2012 [$]
Preferred shares, cumulative (principal £12,500[1])	8.75%	irredeemable	**16,250**	**28,644**	26,289

(1) The principal due on maturity is different from the balance as at December 31, 2013 in pounds sterling due to the fair value adjustment made to the long-term debt on acquisition.

Bristol Water is authorized to issue 14,000 irredeemable cumulative preferred shares at a value of £1 each, 12,500 have been issued and are fully paid for as at December 31, 2013.

The preferred shares, which do not carry any voting rights, were issued in 1992 at £1 per share. The preferred shareholders of Bristol Water are entitled to receive dividends at 8.75% per annum on the par value of these shares on a cumulative basis; these dividends are payable half-yearly on 1 April and 1 October. On winding up, the preferred shareholders rank ahead of ordinary shareholders and are entitled to receive £1 per share and any dividends accrued but unpaid in respect of their shares. In the event that dividends on the preferred shares are in arrears for six months or more, holders of the preferred shares become entitled to vote at general meetings of members. In accordance with IAS 39 the shares are classified as long-term debt.

(v) Security for borrowings

The majority of Bristol Water's financial liabilities are secured. In respect of Bristol Water plc:

- By way of first fixed charges over any of its freehold or leasehold property belonging to it now or acquired in the future (other than protected land under the Water Industry Act 1991), its present and future goodwill, all rights and claims in relation to charged bank accounts, all book debts all insurances, all rights, title and interest to all investments and all plant and machinery, and
- A floating charge over the whole of its undertaking.

Prior to enforcement of the security by the lender, Bristol Water plc is entitled to exercise all its rights, and perform its obligations in relation to the charged assets in accordance with the provisions set out in the Security Trust and Intercreditor Deed.

In respect of Bristol Water Core Holdings Ltd (the immediate parent of Bristol Water plc), as security for the obligations of Bristol Water plc:

- A fixed charge over its shares in Bristol Water plc together with a floating charge over the whole of its undertaking.

(D) Corporate

	Dec 31, 2013		Dec 31, 2012	
As at	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Corporate credit facility	**11,300**	**11,300**	—	—
Convertible debentures	**70,394**	**68,807**	44,416	40,631
	81,694	**80,107**	44,416	40,631
Less: deferred financing costs	**—**	**(2,430)**	—	(2,248)
Long-term debt	**81,694**	**77,677**	44,416	38,383
Less: current portion	**—**	**—**	—	—
	81,694	**77,677**	44,416	38,383

(i) Corporate credit facility

The corporate credit facility is composed as follows:

	Interest Rate	Maturity	**Dec 31, 2013**	Dec 31, 2012
Total available credit - Revolving facility			**32,500**	—
Amount drawn				
Corporate credit facility	3.52%	Nov 12, 2016	**(11,300)**	—
Letters of credit for the benefit of operating power assets			**(9,519)**	—
Letter of credit for the benefit of power development projects			**(4,023)**	—
Letter of credit for the benefit of CPC			**(397)**	—
Remaining available credit			**7,261**	—

As at December 31, 2013, Capstone had 17 letters of credit authorized under the revolving facility.

On November 12, 2013, the Corporation entered into a new corporate credit facility with a three-year term maturing in November 2016, and repaid the CPC-Cardinal credit facility. The new facility is structured as a revolving facility, available for general corporate activities, including funding future acquisitions and development projects. Advances under the facility can be made by way of bankers' acceptances, prime rate loans, US dollar LIBOR or USBR loans, or letters of credit. The interest rate is determined by the underlying instrument's base rate plus an applicable margin, based on the total leverage ratio. The applicable rate for letters of credit is equal to the applicable margin; and a commitment fee on the unused principal outstanding is determined at 25% of the applicable margin.

The collateral for the facility is provided by a combination of first-charge interests of the guarantor group, largely made up of CPC, Cardinal and Whitecourt, and a pledge of the Corporation's equity interests in the Corporation's other, directly and indirectly held, subsidiary entities. The Corporation is subject to customary covenants, including specific limitations on the total leverage ratio, interest coverage ratio and a minimum cash flow profile.

In January 2014, the available credit was increased by $17,500, bringing the total to $50,000 of credit of which $25,239 was drawn or committed as of December 31, 2013.

(ii) Convertible debentures

The carrying values and changes of the liability and the equity components of the debentures were as follows:

	Dec 31, 2013			
As at	**2016 Debentures**	**2017 Debentures**	**Total**	Dec 31, 2012
Liability component	**40,631**	**34,848**	**75,479**	40,238
Conversion to shares, net of costs during the year[1]	**—**	**(100)**	**(100)**	—
Redemptions during the year		**(6,972)**	**(6,972)**	—
Amortization and accretion during the year	**437**	**(37)**	**400**	393
	41,068	**27,739**	**68,807**	40,631
Deferred financing costs	**(1,726)**	**—**	**(1,726)**	(2,248)
	39,342	**27,739**	**67,081**	38,383
Equity component	**9,284**	**—**	**9,284**	9,284
Conversion to shares, net of costs during the year[1]	**—**	**—**	**—**	—
Redemptions during the year	**—**	**—**	**—**	—
	9,284	**—**	**9,284**	9,284
	48,626	**27,739**	**76,365**	47,667

(1) During the year ended December 31, 2013, $100 of debentures were converted to shares (see note 21) (December 31, 2012 – Nil). Conversions are transferred at the carrying amount in debt and equity to share capital, net of transaction costs incurred in connection with the issuance of the convertible debentures.

2016 Debentures

The Corporation has unsecured subordinated convertible debentures ("2016 Debentures") that are due on December 31, 2016. The Corporation originally issued $57,500 gross incurring transaction costs of $2,880. The 2016 Debentures bear an interest rate of 6.50% per annum payable semi-annually in arrears on June 30 and December 31 of each year. The 2016 Debentures are convertible into shares of the Corporation at the option of the holder at a conversion price of 7.00 dollars per share. The face value of the debentures as at December 31, 2013 was $42,749 (December 31, 2012 – $42,749).

2017 Debentures

As part of the acquisition of ReD, Capstone assumed redeemable, extendible, convertible unsecured subordinated debentures ("2017 Debentures") due on December 31, 2017. ReD originally issued $34,500 in gross proceeds bearing interest of 6.75% per annum payable semi-annually in arrears on June 30 and December 31 of each year. Each $1,000 principal amount of the debentures are convertible, at the option of the holder, into 200 Capstone common shares and $0.76923 in cash, subject to further adjustment in accordance with the terms of the 2017 Debentures. The terms of the 2017 Debentures also provide that they are redeemable by the Corporation in certain circumstances as well as other customary terms and conditions.

During 2013, $6,972 of debentures were redeemed and $100 were converted to shares, resulting in $27,428 in principal value remaining outstanding as at December 31, 2013.

(E) Long-term Debt Covenants

For the year ended and as at December 31, 2013, the Corporation and its subsidiaries complied with all financial and non-financial debt covenants.

(F) Long-term Debt Repayments

The following table summarizes total principal payments required under each of the Corporation's facilities in the next five years and thereafter:

Year of Repayment	Within one year	One year to five years	Beyond five years	Total
Power	18,374	170,202	181,350	369,926
Utilities – water	—	87,251	420,444	507,695
Corporate	—	81,477	—	81,477
	18,374	338,930	601,794	959,098

NOTE 20. LIABILITY FOR ASSET RETIREMENT OBLIGATION

The carrying value of these obligations is based on estimated cash flows required to settle these obligations in present day costs. The costs relate to site restoration and decommissioning of Cardinal, as well as the wind and hydro power facilities.

The following table provides the underlying assumptions and reconciles the Corporation's total asset retirement obligation activity for the years ended December 31:

	Dec 31, 2013	Dec 31, 2012
Assumptions:		
Expected settlement date	**2014 – 2062**	2014 – 2062
Estimated settlement amount	**Nil – $3,205**	Nil – $2,965
Inflation rate	**2.0%**	2.0%
Credit adjusted discount rate	**7.17% – 8.00%**	8.0% – 12.5%
Balance, beginning of year	**2,096**	2,412
Business acquisition	**860**	—
Revision of estimates	**138**	(533)
Accretion expense	**199**	217
Balance, end of year	**3,293**	2,096

NOTE 21. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Dec 31, 2013	Dec 31, 2012
Common shares	710,662	632,474
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	809,392	731,204

The Corporation's other equity items were comprised of:

As at	Dec 31, 2013	Dec 31, 2012
Equity portion of convertible debentures	9,284	9,284
Warrant reserve	—	—
Share option reserve	144	—
	9,428	9,284

(A) Common Shares

Capstone is authorized to issue an unlimited number of common shares.

Continuity for the year ended	Dec 31, 2013		Dec 31, 2012	
($000s and 000s shares)	Shares	Carrying Value	Shares	Carrying Value
Opening balance	72,445	632,474	70,957	626,861
Common shares issued	19,719	75,453	—	(89)
Dividend reinvestment plan (1)	670	2,635	1,488	5,702
Conversion of convertible debentures, net of cost (2)	20	100	—	—
Ending balance	92,854	710,662	72,445	632,474

(1) Shares issued by the Corporation under the Dividend Re-Investment Plan (DRIP).
(2) Convertible debentures of $100 were converted to shares of the Corporation during 2013 (note 19(d)(ii)) (December 31, 2012 – $0). Amounts transferred from debt and equity are net of original issuance transaction costs.

(B) Class B Exchangeable Units

MPT LTC Holding LP had 3,249 Class B exchangeable units outstanding as at December 31, 2013 and 2012. Each unit is exchangeable into one share of the Corporation. The Class B exchangeable units are eligible to receive distributions under the same terms and conditions as shares of the Corporation.

The holders of the Class B exchangeable units are not permitted to acquire any additional shares of the Corporation (other than pursuant to the exchange of the Class B exchangeable units or pursuant to a distribution reinvestment plan) without the consent of the Corporation until October 18, 2020. Each Class B exchangeable unit will convert into a share of the Corporation on October 18, 2020 unless converted earlier at the option of the Class B exchangeable unitholders. The Class B exchangeable unitholders are not permitted to sell more than 5% of their aggregate outstanding shares in any four-month period and are not eligible to vote with any shares they receive on exchange of their Class B exchangeable units until they together hold 1% or less of the aggregate outstanding shares.

(C) Preferred Shares

Capstone is authorized to issue preferred shares equal to 50% of the outstanding common shares. As atDecember 31, 2013 and 2012, there were 3,000 series A preferred shares issued and outstanding, with a carrying value of$72,020.

The series A preferred shares have a 5% cumulative discretionary dividend which resets on each 5-year anniversary, the next anniversary date is July 31, 2016. The shares are non-voting and redeemable at the Corporation's discretion. Subsequent to the initial 5-year fixed rate period, the issuer will determine the annual dividend for the next 5-year period based on the 5-year Government of Canada Bond Yield plus 2.71%. After September 30, 2016, the series A preferred shares are convertible on a one for one basis to series B cumulative, floating rate first preferred shares at the holders option. The series B preferred shares are redeemable at the Corporation's discretion after June 20, 2021 and every 5 years thereafter at 25 dollars per share plus accrued and unpaid dividends.

(D) Warrants and Warrant Reserve

On October 1, 2013, the date ReD was acquired, ReD warrant holders received 1,356,892 of replacement warrants from Capstone which have an exercise price of $5.19 dollars and expire March 6, 2014. The Corporation determined the fair value of the replacement warrants reserve on October 1, 2013 to be $Nil.

	Number of Warrants (1)	Amount
Business acquisition	1,356,892	—
Expiry of warrants during period	—	—
	1,356,892	—

(1) Number of individual warrants are not in thousands.

(E) Options and Share Option Reserve

On October 1, 2013, the date ReD was acquired, ReD option holders received 301,811 of replacement options from Capstone. The Corporation's share option reserve at December 31, 2013 is $144. The number and weighted average exercise prices of stock options are as follows:

	Number of Options (1)	Weighted average exercise price
Business acquisition	301,811	$3.99
Exercised during the year	(19,518)	$2.94
Expired during the year	(99,284)	$4.11
Outstanding at December 31, 2013	183,009	$4.04
Exercisable at December 31, 2013	115,657	$4.02

The following options were outstanding and exercisable as at December 31, 2013:

Expiry date	Options outstanding (1)	Options exercisable (1)	Exercise price
September 29, 2015	39,039	39,039	$3.85
April 12, 2016	65,064	43,376	$4.54
December 15, 2016	20,820	13,880	$2.81
May 15, 2017	58,086	19,362	$4.04
	183,009	115,657	$4.02

(1) Number of individual options are not in thousands.

The grant-date fair value of the share options is measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The following assumptions were used to estimate the fair value of the options issued to grantees:

Risk-free interest rate	1.2%
Expected annual dividend	$0.30 dollars
Expected life of options	3 years
Expected volatility	27%

(F) Dividends

The dividends declared were as follows:

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Common shares	23,358	32,302
Class B exchangeable units	975	1,462
	24,333	33,764
Preferred shares (includes $173 of deferred income taxes)	3,923	4,575

Capstone has included $7,208 of accrued common dividends and $625 of accrued preferred dividends as declared on November 12, 2013 (December 31, 2012 – $5,677 was accrued for common shares and $625 for preferred shares).

Capstone paid $0.300 per common share and $1.250 per preferred share during the year ended December 31, 2013 (December 31, 2012 – $0.450 per common share and $1.250 per preferred share).

(G) Capital Management

The Corporation defines capital as the aggregate of long-term debt and shareholders' equity as follows:

As at	**Dec 31, 2013**	Dec 31, 2012
Long-term debt	**1,027,885**	813,071
Shareholders' equity (1)	**529,550**	418,848
Total capitalization	**1,557,435**	1,231,919

(1) Capstone's definition excludes non-controlling interest of $138,613 (December 31, 2012 – $91,610).

The Corporation manages its capital to achieve the following objectives:

- Maintain a capital structure that provides financial flexibility to the Corporation to ensure access to either debt or equity capital on commercially reasonable terms, without exceeding its debt capacity;
- Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and distribution payments; and
- Deploy capital to provide an appropriate investment return to its shareholders.

The Corporation's financial strategy is designed to maintain a capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In doing so, the Corporation may issue additional shares, issue additional debt, issue debt to replace existing debt with similar or different characteristics, or adjust the amount of dividends paid to shareholders.

The Corporation's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Corporation's needs and economic conditions at the time of the transaction.

The Corporation is not subject to any external capital requirements and is in compliance with all debt covenants as described in note 19.

NOTE 22. NON-CONTROLLING INTERESTS

(A) Non-controlling Interests

Non-controlling interests represent ownership interests by third parties in businesses consolidated by Capstone. Bristol Water, Amherst and Saint-Philémon non-controlling interests as at December 31, 2013 were:

- Bristol Water is 30% owned by Agbar (Sociedad General de Aguas de Barcelona) ("Agbar"), a subsidiary of Suez Environnement and is 20% owned by I-Environment Investments Ltd., a subsidiary of ITOCHU Corporation ("ITOCHU").
- Amherst is 49% owned by Firelight Infrastructure Partners LP ("Firelight")
- Saint-Philémon is 48.9% owned by Municipalité Régionale de Comté de Bellechasse and 0.1% owned by Municipalité de Saint-Philémon (the "Municipal partners")

Capstone has agreements with each partner that govern distributions from these investments. In addition, distributions must also comply with the respective debt agreements.

The balances and changes in non-controlling interests is as follows:

	Agbar's (30%) interest in Bristol Water	**ITOCHU's (20%) interest in Bristol Water**	**Firelight's (49%) interest in Amherst**	**Municipal partners (49%) interest in Saint-Philémon**	**Total**
As at January 1, 2012	34,450	—	—	—	34,450
Partial sale of interest in Bristol Water	—	51,659	—	—	51,659
NCI portion of net income (loss)	12,315	5,413	—	—	17,728
NCI portion of other comprehensive income (loss)	(4,266)	(2,649)	—	—	(6,915)
Dividends declared	(4,022)	(1,290)	—	—	(5,312)
As at December 31, 2012	38,477	53,133	—	—	91,610
Business acquisition	—	—	12,833	—	12,833
Cash contributions from NCI	—	—	—	3,405	3,405
NCI portion of net income (loss)	15,443	10,296	109	—	25,848
NCI portion of other comprehensive income (loss)	7,614	5,076	—	—	12,690
Dividends declared	(3,782)	(2,521)	(1,470)	—	(7,773)
As at December 31, 2013	57,752	65,984	11,472	3,405	138,613

(B) Summarized Information for Material Partly-Owned Subsidiaries

As at	Dec 31, 2013			Dec 31, 2012
Summarized Statements of Financial Position	**Bristol Water**	**Amherst**	**Saint-Philémon**	Bristol Water
Assets				
Current	**78,252**	**2,305**	**4,789**	89,700
Non-Current	**1,036,245**	**73,968**	**2,460**	856,810
Liabilities				
Current	**(77,319)**	**(2,294)**	**(1,135)**	(79,665)
Non-Current	**(704,003)**	**(43,616)**	**—**	(603,075)
Total Equity	**333,175**	**30,363**	**6,114**	263,770
Attributable to:				
Shareholders of Capstone	**209,439**	**18,891**	**2,709**	172,160
NCI	**123,736**	**11,472**	**3,405**	91,610
	333,175	**30,363**	**6,114**	263,770

For the year ended	Dec 31, 2013			Dec 31, 2012
Summarized Statements of Income	**Bristol Water**	**Amherst**	**Saint-Philémon**	Bristol Water
Revenue	**195,576**	**1,952**	**—**	178,391
Net Income	**51,477**	**223**	**—**	41,050
OCI	**30,853**	**—**	**—**	(14,221)
Total comprehensive Income	**82,330**	**223**	**—**	26,829
Attributable to:				
Shareholders of Capstone	**43,901**	**114**	**—**	16,016
NCI	**38,429**	**109**	**—**	10,813
	82,330	**223**	**—**	26,829

Distributions of $6,303 (2012 - $1,675) from Bristol Water and $1,470 (2012 - nil) from Amherst were paid to non-controlling interests in 2013.

For the year ended	Dec 31, 2013			Dec 31, 2012
Summarized Statements of Cash Flows	**Bristol Water**	**Amherst**	**Saint-Philémon**	Bristol Water
Operating	**86,413**	**1,242**	**(60)**	71,921
Investing	**(134,126)**	**—**	**(96)**	(40,757)
Financing	**31,038**	**(3,407)**	**4,935**	(42,117)
Foreign exchange	**491**	**—**	**—**	—
Net increase / (decrease) in cash and equivalents	**(16,184)**	**(2,165)**	**4,779**	(10,953)

NOTE 23. EARNINGS PER SHARE ("EPS")

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Net income	**67,210**	45,971
Non-controlling interest	**(25,848)**	(17,728)
Dividends declared on preferred shares	**(3,923)**	(4,575)
Net income available to common shareholders	**37,439**	23,668
Weighted average number of common shares (including Class B exchangeable units) outstanding	**81,033**	75,116
Basic EPS	**0.462**	0.315

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Basic net income	**37,439**	23,668
Effect of dilutive securities:		
2016 convertible debentures (1)	**2,056**	—
2017 convertible debentures (2)	**431**	—
Diluted Net income	**39,926**	23,668
Basic weighted-average number of shares outstanding	**81,033**	75,116
Effect of dilutive securities:		
2016 convertible debentures (1)	**6,107**	—
2017 convertible debentures (2)	**6,900**	—
Diluted weighted average number of common shares (including Class B exchangeable units) outstanding (3)	**94,040**	75,116
Diluted EPS	**0.425**	0.315

(1) 2016 convertible debentures were anti-dilutive for the year ended December 31, 2012.
(2) 2017 convertible debentures were assumed on October 1, 2013, and the impact on net income (loss) is included since the acquisition date.
(3) Share options and warrants issued on the acquisition of ReD were anti-dilutive for the year-ended December 31, 2013.

NOTE 24. SHARE-BASED COMPENSATION

(A) Deferred Share Units

The Deferred Share Units ("DSUs") are granted to eligible directors on the first day of each quarter at the five-day volume weighted average price ("VWAP") prior to the grant date. Grants vest immediately upon the last trading day of each quarter. In addition, directors may elect to receive their quarterly director fees in the form of DSUs, which vest at the time of granting. Dividend equivalents are granted as of each payment date for dividends on shares in accordance with Capstone's dividend policy on common shares. DSUs do not have an exercise price and can only be settled in cash at the time a director ceases to be a board member.

For the year ended	**Dec 31, 2013**		Dec 31, 2012	
($000s, except unit amounts)	**Number of Units**	**Fair Value**	Number of Units	Fair Value
Outstanding at January 1	**30,198**	**122**	8,407	32
Fixed quarterly grants during the period	**25,106**	**99**	20,102	75
Redemptions in the period	**(6,905)**	**(30)**	—	—
Dividend equivalents	**2,268**	**9**	1,689	7
	50,667	**200**	30,198	114
Unrealized gain (loss) on revaluation	**—**	**(20)**	—	8
Outstanding at December 31	**50,667**	**180**	30,198	122

The average VWAP per DSU granted during 2013 was 3.98 dollars (2012 – 4.10 dollars). As at December 31, 2013, the carrying value of the DSUs, based on a market price of 3.56 dollars, was $180 and is included in accounts payable and other liabilities in the consolidated statement of financial position (December 31, 2012 – 4.03 dollars and $122). The DSU expense for 2013 was $88 and is recorded as compensation expense in the consolidated statement of income (2012 – $90).

(B) Long-term Incentive Plan

During 2013, Capstone granted to the senior management of the Corporation 243,886 Restricted Stock Units ("RSUs") and 133,917 Performance Share Units ("PSUs"). The five-day VWAP per RSU and PSU granted January 2, 2013 was 4.00 dollars and 4.25 dollars per RSU granted March 20, 2013 and all RSUs and PSUs granted vest on December 31, 2015. In 2012, 253,959 RSUs and 141,431 PSUs were granted and they vest on December 31, 2014.

Dividend equivalents are granted as of each record date for dividends on shares in accordance with Capstone's dividend policy on common shares. RSUs and PSUs do not have an exercise price and can be settled in shares or cash at the Board's discretion. Additionally, the valuation also takes into consideration that the amount of the PSUs is subject to Capstone's total return over the period relative to a peer group.

For the year ended	Dec 31, 2013		Dec 31, 2012	
($000s, except unit amounts)	**Notional number of Units**	**Fair Value**	Notional number of Units	Fair Value
Outstanding at January 1	**588,160**	**2,211**	141,892	541
Grants during the period	**377,803**	**1,537**	395,390	1,546
Dividend equivalents	**66,391**	**268**	50,878	205
	1,032,354	**4,016**	588,160	2,292
Unrealized loss on revaluation	**—**	**(643)**	—	(81)
Outstanding at December 31	**1,032,354**	**3,373**	588,160	2,211

The average VWAP per RSU and PSU granted on during 2013 was 4.12 dollars (2012 – 4.01 dollars). As at December 31, 2013, the carrying value of the RSUs and PSUs, based on a market price of 3.56 dollars, was $1,839 and is included in accounts payable and other liabilities in the consolidated statement of financial position (December 31, 2012 – 4.03 dollars and $836). The RSU and PSU compensation expense of $1,004 is recorded as compensation expense in the consolidated statement of income for 2013 (2012 –$721).

(C) Employee Share Purchase Plan

All Canadian employees of Capstone are entitled to participate in the employee share purchase plan where employees can direct up to 15% of their salary to purchase Capstone shares. The Corporation will match 50% of the employee's contribution to maximum of $3 per year. Shares acquired as a matching contribution (including any dividends on those shares) vest after one year of match.

NOTE 25. EXPENSES – ANALYSIS BY NATURE

For the year ended	Dec 31, 2013				Dec 31, 2012			
	Operating	**Admin.**	**Project Development Costs**	**Total**	Operating	Admin.	Project Development Costs	Total
Fuel	**78,196**	**—**	**—**	**78,196**	77,678	—	—	77,678
Raw materials, chemicals and supplies	**70,457**	**—**	**—**	**70,457**	72,142	—	—	72,142
Wages and benefits	**28,932**	**6,133**	**831**	**35,896**	24,305	6,749	20	31,074
Maintenance	**4,869**	**—**	**—**	**4,869**	4,370	—	—	4,370
Insurance	**2,058**	**—**	**—**	**2,058**	1,914	—	—	1,914
Manager fees	**1,600**	**—**	**—**	**1,600**	1,654	—	—	1,654
Professional fees for legal, audit, tax and other advisory	**3,567**	**1,965**	**4,178**	**9,710**	2,470	1,780	345	4,595
Leases	**1,565**	**382**	**—**	**1,947**	1,334	361	—	1,695
Property taxes	**1,323**	**—**	**—**	**1,323**	1,125	—	—	1,125
Bad debts	**6,618**	**—**	**—**	**6,618**	4,067	—	—	4,067
Other	**5,349**	**1,889**	**521**	**7,759**	4,673	2,180	—	6,853
Total	**204,534**	**10,369**	**5,530**	**220,433**	195,732	11,070	365	207,167

NOTE 26. OTHER GAINS AND LOSSES

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Unrealized gain (loss) on derivative financial instruments	**11,538**	2,605
Realized gain (loss) on derivative financial instruments	**295**	—
Other	**(70)**	—
Loss on disposal of capital assets	**(1,974)**	(1,311)
Other net gains and (losses)	**9,789**	1,294

NOTE 27. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments in addition to the commitments described in notes 18 finance lease obligations, 19 long-term debt and 20 liability for asset retirement obligation as at December 31, 2013 are as follow:

(A) Derivative Contracts

The Corporation has various derivative contracts for foreign exchange and interest, which have been further disclosed in notes 9 and 10.

(B) Leases

The following table summarizes the minimum operating lease payments:

	Within one year	One year to five years	Beyond five years	Total
Operating leases	2,027	9,542	21,066	32,635

The following leases have been included in the table based on known minimum operating lease commitments as follows:

- The Corporation has a operating leases for corporate offices and power development purposes. These leases have terms ranging from to 2015 to 2018, with options to extend.
- Amherstburg leases the land on which its operating facilities are located. The terms of the lease agreements extend to 2032.
- Capstone's operating wind facilities and wind development projects have entered into agreements for the use, or option to use, land in connection with the operation of existing and future wind farms. Payment under these agreements is typically a minimum amount with additional payments dependent on the amount of power generated by the wind facility. The agreements can be renewed and extend as far as 2047.

Capstone has additional operating lease commitments not included in the table with no minimum operating lease commitments required as follows:

- Capstone has agreements with the Provinces of Ontario and British Columbia for the lease of certain lands, and water rights necessary for the operation of its hydro power facilities. The payments under these agreements vary based on actual power production. The terms of the lease agreements extend between 2023 and 2042.
- Cardinal leases the site on which it is located from Ingredion Canada Incorporated ("Ingredion"), formerly Casco Inc. Under the lease, Cardinal pays nominal rent. The lease extends to 2016 and expires concurrently with the energy savings agreement between Ingredion and Cardinal.

(C) Capital Commitments

Bristol Water capital expenditure program

Bristol Water had commitments for capital expenditures at December 31, 2013 of which $26,172 were contracted for but not accrued (December 31, 2012 – $33,300).

Cardinal turbine maintenance

Cardinal placed a purchase order for a $20,140 ($19,000 USD) rotor and exhaust cylinder to be installed during the scheduled major maintenance in 2015. The purchase order includes a termination fee that escalates with the passage of time. As at December 31, 2013, the penalty was $1,060 ($1,000 USD) and increases to $3,180 ($3,000 USD) by March 2014. Capstone's first installment payment of $2,120 was made in February 2014.

Development projects

As part of Capstone's power development operations, Capstone enters various construction and purchase agreements. As at December 31, 2013, Capstone had approximately $61,000 of construction and turbine supply agreements for the Saint-Philémon and Skyway 8 projects.

(D) Natural Gas Purchase Contract

Cardinal has a long-term purchase agreement for natural gas that expires on May 1, 2015. The minimum purchase commitment for natural gas under the agreement is 9,289,104 MMBtu per year through to expiration in 2015, which is equivalent to 80% of the contract maximum.

(E) Operations and Management Agreements ("O&M")

Capstone has an agreement with Agbar, which provides management support to Bristol Water, with an initial five-year term that automatically extends indefinitely. Capstone has the ability to terminate the contract.

Capstone has an O&M agreement with SunPower Energy Systems Canada Corporation to operate and maintain Amherstburg, expiring on June 30, 2031. Capstone has the ability to terminate the agreement during the term of the contract.

Capstone has several turbine maintenance service agreements covering the turbines in operation on various wind farms. The agreements provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.

Capstone has an O&M agreement with Regional Power OPCO Inc. (“Regional”) to operate and maintain the hydro power facilities, expiring on November 15, 2016 with an automatic renewal term. Regional is paid a monthly management fee and is eligible for an annual incentive fee.

(F) Management Services Agreements

Capstone has agreements with all of ReD's partially owned investments, including Glen Dhu, Fitzpatrick, Amherst and various development projects. For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue. The development projects additionally include a development fee for the successful completion of the projects, which pays an agreed fee per MW on completion of development.

(G) Wood Waste Supply Agreement

Whitecourt has a long-term agreement with Millar Western Industries Ltd. and Millar Western Pulp Ltd. (collectively, "Millar Western") to ensure an adequate supply of wood waste. The agreement expires in 2016.

(H) Energy Savings Agreement

Under the terms of an energy savings agreement between Cardinal and Ingredion, Cardinal is required to sell up to 723 million pounds of steam per year to Ingredion for its plant operations. The energy savings agreement matures on December 31, 2014, but may be extended by up to two years at the option of Cardinal.

(I) Guarantees

From the date of Clean Power Income Fund's investment in the landfill gas business on October 31, 2002, it provided three guarantees. Two of these guarantees were in favour of a municipality, guaranteeing obligations under the relevant PPAs with the municipality. The other guarantee was in favour of a lessor of one of the sites upon which one of the landfill gas facilities projects operated, guaranteeing certain obligations under the relevant lease. The municipality and the lessor both have policies of not relieving guarantors from their guarantees for periods in which they were invested in the underlying projects. Capstone has received indemnification from Fortistar Renewable Group LLC ("Fortistar"), the purchaser of the landfill gas business, for the period commencing from the sale to Fortistar on September 15, 2006. As at December 31, 2013, no claims had been made on these guarantees.

In addition, Capstone has provided limited recourse guarantees on the project debt of Erie Shores, Amherst, and Fitzpatrick totaling $6,500 as at December 31, 2013.

NOTE 28. RELATED PARTY TRANSACTIONS

(A) Management and other related fees

Management fees earned from Capstone's equity accounted investments are reported in the consolidated statements of income as revenue. During 2013, Capstone earned management fees of $115 (2012 - Nil).

As at December 31, 2013, included in accounts receivable was $1,304, due from Fitzpatrick and included in accounts payable and other liabilities was $980, due to Glen Dhu (2012 - Nil). All related party transactions were carried out at commercial terms.

(B) Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Compensation awarded to key management consisted of salaries, directors fees and short-term employee benefits. Eligible directors and senior management of the Corporation also receive forms of stock-based compensation as described in note 24.

The following table summarizes key management compensation:

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Salaries, directors' fees and short-term employee benefits (1)	**1,494**	1,272
Share based compensation	**815**	573
	2,309	1,845

(1) The short-term incentive plan component of this balance in based on amounts paid during the period.

NOTE 29. SEGMENTED INFORMATION

The Corporation has three reportable segments based on how management has organized the business to assess performance and for operating and capital allocation. Cash generating units included within each reportable segment have similar economic characteristics based on the nature of the products or services, type of customers, method of distributing their products or services and regulatory environment. Management evaluates the performance of these segments primarily on revenue and cash flows from operations.

Infrastructure segments consist of:	Geographical Location
Power	Canada
The Corporation's investments in gas cogeneration, wind, hydro, biomass power and solar power assets, as well as project development.	
Utilities – water	United Kingdom
The regulated water services business (Bristol Water), in which the Corporation holds a 50% indirect interest (70% October 5, 2011 – May 10, 2012)	
Utilities – district heating ("DH")	Sweden
The district heating business (Värmevärden), in which the Corporation holds a 33.3% indirect interest.	

	Year ended Dec 31, 2013					Year ended Dec 31, 2012				
		Utilities					Utilities			
	Power	**Water**	**DH**	**Corporate**	**Total**	Power	Water	DH	Corporate	Total
Revenue	**193,928**	**195,575**	**—**	**—**	**389,503**	179,218	178,392	—	—	357,610
Depreciation of capital assets	**(27,486)**	**(23,399)**	**—**	**(298)**	**(51,183)**	(26,753)	(20,297)	—	(382)	(47,432)
Amortization of intangible assets	**(8,116)**	**(2,784)**	**—**	**(84)**	**(10,984)**	(8,031)	(2,028)	—	(61)	(10,120)
Interest income	**781**	**275**	**2,861**	**179**	**4,096**	761	751	3,356	18	4,886
Interest expense	**(19,696)**	**(21,644)**	**—**	**(6,131)**	**(47,471)**	(18,450)	(21,468)	—	(9,250)	(49,168)
Income tax recovery (expense)	**(9,800)**	**2,133**	**—**	**(543)**	**(8,210)**	(6,589)	(3,326)	—	(865)	(10,780)
Net income (loss)	**35,009**	**51,477**	**2,850**	**(22,126)**	**67,210**	19,788	41,052	7,936	(22,805)	45,971
Cash flow from operations	**76,479**	**86,411**	**2,736**	**(29,950)**	**135,676**	56,173	76,474	3,356	(21,325)	114,678
Additions to capital assets	**5,722**	**129,925**	**—**	**49**	**135,696**	5,432	140,555	—	86	146,073

	As at Dec 31, 2013					As at Dec 31, 2012				
		Utilities					Utilities			
	Power	**Water**	**DH**	**Corporate**	**Total**	Power	Water	DH	Corporate	Total
Total assets	**814,198**	**1,114,532**	**49,983**	**47,011**	**2,025,724**	637,441	932,307	51,923	5,187	1,626,858
Total liabilities	**459,443**	**781,357**	**1,489**	**115,272**	**1,357,561**	367,141	668,537	2,245	78,477	1,116,400

NOTE 30. NON-CASH WORKING CAPITAL

The change in non-cash working capital was composed of the following:

	For the year ended	
	Dec 31, 2013	Dec 31, 2012
Accounts receivable	**(5,968)**	(3,603)
Other assets	**(4,654)**	1,188
Accounts payable and other liabilities	**11,736**	(2,548)
	1,114	(4,963)

NOTE 31. COMPARATIVE FIGURES

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

SUPPLEMENTARY INFORMATION

PORTFOLIO

Power

Type of Facility	Province	Year Built	Ownership Interest	Total Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Gas Cogeneration									
Cardinal	ON	1994	100%	156	OPA	2014	Husky	2015	18
Wind									
Operating	ON	2002 - 2009	100%	121	OPA	2021 - 2032	n/a	n/a	10
	NS	2006 - 2012	49% - 100%	74	NSPI	2021 - 2037	n/a	n/a	1
Development	ON	2015 - 2016E	50% - 100%	57	OPA	2034	n/a	n/a	n/a
	PQ	2014E	51%	12	Hydro Quebec	2034	n/a	n/a	n/a
	SK	2016E	100%	10	SaskPower	2035	n/a	n/a	n/a
Biomass (1)									
Whitecourt	AB	1994	100%	32.8	TransAlta	2014	Millar Western	2016	34
Hydro									
Sechelt and Hluey Lakes	BC	1997 and 2000	100%	19	BC Hydro	2017 and 2020	n/a	n/a	n/a
Wawatay and Dryden	ON	1992 and 1986	100%	17	OEFC	2020 and 2042	n/a	n/a	n/a
Solar									
Amherstburg	ON	2011	100%	20	OPA	2031	n/a	n/a	n/a

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

Utilities

Business	Ownership Interest	Capacity	Counterparties	Length of Network	Approximate Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 639 MWth	Mix of industrial and retail customers.	317 kilometres	163,000	No	89
Bristol Water	50%	Average daily supply of 266 million litres	Mix of commercial and residential customers.	6,671 kilometres	1.2 million	Ofwat	547

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Information for 2005 to 2009 is presented in Canadian GAAP and may not be comparable with information provided under IFRS for 2010 to 2013.

Earnings Measures ($000s)	**2013**	2012	2011	2010	2009	2008	2007	2006	2005
Revenue	**389,503**	357,610	215,967	158,512	148,384	153,186	122,811	89,940	90,235
Net income (loss) (1)	**67,210**	45,971	(2,837)	15,901	11,259	(26,534)	5,426	8,411	8,372
Basic earnings per share (1)	**0.462**	0.315	(0.103)	0.339	0.226	(0.531)	0.135	0.280	0.364

(1) Net income (loss) and earnings (loss) per share have been restated for changes required by IFRS to implement IAS 19 - Employee Benefits. This change, which became effective, retroactively, January 1, 2013, is described in note 2 of the consolidated financial statements for the year ended December 31, 2013.

Cash Flow Measures ($000s)	**2013**	2012	2011	2010	2009	2008	2007	2006	2005
Cash flows from operating activities	**135,676**	114,678	50,881	29,011	38,040	50,516	29,663	21,044	20,230
Adjusted EBITDA (1)	**128,421**	120,343	55,673	55,818	61,244	67,324	61,250	34,104	27,912
Adjusted funds from operations (“AFFO”) (1)	**39,934**	35,563	34,884	34,774	42,989	50,626	72,835	33,267	27,708
AFFO per share (1)	**0.493**	0.473	0.541	0.693	0.861	1.013	1.806	1.107	1.191

(1) These performance measures are not defined by International Financial Reporting Standards (“IFRS”). Please see page 22 for a definition of each measure.

Capital Structure – At Fair Value ($000s)	**2013**	2012	2011	2010	2009	2008	2007	2006	2005
Long-term debt – power (1)	**346,244**	305,497	314,196	245,911	214,107	246,960	219,162	35,000	35,000
Long-term debt – utilities – water (1)	**313,816**	259,830	353,135	—	—	—	—	—	—
Long-term debt – corporate	**81,694**	44,416	155,124	61,311	89,437	35,026	38,918	—	—
Common shares	**330,560**	291,955	270,348	463,217	273,161	310,066	376,275	214,231	235,382
Class B exchangeable units	**11,568**	13,093	12,380	26,710	19,854	15,565	30,642	32,656	33,501
Preferred shares	**45,930**	58,200	52,500	—	—	—	—	—	—
Debt to capitalization	**65.7%**	62.7%	71.0%	38.5%	50.9%	46.4%	38.8%	12.4%	11.5%

(1) Calculated based on proportionate share based on ownership interest of 51% for Amherst, included in long-term debt - power and 50% for Bristol Water, included in long-term debt - utilities - water (December 31, 2011 – 70% for Bristol Water).

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	92,853,970
Preferred shares outstanding	3,000,000
2016 - Convertible debentures outstanding	42,749
2017 - Convertible debentures outstanding	27,428
Class B exchangeable units	3,249,390
Securities exchange and symbols	Toronto Stock Exchange: CSE, CSE.PR.A, CSE.DB.A, CPW.DB

QUARTERLY TRADING INFORMATION

	2013				2012			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shares								
High price	**3.93**	**4.11**	**4.25**	**4.48**	4.49	4.69	4.15	4.35
Low price	**3.51**	**3.76**	**3.76**	**4.10**	3.91	4.01	3.72	3.82
Closing price	**3.56**	**3.85**	**3.79**	**4.25**	4.03	4.43	4.01	4.15
Average daily volume	**366,000**	**219,000**	**564,000**	**286,000**	206,000	186,000	272,000	410,675
Dividend declared	**0.075**	**0.075**	**0.075**	**0.075**	0.075	0.075	0.135	0.165
Preferred shares								
High price	**17.97**	**19.10**	**19.15**	**19.50**	20.67	21.50	19.24	18.84
Low price	**15.00**	**16.64**	**16.25**	**18.53**	18.65	18.40	16.66	17.00
Closing price	**15.31**	**18.30**	**17.08**	**19.00**	19.40	20.80	19.00	17.60
Average daily volume	**10,765**	**2,838**	**4,416**	**2,746**	2,971	2,070	3,054	4,385
Dividend declared	**0.3125**	**0.3125**	**0.3125**	**0.3125**	0.3125	0.3125	0.3125	0.3125
2016 - Convertible debentures								
High price	**101.50**	**102.89**	**104.49**	**105.00**	104.50	107.20	108.49	104.49
Low price	**97.51**	**100.10**	**100.02**	**99.01**	102.50	102.02	99.51	99.50
Closing price	**100.50**	**100.31**	**101.52**	**100.50**	103.90	104.15	103.00	101.50
Average daily volume	**457**	**279**	**544**	**374**	300	200	492	933
2017 - Convertible debentures								
High price	**103.49**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Low price	**100.01**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Closing price	**100.01**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a
Average daily volume	**378**	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a

Note: All high and low security price information is intraday.

CORPORATE INFORMATION

MANAGEMENT

Michael Bernstein
President and Chief Executive Officer

Michael Smerdon
Executive Vice President and Chief Financial Officer

Stu Miller
Executive Vice President, General Counsel and Secretary

Jack Bittan
Senior Vice President, Business Development

Rob Roberti
Senior Vice President, Power Generation

Jens Ehlers
Senior Vice President, Finance

Sarah Borg-Olivier
Senior Vice President, Communications

BOARD OF DIRECTORS

V. James Sardo[1]
Chairman of the Board

Michael Bernstein

Richard Knowles[1]

Goran Mornhed[3]

Jerry Patava[1,2]

François R. Roy[3,4]

Janet Woodruff[3]

HEAD OFFICE

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INVESTOR INFORMATION

Stock Exchange and Symbols
Toronto Stock Exchange
Common shares: CSE
Preferred shares: CSE.PR.A
Convertible debentures: CSE.DB.A; CPW.DB

Transfer Agent
Computershare Investor Services Inc.
100 University Avenue, 9th Floor
Toronto, Ontario M5J 2Y1

North America toll-free: 1-800-564-6253
International: 1-514-982-7555
Website: www.computershare.com/investorcentrecanada

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PricewaterhouseCoopers LLP
Toronto, Ontario

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Senior Vice President, Communications

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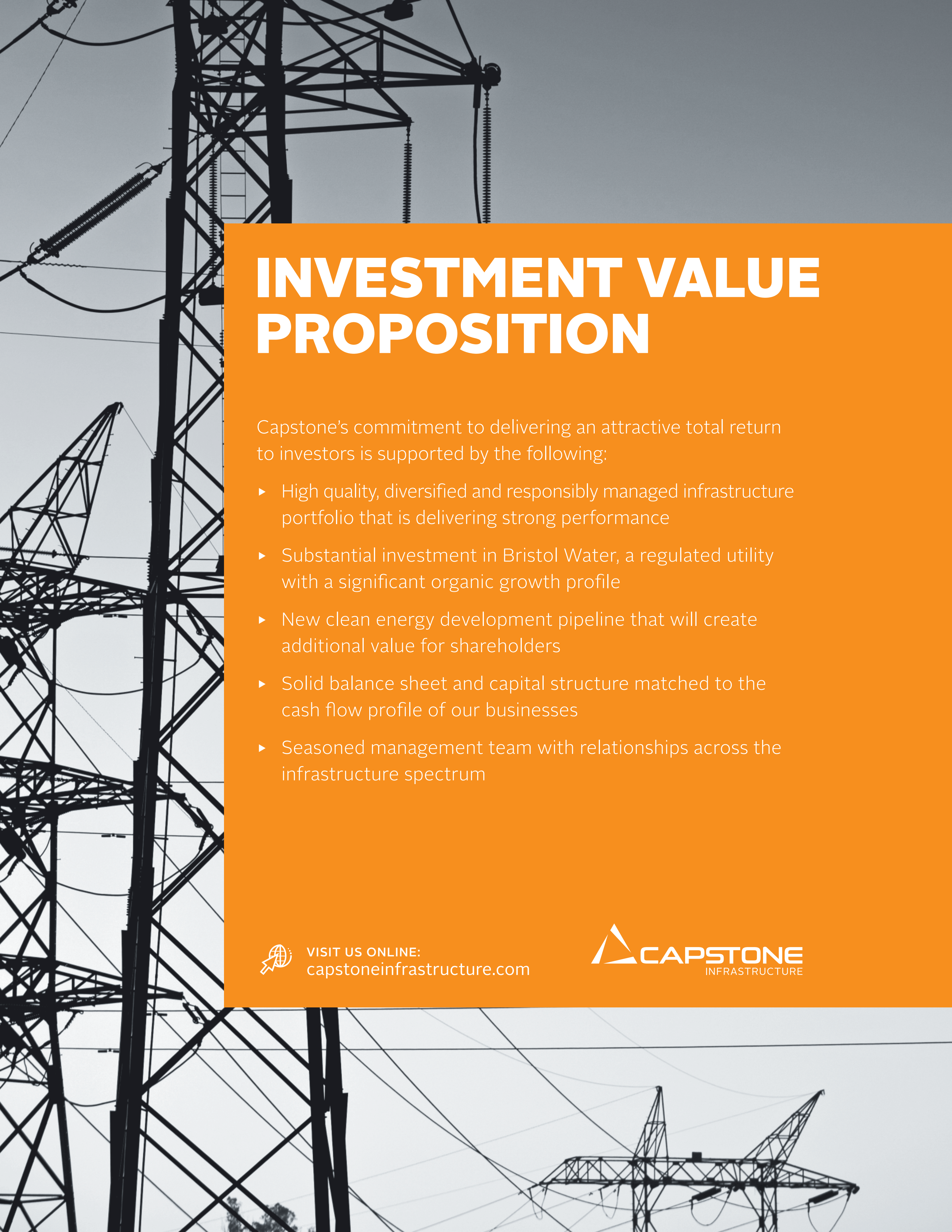
ANNUAL GENERAL MEETING OF SHAREHOLDERS

Tuesday, June 17, 2014
10 a.m. EDT
Fairmont Royal York
Library Room
Mezzanine Level
100 Front Street West
Toronto, Ontario

Visit our website at www.capstoneinfrastructure.com for information about Capstone's business and to access investor materials, including annual and quarterly financial reports, recent news and investor presentations, including a webcast of the annual general meeting.

1 Member of the Corporate Governance and Compensation Committee.
2 Chair of the Corporate Governance and Compensation Committee.
3 Member of the Audit Committee.
4 Chair of the Audit Committee.

DESIGN: Craib Design & Communications www.craib.com



INVESTMENT VALUE PROPOSITION

Capstone's commitment to delivering an attractive total return to investors is supported by the following:

- High quality, diversified and responsibly managed infrastructure portfolio that is delivering strong performance
- Substantial investment in Bristol Water, a regulated utility with a significant organic growth profile
- New clean energy development pipeline that will create additional value for shareholders
- Solid balance sheet and capital structure matched to the cash flow profile of our businesses
- Seasoned management team with relationships across the infrastructure spectrum

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