Essential

CAPSTONE
INFRASTRUCTURE

Capstone's 2014 full-year financial results reflect the successful diversification of the company's portfolio to include a range of core infrastructure assets with complementary cash flow and risk dynamics.

HISTORICAL REVENUE

(in millions of dollars)[1]

19.3%

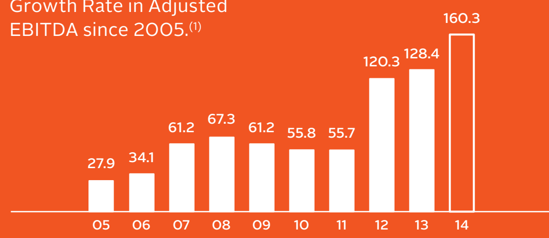
Compound Annual Growth Rate in Revenue since 2005.

ADJUSTED EBITDA

(in millions of dollars)[1]

21.4%

Compound Annual Growth Rate in Adjusted EBITDA since 2005.[1]



ADJUSTED EBITDA IN 2014 BY GEOGRAPHY[2]

- 61% Canada
- 35% United Kingdom
- 4% Sweden

ADJUSTED EBITDA IN 2014 BY BUSINESS[2]

- 35% Water Utility
- 22% Gas Cogeneration Power
- 21% Wind Power
- 3% Biomass Power
- 6% Hydro Power
- 9% Solar Power
- 4% District Heating

(1) Information from 2005 to 2009 is presented in Canadian GAAP and may not be comparable with information provided under IFRS for 2010 to 2014.
(2) Chart illustrates contribution for the businesses and excludes the development and corporate components.

INSIDE THIS REPORT

On the cover:
Capstone's infrastructure assets supply essential services to millions of customers, providing energy, water and heat to people and businesses in communities in Canada and abroad.

Capstone is Essential

Infrastructure is the essential catalyst for the development, stability and growth of economies the world over. Whether in emerging markets or developed nations, populations in all societies share a need for clean water, efficient transportation networks, reliable power and functioning public institutions.

Capstone is built on supporting these central elements of daily life, which have only risen in demand since our company was founded more than a decade ago. Our investments in core infrastructure facilities capture the stable income characteristics and long-term growth potential of this asset class.

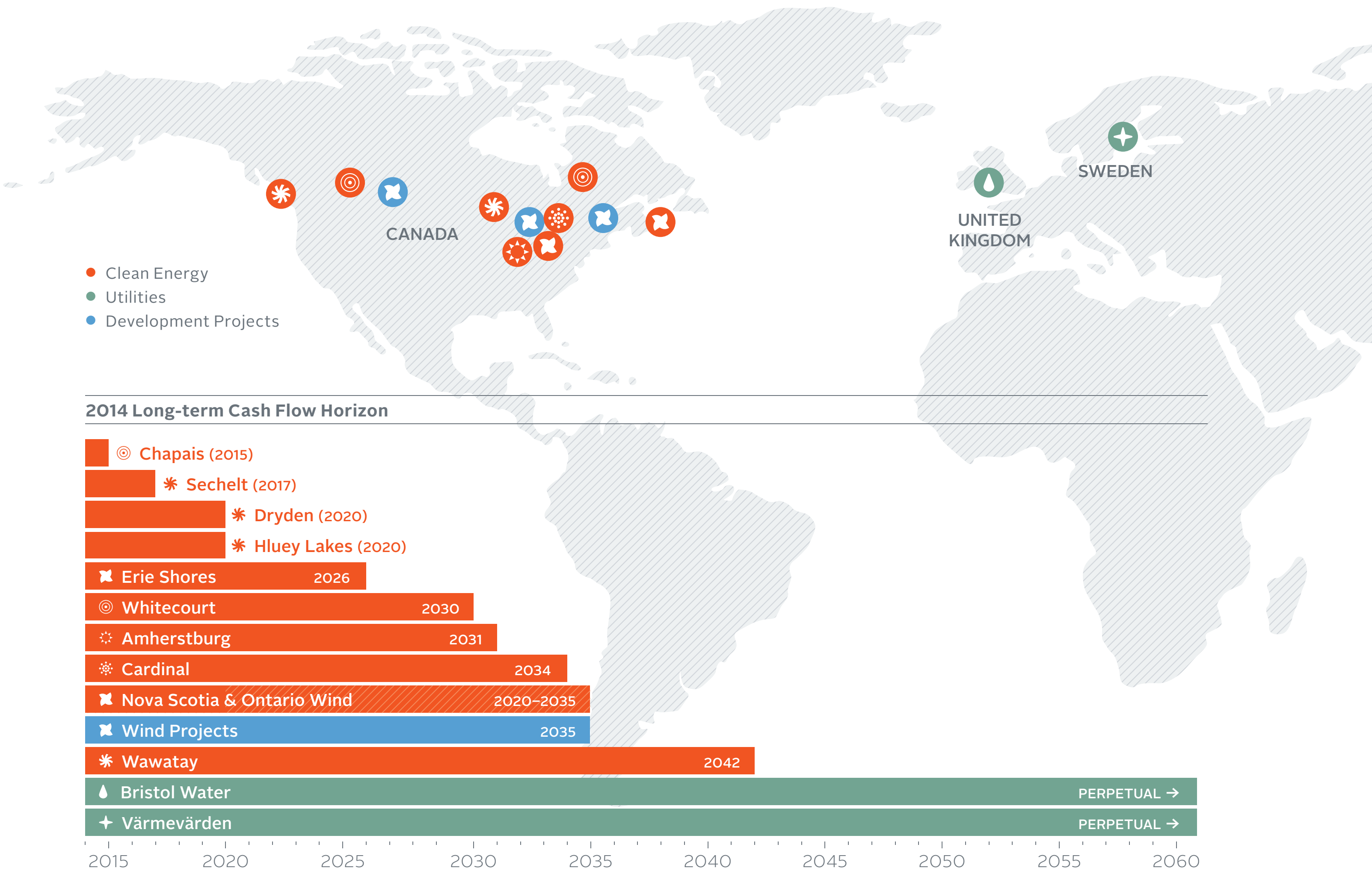
Our 2014 annual report includes a review of our clean energy portfolio across Canada, utilities in the United Kingdom and Europe, and provides an update on the progress we have made in developing new power projects. We also discuss expansion progress for existing business lines and the potential for acquiring new platforms.

Capstone's vision remains steadfast: 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 we enter our second decade as a company, we have a determined path to remaining essential for years to come.

Essential Assets

Capstone has steadily compiled a portfolio of high-quality power and utilities assets that were either developed internally or carefully acquired after thoroughly reviewing their risk profile and long-term value to the company and its shareholders. Capstone has a pipeline of new projects now under development and actively evaluates potential acquisitions on an ongoing basis, with a geographic focus on North America, Europe, New Zealand and Australia.



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

Platforms Today

Clean Energy

BIOMASS	**Whitecourt Power** The first power facility in Canada to be certified under the federal government's EcoLogo™ program. Uses one steam turbine and one generator to generate electricity from wood waste.	**Owned** Since 2007	**2014 Performance** 96.4% availability	15 year Fuel supply agreement (2030)
NATURAL GAS	**Cardinal Power** Cardinal is one of Ontario's largest cogeneration facilities, simultaneously producing electricity and thermal energy from natural gas, which results in a highly efficient use of energy.	**Owned** Since 2004	**2014 Performance** 98.5% availability	20 year Non-utility generator contract (2034)
WIND	**Erie Shores Wind Farm** One of the largest wind power facilities in Ontario, with 66 turbines along the north shore of Lake Erie.	**Owned** Since 2007	**2014 Performance** 97.3% availability (total/combined wind portfolio performance)	20 year Power purchase agreement (2026)
	Nova Scotia and Ontario Wind Facilities Established facilities and recently completed wind farms representing more than 100 MW of net installed capacity.	**Owned** Since 2013; new facilities commissioned in 2014 and 2015		15–20 year Power purchase agreements (2020–2035)
SOLAR	**Amherstburg Solar Park** A crystalline solar photovoltaic power facility using solar panels as well as a tracking system engineered to follow the sun during the day, thereby increasing daily energy production.	**Owned** Since 2011	**2014 Performance** 98.6% availability	20 year Power purchase agreement (2031)
HYDRO	**Sechelt, Dryden, Hluey Lakes, Wawatay** Two sites in British Columbia and two in Ontario, producing enough power to serve about 17,000 households per year.	**Owned** Since 2007	**2014 Performance** 96.4% availability	20–50 year Power purchase agreements (2017–2042)

Utilities

BRISTOL WATER	One of nine regulated water-only companies in the United Kingdom, established in 1846 and today serving a population of 1.2 million in the city of Bristol and surrounding region.	**Owned** Since 2011	**2014 Performance** 100% Security of Supply Index (SOSI)	Perpetual asset
VÄRMEVÄRDEN	A district heating facility that consumes primarily wood and organic waste to heat water or create steam piped to about 4,000 supply points for residential and industrial customers.	**Owned** Since 2011	**2014 Performance** 92.3% availability	Perpetual asset

Development Projects

POWER DEVELOPMENT PIPELINE

- The 10-MW Skyway 8 wind farm in Ontario commissioned August 2014
- The 24-MW Saint-Philémon facility in Quebec commissioned January 2015
- The 25-MW Goulais site is expected to achieve commercial operations in Q2 2015

Six projects working through permitting stages; two have received Renewable Energy Approval (REA) from the Ontario Ministry of the Environment and Climate Change.

Capstone is a Qualified Applicant under the Ontario Power Authority's Large Renewable Procurement.

Infrastructure is Essential

Dear Fellow Shareholders,

2014 was a year of several important successes, and one disappointing setback. On the one hand, we entered our second decade as a company, posted strong financial results, settled the longstanding Cardinal contracting issue, saw the successful commissioning of one wind project and made significant progress on two others, ensured our facilities operated efficiently and with a near-perfect safety record, and supported our employees and the communities we serve.

On the other hand, we received a seriously disappointing regulatory decision at Bristol Water, despite exerting considerable effort in developing a business plan that combined service improvements with price reductions, was overwhelmingly supported by Bristol Water's customers and was vetted by a number of third-party experts. As we explain later, this regulatory result will not be accepted without a challenge.

From the financial standpoint, 2014 was a very good year for Capstone. Adjusted EBITDA exceeded our forecast, coming in at $160.4 million, the result of a full year of contributions from wind assets we acquired in the third quarter of 2013, higher regulated tariffs and favourable foreign exchange effects from Bristol Water, and lower expenses associated with integrating the acquired wind assets. We also affirmed Capstone's support for the annual $0.30 per share dividend to common shareholders.

Capstone's foundation is a diversified portfolio of high-quality businesses, which gives us a solid footing as we plan to move past the current review process at Bristol Water in the summer of 2015 – and build on our considerable strengths, as we outline in this annual report.

"OUR FOUNDATION IS A DIVERSIFIED PORTFOLIO OF HIGH-QUALITY BUSINESSES, WHICH GIVES US A SOLID FOOTING."

Michael Bernstein, President and Chief Executive Officer

ACHIEVEMENTS IN A MILESTONE YEAR

We Secured Cardinal's Future with a New 20-year Contract

When we published our last annual report, the status of the Cardinal gas plant was still unclear once the power purchase agreement in place at the time expired on December 31, 2014. Following a complex multiyear negotiation process that began in 2009, we ultimately secured Cardinal's future by signing a new 20-year contract in March 2014. Since January 1 of this year, Cardinal has operated as a dispatchable facility rather than a base load generator, earning fixed monthly payments that escalate annually according to a pre-defined formula, while supplying electricity to the Ontario grid when needed.

We Realized the Growth Potential of Our Wind Acquisitions

Capstone's power segment is driving organic growth as we steadily complete the pipeline of wind power projects we acquired in 2013. We commissioned the Skyway 8 facility in 2014, and in January 2015 the Saint-Philémon wind farm achieved commercial operations. We expect the Goulais project to be commissioned in the second quarter of 2015.

We Invested in the Long-term Performance of Our Operating Portfolio

Responsibly managing Capstone's facilities through systematic and predictive maintenance, scheduled capital projects and the introduction of new, efficiency-enhancing technologies optimizes the returns we generate from those assets. At Erie Shores, we complemented the WindBOOST system already in place by installing Turbine Pitch Optimization technology. The approved C$546 million asset management plan at Bristol Water, directed toward improving and expanding the system's water mains, pumps and reservoirs, will be fully executed by the conclusion of the current five-year period, which ends on March 31, 2015. Cardinal is in the midst of a $30 million refurbishment and life extension as part of its new function as a dispatchable facility, a project that will wrap up in the spring of 2015 in a one-month outage. The Whitecourt biomass facility reached a new 15-year supply agreement with its fuel provider, helping to ensure the ongoing viability of this important asset in Alberta.

PRIORITIES FOR 2015

Bristol Water Regulatory Review

A pressing issue for the first half of 2015 is to secure a favourable regulatory outcome at Bristol Water. The long-term prospects for this utility are exceptional; however, the immediate priority is to challenge the five-year business plan recently determined by Ofwat, the economic regulator for water utilities in the UK. Bristol Water's Board of Directors formally rejected Ofwat's plan on February 5, 2015 and the matter now heads

Our Key Strengths

ESSENTIAL DEMAND

Demand for global infrastructure is significant and growing, a result of decades of underinvestment in this area, an expanding worldwide population and the needs of an interdependent world economy. The private sector is increasingly involved with providing the funding, construction and management of infrastructure assets as governments cope with constraints on public resources.

ESSENTIAL QUALITY

Capstone has steadily built a portfolio of high-quality infrastructure assets over more than a decade. We leverage our vast experience, deep relationships and technical knowledge in this sector to identify acquisition opportunities, develop new facilities and responsibly manage our portfolio for the long term.

ESSENTIAL VALUE

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.

200 MW

OUR INSTALLED NET WIND CAPACITY SURPASSED 200 MEGAWATTS WITH THE COMMISSIONING OF NEW TURBINES IN 2014.

The ribbon cutting ceremony for the new 9.5 MW Skyway 8 wind facility in September 2014.

to the Competition and Markets Authority (CMA) for review. The management teams at Capstone and Bristol Water, along with leading consultants and industry experts, are making a concerted effort to ensure a better outcome is achieved. We discuss Bristol Water and the review process in greater detail on page 17 of this report; until this regulatory question is settled, the interim uncertainty is likely to continue to weigh on Capstone's share price.

Growth Through Acquisitions

We recognize that shareholders expect Capstone to use its market position and diversified asset base to grow the company. I share that view, and would like to have made more progress in expanding into new pillars or acquiring more power and utilities assets in 2014. Although we did not consummate a transaction, we analyzed a number of potential deals in power, utilities, public-private partnerships and transportation throughout the year. This has led to some promising dialogues and new relationships, which we expect to bear fruit in 2015 and the years ahead.

We look for acquisitions that create enduring value for Capstone's stakeholders. This simple principle requires discipline to ensure that potential deals are accretive over the long term, carry total returns within an acceptable range, reflect an appropriate amount of risk and are a good strategic fit with our company. These are the qualities that we adhere to, regardless of market cycles, when determining whether it serves our interests, and those of our stakeholders, to acquire assets.

Organic Growth Initiatives

Capstone's power development team has proven its ability to execute projects on time and on budget. In August 2014 we commissioned the 10-megawatt Skyway 8 facility in Ontario, and on January 16, 2015 our 24-megawatt Saint-Philémon wind farm in Quebec achieved commercial operations. By the end of the second quarter of 2015, the 25-megawatt Goulais project in Northwestern Ontario should be commissioned. We have six other projects in the development pipeline, two of which have recently earned their Renewable Energy Approval, with construction on the first facility slated to begin in the third quarter of 2015.

Crews prepare turbine blades during the construction of the Saint-Philémon wind facility in November 2014.

BRISTOL WATER'S REGULATED RATE BASE EXPANDED BY 26% (REAL) DURING THE 2010 TO 2015 REGULATORY PERIOD.

Bristol Water provides 240 million litres of water every day to a local population of 1.2 million.

In November 2014, Capstone was designated as a Qualified Applicant under the Ontario Power Authority's Large Renewable Procurement, a competitive process for sourcing major clean energy projects in the province. We are evaluating potential projects in anticipation of an RFP expected in mid-2015.

Bristol Water is one of Capstone's most significant sources of organic growth, with a 26% expansion in real regulated rate base during the 2010 to 2015 regulatory period. The regulated capital value growth profile for the upcoming five-year period remains strong, though the growth in long-term value would come to the detriment of current revenue, pending CMA review.

Renewed Focus on Sustainability

Capstone's renewable energy portfolio naturally fits the definition of an environmentally sustainable business. We recognize, however, that sustainability also applies to how a business is run from a governance and social perspective. We have produced an expanded sustainability report this year as a companion piece to Capstone's annual report, which is available on our corporate website. A summary of our sustainable business practices is also provided in the Strategic Overview section of the annual report. These initiatives reflect our abiding commitment to operating our business based on the ethics of honesty, integrity, transparency and respect.

OUTLOOK FOR THE COMING YEAR

Capstone's business will evolve over the next two years, as Cardinal operates as a dispatchable facility, more wind power facilities achieve commercial operations, Bristol Water's AMP6 business plan is ultimately resolved, and potential acquisitions are completed. In 2015, we anticipate Adjusted EBITDA of between $115 million and $125 million, which reflects the lower financial contribution from Cardinal and the impact of the business plan Ofwat determined for Bristol Water, which will be in effect from the second through the fourth quarters of 2015. If a beneficial outcome is reached following the CMA review, adjustments will take effect the following year. What will not change in 2015 is Capstone's support of the $0.30 per share dividend for common shareholders.

The first ten years at Capstone saw the company grow from a single asset to a diversified global energy and utilities company. This transformation was the product of hard work from dedicated employees at our facilities and head office. That same work ethic will propel Capstone to achieve more in the next decade, overcoming our near-term challenge and fulfilling the company's potential to become a leader in the expanding global market for essential infrastructure. This investment sector remains in demand for the stability of the returns it offers, the long duration of the assets and the measure of inflation protection it carries.

In a year when Capstone was often tested, the company had the great advantage of dedicated, loyal staff at the facilities and head office, as well as the trusted guidance of a seasoned Board of Directors. I would like to thank and acknowledge everyone for their contribution.

Importantly, I would like to thank our shareholders for investing in Capstone and for their continued support. We appreciate your confidence and are committed to achieving our goals in 2015.

Sincerely,

MICHAEL BERNSTEIN
President and Chief Executive Officer

An Essential Commitment

Capstone's Corporate Sustainability Report is available online as a companion document to this annual report. The following summary highlights just some of our achievements in environmental, social and governance areas during 2014.

ACHIEVEMENTS IN 2014

Environmental

- Made measurable contributions to Canada's supply of renewable energy with the commissioning of the Skyway 8 wind farm in Southgate, Ontario.
- During the development phase of Skyway 8, Capstone entered into an agreement with The Couchiching Conservancy to mitigate the temporary and permanent habitat impacts associated with the construction of the project. Under the agreement, Capstone secured and funded offset grassland habitat lands, owned by The Couchiching Conservancy.
- Commissioned the 24-MW Saint-Philémon wind farm in January 2015, the 25-MW Goulais facility is nearing completion, and another six wind development projects are working through the approvals process.

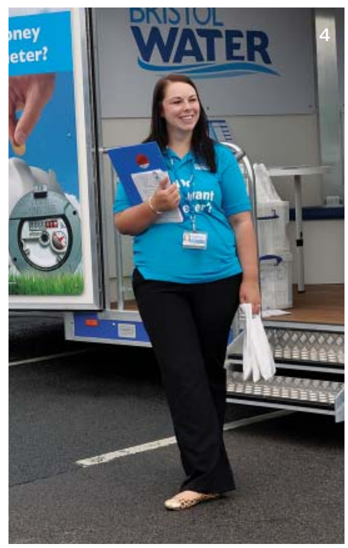
Social

- Silver sponsor of TREC Education's Kids' World of Energy Festival, which offers elementary school students in Toronto hands-on workshops involving renewable energy, conservation, electricity, art and active participation.
- Sponsored the Whitecourt Junior Forest Wardens, an educational organization for young people and their families to develop skills and education in the many diverse aspects of our natural environment.
- Sponsored a family in need for the Holiday Helpers program, a charity that provides personalized holiday packages to low income families in Toronto with young children.
- Returned as a sponsor of the annual Sechelt Arts Festival, a multi-dimensional celebration of art, film, comedy, theatre, music and dance in Sechelt, British Columbia.
- Erie Shores Wind Farm participated in Green Energy Doors Open Ontario, an initiative of the Ontario Sustainable Energy Association.
- Glen Dhu provided financial support to two local fire departments: Barney's River Volunteer Fire Department and Merigomish and District Volunteer Fire Department.
- Bristol Water partnered with the Avon Wildlife Trust for "Trout & About" and "Spawn to be Wild" program; and its Eco-Schools program reached 6,300 students in 29 schools.

Governance

- The Board of Directors is Capstone's highest governing body and consists of seven Directors who are elected annually, six of whom are independent directors.
- There are two committees of the Board: the Audit Committee and the Corporate Governance and Compensation Committee (with a Nomination Subcommittee that considers candidates for nomination for election as Directors).
- In 2014, meetings of the Board of Directors and Board Committees recorded 100% attendance rates for all Directors.

AS PHYSICAL ASSETS THAT PROVIDE AN ESSENTIAL SERVICE, CAPSTONE'S VARIOUS BUSINESSES HAVE A SOCIAL IMPACT THAT WE ENDEAVOUR TO MANAGE RESPONSIBLY.



To download Capstone's full 2014 Sustainability Report, visit:
capstoneinfrastructure.com/About/Sustainability

1 Erie Shores Wind Farm participated in Green Energy Doors Open Ontario, an initiative of the Ontario Sustainable Energy Association.

2 Värmevärden sponsored local youth sports teams for activities such as soccer, hockey and cross country skiing.

3 The Sechelt Hydro power facility returned as a sponsor of the Annual Sechelt Arts Festival, a multi-dimensional celebration of art, film, comedy, theatre, music and dance in Sechelt, British Columbia.

4 Bristol Water delivered talks to various groups as a part of its community engagement program. The company's education officers have spoken with approximately 14,000 people from local organizations, including rotaries, scouts, brownies and women's institutes.

5 Cardinal Power provided two bursaries to graduating high school students, and made contributions to local charities and community events.

Essential Responsibility

Capstone has a comprehensive set of priorities for 2015 to advance the company's vision 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,
Capstone Infrastructure Corporation enters its second decade in 2015 as a resilient company, more experienced for the diversified assets it built over its first ten years, and stronger for the hurdles it has cleared along the way. In the year ahead, we will build on our successes and reinforce our foundation to position Capstone for continued achievement in the next decade and beyond.

Our theme for this year's annual report is "Essential," reflecting the fundamental importance to society of continuous investments in core infrastructure and highlighting the first-rate facilities held in Capstone's portfolio. Essential also relates to the values we embrace and the choices we make in setting the course for the firm.

During 2014, Capstone demonstrated the benefits of the strategic direction taken in 2012 to establish a power development arm. That division executed on new infrastructure projects with the commissioning of the Skyway 8 wind farm and made swift progress on two others, including the Saint-Philémon facility in Quebec, which achieved commercial operations in January of this year.

We also looked after our existing line of high-quality assets to ensure they continue to deliver value for shareholders. We reached an agreement that will extend the life of the Cardinal gas power plant for another 20 years, negotiated a 15-year fuel supply agreement for Whitecourt, and invested in maintenance and performance optimization across our power and utilities businesses.

Bristol Water provides one of life's most essential services: clean, safe and reliable drinking water for more than 1.2 million people. The regulatory environment can present near-term challenges, as we saw in 2014, yet this utility carries perpetual value and a steady organic growth profile. Capstone's management team is hard at work to resolve the current issues facing Bristol Water, with the full support of the Board of Directors.

The Board has specific responsibilities in the stewardship of Capstone and takes an active approach to governance, highlights of which include:

- Six of the seven members of the Board are independent, as defined by applicable securities laws.

Our 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.

"IN THE YEAR AHEAD, WE WILL BUILD ON OUR SUCCESSES AND REINFORCE OUR FOUNDATION TO POSITION CAPSTONE FOR CONTINUED ACHIEVEMENT IN THE NEXT DECADE AND BEYOND."

James Sardo, Chairman of the Board of Directors

- The Audit and Corporate Governance & Compensation committees of the Board are entirely composed of independent directors.
- A written Code of Business Conduct and Ethics applies to all Directors, officers, employees, and contractors, promoting a culture of integrity and ensuring the company adheres to rigorous, consistent standards in reporting and risk management.
- Annual evaluations of the Board and individual directors are conducted to ensure the oversight role is fulfilled in the most effective manner.
- A majority voting policy is in place, requiring the director nominees to be elected by a majority of shareholder votes.
- Share ownership guidelines require that directors and executive officers achieve specific percentages of annual salaries and cash retainers by owning common shares, deferred share units or restricted shares; thereby aligning their interests with all other shareholders.
- Long- and short-term incentive plans link management's compensation to financial metrics and the total return delivered to shareholders.

The Board also oversees continuous improvements to Capstone's governance structure. In 2014, the company proposed an advance notice policy, which was voted on at the Annual General Meeting. The proposal was approved by a majority of shareholders, thereby ensuring that all Capstone investors will receive adequate notice and information of director nominations, while also enabling shareholders to register an informed vote with a reasonable time to consider those nominees.

Another of the Board's key responsibilities is to monitor the company's financial performance and set the dividend policy. Capstone has forecast a payout ratio in 2015 that is higher than the company's long-term targeted ratio of between 70% and 80%, driven in part by Cardinal's transition from operating as a base load generator to a dispatchable facility, as well as the lead time until the pipeline of development projects reaches commercial operations. The Board is confident that Capstone has the liquidity, resources and flexibility to support the current dividend.

Capstone has a comprehensive set of priorities for 2015 to advance the company's vision 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.

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.

"WE BELIEVE IN THE EXTRAORDINARY POTENTIAL FOR CAPSTONE IN 2015 AND BEYOND, AS LONG AS WE REMAIN STEADFAST IN OUR COMPREHENSIVE APPROACH TO DECISION-MAKING IN THE BEST LONG-TERM INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS."

First, we will work with Bristol Water and our consultants in the United Kingdom to secure a regulatory outcome that better serves the needs of Bristol Water, its shareholders and most importantly, its customers.

Second, we will capitalize on the momentum in our power development unit by continuing the organic growth of our wind power portfolio. We will also look for occasions to develop other power projects, particularly with respect to Ontario's Large Renewable Procurement, under which Capstone is a Qualified Applicant.

Third, we will be judicious in our evaluation of potential acquisitions, seeking accretive opportunities in our existing power and utilities pillars, and continuing our investigation of new platforms, particularly public-private partnerships.

And fourth, we will look beyond the immediate horizon and keep our focus on the enduring possibilities that infrastructure investing affords Capstone. The pressing need to build, upgrade and replace the vital power plants, utilities, hospitals and roads that support our society and the global economy remains strong – and is only becoming more urgent. Capstone's seasoned management team is well poised to meet this demand through its knowledge of the sector, relationships in the industry, experience with all aspects of managing a range of infrastructure assets, and a passion for delivering results for the company, its people, the communities it serves and its shareholders.

We believe in the extraordinary potential for Capstone in 2015 and beyond, as long as we remain steadfast in our comprehensive approach to decision-making in the best long-term interests of the company and its shareholders. This careful planning can be seen in the solid assets the company has assembled during its first decade, creating a strong balance sheet that allows the company to thrive in a variety of market conditions.

On behalf of the Board of Directors and everyone at Capstone, thank you for your investment and your loyal support of the company.

Sincerely,

JAMES SARDO
Chairman of the Board of Directors

ESSENTIAL GOVERNANCE

Strong corporate governance is an essential component of Capstone Infrastructure's performance.

Effective governance enables prudent risk management and decision-making, which contributes to shareholder value.

Visit our website to learn more about our Corporate Governance policies: capstoneinfrastructure.com/About/Governance

Our Strategy is Essential

Overview

Capstone's 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 Co-operation and Development (OECD).

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

INSIDE THIS SECTION

Achievement Scorecard

BUSINESS FUNCTION	2014 PRIORITIES	STATUS	2015 PRIORITIES	LONG-TERM GOALS
Power Generation				
• Wind • Solar • Hydroelectric • Biomass	• Achieve consistently high availability • Maintain or improve quality and performance of facilities through predictive maintenance • Manage operating costs • Operate safely with zero lost-time injuries • Hire new manager at Whitecourt	• Availability was high across the board (detailed statistics in Strategic Overview) • Installed Turbine Pitch Optimization technology at Erie Shores to maximize output • Facilities maintenance conducted at hydro sites, ensuring ongoing reliability • Operating costs were broadly kept in line with previous period • Reached a 15-year fuel supply agreement at Whitecourt (signed in March 2015) • One lost-time injury at Whitecourt (minor), amounting to one day • Hired new manager at Whitecourt	• Achieve consistently high availability • Maintain or improve quality of facilities through predictive maintenance • Manage operating costs • Operate safely with zero lost-time injuries • Make progress on Sechelt contract renewal	• Enhance existing facility or add supplemental boiler to increase Whitecourt's capacity to process wood waste from area forestry operations • Secure new contract for Sechelt
• Cardinal	• Secure new contract for Cardinal • Hire new plant manager	• Signed 20-year non-utility generator contract with IESO, and new energy savings agreement with Ingredion • Refurbishing, life extension and major maintenance work commenced to prepare plant to operate as cycling facility • New plant manager hired for start in second half of 2015	• Complete $30 million transition to prepare for cycling • Finalize upgrade with one-month outage in spring of 2015 • Manage operating costs	• Optimize profitability by selling power into the system at peak times
Utilities – Heating				
• Värmevärden	• Manage fuel costs • Maintain strong customer relationships • Ensure high plant availability	• Milder weather enabled the use of more cost-effective fuel sources • Successfully rolled out new pricing methodology • Improved availability in 2014 versus prior year by 2.8%	• Manage fuel costs • Maintain strong customer relationships • Ensure high plant availability	• Expand footprint in local markets

BUSINESS FUNCTION	2014 PRIORITIES	STATUS	2015 PRIORITIES	LONG-TERM GOALS
Utilities – Water				
• Bristol Water	• Provide safe, reliable drinking water for customers • Bring PR14 process to satisfactory regulatory conclusion • Execute $546M AMP5 capex program	• Strong operational performance and quick response to service disruptions • Bristol Water Board of Directors rejected PR14 final determination and proceeding to CMA review • On track to complete the full AMP5 program within allotted time frame	• Provide safe, reliable drinking water for customers • Secure an improved outcome for AMP6 period through CMA review • Identify areas for operational efficiencies	• Maintain and expand the system to keep pace with expected future growth of the Bristol metropolitan area • Prepare for retail competition • Evaluate system optimization
Power Development				
• Organic growth	• Build out Skyway 8 and Saint-Philémon wind projects • Secure permits for medium-term projects	• Skyway 8 reached COD in August 2014, on time and below budget • Saint-Philémon reached COD under budget in January 2015 • REAs received for two projects in January 2015	• Achieve commercial operations at Goulais wind farm • Secure permits for Ontario and Saskatchewan wind projects • Begin construction on projects in receipt of REA (Grey Highlands ZEP; Ganaraska)	• As a qualified applicant under Ontario's Large Renewable Procurement, evaluate and submit project proposals • Initiate thermal and wind energy development projects
Corporate				
• Head office • M&A	• Maximize shareholders' risk-adjusted return • Increase scale by adding to existing pillars • Diversify portfolio mix with new pillars • Operate sustainably • Retain and attract talent	• Uncertainty over Bristol Water affected share price; CMA review potentially improves outcomes for Bristol Water • Actively pursued P3s with in-house expert, developing relationships • Added to existing pillars with the commissioning of Skyway 8 and Saint-Philémon • Introduced enhanced sustainability measurement and reporting (see companion Capstone Sustainability Report) • Filled vacated positions with experienced professionals and attracted talented applicants to new roles	• Work with Bristol Water to secure favourable outcome from the CMA review • Maintain financial flexibility • Pursue acquisition in targeted pillars • Add scale by completing accretive acquisition in our existing pillars • Continued enhancement of sustainable practices and reporting • Ensure talent pool is aligned with Capstone's priorities	• Maximize shareholders' risk-adjusted total return • Bring new assets into the portfolio • Add additional relationships and capabilities

Platforms and Performance Drivers

Capstone marked its tenth anniversary in 2014, a milestone that presents an occasion to review the company's strategy and market position as we enter our second decade in today's marketplace for essential infrastructure.

WE ARE DEVELOPING A PIPELINE OF WIND POWER PROJECTS TOTALLING AN EXPECTED 85 MEGAWATTS OF CAPACITY, OR 65 MEGAWATTS NET TO CAPSTONE.

POWER

Our power generation platform includes wind, hydro, gas cogeneration, biomass and solar facilities across Canada, totalling 505 megawatts of installed capacity, of which Capstone's net share is 461 megawatts. We are also developing a pipeline of wind power projects totalling an expected 85 megawatts of capacity, or 65 megawatts net to Capstone.

Cardinal operates under a non-utility generator agreement with the Independent Electricity System Operator, whereby the facility is activated at peak times when power prices provide a financial incentive to do so. Whitecourt sells power into the Alberta power pool and has a fuel supply agreement with Millar Western Forest Products Ltd. The balance of Capstone's operating and development projects have power purchase agreements with creditworthy counterparties *(see Figure 1)*.

The key performance drivers for Capstone's power segment in 2015 are:

1. Achieve consistently high availability to help maximize revenue *(see Figure 2)*.
2. Maintain or improve the quality of each facility by focusing on routine, predictive and major maintenance and implementing technological and operational enhancements *(see Figure 3)*.
3. Efficiently manage operating costs at each facility.
4. Complete the Goulais wind power development project on time and on budget.
5. Advance the mid-term projects through permitting and approvals.
6. Start construction on projects with REA approvals.
7. Operate facilities safely with a goal of zero lost-time injuries.

In 2014, Erie Shores installed Turbine Pitch Optimization technology to maximize the amount of energy captured by the blades, thereby enhancing revenue. TPO can potentially extract an additional 1% to 2% performance from turbines.

FIGURE 1
CREDITWORTHY COUNTERPARTIES

Counterparty	Credit Rating
Independent Electricity System Operation (IESO)	A (high)/ Stable – DBRS
Nova Scotia Power Incorporated (NSPI)	A (low)/ Stable – DBRS
Hydro Quebec	A (high)/ Stable – DBRS
BC Hydro	AA (high)/ Stable – DBRS

FIGURE 2
CONSISTENTLY HIGH AVAILABILITY

Facility	2014	Five-Year Average
Cardinal	98.5%	97.4%
Wind power facilities (1)	97.3%	97.4%
Hydro power facilities	96.4%	98.4%
Whitecourt	96.4%	95.8%
Amherstburg (2)	98.6%	N/A

(1) Includes Erie Shores, the Skyway 8 wind farm commissioned in August 2014, and the operating facilities acquired in the ReD transaction in 2013.

(2) Amherstburg began operating in June 2011.

FIGURE 3
ENHANCING CASH FLOW AT ERIE SHORES

Erie Shores has adopted WindBOOST and Turbine Pitch Optimization technology to maximize output from the 66 turbines on site.

UTILITIES

Capstone's utilities platform includes interests in a district heating company and a regulated water system.

District Heating

We hold a 33.3% equity interest in Värmevärden, a district heating business in Sweden serving individual, multi-residential, municipal and industrial customers in 10 communities.

Our key performance drivers for 2015

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

WE HOLD A 33.3% EQUITY INTEREST IN VÄRMEVÄRDEN, WHICH SERVES INDIVIDUAL, MULTI-RESIDENTIAL, MUNICIPAL AND INDUSTRIAL CUSTOMERS IN 10 COMMUNITIES.

Bristol Water

Capstone is the largest shareholder in Bristol Water, a regulated water utility in the United Kingdom that provides 240 million litres of water daily to more than 1.2 million people. Bristol Water is a high-quality, perpetual asset with a history dating back almost 170 years and excellent prospects for sustained future growth from an increasing local population and expanded business activity in the region.

Bristol Water is a high-quality, perpetual asset with a history dating back almost 170 years and excellent prospects for sustained future growth.

The Water Services Regulation Authority (Ofwat) is the economic regulator with oversight of Bristol Water and every other water and sewage treatment utility in the United Kingdom. Every five years, Ofwat approves the pricing model and business plan (known as the Asset Management Plan, or AMP) that applies to each of these utilities, in a process called the price review (PR). In 2014, Capstone was closely involved in the PR14 process through which the pricing model and business plan for the five-year period from April 1, 2015 to March 31, 2020, or AMP6, were determined by Ofwat.

The PR14 process was extensive, involving more than a year of submissions, revisions, direct negotiations, expert analysis and customer input. Capstone management worked with Bristol Water's team during this time and provided regular updates to stakeholders throughout the process.

CAPSTONE WAS CLOSELY INVOLVED IN THE PR14 PROCESS THROUGH WHICH THE PRICING MODEL AND BUSINESS PLAN FOR THE NEXT FIVE-YEAR PERIOD WERE DETERMINED BY OFWAT.

We believe the plan ultimately submitted to Ofwat:

- reflected the priorities of customers;
- was designed to deliver the right outcomes for current and future customers and the environment;
- ensured Bristol Water met its statutory obligations;
- represented the right balance of risk and reward between customers, investors and other stakeholders;
- was affordable and soundly financed.

On December 12, 2014 Ofwat delivered a final determination on the business plan for AMP6 that fell short of expectations. There were several major points of difference between Bristol Water's proposed business plan and Ofwat's final determination.

Bristol Water provides 240 million litres of water daily to more than 1.2 million people.

Bristol Water proposed wholesale expenditure of £500 million (£541M with a new reservoir)

- reduced household bills by £9 to £188 (4.5%);
- had broad customer support (92%);
- invested in the system but at a lower level than current AMP;
- £41 million to start Cheddar 2 reservoir, which would spread the expense over successive regulatory periods and potentially reduce overall costs;
- weighted average cost of capital of 4.4% (real), including recognition of higher embedded debt costs.

Ofwat set allowable total wholesale expenditure of £409 million

- average household bill falls to £164 in first year, then to £152 (20%);
- allowable cost of capital (WACC) of 3.6% (real);
- no small company premium; adjusted penalties; slim maintenance capex;
- no Cheddar 2 reservoir.

Bristol Water's Board of Directors resolved on February 5, 2015 to formally reject Ofwat's final determination. This triggered a process whereby Ofwat was compelled to refer the AMP6 business plan to the Competition and Markets Authority (CMA), the UK agency responsible for considering regulatory references and appeals.

The CMA will now review submissions from Ofwat and Bristol Water regarding the AMP6 business case. It should be noted that Bristol Water went through a similar process in 2010, when the Board rejected Ofwat's final determination for the 2010 to 2015 period and the matter was referred to the CMA's predecessor (the Competition Commission), with the result that a more acceptable business plan was set in place.

BRISTOL WATER'S BOARD OF DIRECTORS RESOLVED ON FEBRUARY 5, 2015 TO FORMALLY REJECT OFWAT'S FINAL DETERMINATION.

Pending the outcome of the CMA review, Bristol Water will operate in the meantime under the Ofwat final determination, starting April 1, 2015. It is expected that the CMA will render its final determination on the AMP6 review in August 2015. Any adjustments arising from the CMA's decision would come into effect on April 1, 2016.

Plans have been prepared to manage Bristol Water efficiently under a range of potential CMA outcomes. However, it remains the case that the inherent value of this water system and its long-term growth profile make it a compelling investment regardless of short-term regulatory challenges.

Other Performance Measures

Aside from the CMA review, standard operations are continuing at Bristol Water.

Key performance drivers for 2015 are:

1. Provide safe, reliable drinking water that is cost-effective for customers.
2. Operate in compliance with all regulatory and environmental requirements.
3. Operate efficiently to manage costs.
4. Complete capital expenditures under AMP5 business plan by March 31, 2015.
5. Operate in accordance with AMP6 final determination through CMA review process.

Bristol Water maintains consistently high customer service and system reliability rankings.

GROWTH PROSPECTS IN INFRASTRUCTURE

Infrastructure offers unique investment characteristics because of its essential role in serving the needs of people, communities and the demands of the global economy. Governments traditionally provided the funding for projects like roads, power plants, hospitals and utilities, but constrained budgets have led to decades of underinvestment in this area.

Private capital has increasingly flowed into infrastructure to fill the public funding gap, attracted by the long duration, high barriers to entry, stable cash flows, inflation protection and dominant market position of these assets.

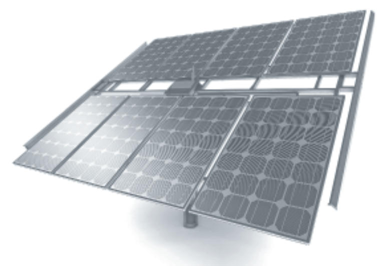
Today, the competition for infrastructure investments is intense. This has somewhat narrowed the selection of high-quality assets, and made the patient and disciplined analysis of any potential acquisition more critical than ever.

Power Sector

The renewable energy sector has been among the most active in the infrastructure space. The general attractiveness of the asset class – amid climate change concerns, government incentives and regulations, and rapidly improving technology – is one factor driving this change. Canada saw a rapid expansion of renewable energy supply driven by public policy, though this initial surge has now tapered off.

The other factor is the emergence of yield companies, or "yieldcos," which enable investors to participate in renewable energy without many of the risks associated with construction or research and development. Wind, solar, thermal and hydro facilities are structured into yieldcos, generating predictable cash flows that are passed on to shareholders as dividends. These companies have an enormous demand for acquiring operating assets, which has often driven valuations higher and returns lower.

Capstone is well positioned with a steady development pipeline enabling us to build out new wind projects using our internal capabilities. We also evaluate potential acquisitions in renewable power facilities, though in today's frothy market, we apply a rigorous diligence process to ensure they serve the best long-term interests of shareholders.



WE EVALUATE POTENTIAL ACQUISITIONS IN RENEWABLE POWER FACILITIES AND APPLY A RIGOROUS DILIGENCE PROCESS TO ENSURE THEY SERVE THE BEST LONG-TERM INTERESTS OF SHAREHOLDERS.

Utilities

Utility companies that transmit and distribute power, natural gas and water have long been associated with providing reliable, perpetual infrastructure returns. That picture is evolving, along with the investment opportunity utilities present.

Electricity

The transmission and distribution of electrical power is changing. The local distribution company model, or LDC, has long been the standard delivery method, but there are inherent inefficiencies to running a patchwork of small utilities to serve modern, sophisticated economies. A report in 2014 from Ontario's Advisory Council on Government Assets recommended consolidation of the "excess number of small players" in Ontario's electricity distribution sector; other jurisdictions are contemplating similar moves.

Meanwhile, the rapid adoption of new technologies, like rooftop solar, light industrial wind turbines and "inside the fence" on-site power plants, has disrupted the traditional dominance of electricity utilities everywhere as customers go off the grid. Industry dislocations of this scale often present investment potential; at this stage, we are paying close attention to the unfolding opportunities and risks in this area. We expect to see more clarity over the next 18 months as governments formalize the consolidation framework, the possible role of the private sector becomes defined, and new technologies transform the business model for power distribution.

Providing safe water systems is a crucial and growing part of infrastructure demand around the world.

Water Utilities

Water is frequently referred to as the petroleum of the next century because of the world's growing population, scarcity of fresh water and climate change-induced drought. Ownership of regulated water utilities is the most direct way to harness this trend.

As with other infrastructure assets, the US$460 billion worldwide water market has garnered considerable attention from large institutional investors, global banks and specialist water utility companies. There is significant interest in the best assets.

Capstone's 50% ownership of Bristol Water gives us a foothold in this coveted sector, as well as direct experience with the regulatory environment around water utilities. Our association with water multinational Grupo Agbar (a part of Suez Environnement), one of our ownership partners in Bristol Water, has the potential to create additional investment opportunities once the short-term regulatory issues at Bristol are settled.

Natural Gas

The investment possibilities in natural gas involve local distribution, storage, and transportation over long distances via pipelines. Natural gas is in wide use globally, often because it is a cleaner fossil fuel alternative to coal or oil, which is being phased out in many markets. We have experience with natural gas as a fuel source at Cardinal, and there is considerable potential to invest in a utility that carries this resource.

BIDDING FOR NEW P3 PROJECTS AND SEEING THEM THROUGH DEVELOPMENT AND COMPLETION INVOLVES A CONSIDERABLE FINANCIAL COMMITMENT AND A DEGREE OF RISK, BUT ALSO CARRIES A POTENTIAL FOR HIGH RETURN ON INVESTMENT.

Other Pillars

Public-private Partnerships

The Canadian P3 market is among the most established and highly regarded in the world, as provincial and federal governments have come to understand the benefits of having the private sector assume a major share of the risks of financing, construction, performance and maintenance of public infrastructure. The US and other markets are steadily increasing their use of the P3 model.

Bidding for new P3 projects and seeing them through development and completion involves a considerable financial commitment and a degree of risk, but also carries a potential for high return on investment. Operating P3s, which have already been built and are functioning as they should, generally produce attractive, yet more modest, returns. For the past year, Capstone has retained a leading P3 expert to advise on potential acquisitions that can offer predictable, government-backed cash flow with limited volatility. The market remains competitive for P3 assets, and identifying a suitable project or acquisition will take time.

Transportation

Capstone's management team has direct experience in developing and managing transport infrastructure including roads, public transit and shipping ports. These assets, along with railways and airports, tend to represent larger acquisitions that Capstone would likely pursue in partnership with other parties. For the time being, expansion into this area is a lower priority for the company.

The management team at Capstone understands the importance of growing the company, with the corresponding recognition that today's competitive infrastructure market requires a creative approach to sourcing accretive transactions that carry long-term positive outcomes for all stakeholders.

Management's Discussion and Analysis

In 2014, Capstone achieved Adjusted EBITDA of $160.4 million, which exceeded our forecasted range and reflected strong operations, primarily at Bristol Water and Cardinal, as well as growth from the wind power assets we acquired in the fourth quarter of 2013 and the new wind facility commissioned in 2014.

Financial Highlights

	As at and for the year ended December 31		
($000s, except for per share amounts)	**2014**	2013	2012
Revenue	**441,578**	389,503	357,610
Net income (loss)	**33,547**	67,210	45,971
Earnings (loss) per share			
Basic	**0.057**	0.462	0.315
Diluted	**0.057**	0.425	0.315
Adjusted EBITDA	**160,359**	128,421	120,343
AFFO	**56,412**	39,934	35,563
AFFO [1] per share	**0.584**	0.493	0.473
Cash dividends per share			
Common	**0.300**	0.300	0.450
Preferred	**1.250**	1.250	1.250
Total assets [2]	**2,299,980**	2,026,324	1,626,858
Total long-term liabilities [2]	**1,428,293**	1,220,107	988,048

(1) AFFO is a non-GAAP measure defined on page 25.

(2) Total assets and total long-term liabilities as at December 31, 2013 are restated for purchase equation adjustments, refer to note 3 of the consolidated financial statements for the year ended December 31, 2014 for detail.

INSIDE THIS SECTION

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", "intend", "estimate", "plan", "believe" or other similar words, and include, among other things, statements found in "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, 2014 under the heading "Results of Operations", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements and financial outlook contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that there will be no material delays in the Corporation's wind development projects achieving commercial operation; that the Corporation's power infrastructure facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no material changes to the Corporation's facilities, equipment or contractual arrangements; that there will be no material changes in the legislative, regulatory and operating framework for the Corporation's businesses; that there will be no material delays in obtaining required approvals and no material changes in rate orders or rate structures for the Corporation's power infrastructure facilities, or Värmevärden; that Bristol Water will implement rates prescribed in Ofwat's final determination while pursuing a more appropriate outcome through the Competition & Markets Authority; that there will be no material changes in environmental regulations for the power infrastructure facilities, Värmevärden or Bristol Water; that there will be no significant event occurring outside the ordinary course of the Corporation's businesses; the refinancing on similar terms of the Corporation's and its subsidiaries' various outstanding credit facilities and debt instruments which mature during the period in which the forward-looking statements and financial outlook relate; market prices for electricity in Ontario and the amount of hours Cardinal is dispatched; the price Whitecourt is able to capture for its electricity production considering the market price for electricity in Alberta, the impact of renewable energy credits, and Whitecourt's agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by Whitecourt; the re-contracting of the PPA for the Sechelt hydro power generating station; 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 from the expected amount and timing of capital expenditures by Bristol Water; that there will be no material changes to the Swedish Krona to Canadian dollar and UK pound sterling to Canadian dollar exchange rates; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying AMP5 and management's assumptions of the final regulatory outcome for AMP6, including, among others: real and inflationary changes in Bristol Water's revenue, Bristol Water's expenses increasing in line with inflation and efficiency measures, and capital investment, leakage, customer service standards and asset serviceability targets being achieved.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements and financial outlook, actual results may differ from those suggested by the forward-looking statements and financial outlook for various reasons, including: risks related to the Corporation's securities (dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation's securities; shareholder dilution; and convertible debentures credit risk, subordination and absence of covenant protection); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; foreign currency exchange rates; acquisitions, development and integration; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); risks related to the Corporation's power infrastructure facilities (power purchase agreements; completion of the Corporation's wind development projects; operational performance; contract performance and reliance on suppliers; land tenure and related rights; environmental; and regulatory environment); risks related to Värmevärden (operational performance; fuel costs and availability; industrial and residential contracts; environmental; regulatory environment; and labour relations); and risks related to Bristol Water (Ofwat price determinations and changes to Instrument of Appointment; 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). For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's annual information form dated March 26, 2014, 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 SEDAR profile at www.sedar.com).

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

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, 2014 and 2013.

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, 2014 and 2013. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2013, quarterly financial reports of Capstone and other public filings of the Corporation are available under the Corporation's profile on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

This MD&A is dated March 4, 2015, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

Amounts included in the 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, 2013	0.1581	0.1655	1.6113	1.7627
Dec 31, 2014	**0.1605**	**0.1483**	**1.8192**	**1.8071**

CHANGES IN THE BUSINESS

In 2014, Capstone accomplished several key objectives including securing Cardinal's new contract, financing and construction all of the near-term wind power development projects and progressing the capital expenditure program for Bristol Water's current regulatory period ("AMP5"). In addition, Capstone added financial flexibility by increasing the corporate credit facility.

Cardinal's New Contract

On March 26, 2014, Capstone announced the signing of a new 20-year non-utility generator contract (the "Contract") with the Ontario Power Authority ("OPA"), now the Independent Electricity System Operator ("IESO") by amalgamation, for its 156-megawatt Cardinal combined-cycle, cogeneration natural gas-fired facility ("Cardinal"). The new Contract was effective January 1, 2015.

In 2015, Cardinal has become a dispatchable facility rather than a baseload generator, supplying electricity to the Ontario grid only when profitable to do so. The new Contract provides Cardinal with a fixed monthly payment, escalating annually according to a pre-defined formula, intended to cover Cardinal's fixed operating costs and return on capital. In addition, Cardinal now earns variable market revenue from the electricity it delivers to Ontario's power grid and is responsible for arranging its own gas supply. The Corporation expects to invest a total of approximately $30,000 of capital to prepare Cardinal for cycling, including purchasing a new rotor and related equipment to extend and enhance the facility's capabilities. In 2014, Cardinal spent $9,884 of the total in preparing for conversion and plans to invest the remainder in the first half of 2015. The new Contract will expire on December 31, 2034.

The Corporation and the OPA (now IESO) also reached a mutually beneficial agreement for Cardinal to provide additional operational flexibility to Ontario's electricity system for the duration of the power purchase agreement in force at the time, which expired on December 31, 2014.

In addition, Cardinal has entered into an agreement with Ingredion Canada Incorporated, which owns the corn refining facility adjacent to Cardinal, to renew its energy savings agreement ("ESA") for a term of 20 years. This agreement includes O&M services, which may be provided to Ingredion for a fee, as well as a royalty payable by Cardinal to Ingredion based on variable market revenue from electricity sales. Concurrently with the ESA, Cardinal executed a lease extension for the land on which the Cardinal facility is located.

Financing Changes - Skyway 8, Corporate Facility Expansion, Saint-Philémon, Goulais and Bristol Water

Skyway 8

On April 17, 2014 Capstone, through its wholly owned subsidiary Sky Generation LP ("SkyGen"), entered into a credit agreement that provided $21,375 of financing for the construction of the Skyway 8 wind project, which is non-recourse to Capstone, except for a $5,000 parent guarantee. On February 17, 2015, the construction facility converted to a three year term facility, which has regular principal and interest payments fully amortizing over 20 years and bears an interest rate of 4.80%.

Corporate facility expansion

In 2014, Capstone and its existing lenders increased the capacity of its corporate credit facility by $57,500 to increase the total facility to $90,000. The corporate credit facility has an initial term of three years, maturing in November 2016. The credit facility may be renewed by Capstone annually for an additional year. On November 10, 2014, Capstone extended the maturity to November 2017. The increased capacity enhances the Corporation's financial flexibility and may be used to fund Cardinal's planned upgrades and major maintenance or other corporate purposes.

Saint-Philémon

On May 16, 2014 Capstone, through its indirect partially owned subsidiary Parc Éolien Saint-Philémon S.E.C ("Saint-Philémon"), entered into a credit agreement that provided $60,535 of cash on closing for the construction of the Saint-Philémon wind project. The construction facility is comprised of two tranches, which mature no later than September 30, 2015. On maturity Tranche A $56,102 will convert to a term facility and Tranche B $4,433 will be repaid primarily from proceeds received from Hydro-Québec. Tranche A will have a term of 19 ½ years bearing a fixed, annual interest rate of 5.49% and will be fully amortizing over its remaining term. Interest during construction is capitalized to projects under development. The loan is non-recourse to Capstone.

Goulais

On September 30, 2014 Capstone, through its indirect subsidiary Chi-Wiikwedong Holdings LP, entered into a credit agreement that provided $76,373 of cash on closing for the construction of the Goulais wind project. The construction term of the facility matures no later than December 31, 2015 and bears an interest rate of 5.16%. Upon maturity, the facility will convert to a loan with a term of 19 ½ years bearing a fixed, annual interest rate of 5.16% and is fully amortizing over its remaining term. Interest during construction is capitalized to projects under development. The loan is non-recourse to Capstone.

Bristol Water

On December 3, 2014, Bristol Water entered into a new bank loan for £50,000, or $90,355, with an existing lender and fully repaid the £50,000 drawn under existing credit facilities, providing additional flexibility for future capital expenditures from these facilities. The new bank loan is fully repayable on maturity, December 3, 2019 bearing a variable rate of interest and is non-recourse to Capstone. Concurrent with the new bank loan, Bristol Water entered into an interest rate swap for the full notional amount of £50,000 to exchange the variable rate for a fixed rate of 2.40% and has elected to apply hedge accounting under IFRS. In addition, Bristol Water increased the existing credit facility by £20,000.

Partial Sale of Interest in Goulais Wind Farm

On August 14, 2014, Capstone sold a 49% interest in Chi-Wiikwedong LP, which holds the Power Purchase Agreement ("PPA") for the Goulais development project, to a subsidiary of Batchewana First Nation of Ojibways ("BFN"). Capstone and BFN have collectively contributed $23,500 in equity, which in combination with debt proceeds, will be used to construct the project. BFN's $11,500 equity commitment was funded by a loan from Capstone.

Following this sale, Capstone retained a 51% beneficial interest in Chi-Wiikwedong LP and continues to consolidate based on retention of control.

Bristol Water's Regulatory Price Determination

Capstone owns 50% of Bristol Water, a regulated water utility in the UK. In December 2014, the economic regulator for the UK water sector issued a final determination on Bristol Water's approved pricing model and business plan for the regulatory period spanning April 1, 2015 to March 31, 2020. This determination fell short of Bristol Water's proposed plan, which had undergone rigorous analysis and review by third-party experts. Bristol Water's Board of Directors, with the full support of Capstone, has formally rejected the regulator's final determination. The matter will now be referred to the Competition and Markets Authority, with a final outcome expected in August 2015. Capstone expects that an improved outcome will result from the review process.

ADDITIONAL GAAP AND NON-GAAP PERFORMANCE MEASURES 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 additional GAAP and non-GAAP performance measures do not have any standardized meaning prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other issuers. The Corporation believes that these indicators are useful since they provide additional information about the Corporation's earnings performance and cash generating capabilities and facilitate comparison of results over different periods. The additional GAAP and non-GAAP measures used in this MD&A are defined below.

Additional GAAP Measure

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

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

Non-GAAP Measures

Adjusted EBITDA

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

Adjusted EBITDA is calculated as revenue less operating and administrative expenses and project development costs plus interest income and dividends or distributions received from equity accounted investments. Operating expenses are adjusted to actual costs by transferring the portion of Cardinal gas payments required by IFRS to be included in other gains and losses. Adjusted EBITDA for investments in subsidiaries with non-controlling interests is included at Capstone's proportionate ownership interest by deducting amounts attributed to any non-controlling interest. The reconciliation of Adjusted EBITDA to EBITDA is provided on page 26.

Adjusted Funds from Operations ("AFFO")

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

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

AFFO is calculated from Adjusted EBITDA by:

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

Payout Ratio

Payout ratio is a non-GAAP financial measure that assists management, investors and other stakeholders in assessing the sustainability of Capstone's dividend policy.

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

Reconciliation of Non-GAAP Performance Measures

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

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
EBITDA	**177,433**	185,058
Asset impairment charges	**30,592**	—
Foreign exchange (gain) loss	**4,673**	(2,924)
Other (gains) and losses, net [(1)]	**3,907**	(9,789)
Equity accounted (income) loss	**1,127**	2,638
Distributions from equity accounted investments	**7,354**	3,982
Net pension interest income	**(2,132)**	(1,817)
Non-controlling interest ("NCI") portion of Adjusted EBITDA	**(62,595)**	(48,727)
Adjusted EBITDA [(2)]	**160,359**	128,421
Cash flow from operating activities	**155,718**	135,676
Cash flow from operating activities of businesses with NCI	**(99,093)**	(87,655)
Distributions paid to Capstone from businesses with NCI	**9,572**	8,111
Distributions from equity accounted investments	**7,354**	3,982
Foreign exchange on loans receivable from Värmevärden	**759**	(34)
Chapais loans receivable principal repayments	**1,220**	1,096
Power maintenance capital expenditures	**(3,868)**	(4,387)
Power and corporate scheduled principal repayments	**(16,685)**	(14,886)
Power and corporate working capital changes	**5,185**	1,781
Dividends on redeemable preferred shares	**(3,750)**	(3,750)
AFFO	**56,412**	39,934

(1) Other gains and (losses), net, are adjusted by $3,762 so operating expenses reflect the actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.
(2) See page 30 for a reconciliation of Adjusted EBITDA to net income.

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both higher than in 2013. Adjusted EBITDA performance primarily reflected the following:

- Improved results for the power segment since the October 1, 2013 acquisition of Renewable Energy Developers Inc. ("ReD"), and higher contracted power rates and lower fuel transportation costs at Cardinal;
- Better results for Bristol Water, reflecting foreign currency appreciation and the annual increase in regulated water tariffs, as well as consumption; and
- Higher corporate administrative expenses, primarily ReD staffing and integration-related costs, partially offset by lower corporate project development costs, which included diligence costs for ReD in 2013.

In addition, Capstone's AFFO was affected by:

- Higher debt interest and principal payments for the power businesses added from the ReD acquisition, as well as Skyway 8 project financing; and
- Lower maintenance capital expenditures at Cardinal, primarily due to combustion inspection costs in 2013 which did not recur. This was partially offset by higher maintenance capital expenditures at the hydro power facilities.

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Revenue	**441,578**	389,503
Expenses [(1)]	**(230,212)**	(220,433)
Interest income	**4,234**	4,096
Distributions from equity accounted investments	**7,354**	3,982
Less: non-controlling interest ("NCI")	**(62,595)**	(48,727)
Adjusted EBITDA	**160,359**	128,421
Adjusted EBITDA of consolidated businesses with NCI	**(62,667)**	(48,693)
Distributions from businesses with NCI	**9,572**	8,111
Principal from loans receivable	**1,220**	1,096
Interest paid	**(25,071)**	(23,444)
Dividends paid on Capstone's preferred shares	**(3,750)**	(3,750)
Income taxes (paid) recovery	**(2,698)**	(2,534)
Maintenance capital expenditures	**(3,868)**	(4,387)
Scheduled repayment of debt principal	**(16,685)**	(14,886)
AFFO	**56,412**	39,934
AFFO per share	**0.584**	0.493
Payout ratio	**51.4%**	60.9%
Dividends declared per share	**0.300**	0.300

(1) 2014 Operating expenses are adjusted by $3,762 to actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.

Revenue increased by $52,075, or 13%, comprising $42,695 from Bristol Water and $9,380 from the power segment. Higher revenue at Bristol Water was primarily due to favourable foreign currency translation and the annual increase in regulated water tariffs, as well as higher consumption. The power segment revenue increase was primarily attributable to $15,793 from the wind power facilities acquired in 2013 and Skyway 8 which reached COD in 2014. This was partially offset by lower revenue at Cardinal and Whitecourt.

Expenses increased by $9,779, or 4%, as follows:

- **Operating expenses** increased by $9,748, or 5%, primarily due to Bristol Water, which includes $12,907 of foreign exchange appreciation and $6,593 of higher professional fees and repairs and maintenance expenses. In addition, wind power facilities expenses increased by $3,669 due to facilities acquired in 2013 or reaching COD in 2014. This was partially offset by $13,649 primarily due to lower production and gas transportation costs at Cardinal.
- **Administrative expenses** increased by $2,897, or 28%, primarily reflecting integration costs and higher compensation expenses following the acquisition of ReD.
- **Project development costs** decreased by $2,866, or 52%, primarily due to $4,182 of diligence costs for the acquisition of ReD in 2013. This was partially offset by $1,424 in costs to advance the near-term wind development projects.

Distributions from equity accounted investments were $3,372, or 85%, higher in 2014 due to distributions of $1,939 from the Glen Dhu wind facility ("Glen Dhu") and $1,433 of higher dividends from Värmevärden.

Distributions from businesses with NCI were $1,461, or 18%, higher in 2014 due to a $1,524 increase in dividends from Bristol Water and favourable foreign exchange translation. In addition, Saint-Philémon provided $180 of distributions in 2014, partially offset by $243 of lower distributions from the Amherst wind facility ("Amherst").

Interest paid increased by $1,627, or 7%, mainly due to $2,359 of additional interest related to the wind power facilities acquired on October 1, 2013. In addition, corporate interest paid increased by $534 primarily due to the addition of a full year of the 2017 convertible debentures. These increases were partially offset by lower interest paid on the project debt of the other power segment businesses due to the amortizing nature of these liabilities.

Interest paid by Bristol Water and Amherst are excluded from Capstone's definition of AFFO and represent 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 accrued interest to December 31, 2014.

Income taxes paid were $164, or 6%, higher in 2014 , primarily attributable to $489 paid in 2014 for corporate minimum taxes, $339 paid for Canadian Renewable and Conservation Expense ("CRCE") shortfall penalties related to flow-through shares previously issued by ReD and $375 paid for income taxes. These increases were partially offset by $1,039 lower tax paid on preferred share dividends in 2014.

Maintenance capital expenditures decreased by $519, or 12%, primarily related to Cardinal, which incurred lower maintenance capital expenditures in 2014 while reconfiguring the plant as a cycling facility. Refer to page 44 of this MD&A in the "Capital Asset Expenditure Program" section for more detail. The reduction at Cardinal was partially offset by expenditures for penstock repairs at the hydro facilities.

Scheduled debt principal repayments increased by $1,799, or 12%, primarily due to $2,054 higher payments for wind facilities acquired in 2013 or completed in 2014. In addition, scheduled principal repayments for Erie Shores, the hydro facilities and Amherstburg Solar Park ("Amherstburg") were $995 higher in 2014 as the debt continued to amortize. These increases were partially offset by $1,250 of lower payments, relating to the CPC-Cardinal credit facility, which was replaced in 2013.

Results by Segment

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

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

Capstone's operating segments by ownership interest are as follows:

Accounting treatment	Control		Significant influence
Ownership	Wholly owned	Partially owned	Minority interest
Power (1)	Cardinal (gas cogeneration), Erie Shores, SkyGen, Glace Bay, and Confederation Power (wind facilities)(2), Whitecourt (biomass facility), Amherstburg (solar park) and the hydro facilities.	Amherst (wind facility)(2)	Glen Dhu and Fitzpatrick (wind facilities)(2)
Utilities - water		Bristol Water	
Utilities - district heating			Värmevärden

(1) The power segment includes several wind development projects in addition to the operating businesses disclosed above.
(2) Capstone's interests in SkyGen, Glace Bay, Confederation Power, Amherst, Glen Dhu and Fitzpatrick were acquired as operating wind facilities on October 1, 2013.

Non-GAAP performance measures

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

	Adjusted EBITDA				AFFO			
	For the year ended		Change		For the year ended		Change	
	Dec 31, 2014	Dec 31, 2013	$	%	**Dec 31, 2014**	Dec 31, 2013	$	%
Power	**106,674**	89,130	17,544	20%	**66,234**	53,439	12,795	24%
Utilities – water	**59,414**	47,877	11,537	24%	**8,071**	6,547	1,524	23%
Utilities – district heating	**7,435**	5,965	1,470	25%	**7,435**	5,965	1,470	25%
Corporate	**(13,164)**	(14,551)	1,387	(10)%	**(25,328)**	(26,017)	689	(3)%
Total	**160,359**	128,421	31,938	25%	**56,412**	39,934	16,478	41%

Power

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2013:

Change	Explanations
11,246	Adjusted EBITDA increase for operating facilities acquired on October 1, 2013.
3,370	Lower Cardinal operating expenses due to the expiration of the gas transportation contract.
2,949	Lower Cardinal operating expenses due to decrease in gas transportation rates effective July 1, 2013.
2,202	Higher Cardinal revenue due to annual increase in power rates.
1,189	Higher Cardinal gas mitigation revenue due to increase in surplus gas as a result of lower production.
720	Higher Erie Shores and Amherstburg revenue due to favourable wind and solar resources.
(825)	Higher project development costs to advance near-term wind development projects.
(976)	Lower Whitecourt revenue due to lower production and power pool prices.
(871)	Lower Hydro facilities revenue due to unfavourable hydrology.
(1,460)	Various other changes.
17,544	Change in Adjusted EBITDA.
(2,437)	Change in Adjusted EBITDA attributable to non-controlling interests.
1,726	Lower Cardinal maintenance capital expenditures primarily due to turbine combustion inspection in 2013.
1,725	Lower Cardinal debt service costs following refinancing of the CPC-Cardinal facility as a corporate facility in 2013.
(4,437)	Higher interest, principal payments and maintenance capital expenditures for operating facilities acquired on October 1, 2013.
(1,475)	Higher Hydros maintenance expenditures due to penstock repairs.
149	Various other changes.
12,795	Change in AFFO.

Utilities – water

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2013:

Change	Explanations
6,178	Impact of foreign exchange on Adjusted EBITDA.
5,359	Business performance increase primarily due to annual increase in regulated water tariffs, offset by higher repairs and maintenance expenses.
11,537	Change in Adjusted EBITDA.
797	Impact of foreign exchange on dividends received from Bristol Water.
727	Increase in dividends received from Bristol Water.
1,524	Change in AFFO.

Utilities – district heating

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2013:

Change	Explanations
1,434	Additional dividend received from Värmevärden.
36	Impact of foreign exchange on interest and dividends received from Värmevärden.
1,470	Change in Adjusted EBITDA and AFFO.

Corporate

The following table shows the significant changes in Adjusted EBITDA and AFFO from 2013:

Change	Explanations
4,182	Decrease in project development costs due to ReD acquisition costs in 2013.
(1,040)	Higher project advisory, professional and contract fees.
(622)	Higher professional fees due to the integration of ReD.
(1,133)	Various other changes
1,387	Change in Adjusted EBITDA.
(705)	HIgher interest paid for the 2017 Debentures.
7	Other
689	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, 2014	Dec 31, 2013
Power [(1)]	**3,280**	34,833
Utilities – water	**48,665**	51,477
Utilities – district heating	**(3,278)**	2,850
Corporate	**(15,120)**	(21,950)
Total	**33,547**	67,210

(1) Power is net of impairment charges of $30,592.

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, 2014	Dec 31, 2013
Adjusted EBITDA	**160,359**	128,421
Adjustment from distributions from equity accounted investments to equity accounted income	**(8,481)**	(6,620)
NCI portion of Adjusted EBITDA	**62,595**	48,727
Asset impairment charges	**(30,592)**	—
Other gains and (losses), net [(1)]	**(3,907)**	9,789
Foreign exchange gain (loss)	**(4,673)**	2,924
Interest expense	**(54,145)**	(47,471)
Net pension interest income	**2,132**	1,817
Depreciation and amortization	**(79,766)**	(62,167)
Income tax recovery (expense)	**(9,975)**	(8,210)
Net Income (loss)	**33,547**	67,210

(1) Other gains and (losses), net, are adjusted by $3,762 so operating expenses reflect the actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.

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:

9.5

Megawatts added to our power portfolio with the commissioning of the Skyway 8 wind farm.

18

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

160,000

Approximate number of households capable of being powered each year from the electricity Capstone generates.

For the year ended December 31, 2014	Gas	Wind (1)	Biomass (1)	Hydro	Solar	Development (2)	Total
Power generated (GWh)	**911.0**	**471.2**	**194.3**	**158.3**	**38.2**	**n/a**	**1,773.0**
Capacity factor	**69.0%**	**31.3%**	**96.7%**	**50.7%**	**21.8%**	**n/a**	**n.m.f**
Availability	**98.5%**	**97.3%**	**96.4%**	**96.4%**	**98.6%**	**n/a**	**n.m.f**
Revenue	112,175	46,607	14,321	14,135	16,070	—	203,308
Expenses (3)	(71,019)	(8,884)	(10,123)	(3,618)	(1,109)	(2,593)	(97,346)
Interest income	328	420	222	21	28	—	1,019
Distributions from equity accounted investments	—	2,817	—	—	—	—	2,817
Less: non-controlling interest ("NCI")	—	(3,269)	—	—	—	145	(3,124)
Adjusted EBITDA	41,484	37,691	4,420	10,538	14,989	(2,448)	106,674
Adjusted EBITDA of consolidated businesses with NCI	—	(3,404)	—	—	—	151	(3,253)
Distributions from businesses with NCI	—	1,321	—	—	—	180	1,501
Principal from loans receivable	—	—	1,220	—	—	—	1,220
Interest paid	—	(8,454)	—	(4,678)	(6,223)	—	(19,355)
Maintenance capital expenditures	—	(1,535)	(470)	(1,863)	—	—	(3,868)
Scheduled repayment of debt principal	—	(8,595)	—	(4,028)	(4,062)	—	(16,685)
AFFO	41,484	17,024	5,170	(31)	4,704	(2,117)	66,234

For the year ended December 31, 2013	Gas	Wind (1)	Biomass (1)	Hydro	Solar	Development (2)	Total
Power generated (GWh)	**1,287.5**	**311.1**	**198.4**	**168.7**	**36.6**	**n/a**	**2,002.3**
Capacity factor	**97.9%**	**29.9%**	**95.8%**	**53.9%**	**20.9%**	**n/a**	**n.m.f**
Availability	**98.2%**	**97.8%**	**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)
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

(1) For equity accounted investments, Adjusted EBITDA reflects management fees earned, interest income, as well as distributions paid to Capstone. Principal received on outstanding loans receivable is included in AFFO. The statistics for power generated, capacity factors and availability exclude those of Capstone's equity accounted investments.
(2) Development includes costs for Capstone's power development team, and development project costs, which are expensed during construction.
(3) 2014 operating expenses are adjusted by $3,762 to actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.

The following charts show the composition of the power segment's Adjusted EBITDA and AFFO for the years ended December 31, 2014 and 2013:

ADJUSTED EBITDA 2014

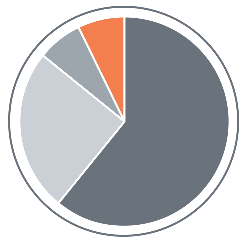
- 38% Gas
- 34% Wind
- 4% Biomass
- 10% Hydro
- 14% Solar

ADJUSTED EBITDA 2013

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

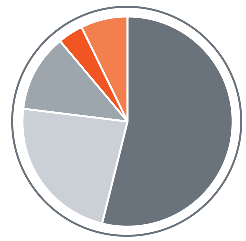
AFFO 2014

- 61% Gas
- 25% Wind
- 7% Biomass
- 7% Solar



AFFO 2013

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



Revenue increased by $9,380, or 5%, primarily due to $15,793 from the wind facilities acquired in 2013; a full year of production is included in 2014 versus one quarter in 2013. Revenue also increased by $719, due to higher production from Amherstburg and Erie Shores. These increases were partially offset by $5,830 lower revenue from Cardinal due to a production decrease and $1,064 lower revenue from Whitecourt due to lower production and average power pool prices. The remaining variance relates to lower production at the hydro facilities.

Cardinal revenue decreased in response to the new agreement with the OPA, now the IESO, to provide additional flexibility to the electricity system by reducing off-peak production to help Ontario's surplus baseload generation issue. Lower Cardinal revenues were partially offset by higher contracted power rates based on annual escalators in the PPA that ended in 2014 and higher gas sales based on surplus gas as a result of lower power production.

Expenses decreased by $8,327, or 8%, primarily due to lower Cardinal fuel costs of $7,371, because of lower production. In addition, Cardinal's fuel transportation costs were $6,319 lower, primarily due to lower rates in 2014 and the expiration of the transportation contract in November 2014. These variances were partially offset by $3,669 of higher operating expenses related to Capstone's larger operating wind portfolio and $1,424 of higher development expenses to advance the near-term wind projects. The remaining variance primarily relates to higher operating expenses at Whitecourt for professional fees.

Interest income increased by $238, or 30%, due to $272 of accrued interest on the loan to BFN and $216 of interest as a result of higher average cash balances in 2014. This was partially offset by $250 lower interest from Chapais due to a one-time payment received in 2013 and the continued amortization of the loan balance.

Distributions from equity accounted investments increased by $1,939, or 221%, primarily due to receipts from Capstone's 49% interest in the Glen Dhu wind facility.

Non-controlling interests relate to the Adjusted EBITDA attributable to Capstone's partners for the Amherst wind facility, and Saint-Philémon and Goulais wind development projects.

Distributions from businesses with NCI decreased by $63, or 4%, primarily because distributions from the Amherst wind facility decreased by $243. This was partially offset by $180 of accrued management fees for the Saint-Philémon wind development project.

Interest paid increased by $1,093, or 6%, primarily due to $2,359 of additional interest in 2014 on the wind portfolio acquired in 2013. This was partially offset by $791 of lower interest paid on amortizing debt at Erie Shores Wind Farm ("Erie Shores"), the hydro facilities and Amherstburg. The remaining decrease relates to $475 of lower interest paid by Cardinal due to refinancing of the CPC-Cardinal credit facility in 2013.

Maintenance capital expenditures decreased by $519, or 12%, primarily due to Cardinal, which did not incur significant maintenance capital expenditures in 2014 as efforts shifted to reconfiguring the facility as a cycling plant. Cardinal maintenance capital expenditures of $1,910 in 2013 reflect costs for the scheduled 2013 combustion inspection. In 2014, maintenance capital expenditures included $1,287 for repairs to the penstocks at two hydro facilities, for which Capstone is pursuing an insurance claim. Refer to page 44 of this MD&A in the "Capital Asset Expenditure Program" section for detail.

Scheduled repayments of debt principal increased by $1,799, or 12%, primarily due to $2,054 of additional principal payments in 2014 on the wind portfolio acquired in 2013. In addition, principal repayments for the amortizing debt at Erie Shores, the hydro facilities and Amherstburg increased by $995. These increases were partially offset by a $1,250 decrease related to the CPC-Cardinal credit facility, which was refinanced in 2013.

Project development

Capstone's development pipeline as at December 31, 2014 included the rights to net 77 MW across eight wind development projects, excluding the Skyway 8 wind facility completed in August 2014. Six of these projects are being developed in Ontario under power purchase agreements ("PPAs") awarded by the OPA, now the IESO by amalgamation, one project is in Quebec with a PPA awarded by Hydro-Québec and one project is in Saskatchewan with a PPA awarded by SaskPower. Two projects are characterized as near-term, with ongoing construction. Capstone expects both of the near-term projects to be completed consistent with targeted dates and without material cost over-runs. The remaining six development-stage projects are expected to achieve their commercial operation dates ("COD") between 2016 to 2017, assuming they receive the relevant regulatory approvals and permits required to proceed.

A summary of Capstone's two near-term projects and the recently constructed Skyway 8 is as follows:

Project	Expected COD	Ownership Interest	Net Capacity	Counterparty	PPA Expiry	Status
Skyway 8	Complete	100%	9.48 MW	IESO	August 2034	COD - August 2014
Saint-Philémon	Complete	51%	12.24 MW	Hydro-Québec	January 2035	COD - January 2015
Goulais	Q2 2015	51%	12.75 MW	IESO	20 years from COD	Under construction

Capstone has funded these development projects with a combination of equity and project-level debt financing. The projects have been equity funded by Capstone, through a combination of existing cash, available credit and other equity partners, including First Nations and a municipality. The project debt financing for each near-term project is in place. Refer to page 23, the "Changes in the Business" section of the MD&A for additional information.

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	2014	Q1	Q2	Q3	Q4	Annual
Gas (2)	2034	**911.0**	341.8	272.6	290.5	321.3	1,226.2
Wind (3)	2020 - 2037	**471.2**	140.7	90.6	75.3	140.8	447.4
Biomass (3)	2014	**194.3**	50.2	45.6	50.4	49.1	195.3
Hydro	2017 - 2042	**158.3**	31.3	57.3	29.8	41.6	160.0
Solar	2031	**38.2**	6.9	12.9	12.4	5.8	38.0
Total		**1,773.0**	570.9	479.0	458.4	558.6	2,066.9

(1) Average long-term production is from March 2005 to December 31, 2014, except for Erie Shores, which is from June 2006, and Amherstburg, which is from July 2011; the wind facilities acquired on October 1, 2013, which is from January 2013 and Skyway 8, which is from August 14, 2014.
(2) In 2014, production was lower due to Cardinal's agreement with the OPA, now IESO to provide additional flexibility to the electricity system by reducing off-peak production to help manage Ontario's surplus baseload generation.
(3) 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 during summer months.

Outlook (1)

In 2015, the power segment will benefit from contributions from the near-term wind development projects as they reach COD. Skyway 8 will contribute a full year, along with Saint-Philémon, which commenced operations in January of 2015 and Goulais, which we anticipate will reach COD in April of 2015. Capstone expects Adjusted EBITDA for development to be similar to 2014, as costs to advance the remaining near-term development projects, and new development projects are expected to be comparable with costs incurred in 2014.

Overall, all operating facilities are expected to perform consistently with their long-term average production, subject to variations in wind, water flows, ambient temperatures and sunlight, with the exception of Cardinal and Whitecourt.

We anticipate a lower contribution from Cardinal, reflecting conversion to a cycling facility under its new non-utility generator contract. Whitecourt is expected to generate lower revenue based on a lower outlook for realized power prices compared with 2014.

Overall, Capstone expects the net impact of these factors to result in lower Adjusted EBITDA for the power segment in 2015 compared with 2014.

(1) See page 22 for a description of various other material factors or assumptions underlying our outlook.

Infrastructure – Utilities

Water

Capstone's water utilities segment includes a 50% ownership interest in Bristol Water, which is located in the United Kingdom. The remaining ownership is 30% held by Sociedad General de Aguas de Barcelona ("Agbar"), a subsidiary of Suez Environnement, and 20% held by a subsidiary of ITOCHU Corporation ("ITOCHU").

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Water supplied (megalitres)	**82,528**	82,125
Revenue	**238,270**	195,575
Operating expenses	**(119,530)**	(100,030)
Interest income	**145**	275
Adjusted EBITDA before non-controlling interest	**118,885**	95,820
Less: non-controlling interest ("NCI")	**(59,471)**	(47,943)
Adjusted EBITDA	**59,414**	47,877
Adjusted EBITDA of consolidated businesses with NCI	**(59,414)**	(47,877)
Dividends from businesses with NCI	**8,071**	6,547
AFFO	**8,071**	6,547

Revenue increased by $42,695, or 22%, including foreign currency and was $17,460, or 8%, higher excluding foreign currency. After foreign currency, the increase was primarily attributable to the annual increase in water tariffs, which took effect on April 1, 2014 and contributed $13,826. Higher water consumption contributed an additional $1,455.

Operating expenses increased by $19,500, or 19%, including foreign currency and were $6,593, or 6%, higher excluding foreign currency. The increase was mostly due to a $2,269 increase in professional fees primarily relating to the revised 2014 price review submission, as well as $1,974 of higher repairs and maintenance activities.

Interest income decreased by $130, or 47%, due to a lower average cash balance.

Non-controlling interest relates to the Adjusted EBITDA attributable to Capstone's partners, Agbar and ITOCHU.

Dividends paid to Capstone by Bristol Water increased by $1,524, or 23%, mainly because of $797 related to foreign currency translation, as well as an expected increase in the dividend of $727.

Capital expenditures

The approved and planned capital expenditures for the current Asset Management Plan ("AMP5") period, which ends on March 31, 2015, are approximately $546,000, or £302,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at December 31, 2014, the cumulative capital expenditure incurred during AMP5 was $526,000, which was ahead of the original plan agreed with Water Services Regulation Authority ("Ofwat") by $15,000. Bristol Water's capital expenditures for regulatory purposes were approximately $121,000 during 2014. Capstone expects Bristol Water's cumulative capital expenditures over AMP5 to comply with the regulator-approved amount.

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 main bursts, which are more common in periods when freezing and thawing occur leading to higher repair and maintenance costs.

Regulatory

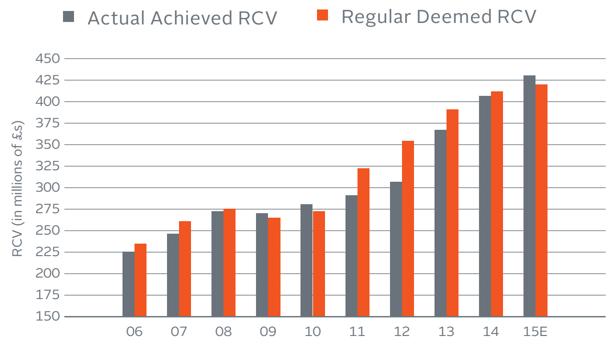
Bristol Water is a regulated utility subject to supervision by the industry regulator, Ofwat.

Bristol Water originally submitted its five-year business plan for the 2014 price review ("PR14") to Ofwat in December 2013, submitted a revised business plan in June and filed a response to Ofwat's draft determination on October 3, 2014. The response was based on feedback from Ofwat's August 29 draft determination, as well as independent reviews commissioned by Bristol Water. A final determination on the five-year business plan governing the period from April 1, 2015 to March 31, 2020, known as AMP6, was issued by Ofwat in December 2014. This final determination fell short of expectations and was formally rejected by Bristol Water's Board of Directors on February 5, 2015. This rejection initiated a process whereby the final determination will be referred for review to the Competition and Markets Authority ("CMA"), the UK agency responsible for considering regulatory references and appeals. The CMA is expected to render its final determination in August of 2015. Any adjustments arising from the CMA's decision would come into effect on April 1, 2016, with the potential for a catch-up for any lost revenue or capital.

Management continues to focus on achieving regulatory output targets, including leakage of less than 50 million litres of water per day ("Ml/d") in 2014/2015. Strong performance in the Service Incentive Mechanism ("SIM"), which is measured through customer satisfaction surveys and quantitative data related to customer contacts, can result in an increased revenue allowance for Bristol Water in the next regulatory period.

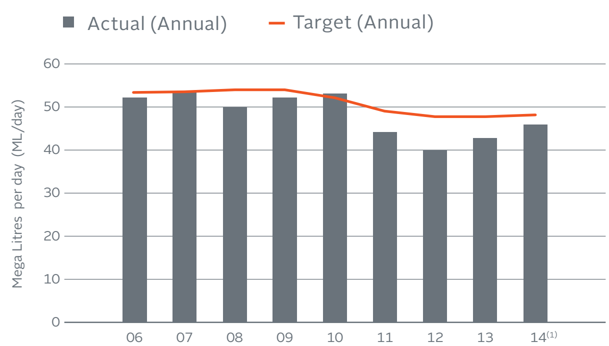
For the regulatory year ended March 31, 2014, Bristol Water achieved leakage levels of 43.7 Ml/d, and had a SIM score of 85.4, which ranked fifth overall out of 18 companies in the industry. For the nine months ended December 31, 2014 of the current regulatory year, which excludes the seasonally high period for pipe bursts, Bristol Water had leakage levels of 45.5 Ml/d.

GROWTH IN REGULATED CAPITAL VALUE



Note: All data above reflects fiscal years ended as at March 31. 2015 represents the estimated values at March 31, 2015.

WATER LEAKAGE VERSUS TARGET



(1) For the year ended December 31, 2014.

Outlook [1]

After the first quarter of 2015 Bristol Water will operate under the final determination issued by Ofwat while we pursue a more appropriate outcome through the CMA process which is expected to conclude in Q3 2015. Capstone expects Bristol Water's financial results in 2015 to reflect:

- Lower revenue from a 14% (real) decrease in the regulated water tariff commencing April 1 2015; and
- Slightly lower operating costs from cost containment efforts and the reduced level of preventative maintenance and network expansion activity until the CMA process ends.

Overall, Capstone expects these factors to contribute to lower Adjusted EBITDA for the utilities-water segment in 2015 compared with 2014.

(1) See page 22 for a description of various other material factors or assumptions underlying our outlook.

Infrastructure – Utilities

District heating

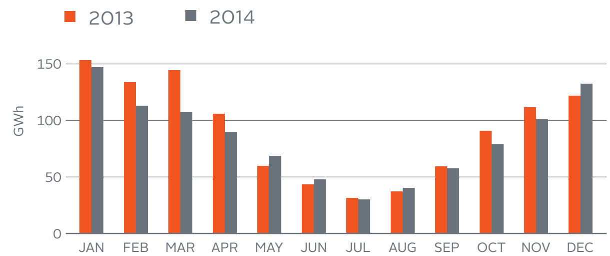
Capstone's district heating utilities segment consists of a 33.3% interest in Värmevärden, located in Sweden. Capstone's investment includes shareholder loans receivable and equity.

Värmevärden's overall financial performance in 2014 exceeded 2013, primarily due to more moderate weather conditions, allowing the use of more cost-effective fuel sources in the production of heat.

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

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Heat and steam production (GWh)	**1,010**	1,091
Equity accounted income (loss) proportionate to Capstone	**(2,034)**	(2,950)
Interest income	**2,898**	2,861
Dividends	**4,537**	3,104
Adjusted EBITDA and AFFO	**7,435**	5,965

HEAT AND STEAM PRODUCTION



Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. Capstone received $2,898 in interest income from Värmevärden in 2014, which was $37 higher than in 2013, due to favourable foreign exchange translation.

Dividends

Capstone received $1,433 higher dividends from Värmevärden in 2014, primarily because of a $1,513 dividend in the fourth quarter of 2014, which was not paid in 2013.

Equity accounted income (loss)

Equity accounted losses included in Capstone's net income were $916 lower than in 2013, primarily due to lower operating expenses as a result of more moderate weather conditions in 2014, which allows for the use of less expensive fuels in the production of heat.

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.

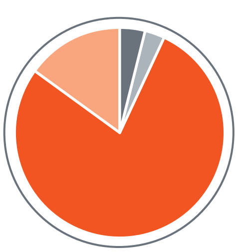
Outlook (1)

Interest income from the shareholder loan is expected to be consistent with 2014 while we expect to return to normal dividends in 2015, resulting in lower Adjusted EBITDA from the district heating segment compared with 2014.

(1) See page 22 for a description of various other material factors or assumptions underlying our outlook.

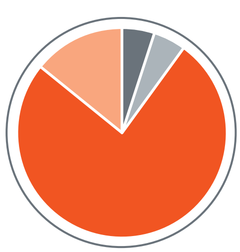
FUEL MIX BREAKDOWN BY MWH – 2014

- 4% Electricity
- 3% Fossil Fuel
- 78% Bio and Waste Fuel
- 15% Industrial Heat



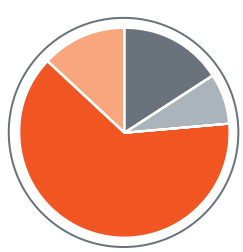
FUEL MIX BREAKDOWN BY MWH – 2013

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



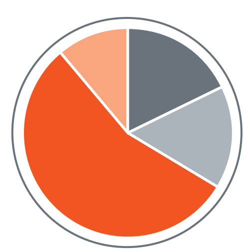
FUEL MIX BREAKDOWN BY COST (SEK) – 2014

- 16% Electricity
- 8% Fossil Fuel
- 64% Bio and Waste Fuel
- 13% Industrial Heat



FUEL MIX BREAKDOWN BY COST (SEK) – 2013

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



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, 2014	Dec 31, 2013
Administrative expenses	**(13,266)**	(10,369)
Project development costs	**(70)**	(4,361)
Interest income	**172**	179
Adjusted EBITDA	**(13,164)**	(14,551)
Interest paid	**(5,716)**	(5,182)
Dividends paid on Capstone's preferred shares	**(3,750)**	(3,750)
Income taxes (paid) recovery	**(2,698)**	(2,534)
AFFO	**(25,328)**	(26,017)

Administrative expenses increased by $2,897, or 27.9% reflecting higher staff costs and other administrative expenses as follows:

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Staff costs	**7,528**	6,133
Other administrative expenses	**5,738**	4,236
	13,266	10,369

Staff costs increased by $1,395, or 23%, primarily due to new employees who joined Capstone following the acquisition of ReD on October 1, 2013.

Other administrative expenses increased by $1,502, or 35%, primarily because of additional professional fees for the integration of ReD. Other administrative expenses include expenses for audit fees, tax compliance and advisory, investor relations costs, office administration and premises costs, as well as professional fees other than for business development.

Project development costs decreased by $4,291, primarily reflecting transaction costs in 2013 for ReD.

Interest income is earned on corporate cash balances and was consistent with 2013.

Interest paid increased by $534, or 10%, primarily due to $705 of additional interest in 2014 on the 2017 Debentures assumed in 2013, following the acquisition of ReD. In 2014, Capstone paid semi-annual interest payments in June and December relating to the 2017 Debentures versus one payment in 2013.

Preferred share dividends paid and taxes paid

Dividends paid on Capstone's preferred shares relate to a quarterly fixed-rate payment equivalent to 5.0% per year. Taxes paid primarily relate to the preferred share dividends and are available to offset future income taxes of the Corporation.

Taxes paid were $164, or 6%, higher in 2014 , primarily attributable to $489 paid in 2014 for corporate minimum taxes, $339 for Canadian Renewable and Conservation Expense ("CRCE") shortfall penalties related to flow-through shares previously issued by ReD and $375 paid for income taxes. These increases were partially offset by $1,039 lower tax paid on preferred share dividends in 2014.

Outlook (1)

In 2015, Capstone expects financial results for corporate to reflect:

- Higher corporate project development expenses than in 2014;
- Higher staffing costs as headcount increased in the second half of 2014 to support business development initiatives; and
- Lower professional fees than in 2014 as the one-time costs related to ReD integration are not expected to recur.

Overall, Capstone expects these factors to result in slightly higher corporate expenses compared with 2014.

(1) See page 22 for a description of various other material factors or assumptions underlying our outlook.

FINANCIAL POSITION REVIEW

Overview

As at December 31, 2014, Capstone had a consolidated working capital surplus of $69,694 compared with $35,666 at December 31, 2013. The surplus increase of $34,028 reflects a $24,972 increase from the wind facilities and development projects acquired on October 1, 2013, as well as $543 for the other power businesses, $7,653 for Bristol Water and $860 at corporate.

Unrestricted cash and cash equivalents totaled $58,842 on a consolidated basis at December 31, 2014 compared with $45,768 at December 31, 2013. The increase reflects higher cash and cash equivalents of $4,141 and $4,123 at the utilities - water and power segments, respectively. In addition corporate cash and cash equivalents increased by $4,810. In addition, cash and cash equivalents available to corporate increased to $27,397 at December 31, 2014 and represent funds available for general purposes, including payment of dividends to shareholders.

During 2014, Capstone's debt to capitalization ratio (refer to page 40) increased from 65.7% to 71.2% on a fair value basis and increased from 57.3% to 61.3% on a book value basis. On a fair value basis, the increase was primarily due to $153,354 of a higher debt fair value, which reflects new proceeds, as well as declining interest rates. In addition, a 10.1% decrease in the share price lowered equity and increased the ratio. The addition of $89,564 new debt, excluding the portion allocated to non-controlling interests ($159,621 gross) for the power segment, was to finance the construction of the near-term development projects. Bristol Water's debt increased by $7,661 due to foreign exchange translation, and by $46,746 to provide new funds for the ongoing capital expenditure program. As at December 31, 2014, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	**Dec 31, 2014**	Dec 31, 2013
Power	**57,153**	31,638
Utilities – water	**8,586**	933
Corporate	**3,955**	3,095
Working capital	**69,694**	35,666

Capstone's working capital increased by $34,028, primarily due to $25,515 and $7,653 increases at the power and utilities - water segments, respectively, as well as an increase of $860 at corporate. The consolidated increase reflects a $60,882, or 35%, increase in current assets since 2013, primarily due to higher cash and restricted cash balances, as well as higher accounts receivable. In addition, current liabilities increased by $26,854, or 19%, since 2013, primarily because of higher accounts payable and a higher current portion of long-term debt.

The Power segment's working capital primarily increased due to $47,186 of proceeds from new long-term debt, which is included in restricted cash and earmarked for the construction of Goulais and Saint-Philémon. This increase was partially offset by a $21,229 increase in accounts payable related to the near-term development projects. The remaining increase was primarily due to the replacement of cash-funded debt facility reserves with letters of credit.

Bristol Water's increase reflected increases of $4,141 in cash and $3,450 in accounts receivable. Cash increased due to higher funds generated from operations net of higher dividends and capital expenditures. In addition, cash and accounts receivable reflected the annual increase in regulated water tariffs in 2014.

Cash and cash equivalents

As at	**Dec 31, 2014**	Dec 31, 2013
Power	**33,114**	28,991
Utilities – water	**13,271**	9,130
Corporate	**12,457**	7,647
Unrestricted cash and cash equivalents	**58,842**	45,768
Less: cash with access limitations		
Power	**(18,174)**	(18,096)
Utilities – water	**(13,271)**	(9,130)
Cash and cash equivalents available to corporate	**27,397**	18,542

The cash increase of $13,074 from 2013 reflected an increase of $4,810 at Corporate, $4,123 at the power segment and $4,141 at Bristol Water. The Corporate increase reflected the accumulation of distributions received from Capstone's business units in excess of dividends to shareholders and corporate expenses. The power segment increase was primarily attributable to the accumulation of cash to fund Cardinal's 2015 conversion to a cycling facility, including replacement of the rotor and exhaust cylinder. For Bristol Water, cash increased from higher funds generated from operations, less dividends and capital expenditures. As at December 31, 2014, Bristol Water also had $126,497 of available credit to fund the capital expenditure program.

Cash and cash equivalents available to corporate of $27,397 increased by $8,855 and represented funds available to corporate for general purposes, including payment of dividends to shareholders. Available cash is net of Bristol Water and power segment cash of $13,271 and $18,174 respectively, which are only accessible to Capstone through quarterly distributions and subject to the terms of credit agreements in the case of the hydro power facilities, Erie Shores, Amherstburg, Glace Bay, SkyGen, Skyway 8, and Amherst.

Restricted cash

Restricted cash increased by $36,331 from 2013 to $65,878 at December 31, 2014, primarily due to the addition of $47,091 restricted for the construction of Goulais and Saint-Philémon. These were partially offset by the replacement of cash-funded reserve accounts with $5,055 of letters of credit for the hydro facilities and $6,243 for Amherst, Glen Dhu and the wind development projects. The remaining difference mainly relates to foreign exchange on Bristol Water's restricted cash.

Cash flow

Capstone's consolidated cash and cash equivalents increased by $13,074 in 2014 compared with a decrease of $3,831 in 2013. The components of the decrease, as presented in the consolidated statement of cash flows, are summarized as follows:

For the year ended	**Dec 31, 2014**	Dec 31, 2013
Operating activities	**155,718**	135,676
Investing activities	**(297,425)**	(129,257)
Financing activities (excluding dividends to shareholders)	**184,528**	14,705
Dividends paid to shareholders	**(30,015)**	(25,446)
Effect of exchange rate changes on cash and cash equivalents	**268**	491
Change in cash and cash equivalents	**13,074**	(3,831)

Cash flow from operating activities generated $20,042 more cash and cash equivalents in 2014 than during 2013. Operating cash flows for the corporate, power and utilities segments increased by $957, $4,938 and $14,147 respectively. Corporate cash flows were higher primarily due to lower business development expenses. Power cash flows increased due to higher revenues and lower expenses while the utilities segment's cash flows were higher primarily due to higher revenue.

Cash flow used for investing activities was $168,168 higher in 2014. Capstone used $129,813 (2013 - $146,279) for capital asset additions in 2014 primarily for Bristol Water while additions to projects under development required $127,624 (2013 - $4,648) of cash. Capstone's restricted cash increased by $36,331 (2013 - $10,318), primarily from debt proceeds received to fund the construction of the wind development projects. Restricted cash decreased for debt reserve accounts that were replaced with letters of credit. Capstone also loaned $11,500 in 2014 to fund BFN's partnership interest in the Goulais project.

Cash flow from financing activities was $169,823 higher in 2014. Capstone raised $158,213 (2013 - nil) of debt for the wind development projects and received $13,918 (2013 - $3,405) from non-controlling interests for these projects. The power sector reduced debt by $18,375 (2013 - $13,636) through scheduled debt repayments. Bristol Water increased outstanding debt by $35,601 (2013 - $44,873) net of repayments. The corporate credit facility increased by $8,700 (2013 - $750 decrease) net of repayments.

Dividends paid to shareholders were $4,569 higher in 2014 due to new shares issued on October 1, 2013 for the acquisition of ReD and under Capstone's Dividend Reinvestment Plan.

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, 2014		Dec 31, 2013	
As at	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Long-term debt				
Power (1)	**435,808**	**423,365**	346,244	349,807
Utilities – water (1)	**368,223**	**315,447**	313,816	288,017
Corporate	**91,077**	**89,393**	81,694	80,107
Deferred financing fees (1)	**—**	**(9,272)**	—	(7,445)
	895,108	**818,933**	741,754	710,486
Equity				
Shareholders' equity (2)	**361,580**	**516,706**	388,058	529,550
Total capitalization	**1,256,688**	**1,335,639**	1,129,812	1,240,036
Debt to capitalization	**71.2%**	**61.3%**	65.7%	57.3%

(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 follows:

As at			**Dec 31, 2014**		Dec 31, 2013	
	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Project debt						
Wind - Operating (1)	2016 - 2032	4.72 - 6.36%	**213,179**	**202,060**	195,345	191,134
Wind - Development (2)	2034 - 2034	3.99 - 5.49%	**141,805**	**136,921**	—	—
Hydros	2040 - 2041	4.56 - 7.00%	**90,064**	**89,902**	86,020	93,930
Solar	2016	7.32%	**82,618**	**82,618**	86,680	86,680
			527,666	**511,501**	368,045	371,744
Less: non-controlling interest			**(91,858)**	**(88,136)**	(21,801)	(21,937)
Capstone share of long-term debt			**435,808**	**423,365**	346,244	349,807

(1) Wind - Operating project debt includes Erie Shores, Amherst, SkyGen, Skyway 8 and Glace Bay.
(2) Wind - Development project debt includes Saint-Philémon and Goulais.

As at December 31, 2014, approximately 97.8% of the power segment's long-term debt was scheduled to amortize over the lives of the facilities' respective PPAs.

In 2014, long-term debt of the power segment increased by $139,757 primarily because Capstone completed $158,164 of project financing for the construction of Saint-Philémon, Skyway 8 and Goulais. Refer to page 23, the "Changes in the Business" section of the MD&A, for additional information. The increase was partially offset by $18,407 for scheduled amortizing debt repayments.

All debt of the power segment is non-recourse to Capstone, except for limited recourse guarantees provided to the lenders of the various wind projects totalling $11,500.

Covenant compliance

All power segment debt is subject to financial covenant requirements. Each credit agreement individually requires the respective business to maintain minimum debt service coverage ratios to allow distributions to Corporate. During 2014, Capstone's power segment complied with all covenants and expects to remain in compliance in 2015.

Utilities – water

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

As at			Dec 31, 2014		Dec 31, 2013	
	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Bank loans	2017 - 2019	1.26 - 5.73%	**122,836**	**125,877**	87,056	87,329
Term loans (1)	2032 - 2041	4.10 - 6.14%	**576,696**	**473,301**	505,322	457,786
Debentures	Irredeemable	3.50 - 4.25%	**2,805**	**2,351**	2,424	2,275
Cumulative preferred shares	Irredeemable	8.75%	**34,109**	**29,365**	32,830	28,644
Consolidated long-term debt			**736,446**	**630,894**	627,632	576,034
Less: non-controlling interest			**(368,223)**	**(315,447)**	(313,816)	(288,017)
Capstone share of long-term debt			**368,223**	**315,447**	313,816	288,017

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

As at December 31, 2014, approximately 77.5% of the utilities - water segment's long-term debt had maturities of greater than 10 years.

Long-term debt for the utilities – water segment is used to fund current and ongoing capital expenditures to improve Bristol Water's network. The carrying value of Bristol Water's long-term debt increased by $54,860, of which $14,457 was due to foreign exchange translation and $36,142 was primarily due to draws on existing credit facilities. The remaining increase relates to index-linked debt.

As at December 31, 2014, Bristol Water had $126,497 of undrawn credit capacity resulting from repaying the utilized portion of $90,355 or £50,000, with funds from a new bank loan completed in December 2014. In addition, Bristol Water increased the existing credit facility by £20,000.

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

Covenant compliance

The principal debt agreements require Bristol Water to comply with covenants relating to the minimum levels of interest coverage and net debt in relation to regulatory capital value. During 2014, Bristol Water complied with all its covenants and expects to remain in compliance.

Corporate

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

			Dec 31, 2014		Dec 31, 2013	
As at	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Corporate credit facility	2017	3.01%	**20,000**	**20,000**	11,300	11,300
Convertible debentures	2016	6.50%	**42,963**	**41,728**	42,963	41,068
Convertible debentures	2017	6.75%	**28,114**	**27,665**	27,431	27,739
			91,077	**89,393**	81,694	80,107

Long-term debt at corporate increased by $9,286 since 2013, primarily due to draws on the corporate credit facility. In 2014, for power development projects, Capstone, through its existing lenders, increased the capacity of the credit facility by $57,500, bringing the total available credit to $90,000 of which $48,461 was drawn or committed as of December 31, 2014.

Covenant compliance

During 2014, Capstone complied with all covenants and expects to remain in compliance.

Shareholders' equity

Shareholders' equity comprised:

As at	**Dec 31, 2014**	Dec 31, 2013
Common shares	**713,412**	710,662
Class B exchangeable units	**26,710**	26,710
Preferred shares	**72,020**	72,020
Share capital	**812,142**	809,392
Other equity items [(1)]	**9,284**	9,428
Accumulated other comprehensive income (loss)	**19,994**	17,013
Deficit	**(324,714)**	(306,283)
Equity to Capstone shareholders	**516,706**	529,550
Non-controlling interests	**190,073**	138,613
Total shareholders' equity	**706,779**	668,163

(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, 2014		Year ended Dec 31, 2013	
($000s and 000s of shares)	**Shares**	**Amount**	Shares	Amount
Opening balance	**92,854**	**710,662**	72,445	632,474
Shares issued [(1)]	**14**	**39**	19,719	75,453
Dividend reinvestment plan (DRIP)	**705**	**2,711**	670	2,635
Conversion of convertible debentures	**—**	**—**	20	100
Ending balance	**93,573**	**713,412**	92,854	710,662

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

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

As at		**Dec 31, 2014**			Dec 31, 2013	
($000s, except per share amounts)	**Market Price per Share**	**Outstanding Amount**	**Fair Value**	Market Price per Share	Outstanding Amount	Fair Value
Common shares	**$3.20**	**93,573**	**299,432**	$3.56	92,854	330,560
Class B units	**$3.20**	**3,249**	**10,398**	$3.56	3,249	11,568
Preferred shares	**$17.25**	**3,000**	**51,750**	$15.31	3,000	45,930
			361,580			388,058

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, 2014, 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)]	81,068	587,792	1,345,737	2,014,597
Finance lease obligations [(1)]	743	3,363	949	5,055
Operating leases	2,747	11,608	31,128	45,483
Asset retirement obligations	—	—	9,736	9,736
Purchase obligations	49,033	27,580	20,905	97,518
Total contractual obligations	133,591	630,343	1,408,455	2,172,389

(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 40 of this MD&A as 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.
- Cardinal leases the site on which it is located from Ingredion Canada Incorporated ("Ingredion"). Under the lease, Cardinal pays monthly rent. The lease extends through 2034 and expires concurrently with the energy savings agreement between Ingredion and Cardinal.

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 to 2023 and 2042.

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, either directly or through its subsidiaries. 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, 2014, Capstone had approximately $21,000 of construction and turbine supply agreements for the Saint-Philémon and Goulais projects.
- Bristol Water has commitments for capital expenditures at December 31, 2014 of which $16,026 were contracted but had not yet occurred.
- Cardinal placed a purchase order for a $22,042 ($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, 2014, the potential penalty would be $10,775 ($9,288 USD) and increases to $11,972 ($10,320 USD) by January 2015. As at December 31, 2014 Cardinal has paid $9,362 to the vendor.

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 on page 42, Capstone has the following other commitments with no fixed minimum payments:

Management services agreements

Capstone has agreements with the all partially owned wind facilities and development projects, 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.

Wood waste supply agreement

- Whitecourt has an agreement with Millar Western to ensure an adequate supply of wood waste. The agreement expires in June 2016. Effective March 2, 2015, Millar Western and Whitecourt completed a new fuel supply agreement, which replaces the existing agreement and has a term of 15 years, extendable to 20 years. The new agreement also includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

Energy savings agreement ("ESA")

- In December 2014, Cardinal entered into a new ESA with Ingredion, which matures on December 31, 2034, reflecting the binding term sheet signed on March 26, 2014. Under the terms of the new ESA, Cardinal is required to provide O&M services, and supply steam and compressed air to Ingredion for its plant operations.

Guarantees

- Capstone has provided limited recourse guarantees on the project debt of the various wind projects totalling $11,500 as at December 31, 2014.

Power Purchase Agreements

A significant portion of the Corporation's electricity revenue is earned through long-term PPAs. The majority of these contracts include terms and conditions customary to the industry. For Cardinal's new Contract, the nature of commitments includes: electricity capacity; availability; and production targets. For the remaining facilities in the power segment, Capstone is not obligated to deliver electricity; however, in certain circumstances if a facility or development project fails to meet the performance requirements under its respective PPA, liquidated damages may apply or the PPA may be terminated after a specified period of time.

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 decreased by $9,995 in 2014 due to distributions received of $4,612 from Värmevärden and $2,818 from Glen Dhu and by $2,565 for Capstone's share of equity accounted losses and other comprehensive losses.

Capstone's equity accounted investments are summarized as follows:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31, 2014	2013	Principal activity
Värmevärden AB ("Värmevärden")(1)	Sweden	33.3%	33.3%	District heating
Glen Dhu Wind Energy Limited Partnership ("Glen Dhu")(2)	Canada	49%	49%	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	50%	50%	Power generation
Macquarie Long Term Care L.P. ("MLTCLP")(3)	Canada	45%	45%	Holding company
SPWC Development L.P. ("SPWC")(4)	Canada	Nil	50%	Development
Chapais Électrique Limitée ("Chapais")(5)	Canada	31.3%	31.3%	Power generation

(1) Värmevärden is further detailed in the results of operations on page 36 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.
(4) No income has been recorded on the investment since its acquisition. On December 30, 2014 Capstone sold its 50% interest in SPWC to the existing partner.
(5) No income has been recorded on the investment since its acquisition. Capstone does not expect to earn any future equity accounted income from this investment.

Capital Asset Expenditure Program

Capstone incurred $277,335 in capital asset expenditures during 2014, which include $128,840 of additions to capital assets and $148,495 of additions to projects under development.

The capital asset expenditures by operating segment were as follows:

	For the year ended Dec 31, 2014	Dec 31, 2013
Power	**166,745**	14,713
Utilities – water	**110,590**	129,925
Corporate	**—**	49
	277,335	144,687

Capital asset expenditures for the power segment primarily related to $150,051 of costs to construct Skyway 8, Saint-Philémon and Goulais, (including interest of $2,938 capitalized during construction). In addition, Cardinal invested $9,884 to prepare the plant to operate as a cycling facility. The majority of the remaining difference relates to growth capital expenditures and repairs of $2,367, at Erie Shores, $1,863 of repairs to the penstocks at two of the hydro facilities, and $1,151 to advance the mid-term wind development projects. Erie Shores invested $621 of growth capital in turbine pitch optimization software to enhance the facilities production capabilities.

In 2013, capital asset expenditures in the power segment were primarily related to the investment in WindBOOST at Erie Shores ($947) as well as the completion of scheduled outages at Cardinal and the hydro facilities.

Capital expenditures for the utilities – water segment, included both growth and maintenance activities as planned in Bristol Water's regulatory capital expenditure program for AMP5. Overall, Bristol Water's expenditures to date are $15,000 ahead of the five-year plan and are expected to be fully completed by the end of AMP5 in March 2015.

Capital Asset Impairment

The carrying values of assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The deficit of market capitalization to the carrying amount of owners' equity is such an indicator of potential impairment.

Capstone assesses its assets for impairment at the cash generating unit ("CGU") level by comparing the carrying amount of the CGUs being tested with their recoverable amounts. The recoverable amounts are equal to the greater of the CGU's value in use or fair value less cost to sell. The impairment assessments are based on estimates of fair value less costs to sell derived from long-term forecasts or offers to purchase assets held for sale. During the fourth quarter of 2014, Capstone determined that pre-tax impairment charges should be made against the carrying value of capital assets of the Erie Shores and Confederation Power wind facilities, as well as the loan receivable from Chapais as follows:

For the year ended December 31, 2014	**Loans receivable**	**Capital assets (1)**	**Total (2)**
Erie Shores	—	(26,698)	(26,698)
Confederation Power	—	(3,610)	(3,610)
Chapais	(562)	—	(562)
Total pre-tax impairment to the power segment	**(562)**	**(30,308)**	**(30,870)**
Assets retirement obligation adjustment for assets held for sale			**278**
Asset impairment charge			**(30,592)**

(1) The total asset impairment charge contains $3,610, which relates to assets that have been classified as held for sale at December 31, 2014.
(2) Impairment charges can be reversed in future periods if the cash flows forecasted to be generated by the impacted facilities improve.

For Erie Shores, Capstone reduced the carrying value of the capital assets primarily based on a revised forecast for lower merchant power prices during the post-PPA period, which impacts Erie Shores in years beginning after 2026. For Confederation Power, the impairment charge reflects an offer to purchase received in December 2014 that was completed on February 12, 2015. Finally, for Chapais, Capstone expects that Tranche B of the loan receivable will not be repaid and has accordingly impaired the carrying amount.

These non-cash charges have no impact on the Corporation's liquidity, the stability of cash flow from operations or Adjusted EBITDA and AFFO.

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, 2014**	Dec 31, 2013
Fair value of assets	**367,161**	300,606
Present value of defined benefit obligation	**(288,411)**	(254,365)
	78,750	46,241

As at December 31, 2014, the defined benefit plan was in a $78,750 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 management considers the assumptions used to be reasonable.

For 2015, Bristol Water expects to contribute $4,255 compared with its actual contribution of $4,248 in 2014.

The total defined contribution pension expense recorded in the consolidated statement of income in 2014 was $2,189. The expense comprised $1,998 for Bristol Water and $191 for Cardinal.

Income Taxes

In 2014, the current income tax expense was $3,981 (2013 - $2,004), of which $4,020 (2013 - $183) was for Bristol Water and the difference represented a tax recovery in Canada.

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, 2014**	Dec 31, 2013
Deferred income tax assets	**—**	494
Deferred income tax liabilities	**(192,829)**	(183,167)
	(192,829)	(182,673)

Capstone's deferred income tax assets of $Nil (2013 - $494) primarily related to non-capital tax loss carry forwards.

Deferred income tax liabilities of $67,157 (2013 - $74,674) were attributable to Capstone's Canadian entities while $125,672 (2013 - $108,493) was attributable to Bristol Water. Deferred income tax liabilities primarily relate to the defined benefit pension plan and differences between the amortization of intangible and capital assets for tax and accounting purposes.

In 2014, Capstone's net deferred income tax liability increased by $10,156. The net liability increased primarily due to differences between accounting and tax depreciation taken in 2014 and the defined benefit pension plan at Bristol Water.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in notes 8 (Financial Instruments) and 9 (Financial Risk Management) in the consolidated financial statements as at and for the year ended December 31, 2014. These notes contain further details on the implicit risks and valuation methodology employed for Capstone's financial instruments.

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

As at	**Dec 31, 2014**	Dec 31, 2013
Derivative contract assets	**5,047**	1,328
Derivative contract liabilities	**(17,863)**	(13,840)
Net derivative contract liabilities	**(12,816)**	(12,512)

The net derivative contract liabilities were $304 higher than as at December 31, 2013. Derivative contract assets increased primarily due to the purchase of foreign currency options partially offset by foreign currency changes which resulted in a net reduction to the fair values of the contracts. Capstone acquired these options primarily to hedge the receipt of future foreign distributions and power segment purchase commitments. Derivative contract liabilities comprise interest rate swaps and the Cardinal gas purchase agreement and embedded derivative. The increase in the liability was primarily attributable to fair value increase of the interest rate swaps due to a decrease in interest rates since 2013.

Unrealized gains and losses due to changes to the fair value of derivative financial instruments are included in other gains and losses in the statement of income and in other comprehensive income as follows:

	Year ended	
	Dec 31, 2014	Dec 31, 2013
Gas purchase agreement	**(4,364)**	—
Interest rate swap contracts	**(4,342)**	6,764
Embedded derivative	**4,454**	6,364
Forward gas sale contracts	**3,330**	—
Foreign currency contracts	**205**	(1,295)
Gains on derivatives in net income	**(717)**	11,833
Interest rate swap contracts in OCI	**(649)**	982
Gains on derivatives in comprehensive income	**(1,366)**	12,815

The loss on derivatives for 2014 was primarily attributable to unrealized losses on interest rate swap contracts and fair value treatment of the gas purchase agreement as required by IFRS. These losses were partially offset by unrealized gains on the embedded derivative and forward gas sale contracts.

On June 4, 2014, Capstone changed its accounting treatment for the long-term gas purchase agreement from accrual accounting to fair value accounting, as a financial instrument. The change reflects Cardinal's intent to monetize gas purchases in excess of expected production requirements through to the expiry of the gas purchase agreement in April 2015. This comes in response to a production flexibility arrangement with the OPA, now IESO, through to the end of the existing PPA and conversion of the plant to cycling under the new NUG agreement. While the excess volume is minimal compared to production requirements, the sale of the excess amounts impacts Capstone's ability to use accrual accounting for these contracts under IFRS.

The loss on the gas purchase contract is primarily attributed to falling gas prices, as Capstone pays a fixed price for quantities required under the agreement. Similarly, the falling gas prices resulted in a gain on the forward gas sale contracts, because Capstone has a fixed sale price.

The loss on interest rate swap contracts was due to the interest rate swap on the Amherstburg debt. The fair value decreased because of a reduction in long-term interest rates.

The gain on the embedded derivative was primarily due to the passage of time because the embedded derivative terminates with the fuel supply agreement in April 2015. The swap portion of the embedded derivative liability is calculated by discounting Capstone's expected cash flows from Cardinal's fuel supply agreement; as time passes, fewer net payments are included in the calculation and the liability declines.

FOREIGN EXCHANGE

The foreign exchange losses were primarily due to translation of Capstone's SEK-denominated shareholder loan receivable with Värmevärden. Capstone recorded a $4,673 foreign exchange loss in 2014 compared with a $2,924 gain in 2013. The 2014 losses primarily reflect depreciation of the Swedish krona against the Canadian dollar, thereby decreasing the carrying value of the loans by $3,914 in Canadian dollars, compared with 2013. In addition, the 2014 loss includes $455 primarily related to the purchase of turbines for the wind development projects.

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.

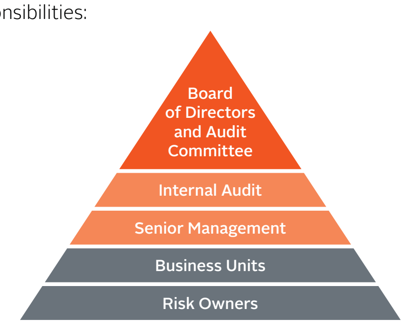
Risk Management Principles and Governance

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 setting and 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.

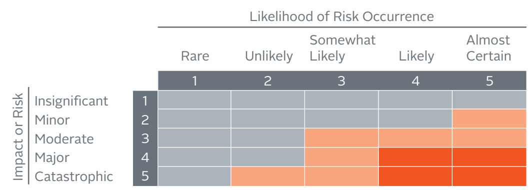


Risk Management Processes

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 materially affected the Corporation's financial statements, or that have a reasonable likelihood of affecting them materially 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		
Business development risk is a strategic risk concerning the ability to source and complete attractive investment opportunities that support and grow the current dividend. Current challenges include increasing competition for existing infrastructure businesses, and availability of opportunities that produce sufficient yield.	Inability to source and execute attractive growth opportunities may lead to lower long-term cash flow as businesses operating under finite term contracts experience uncertainty about their longer term cash flow potential.	Management annually reviews and updates strategy with the Board of Directors to determine target sectors. Capstone actively monitors target sectors for opportunities using internal resources and external advisers. Capstone owns businesses with organic growth opportunities.

Risk and Description	Impact	Monitoring and Mitigation
Public policy risk is a regulatory risk where government makes legislative changes that alter investment opportunities or alters existing regulations that Capstone's businesses operate under. Current challenges include government policy towards private sector power and public private partnerships.	Favourable legislative changes can create new opportunities for investment while unfavourable changes can reduce investment opportunities or decrease cash flow from existing businesses.	Capstone monitors and maintains an active dialogue with policy-makers to identify opportunities and respond to adverse legislative changes to minimize the impact on the cash flow of Capstone's infrastructure businesses.
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. Current challenges include a low share price and the outcome from the PR14 appeal process on Bristol Water's ability to obtain future financing.	Inability to access cost-effective debt or equity could result in higher interest costs, lower cash flow 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.
Forecasting Risk is a financial risk concerning the accuracy of projections for results from operations due to error or unpredictable economic, market and specific business factors. Current challenges include the outcome of Bristol Water's PR14 process.	Volatility of financial forecasts increases liquidity reserve requirements to pay expenses and dividends.	Capstone targets businesses which have inherently predictable financial results from operations and requires periodic external review of its financial models to track and forecast future cash flows. Capstone maintains adequate levels of liquidity to manage during periods of uncertainty.
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 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.
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.
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 Capstone to fall short of its financial forecasts.	Capstone mitigates this risk by providing competitive compensation as well as career and development opportunities.
Power		
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 cash flows 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.

Risk and Description	Impact	Monitoring and Mitigation
Utilities - Water		
Price Review Risk is a regulatory risk concerning an adverse decision by Competition Markets Authority for Bristol Water's appeal of Ofwat's final determination for Bristol Water's business plan for AMP6.	An adverse Competition Markets Authority decision for price or capital expenditure plans could result in lower revenues, earnings and ultimately dividends from Bristol Water.	Bristol Water will submit its appeal of Ofwat's final determination following careful consultation with advisors. The Competition Markets Authority will take into consideration Ofwat's duty to ensure that water companies are able to finance themselves including earning a reasonable return on capital.
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, including adequate training, to meet the standards and legislation applicable to the water industry and companies operating in the UK.

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 2014-2015 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 offsite;
- Workers' and adjacent landowner health and safety issues;
- Sound and vibration matters;
- Protection of legally designated habitats; and
- Bird, bat and other wildlife impacts.

Due to the nature of their operations, the Facilities are not subject to any material contingent environmental 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 it. 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 and or water licenses, which specify the hydrological conditions during which production may occur.

Wind Farms

Capstone's wind farms, including Erie Shores, Glace Bay, SkyGen, Skyway 8, 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 result in indirect emissions of GHGs. Bristol Water is subject to the UK Climate Change Levy, although the forecast cost for 2014-2015 is an immaterial amount.

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 2014 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 2014, Capstone earned fees of $420, 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 27 (Related Party Transactions) in the consolidated financial statements for the year ended December 31, 2014.

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 exceed annual 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")(1)	Long-term incentive plan ("LTIP")(1)
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.

(1) Effective January 1, 2014 and prior to the year in which a particular STIP or LTIP award relates, the employee may voluntarily choose to have up to 100% of such awards for that year paid or granted, respectively, in deferred share units ("DSU"). This provides more long-term alignment with shareholders.

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.

	2014				2013			
($000s, except for per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**116,683**	**104,085**	**106,413**	**114,397**	110,291	91,418	93,539	94,255
Net income (loss) (1)	**(7,599)**	**532**	**2,097**	**14,437**	10,441	8,887	10,015	12,019
Adjusted EBITDA	**47,017**	**32,159**	**39,492**	**41,691**	37,992	26,253	31,834	32,342
AFFO	**19,022**	**5,384**	**12,133**	**19,873**	13,930	3,346	9,014	13,644
Common dividends (2)	**7,261**	**7,252**	**7,244**	**7,220**	7,208	5,720	5,709	5,696
Preferred dividends	**980**	**938**	**938**	**938**	938	938	938	938
Earnings Per Share – Basic	**(0.089)**	**(0.005)**	**0.012**	**0.140**	0.099	0.104	0.119	0.145
Earnings Per Share – Diluted	**(0.089)**	**(0.005)**	**0.012**	**0.132**	0.096	0.102	0.117	0.141
AFFO per share	**0.196**	**0.056**	**0.125**	**0.207**	0.145	0.044	0.119	0.180
Dividends declared per common share	**0.075**	**0.075**	**0.075**	**0.075**	0.075	0.075	0.075	0.075

(1) Net income (loss) attributable to the shareholders of Capstone.
(2) Common dividends include amounts declared for both the common shares of the Corporation and the Class B exchangeable units.

FOURTH QUARTER 2014 HIGHLIGHTS

	Three months ended	
	Dec 31, 2014	Dec 31, 2013
Revenue	**116,683**	110,291
Operating expenses	**(53,427)**	(54,885)
Administrative expenses	**(1,258)**	(3,169)
Project development costs	**(387)**	(2,097)
Asset impairment charges	**(30,592)**	—
Equity accounted income (loss)	**1,513**	545
Interest income	**1,276**	1,022
Net pension interest income	**303**	515
Other gains and (losses), net	**(2,916)**	538
Foreign exchange gain (loss)	**(1,694)**	1,209
Earnings before interest, taxes, depreciation and amortization	**29,501**	53,969
Interest expense	**(13,232)**	(13,858)
Depreciation of capital assets	**(17,988)**	(14,571)
Amortization of intangible assets	**(2,616)**	(2,878)
Income (loss) before income taxes	**(4,335)**	22,662
Income tax recovery (expense)		
Current	**(757)**	(1,744)
Deferred	**3,932**	(4,908)
Total income tax recovery (expense)	**3,175**	(6,652)
Net income	**(1,160)**	16,010
Net income attributable to:		
Shareholders of Capstone	**(7,599)**	10,441
Non-controlling interest	**6,439**	5,569
	(1,160)	16,010

Revenue increased by $6,392, or 6%, reflecting an $8,246 increase in revenue from Bristol Water partially offset by a $1,854 decrease for the power segment. Bristol Water's increase was attributable to foreign exchange and higher regulated water tariffs. Lower revenue for the power segment was due to a $3,026 decrease for Cardinal, Whitecourt and Amherstburg due to production, partially offset by a $1,172 increase due to higher production at the operating wind and hydro facilities.

Expenses decreased by $5,079, or 8%.

- **Operating expenses** decreased by $1,458, primarily due to $5,938 of lower fuel and transportation costs at Cardinal, partially offset by an increase of $4,228 at Bristol Water mainly attributable to foreign exchange appreciation.
- **Administrative expenses** decreased by $1,911 primarily due to lower LTIP expenses resulting from the fourth quarter share price decline.
- **Project development costs** decreased by $1,710, primarily reflecting costs associated with the acquisition of ReD in 2013.

Asset impairment charges were due on the Erie Shores and Confederation Power capital assets, and the Chapais loan receivable.

Equity accounted income (loss) increased by $968, or 178%, composed of increases of $772 at Glen Dhu and $191 at Värmevärden.

Interest income increased by $254, or 25%, due to accrued interest on the loan receivable from BFN.

Other gains and (losses) decreased by $3,454, or 642%, primarily due to $1,744 attributable to spot price being lower than the contractual price in Cardinal's gas purchase agreement. This difference is charged to other gains and losses under IFRS. The remaining difference is due to losses on disposal of capital assets at Cardinal and the hydro facilities.

Foreign exchange gain (loss) was $2,903 lower in 2014 due to the impact of the depreciation of the Swedish krona on the loan receivable.

Interest expense decreased by $626, or 5%, primarily due to amortization of the outstanding balance of debt for the power segment.

Income taxes in 2014 comprised a $6,548 recovery (2013 - $4,050 expense) in Canada partially offset by $3,373 (2013 - $2,602) of tax expense for Bristol Water. In 2014, Canada includes a $7,859 deferred income tax recovery for the write down of capital assets. In 2013, Canada reflects $1,494 of tax and penalties for the CRCE shortfall on the flow-through shares. The remainder relates to differences between depreciation of capital assets for accounting and tax partially offset by recognition of deferred tax assets for loss carry forwards. Bristol Water's tax expense comprises $2,334 (2013 - $2,572) for deferred taxes and $1,039 (2013 - $28) for current taxes. Bristol Water's deferred tax expense primarily relates to the defined benefit pension plan and differences between the amortization of intangible and capital assets for tax and accounting purposes.

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, 2014. These changes include:

- Amendments to IAS 32, Financial Instruments: Presentation - on asset and liability offsetting;
- Amendments to IAS 36, Impairment of Assets- on recoverable amount disclosures;
- Amendments to IAS 39, Financial Instruments: Recognition and Measurement - on novation of derivatives; and
- IFRIC 21, Levies.

Other standards and amendments that became effective January 1, 2014 are not material to Capstone. Refer to note 2 (Summary of Significant Accounting Policies) to the December 31, 2014 annual consolidated financial statements for details of the nature and impact of these changes to Capstone financial statements.

Future Accounting Changes

The IASB has announced that a number of new standards and amendments will be effective for future reporting periods; these have not yet been adopted by the Corporation. None of them are expected to have a significant effect on the consolidated financial statements of Capstone, except as follows:

Title of the New IFRS [(1)]	Impact to Capstone
IFRS 15, Revenue from Contracts with Customers Effective: Jan 1, 2017	Capstone's assessment of the impact of this standard is ongoing.
IFRS 9, Financial Instruments Effective: Jan 1, 2018	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, 2014 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, 2014 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 judgments 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 2014, Capstone completed its transition from the original 1992 version of Committee of Sponsoring Organizations (COSO) internal control framework to the updated 2013 version. Although the core definition of internal control was largely unchanged in the 2013 version of COSO the new framework had several important changes, including:

- Articulating 17 core principles supporting the five components of internal control set out in the original version of COSO;
- Clarifying the role of objective setting in internal control;
- Reflecting the increased relevance of technology; and
- Enhancing discussion of governance concepts and consideration of anti-fraud exceptions.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at December 31, 2014 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, 2014, Capstone's management had assessed the effectiveness of Capstone's internal control over financial reporting using the criteria set forth by COSO of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on this assessment, management has determined that Capstone's internal control over financial reporting was effective as at December 31, 2014.

Management's Responsibility for Financial Reporting

The consolidated financial statements and other financial information contained in this annual report have been prepared by management. It is management's responsibility to ensure that sound judgment, appropriate accounting policies and reasonable estimates have been used to prepare this information and that the consolidated financial statements are in accordance with International Financial Reporting Standards.

Management is also responsible for designing, maintaining and testing a system of internal controls over the financial reporting processes. Internal controls have been designed to provide reasonable assurance that the financial records are reliable, accurate and form a proper basis for the preparation of the consolidated financial statements. As of December 31, 2014, management reviewed and tested the internal controls over financial reporting and concluded that they were effective to provide reasonable assurance over the consolidated financial statements.

The Audit Committee of the Board of Directors, consisting entirely of independent directors, is responsible for reviewing the consolidated financial statements with management and the external auditors and reporting to the Board of Directors. The Audit Committee is responsible for retaining the services of the independent auditor and for renewing the auditor's mandate, which is subject to Board of Directors' review and shareholders' approval.

The independent auditor, PricewaterhouseCoopers LLP, is responsible for conducting an examination in accordance with Canadian generally accepted auditing standards to express an opinion on whether the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The report of PricewaterhouseCoopers LLP, which outlines the scope of its examination and its opinion on the consolidated financial statements, appears on the following page.

MICHAEL BERNSTEIN
President and Chief Executive Officer

MICHAEL SMERDON
Executive Vice President and Chief Financial Officer

Toronto, Canada
March 4, 2015

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, 2014 and December 31, 2013 and the consolidated statements of changes in shareholders' equity, income, comprehensive income and cash flows for the years ended December 31, 2014 and December 31, 2013, 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, 2014 and December 31, 2013 and their financial performance and their cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

CHARTERED PROFESSIONAL ACCOUNTANTS, LICENSED PUBLIC ACCOUNTANTS

Toronto, Canada
March 4, 2015

Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	**Dec 31, 2014**	Dec 31, 2013
			(note 3)
Current assets			
Cash and cash equivalents	4	**58,842**	45,768
Restricted cash	4	**65,878**	29,547
Accounts receivable	5	**94,555**	87,430
Other assets	6	**9,600**	9,640
Current portion of loans receivable	7	**1,448**	1,310
Current portion of derivative contract assets	8a	**4,279**	25
		234,602	173,720
Non-current assets			
Loans receivable	7	**45,244**	39,578
Derivative contract assets	8a	**768**	1,303
Equity accounted investments	10	**29,056**	39,051
Capital assets	11	**1,418,187**	1,356,682
Projects under development	12	**151,361**	23,983
Intangibles	13	**342,012**	345,272
Retirement benefit surplus	14	**78,750**	46,241
Deferred income tax assets	15a	**—**	494
Total assets		**2,299,980**	2,026,324
Current liabilities			
Accounts payable and other liabilities	16a	**132,445**	116,852
Current portion of derivative contract liabilities	8a	**6,620**	2,219
Current portion of finance lease obligations	17	**693**	609
Current portion of long-term debt	18	**25,150**	18,374
		164,908	138,054
Long-term liabilities			
Derivative contract liabilities	8a	**11,243**	11,621
Electricity supply and gas purchase contracts	13	**—**	1,634
Deferred income tax liabilities	15a	**192,829**	183,167
Deferred revenue	16b	**21,600**	15,589
Finance lease obligations	17	**3,407**	3,761
Long-term debt	18	**1,194,850**	1,001,042
Liability for asset retirement obligation	19	**4,364**	3,293
Total liabilities		**1,593,201**	1,358,161
Equity attributable to shareholders of Capstone		**516,706**	529,550
Non-controlling interest	21	**190,073**	138,613
Total liabilities and shareholders' equity		**2,299,980**	2,026,324
Commitments and contingencies	26		

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)	Deficit	NCI (4)	Total Equity
Balance, Dec 31, 2012		731,204	9,284	(809)	(320,831)	91,610	510,458
Other comprehensive income (loss)		—	—	17,822	1,442	12,690	31,954
Net income for the period		—	—	—	41,362	25,848	67,210
Common shares issued (5)	20a	75,453	—	—	—	—	75,453
Other equity items issued or assumed on acquisition of ReD (6)		—	85	—	—	—	85
Expense recognized through share option reserve		—	62	—	—	—	62
Debenture conversions, net of costs	20a	100	(3)	—	—	—	97
Dividends declared to common shareholders of Capstone	20a, f	2,635	—	—	(24,333)	—	(21,698)
Dividends declared to preferred shareholders of Capstone (7)	20f	—	—	—	(3,923)	—	(3,923)
Dividends declared to NCI	21	—	—	—	—	(7,773)	(7,773)
Contributions from NCI	21	—	—	—	—	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
Other comprehensive income (loss)		—	—	2,981	11,223	14,019	28,223
Net income for the period		—	—	—	9,467	24,080	33,547
Common shares issued	20a	39	—	—	—	—	39
Release of share option reserve	20e	—	(144)	—	144	—	—
Dividends declared to common shareholders of Capstone	20a, f	2,711	—	—	(28,977)	—	(26,266)
Dividends declared to preferred shareholders of Capstone (7)	20f	—	—	—	(3,923)	—	(3,923)
Dividends declared to NCI	21	—	—	—	—	(9,137)	(9,137)
Disposal of partial interest in Chi-Wiikwekdong LP	21	—	—	—	(6,365)	7,894	1,529
Contributions from NCI	21	—	—	—	—	14,604	14,604
Balance, Dec 31, 2014		812,142	9,284	19,994	(324,714)	190,073	706,779

(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 21.
(5) Shares issued are net of transaction costs (2013 - $224).
(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 (2013 - $173).

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	For the year ended Dec 31, 2014	Dec 31, 2013
Revenue		**441,578**	389,503
Operating expenses	24	**(210,520)**	(204,534)
Administrative expenses	24	**(13,266)**	(10,369)
Project development costs	24	**(2,664)**	(5,530)
Asset impairment charges	11	**(30,592)**	—
Equity accounted income (loss)	10a	**(1,127)**	(2,638)
Interest income	8b	**4,234**	4,096
Net pension interest income	14	**2,132**	1,817
Other gains and (losses), net	25	**(7,669)**	9,789
Foreign exchange gain (loss)		**(4,673)**	2,924
Earnings before interest expense, taxes, depreciation and amortization		**177,433**	185,058
Interest expense	8b	**(54,145)**	(47,471)
Depreciation of capital assets	11	**(67,912)**	(51,183)
Amortization of intangible assets	13	**(11,854)**	(10,984)
Earnings before income taxes		**43,522**	75,420
Income tax recovery (expense)			
Current		**(3,981)**	(2,004)
Deferred		**(5,994)**	(6,206)
Total income tax recovery (expense)	15d	**(9,975)**	(8,210)
Net income (loss)		**33,547**	67,210
Net income (loss) attributable to:			
Shareholders of Capstone		**9,467**	41,362
Non-controlling interest	21	**24,080**	25,848
		33,547	67,210
Earnings per share	22		
Basic		**0.057**	0.462
Diluted		**0.057**	0.425

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the year ended Dec 31, 2014	Dec 31, 2013
Cumulative differences on translation of foreign operations		**8,083**	27,397
Other comprehensive income from equity accounted investments	10a	**(1,438)**	1,183
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2014 – $120 recovery, 2013 – $325 expense, respectively)		**(866)**	490
Total of items that may be reclassified subsequently to net income		**5,779**	29,070
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2014 – $5,611 expense, 2013 – $693 recovery, respectively) - will not be reclassified to net income	14	**22,444**	2,884
Other comprehensive income (loss)		**28,223**	31,954
Net income (loss)		**33,547**	67,210
Total comprehensive income (loss)		**61,770**	99,164
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		**23,671**	60,626
Non-controlling interest	21	**38,099**	38,538
		61,770	99,164

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the year ended Dec 31, 2014	Dec 31, 2013
Operating activities:			
Net income		**33,547**	67,210
Deferred income tax expense (recovery)		**5,994**	6,206
Depreciation and amortization		**79,766**	62,167
Asset impairment charges	11f	**30,592**	—
Other gains and losses (net)		**3,907**	(9,789)
Amortization of deferred financing costs and non-cash financing costs		**6,687**	9,020
Equity accounted (income) loss	10a	**1,127**	2,638
Unrealized foreign exchange (gain) loss on loan receivable	7	**3,914**	(2,890)
Change in non-cash working capital	29	**(9,816)**	1,114
Total cash flows from operating activities		**155,718**	135,676
Investing activities:			
Distributions from equity accounted investments	10a	**7,430**	4,005
Repayments of loans receivable		**1,220**	2,514
Investment in capital assets	11b	**(129,813)**	(146,279)
Investment in projects under development	12b	**(127,624)**	(4,648)
Change in restricted cash		**(36,091)**	5,583
Proceeds from loans receivable	7	**(11,500)**	—
Purchase of foreign currency contracts		**(1,047)**	(896)
Cash acquired on business acquisition	3	**—**	10,464
Total cash flows used in investing activities		**(297,425)**	(129,257)
Financing activities:			
Proceeds from issuance of long-term debt		**305,557**	82,196
Contributions from non-controlling interest	21	**13,918**	3,405
Repayment of long-term debt and finance lease obligations		**(121,418)**	(58,681)
Dividends paid to common and preferred shareholders		**(30,015)**	(25,446)
Dividends paid to non-controlling interests	21	**(9,137)**	(7,773)
Transaction costs on debt issuance		**(4,392)**	(1,811)
Settlement of interest rate swaps		**—**	(2,407)
Transaction costs on issuance of common shares		**—**	(224)
Total cash flows from (used in) financing activities		**154,513**	(10,741)
Effect of exchange rate changes on cash and cash equivalents		**268**	491
Increase (decrease) in cash and cash equivalents		**13,074**	(3,831)
Cash and cash equivalents, beginning of year		**45,768**	49,599
Cash and cash equivalents, end of year		**58,842**	45,768
Supplemental information:			
Interest paid		**51,518**	35,177
Taxes paid (recovery)		**4,654**	3,195

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. As at December 31, 2014, Capstone has investments in utilities businesses in Europe and owns, operates and develops thermal and renewable power generation facilities in Canada with an approximate net installed capacity of 450 MW.

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 4, 2015.

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 8). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Consolidation

These consolidated financial statements are primarily made up of the assets, liabilities and results of operations of the Corporation's subsidiaries. Subsidiaries are all entities over which Capstone has control. Capstone controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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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, 2014	2013	Principal activity
Capstone Power Corp. ("CPC")	Canada	100%	100%	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. ("Confederation Power")	Canada	100%	100%	Power generation
Glace Bay Lingan Wind Power Ltd. ("Glace Bay")	Canada	100%	100%	Power generation
Sky Generation L.P. ("SkyGen"), formerly Sky Generation Inc.	Canada	100%	100%	Power generation
SP Amherst Wind Power LP ("Amherst")	Canada	51%	51%	Power generation
Capstone Power Development Canada Corp.	Canada	100%	100%	Development
Parc Éolien Saint-Philémon S.E.C. ("Saint-Philémon")	Canada	51%	51%	Power generation under construction
Chi-Wiikwedong LP ("Goulais")	Canada	51%	Nil (1)	Power generation under construction
Chi-Wiikwedong Holdings LP	Canada	100%	Nil (1)	Power generation under construction
Bristol Water plc and group companies (collectively "Bristol Water") (2)	United Kingdom	50%	50%	Regulated water utility

(1) On August 14, 2014, Capstone sold a 49% interest in the Goulais wind development project. Refer to note 3 for details.
(2) Capstone has control because of its ability to determine the majority of the board representation and substantive contractual rights providing the power to influence returns.

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, 2014	2013	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%	49%	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 entity that is a foreign operation 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, 2013	0.1581	0.1655	1.6113	1.7627
Dec 31, 2014	**0.1605**	**0.1483**	**1.8192**	**1.8071**

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

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.

Loans Receivable

The Corporation has interest-bearing financial assets that consist of a series of loans receivable. 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 to net 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	10 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, 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 15 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. 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, projects under development 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 2014 and 2013, 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 occurs the gain or loss on settlement is recognized in the consolidated statement of income.

Asset Retirement Obligations

The Corporation recognizes a provision for the future retirement obligations associated with its operating plants. These obligations are initially measured at the present 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.

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.

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 received from its equity accounted investments in revenue 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 23 (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 23 (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 or in other comprehensive income, in which case the income tax is also recognized directly in equity or in other comprehensive income.

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 plus transaction costs in the case of financial instruments measured at amortized cost. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed as incurred. 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 • Gas purchase agreement • 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

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.

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, 2014 and 2013, the Corporation's derivatives include interest rate swaps, gas swap, as well as gas forward sale and purchase contracts 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 that 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 8). The mitigation option expired on November 1, 2014.

Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that financial assets carried at amortized cost 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 an additional GAAP financial measure defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest (“NCI”), impairment charges, interest income and net pension interest. EBITDA represents Capstone’s capacity to generate income from operations before taking into account management’s financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management’s estimate of their useful life. EBITDA is presented on the consolidated statement of income.

Changes to Accounting Policies

Capstone has adopted the following new and revised standards, along with consequential amendments, effective January 1, 2014. These changes were required due to changes in IFRS and were made in accordance with the applicable transitional provisions; they are summarized as follows:

Amendment to IAS 32, Financial Instruments: Presentation - on asset and liability offsetting, clarifies some of the requirements for offsetting financial assets and liabilities on the balance sheet. This amendment did not result in any measurement or disclosure changes for Capstone.

Amendment to IAS 36, Impairment of Assets - on recoverable amount disclosures, addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Capstone's disclosure reflects this amendment.

Amendment to IAS 39, Financial Instruments: Recognition and Measurement - on novation of derivatives provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria. This amendment did not result in any measurement or disclosure changes for Capstone because no contracts were novated during the year.

IFRIC 21, Levies, is an interpretation of IAS 37, Provisions, contingent liabilities and contingent assets, which sets out criteria for the recognition of a liability. The interpretation defines the obligating event that gives rise to the payment of a levy and when a liability should be recognized. This interpretation did not result in any measurement or disclosure changes for Capstone.

Other standards and amendments that are effective January 1, 2014 are not material to Capstone.

Future Accounting Changes

The IASB has announced new standards and amendments that will be effective for future reporting periods that have not yet been adopted by the Corporation. Capstone's assessment of the impact of the material standards and amendments are ongoing. The material standards are as follows:

Title of the New IFRS	Nature of the Impending Change to Capstone
IFRS 15, Revenue from Contracts with Customers Effective: Jan 1, 2017	Replaces IAS 11, Construction contracts and IAS 18, Revenue. IFRS 15 recognizes revenue by applying the following steps: Step 1: Identify the contract(s) with a customer Step 2: Identify the performance obligations in the contract Step 3: Determine the transaction price Step 4: Allocate the transaction price to the performance obligations in the contract Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation In addition, IFRS 15 requires enhanced disclosure that will detail the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.
IFRS 9, Financial Instruments Effective: Jan 1, 2018	Replaces most of the guidance in IAS 39. IFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets including amortized cost, fair value through OCI and fair value through profit or loss. In addition, there is now a new expected credit losses model that replaces the previous incurred loss impairment model. For equity instruments, IFRS 9 now requires measurement at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. For financial liabilities, changes now require the recognition of changes in own credit risk in OCI, for liabilities designated at fair value, through profit or loss. In addition, hedging requirements were relaxed by replacing the bright line effectiveness test. IFRS 9 requires companies to set an economic relationship between the hedged item and hedging instrument (the hedged ratio), which must be the same as the one management uses for risk management purposes. Contemporaneous documentation is still required similar to IAS 39.

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

Area of Significance	Critical Estimate	Critical Judgment
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 behaviour. To the extent that the failure to recover debts in arrears alters by 5%, the provision for impairment would increase or decrease by $542.	• 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

(A) 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 and $0.001 dollar in cash in exchange for each share of ReD. Capstone issued 19,699 common shares to acquire ReD.

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 preliminary allocation of total consideration was allocated to net assets acquired and adjusted to the final allocation as follows:

Recognized amounts of identifiable assets acquired and liabilities assumed as at October 1, 2013	**Original**	**Adjustment**	**Revised** (2)
Working capital	437	(1,709)	(1,272)
Capital and other assets	130,029	—	130,029
Projects under development	12,683	2,309	14,992
Intangible assets – electricity supply and other contracts	52,041	—	52,041
Equity accounted investments	27,599	—	27,599
Less: net financial liabilities (net of $10,464 and $8,659 for cash and restricted cash acquired, respectively)	(115,825)	—	(115,825)
Other liabilities	(2,777)	—	(2,777)
Deferred income tax liability	(15,548)	(600)	(16,148)
Total identifiable net assets	88,639	—	88,639
Non-controlling interest	(12,833)	—	(12,833)
Total consideration (1)	75,806	—	75,806

(1) Total consideration included $75,645 of share capital, $85 of warrants and share options and $76 of cash.
(2) The statement of financial position as at December 31, 2013 has been restated.

(B) Partial Sale of Interest in Goulais Wind Farm

On August 14, 2014, Capstone sold a 49% interest in Chi-Wiikwedong LP, which holds the Goulais development project, to a subsidiary of Batchewana First Nation of Ojibways ("BFN"). As part of the sale, Capstone funded an $11,500 loan to BFN that was then used by BFN to contribute its share of equity to the construction of the project. Following this sale, Capstone retained a 51% interest in Chi-Wiikwedong LP and continues to consolidate based on retention of control. Under IFRS the sale has been treated as an equity transaction, resulting in the transfer of a portion of Capstone's deficit to non-controlling interests as follows:

	Deficit	**NCI**
Non-controlling interest adjustment for partial sale of interest in Chi-Wiikwedong LP (1)	(5,942)	5,942
Transaction costs	(423)	—
Release of deferred income taxes	—	1,952
	(6,365)	7,894

(1) Represents a 49% interest in the carrying value of the power purchase agreement.

NOTE 4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Dec 31, 2014	Dec 31, 2013
Construction escrow	**47,091**	—
Debt service and maintenance reserves	**18,714**	23,231
Cash on deposit in support of letters of credit	**—**	6,243
Cash on deposit	**73**	73
Restricted cash	**65,878**	29,547
Unrestricted cash and cash equivalents	**58,842**	45,768
	124,720	75,315

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. In 2014, Capstone credit backed various letters of credit versus cash funding in 2013; refer to note 18 for further details.

NOTE 5. TRADE AND OTHER RECEIVABLES

	Dec 31, 2014	Dec 31, 2013
Power	**35,542**	33,760
Utilities – water	**56,823**	53,373
Corporate [(1)]	**2,190**	297
Total trade and other receivables	**94,555**	87,430

(1) Accounts receivable as at December 31, 2013 were restated for purchase equation adjustments further described in note 3 (a).

Substantially all of the power segment accounts receivable are with government authorities. Refer to note 9 (b) and 9 (c) for further detail of credit risk and economic dependence.

The utilities – water segment accounts receivable comprised:

	Dec 31, 2014	Dec 31, 2013
Trade receivables	**51,053**	46,795
Less: provision for impairment of receivables	**(28,478)**	(25,775)
Net trade receivables	**22,575**	21,020
Other receivables	**5,166**	7,464
Accrued revenue	**29,082**	24,889
	56,823	53,373

The aging of net trade receivables at Bristol Water was:

	Dec 31, 2014	Dec 31, 2013
Past due 0 -30 days	**4,996**	4,756
Past due 31-120 days	**5,948**	5,263
Past due more than 120 days	**11,631**	11,001
	22,575	21,020

As at December 31, 2014, based on a review of collection rates, $28,478 of trade receivables in the utilities – water segment were considered impaired and have been provided for (December 31, 2013 – $25,775).

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

	2014	2013
As at January 1	**(25,775)**	(21,907)
Charge to statement of income	**(6,629)**	(5,954)
Amounts written off during the year as uncollectable	**4,562**	4,212
Net foreign exchange difference	**(636)**	(2,126)
As at December 31	**(28,478)**	(25,775)

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.

In accordance with IAS 39, Bristol Water has created a general provision that cannot be specifically attributed to the receivables that are 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 6. OTHER ASSETS

	Dec 31, 2014	Dec 31, 2013
Prepaid expenses	**4,826**	5,855
Inventory of spare parts and consumable supplies, net (1)	**4,074**	3,785
Assets held for sale (2)	**700**	—
	9,600	9,640

(1) Inventory as at December 31, 2014 is net of a $366 provision for obsolescence (December 31, 2013 - $370).
(2) Includes amounts transferred from capital assets of $700, refer to note 11 (a) and (e), net of $278 for the corresponding asset retirement obligation, refer to note 19.

The cost of inventories recognized in operating expenses for the year ended December 31, 2014 was $6,615 (December 31, 2013 – $6,419).

NOTE 7. LOANS RECEIVABLE

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

	Maturity	Interest Rate	**Dec 31, 2014**	Dec 31, 2013
Värmevärden	2021	7.9%	**33,744**	37,658
BFN	2034	9.0%	**11,500**	—
Macquarie Long Term Care LP ("MLTCLP")	2015	Nil	**89**	89
Chapais Électrique Limitée ("Chapais"):				
Tranche A	2015	10.8%	**1,359**	2,579
Tranche B	n/a	n/a	**—**	562
			46,692	40,888
Less: current portion			**(1,448)**	(1,310)
Total long-term loans receivable			**45,244**	39,578

Accrued interest on the loans receivable in the amount of $379 for the year ended December 31, 2014 is included in accounts receivable (December 31, 2013 – $113).

The estimated fair values of the loans receivable as at December 31, 2014 and 2013 approximate the carrying values.

Värmevärden

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

	December 31, 2014		December 31, 2013	
	SEK	**$**	SEK	$
Opening balance	**227,541**	**37,658**	227,541	34,768
Unrealized foreign exchange gain (loss)	**—**	**(3,914)**	—	2,890
Ending balance	**227,541**	**33,744**	227,541	37,658

The shareholder loan receivable from Värmevärden bears a fixed annual interest rate of 7.944%.

BFN

On September 26, 2014, Capstone received an $11,500 promissory note from a subsidiary of the BFN to fund their equity commitment to Goulais. The promissory note will be repaid over the 20-year term with fixed payments commencing on the commercial operation date bearing a fixed annual interest rate of 9%. BFN has the option to repay the promissory note anytime before maturity. Refer to note 3(b) for detail.

Chapais

As at December 31, 2014, Capstone expects Tranche A of the loan for $1,359 to be repaid in 2015.

For the year ended December 31, 2014, Capstone's statement of income includes an asset impairment charge of $562 related to Tranche B of the loan receivable, which is no longer considered collectible. Refer to note 11 (f) for more information.

NOTE 8. FINANCIAL INSTRUMENTS

(A) Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, loans receivable, accounts payable and other liabilities, finance lease obligations, long-term debt and derivative contract assets and liabilities. In addition, the Corporation has included the embedded derivative on its gas purchase agreement in the derivative contract assets and liabilities.

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.

As at December 31, 2014, the carrying values of cash and cash equivalents and restricted cash are considered to approximate their fair values due to their short-term nature, which is consistent with the prior year.

Derivative contract assets and liabilities, including hedging instruments.

Interest rate swaps

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 $82,618. The Corporation pays a fixed rate of 4.193% 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-month 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, 2014.
- Bristol Water has a swap with a notional amount of £50,000 for a bank loan drawn in December 2014 by Bristol Water. The swap exchanges LIBOR rates on a three-month basis for a fixed rate of 1.504% and expires December 3, 2019. 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, 2014.

Gas swap, forward gas sales and purchases contracts

Capstone had several derivative contracts to manage its natural gas price exposures as follows:

- The gas swap contracts effectively fixed the price for a portion of the revenue derived from the sales of excess gas. The contract mitigated exposure to natural gas price fluctuations for sales of excess natural gas.
- Forward gas sales and purchase contracts are required to manage Cardinal's remaining obligations and expected production requirements in 2015, taking into account the planned operating flexibility for the duration of the existing gas purchase agreement.

Gas purchase agreement

On June 4, 2014, Capstone transferred the gas purchase agreement from its previous classification, of own use, to a derivative (level 3 of the financial instrument fair value hierarchy). The transfer reflects Cardinal's intent to monetize the gas purchases in excess of expected production requirements. This was required to manage obligations under the gas purchase agreement upon expiry of the fuel transportation agreement in November of 2014. Capstone has chosen to immediately recognize in net income the initial day-one gain on transfer to Level 3 .

Embedded derivative

The Corporation has determined that its gas purchase agreement contains embedded derivative features, which include mitigation options and electricity indexing features requiring separation and measurement at fair value. The mitigation option expired on November 1, 2014.

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, 2014, are as follows:

	Swedish Krona (SEK)		UK Pound Sterling (£)	
Expiry	**Notional Amount**	**Conversion Rate**	**Notional Amount**	**Conversion Rate**
2015	21,800	6.5165	£4,800	1.8000
2016	9,000	6.4000	£5,200	1.8000
	9,100	6.5165		
2017	15,000	6.4000		
2018	6,500	6.4000		
	61,400		£10,000	

As at December 31, 2014, Capstone has foreign exchange contracts to mitigate Cardinal's US dollar denominated purchase commitments as follows:

	US dollars (USD)	
Expiry	Notional Amount	Conversion Rate
2015	11,000	1.0989

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

Interest rate swap	• The interest rate swap contract's fair value 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 swaps (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.
Gas swap, forward gas sale and purchase contracts	• Fair value of the gas swap, forward gas sale and purchase contracts fluctuate with changes in market price of natural gas. • A discounted cash flow analysis based on the forward gas price curve was used to determine their fair value.
Gas purchase agreement	• The gas purchase contract's fair value primarily fluctuates with changes in market gas prices and DCR price. • A discounted cash flow analysis based on the forward gas prices curve was used to determine their fair value.
Embedded derivative	• The determination of the fair value of the Corporation's embedded derivatives requires the use of option pricing models involving significant judgment based on management's estimates and assumptions.
Foreign currency contracts	• 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 gas purchase agreement and embedded derivatives, the contracts have been classified as Level 3 financial instruments.

The fair value of the gas purchase agreement was determined by using a discounted cash flow analysis that relies on observable and unobservable inputs, including forward gas prices, foreign exchange rates, estimates on gas volume usage, fixed and variable gas transportation and a forecasted DCR curve based on historical averages.

The fair values of the embedded derivatives were determined by using valuation models that rely on 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, 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 7 for further details.

Other liabilities

The Corporation's accounts payable and accrued liabilities are short-term liabilities with carrying values that approximate their fair values as at December 31, 2014.

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 index 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 debentures outstanding as at year end. See note 18 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 following table illustrates the classification of the Corporation's financial instruments, which are consistent for both years presented that have been recorded at fair value as at December 31, 2014, 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, 2014**	Dec 31, 2013
Cash and cash equivalents	58,842	—	—	**58,842**	45,768
Restricted cash	65,878	—	—	**65,878**	29,547
Recurring measurements:					
Derivative contract assets:					
Foreign currency contracts	—	1,717	—	**1,717**	450
Forward gas sale contract	—	3,330	—	**3,330**	—
Embedded derivative asset	—	—	—	**—**	878
Less: current portion	—	(4,279)	—	**(4,279)**	(25)
	—	768	—	**768**	1,303
Derivative contract liabilities:					
Interest rate swap contract	—	10,507	—	**10,507**	6,166
Interest rate swap contracts for hedging	—	2,824	—	**2,824**	2,174
Gas purchase agreements	—	—	4,364	**4,364**	—
Embedded derivative liability	—	—	168	**168**	5,500
Less: current portion	—	(6,620)	—	**(6,620)**	(2,219)
	—	6,711	4,532	**11,243**	11,621

Fair value continuity for Level 3 inputs

	2014	**2013**
Opening balance, January 1,	(4,622)	(10,986)
Day-one gain from transfer of gas purchase agreement included in other gains and (losses) in net income	2,986	—
Change in value of gas purchase agreement included in other gains and (losses) in net income	(7,350)	—
Change in value of embedded derivative included in other gains and (losses) in net income	4,454	6,364
Closing balance, December 31,	(4,532)	(4,622)

(B) Income and Expenses From Financial Instruments

	Dec 31, 2014	Dec 31, 2013
Financial instruments designated as held-for-trading:		
Interest income on cash and cash equivalents, restricted cash [2]	**856**	739
Financial instruments classified as held-for-trading (Refer to note 25):		
Unrealized loss on foreign currency contracts	**205**	(1,474)
Unrealized gain (loss) on interest rate swap contract	**(4,342)**	6,648
Unrealized loss on gas purchase agreement, gas swap, and forward gas sale and purchase agreements	**(1,033)**	—
Unrealized loss on embedded derivative asset	**(878)**	(294)
Unrealized gain on embedded derivative liability	**5,331**	6,658
	(717)	11,538
Realized gain on derivative financial instruments (Refer to note 25)	**—**	295
Loans and receivables[1]:		
Interest income from loans receivable [2]	**3,378**	3,357
Other liabilities:		
Interest expense on finance lease obligations	**(46)**	(46)
Interest expense on long-term debt[3]	**(54,099)**	(47,425)
	(54,145)	(47,471)

(1) Foreign exchange gains and losses on loans receivable are also recognized in the statement of income as disclosed in note 7.
(2) Interest income for 2014 of $4,234 (2013 – $4,096) includes interest income from loans receivable and cash balances.
(3) Interest expense on the long-term debt for 2014 includes amortization of deferred financing fees of $1,090 (2013 – $2,069).

NOTE 9. FINANCIAL RISK MANAGEMENT

The Corporation's normal operating, investing and financing activities expose it to a variety of financial risks, including market risk (containing 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

Gas purchases

Cardinal's gas purchase agreement mitigates Cardinal's risk to exposure to changes in the market price of gas during the term of its original PPA. This agreement expires on May 1, 2015. In 2015, Cardinal expects to buy gas at spot rates.

Electricity revenue

In 2014, the electricity generated at the majority of the power facilities was sold to creditworthy customers under long-term PPAs providing a specified rate for a defined period of time.

In 2015, both Cardinal and Whitecourt's PPAs expired and a portion of Capstone's revenue will be exposed to price risk as follows:

(i) Cardinal will earn a portion of its revenue by supplying electricity to the Ontario grid only when profitable to do so.

(ii) Whitecourt plans to sell all electricity generated into the Power Pool of Alberta. Effective March 2, 2015, Millar Western and Whitecourt completed a new fuel supply agreement, which replaces the existing agreement and has a term of 15 years, extendable to 20 years. The new agreement also includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

Water treatment costs

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 / Margin	Effective Interest Rate
Amherstburg	Jun 30, 2028	$82,618	4.1925%	3.13%	7.32%
Bristol Water	Dec 7, 2017	£10,000	5.025%	0.705%	5.73%
Bristol Water	Dec 3, 2019	£50,000	1.5038%	0.9%	2.40%

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 18 (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 dollar; as new projects are built, expected 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.

(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, accounts and loans receivable and derivative contracts.

The Corporation deposits its cash with reputable financial institutions and limits the exposure by counterparty; management therefore 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:

As at	**Dec 31, 2014**	Dec 31, 2013
Ontario Power Authority ("OPA"), now the Independent Electricity System Operator ("IESO") by amalgamation	**16,624**	3,408
Ontario Electricity Financial Corporation ("OEFC")	**9,081**	24,654
Other	**12,027**	5,995
	37,732	34,057

There are no accounts receivable that are past due. Since the OPA, now IESO, 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, Bristol Water is not able to disconnect services to residential customers 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, 2014**	Dec 31, 2013
OPA, now IESO by amalgamation	**52,103**	37,962
OEFC	**101,450**	122,191
Other	**49,755**	33,775
	203,308	193,928

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 16 (Accounts payable and other liabilities), 17 (Finance lease obligations) and 18 (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, 2014 were as follows:

Financial Liabilities	Within one year	One year to five years	Beyond five years	Total
Accounts payable and other liabilities	132,445	—	—	132,445
Derivative financial instruments				
Embedded derivatives	168	—	—	168
Gas swaps	4,364	—	—	4,364
Interest rate swaps	2,088	8,419	2,824	13,331
	6,620	8,419	2,824	17,863
Finance lease obligations				
Minimum lease payments	702	2,760	678	4,140
Finance charges	41	603	271	915
	743	3,363	949	5,055
Long-term debt				
Principal payments	25,150	418,929	719,956	1,164,035
Interest payments	55,918	168,863	625,781	850,562
	81,068	587,792	1,345,737	2,014,597

(E) Sensitivity Analysis

The sensitivity analysis provided below discloses the effect on net income for the year ended December 31, 2014, 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, 2014 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the energy contracts that are financial instruments and the proportion of financial instruments in foreign currencies in place at December 31, 2014 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 because the impacts provided are not necessarily indicative of the actual impacts that would be experienced since 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:

	Dec 31, 2014	Unobservable inputs	Estimated input	Relationship of input to fair value
Embedded derivative - Liability	(168)	DCR price	OEFC rate of 7.7539 dollars (2013 - 7.7539 dollars).	1% increase in DCR results in a decrease in fair value of $292
Gas purchase agreement	(4,364)	Natural gas price	Empress forward curve of 2.885 dollars/GJ	10% increase in gas price results in an increase in fair value of $105
	(4,532)			

Changes in one or a combination of these estimates may have a significant impact on the fair value of the embedded derivative and gas purchase agreement 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:

For year ended Dec 31, 2014	Carrying Amount	Commodity Price Risk (10)%	Commodity Price Risk 10%	Interest Rate Risk (0.5)%	Interest Rate Risk 0.5%	Foreign Exchange Rate Risk (10)%	Foreign Exchange Rate Risk 10%
Financial assets:							
Cash and cash equivalents (1)	58,842	—	—	(294)	294	—	—
Restricted cash	65,878	—	—	(329)	329	—	—
Loans receivable (2)	33,744	—	—	—	—	(3,374)	3,374
Forward gas sale contract (3)	3,330	687	(687)	—	—	—	—
SEK – foreign exchange contracts (4)	542	—	—	—	—	(369)	613
USD - foreign exchange contracts (5)	659	—	—	—	—	852	(553)
Financial liabilities:							
Finance lease obligations	4,100	—	—	22	(22)	—	—
Long-term debt (6)	37,761	—	—	189	(189)	—	—
Interest rate swap contracts, net (7)	10,507	—	—	2,860	(2,860)	—	—

(1) Cash and cash equivalents include deposits at call, which are at floating interest rates.
(2) Loans receivable exclude loans related to BFN of $11,500 and Chapais of $1,359.
(3) Forward gas sale contracts increase when the price of natural gas decreases the fair value as Capstone receives a fixed price per MMBtu.
(4) Increases in the Canadian dollar to SEK increase the fair value as Capstone pays a fixed exchange rate.
(5) Increases in the Canadian dollar to USD decrease the fair value as Capstone receives a fixed exchange rate.
(6) Long-term debt excludes all fixed-rate debt totaling $1,003,293 and variable rate debt that is covered by a swap for fixed-rate debt totaling $190,734.
(7) Interest rate swaps exclude Bristol Water's cash flow hedges of $2,824 as changes flow through OCI.

UK pound sterling foreign exchange contracts have been excluded from this analysis because 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:

For year ended Dec 31, 2014	Inflation Rate Risk (RPI) (1)%	Inflation Rate Risk (RPI) 1%	Canadian $ to £ Foreign Exchange Rate Risk (1)%	Canadian $ to £ Foreign Exchange Rate Risk 1%
Impact on net income before taxes	3,081	(3,081)	—	—
Impact on equity	2,434	(2,434)	4,492	(4,492)

NOTE 10. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

As at	Dec 31, 2014 Ownership %	Dec 31, 2014 Carrying Value	Dec 31, 2013 Ownership %	Dec 31, 2013 Carrying Value
Värmevärden	**33.3%**	**3,924**	33.3%	12,009
Glen Dhu (1)	**49.0%**	**24,477**	49.0%	26,323
Others (2), (3)	**31.3-50.0%**	**655**	31.3-50.0%	719
		29,056		39,051

(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 are Capstone's investment in Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick"), MLTCLP and Chapais. (2013 - Fitzpatrick, MLTCLP,SPWC Development LP ("SPWC") and Chapais).
(3) On December 30, 2014, Capstone sold its 50% interest in SPWC to the existing partner.

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 credit agreements. See note 7 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, 2014	**39,051**	**—**	**(1,127)**	**(1,438)**	**(7,430)**	**—**	**29,056**
Dec 31, 2013	16,990	27,521	(2,638)	1,183	(4,005)	—	39,051

(B) Summarized Information for Equity Accounted Investments

The Corporation has summarized its equity accounted investments using their gross values as follows:

As at	**Dec 31, 2014**				Dec 31, 2013			
Summarized Statements of Financial Position	**Värmevärden**	**Glen Dhu**	**Others**	**Total**	Värmevärden	Glen Dhu	Others	Total
Assets								
Current	**50,683**	**7,623**	**10,139**	**68,445**	63,081	7,916	8,469	79,466
Non-current	**282,917**	**121,083**	**4,943**	**408,943**	331,531	130,652	27,074	489,257
Liabilities								
Current	**(15,298)**	**(7,043)**	**(9,971)**	**(32,312)**	(15,332)	(6,690)	(9,230)	(31,252)
Non-current	**(300,425)**	**(100,021)**	**(27,773)**	**(428,219)**	(338,667)	(108,116)	(37,719)	(484,502)
Equity before fair value increments on purchase and NCI	**17,877**	**21,642**	**(22,662)**	**16,857**	40,613	23,762	(11,406)	52,969
Amounts attributable to NCI	**(6,093)**	**—**	**—**	**(6,093)**	(4,550)	—	—	(4,550)
Fair value increments, net of amortization	**—**	**28,311**	**23,971**	**52,282**	—	29,959	13,024	42,983
Equity including unamortized fair value increments on purchase	**11,784**	**49,953**	**1,309**	**63,046**	36,063	53,721	1,618	91,402
Capstone's ownership interest	**33.3%**	**49.0%**	**31.3-50.0%**		33.3%	49.0%	31.3-50.0%	
Carrying value of investment	**3,924**	**24,477**	**655**	**29,056**	12,009	26,323	719	39,051

For the year ended	**Dec 31, 2014**				Dec 31, 2013			
Summarized Statements of Income	**Värmevärden**	**Glen Dhu**	**Others**	**Total**	Värmevärden	Glen Dhu	Others	Total
Revenue	**98,736**	**20,720**	**20,753**	**140,209**	102,501	5,667	19,992	128,160
Net Income	**(6,109)**	**3,630**	**(11,037)**	**(13,516)**	(8,850)	1,256	4,069	(3,525)
OCI	**(4,314)**	**—**	**—**	**(4,314)**	3,545	—	—	3,545
Total comprehensive Income	**(10,423)**	**3,630**	**(11,037)**	**(17,830)**	(5,305)	1,256	4,069	20
Capstone's ownership interest	**33.3%**	**49%**	**31.3-50.0%**		33.3%	49%	31.3-50.0%	
Sub-total	**(3,471)**	**1,779**	**(3,464)**	**(5,156)**	(1,767)	615	1,278	126
Amortization of fair value adjustments	**—**	**(805)**	**3,396**	**2,591**	—	(285)	(1,296)	(1,581)
Total	**(3,471)**	**974**	**(68)**	**(2,565)**	(1,767)	330	(18)	(1,455)

In 2014, Capstone received distributions of $4,612 (2013 - $3,127) from Värmevärden and $2,818 (2013 - $878) from Glen Dhu.

NOTE 11. CAPITAL ASSETS

(A) Continuity

	Jan 1, 2014	Additions	Disposals	Foreign Exchange	Transfers (1), (2)	Impairments	Dec 31, 2014
Cost							
Land	3,990	—	—	74	11	—	4,075
Equipment and vehicles	15,519	182	(5,949)	608	1,472	—	11,832
Property and plant	1,042,742	18,068	(11,108)	12,008	72,697	(31,539)	1,102,868
Water network	479,844	59,326	—	13,392	2,582	—	555,144
Construction in progress	70,275	51,264	—	1,841	(61,936)	—	61,444
	1,612,370	128,840	(17,057)	27,923	14,826	(31,539)	1,735,363
Accumulated depreciation							
Equipment and vehicles	(7,277)	(2,245)	5,889	(461)	—	—	(4,094)
Property and plant	(227,141)	(58,047)	7,469	(5,503)	—	1,231	(281,991)
Water network	(21,270)	(7,620)	—	(2,201)	—	—	(31,091)
Net carrying value	1,356,682	60,928	(3,699)	19,758	14,826	(30,308)	1,418,187

(1) Includes transfers of $20,519 for Skyway 8 at the commercial operation date ("COD") from projects under development, less $4,993 transferred to intangibles from Bristol Water. Refer to note 12 and 13, respectively.
(2) Includes transfer of $700 to other assets for assets held for sale, net of $278 for the corresponding asset retirement obligation, refer to note 19.

	Jan 1, 2013	Additions	Disposals	Foreign Exchange	Transfers	Business Acquisition	Dec 31, 2013
Cost							
Land	2,766	—	—	242	165	817	3,990
Equipment and vehicles	15,650	866	(1,402)	1,879	(1,495)	21	15,519
Property and plant	851,726	4,906	(4,788)	40,375	23,470	127,053	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	135,696	(6,199)	93,733	(6,632)	127,891	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	84,513	(2,103)	66,606	(6,632)	127,891	1,356,682

(B) Reconciliation to Cash Additions for the Cash Flow Statement

For the year ended	Dec 31, 2014	Dec 31, 2013
Additions	**128,840**	135,696
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	**427**	8,942
Net foreign exchange difference	**546**	1,641
Cash additions	**129,813**	146,279

(C) Construction in Progress

The net book value of capital assets includes $7,410 (2013 - $5,451) of capitalized interest at Bristol Water in accordance with IAS 23, of which $1,834 was capitalized in 2014. Capstone has used 4.6% as the interest rate to determine the amount capitalized (2013 - 5.5%).

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 assets' useful life began. Carrying values within construction in progress are not amortized.

(D) Capital Assets Under Finance Leases

As at	Equipment and Vehicles	Property and Plant	Water Network	Total
Dec 31, 2014	**5**	**15,121**	**1,422**	**16,548**
Dec 31, 2013	5	16,584	1,410	17,999

(E) Assets Held for Sale

Capstone has transferred $700 of property and plant as at December 31, 2014, relating to the planned sale of the Confederation Power wind facility to other assets. It was determined at December 31, 2014 that the sale of this facility's assets was highly probable, therefore they are recorded at the carrying amount (post asset impairment charge) of the assets; refer to note 6.

(F) 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. The deficit of market capitalization to the carrying amount of owners' equity is such an indicator of potential impairment. Consequently, Capstone performed a comprehensive analysis, which found that the fair value of its assets was lower than the carrying amounts included in these consolidated financial statements for the cash generating units ("CGU") detailed below.

Capstone's determination of fair value was based on a discounted cash flow analysis of the expected future cash flows for each 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 purpose 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.

During the fourth quarter of 2014, Capstone determined that pre-tax impairment charges should be made within the power segment against the carrying value of assets of the Erie Shores and Confederation Power wind facilities, as well as the loan receivable from Chapais as follows:

For the year ended December 31, 2014	**Loans Receivable**	**Capital Assets (1)**	**Total (2)**
Erie Shores	—	(26,698)	(26,698)
Confederation Power	—	(3,610)	(3,610)
Chapais	(562)	—	(562)
Total pre-tax impairment to the power segment	**(562)**	**(30,308)**	**(30,870)**
Assets retirement obligation adjustment for assets held for sale			**278**
Asset impairment charge			**(30,592)**

(1) The total asset impairment charge contains $3,610, which relates to assets that have been classified as held for sale at December 31, 2014.
(2) Impairment charges can be reversed in future periods if the forecasted cash flows to be generated by the impacted facilities improve.

For Erie Shores, Capstone reduced the carrying value of the capital assets primarily based on a revised forecast for lower merchant power prices during the post-PPA period, which impacts Erie Shores in years beginning after 2026. For Confederation Power, the impairment charges reflect an offer to purchase received in December 2014, which was completed on February 12, 2015. Finally, for Chapais, Capstone expects that Tranche B of the loan receivable will not be repaid and has accordingly impaired the carrying amount on the basis that the facility is expected to close when its PPA expires at the end of 2015.

The recoverable amount of the impaired CGUs was determined based on fair value less costs to sell; the valuation techniques along with key assumptions were:

As at December 31, 2014	**Fair Value Hierarchy**	**Valuation Technique and Key Assumptions**	**Impact of Changes in Key Assumptions on Fair Value**	**Recoverable Amount**
Erie Shores (1)	Level 3	Discounted cash flow		66,000
		• Discount rate (8.5% PPA, 8.75% post-PPA)	50 bps increase would decrease fair value by $2,100 or 3.1%.	
		• Post-PPA merchant power rates ($37/MWh)	10% decrease would decrease fair value by $1,500 or 2.3%.	
		• Terminal value	10% decrease would decrease fair value by $700 or 1.1%.	
Confederation Power	Level 3	Offer price, less cost to sell	Not meaningful	700
Chapais	Level 2	Contracted cash flows	Not meaningful	1,359

(1) The recoverable amount for Erie Shores is net of $86,274 of long-term debt.

NOTE 12. PROJECTS UNDER DEVELOPMENT

(A) Continuity

	2014	2013
As at January 1	**23,983**	—
Business acquisition (refer to note 3(a))	**—**	14,992
Capitalized costs during the year	**148,495**	8,991
Costs transferred to capital assets [1] (refer to note 11)	**(20,519)**	—
Costs transferred to intangibles [1] (refer to note 13)	**(598)**	—
As at December 31 [2]	**151,361**	23,983

(1) Skyway 8 costs were transferred on COD.
(2) Includes $2,938 of capitalized borrowing costs during the construction of Saint-Philémon and Goulais using the rate of the respective long-term debt (2013 - nil).

(B) Reconciliation to Cash Additions for the Cash Flow Statement

For the year ended	Dec 31, 2014	Dec 31, 2013
Additions	**148,495**	8,991
Adjustment for change in additions to projects under development included in accounts payable and accrued liabilities	**(20,871)**	(4,343)
Cash additions	**127,624**	4,648

NOTE 13. INTANGIBLES

	Jan 1, 2014	Additions	Disposals [1]	Foreign Exchange	Transfers [2]	Dec 31, 2014
Assets						
Computer software	17,804	—	(4,816)	1,082	4,993	19,063
Electricity supply, gas purchase and other contracts	160,089	—	(32,700)	—	—	127,389
Water rights	73,018	—	—	—	—	73,018
Licence	23,443	—	—	591	598	24,632
Goodwill	152,251	—	—	3,828	—	156,079
Accumulated amortization						
Computer software	(8,904)	(3,758)	4,811	(863)	—	(8,714)
Electricity supply and gas purchase contracts	(58,635)	(7,610)	32,700	—	—	(33,545)
Water rights	(13,794)	(2,116)	—	—	—	(15,910)
	345,272	(13,484)	(5)	4,638	5,591	342,012
Provisions						
Electricity supply and gas purchase contracts	12,257	—	(12,257)	—	—	—
Utilization	(10,623)	(1,630)	12,253	—	—	—
	1,634	(1,630)	(4)	—	—	—

(1) Includes $12,257 and $32,700 for the 2014 expiries of the Whitecourt and Cardinal power purchase agreements, respectively.

(2) Includes transfers of $598 for Skyway 8 from projects under development, plus $4,993 for Bristol Water from capital assets. Refer to notes 12 and 11, respectively.

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 segment and is assessed annually for impairment which resulted in no impairment charge as at December 31, 2014. Capstone uses the fair value less costs to sell method, which relies on level 3 inputs as part of a discounted cash flow technique, to determine the recoverable amount. The discounted cash flow model incorporates management's best estimates for the underlying cash flows, discount rate and terminal value.

In December 2014, Ofwat issued a final determination for the regulatory period from April 1, 2015 to March 31, 2020. Bristol Water has formally rejected the regulator's final determination and the matter will undergo a binding review by the Competition and Markets Authority ("CMA"), with a final outcome expected in August 2015. It is possible that an adverse result from the CMA process may reasonably result in changes to the assumptions underlying the recoverable amount resulting in a material adjustment to goodwill.

	Jan 1, 2013	Additions	Foreign Exchange	Transfers	Business Acquisition	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	(12,531)	15,211	6,632	52,041	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

NOTE 14. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

Bristol Water and Cardinal offer defined contribution retirement plans for certain employees. The total cost recorded in the statement of income for the year ended December 31, 2014 was $2,189 (December 31, 2013 – $1,563).

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.

A surplus is recognized on the consolidated statement of financial position because a refund of any surplus assets would be available to Bristol Water following the final benefit payment from the Section.

Basis of Valuation

The formal actuarial valuation of Bristol Water's Section of the WCPS as at March 31, 2014 was updated to December 31, 2014, by Lane, Clark & Peacock LLP, using the following significant assumptions in accordance with IAS 19:

Assumptions	**2014**	2013
Inflation – Retail Price Index	**3.2%**	3.6%
Inflation – Consumer Price Index	**2.2%**	2.6%
Pension increases uncapped	**2.2%**	2.6%
Pension increases capped at 5%	**2.2%**	2.6%
Salary increases	**3.7%**	4.1%
Discount rate	**3.5%**	4.4%

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. Assets are broken down by the major classes.

As at	Dec 31, 2014		Dec 31, 2013	
	Amount	**Allocation**	Amount	Allocation
Equities	**17,916**	**5%**	23,784	8%
Diversified growth funds	**10,569**	**3%**	10,141	3%
Bonds	**325,327**	**88%**	254,566	85%
Emerging markets multi-asset funds	**5,860**	**2%**	5,410	2%
High yield bonds	**6,343**	**2%**	6,076	2%
Other	**1,146**	**—%**	629	—%
Market value of assets	**367,161**	**100%**	300,606	100%
Present value of liabilities	**(288,411)**		(254,365)	
Surplus	**78,750**		46,241	

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 S2NA with a 95% adjustment to mortality rates and with future improvements in line with CMI 2013 projections from 2007, subject to a minimum increase of 1.5% and 1.3% per annum, for males and females, respectively. Per the mortality assumptions used, the average life expectancy for a male pensioner currently aged 60 is 28.1 years and for a female pensioner currently aged 60 is 29.9 years (December 31, 2013 – 27.4 male, 29.7 female).

The allowance for future improvements in longevity is such that a male retiring at age 60 in 2039 (i.e. in 25 years' time) is expected to have an average life expectancy from retirement of 31.1 years, and a female retiring at age 60 in 2039 is assumed to have an average life expectancy of 32.4 years (December 31, 2013 – 29.9 male, 31.8 female).

The weighted average duration of the expected benefit payments from the Section is approximately 15 years.

Contributions

Contributions paid in the year to the Section were $4,248 (£2,335) (December 31, 2013 – $3,840 (£2,383)). For normal employer contributions after April 1, 2013 Bristol Water was required to contribute at the rates of 37% for the main sub Section and 25% for the alternative benefits sub Section of the relevant payroll costs.

The estimated amount of the total employer contribution expected to be paid to the Section for the year ending December 31, 2015 is $4,255 (£2,300).

Changes in Comprehensive Income

Analysis of operating expense, interest expense and amounts recognized in other comprehensive income ("OCI"):

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Current service cost	**2,376**	2,219
Past service cost	**—**	18
Section expenses	**505**	520
Total operating expense	**2,881**	2,757
Interest income on Section assets	**13,463**	11,635
Interest expense on Section obligation	**(11,331)**	(9,818)
Net pension interest income	**2,132**	1,817
Gain/(loss) from change in financial assumptions	**(21,459)**	3,565
Gain/(loss) from change in demographic assumptions	**(2,800)**	(2,027)
Experience gains/(losses)	**(739)**	2,211
Return on plan assets, excluding amounts included in interest income	**53,053**	(1,558)
Deferred tax (expense)/recovery	**(5,611)**	693
Actuarial gain/(loss) recognized in OCI	**22,444**	2,884

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, 2014**			December 31, 2013		
	Asset	**Liability**	**Total**	Asset	Liability	Total
Opening surplus in Section	**300,606**	**(254,365)**	**46,241**	271,650	(234,075)	37,575
Current service cost	**—**	**(2,376)**	**(2,376)**	—	(2,219)	(2,219)
Past service cost	**—**	**—**	**—**	—	(18)	(18)
Pension interest	**13,463**	**(11,331)**	**2,132**	11,635	(9,818)	1,817
Section expenses	**(505)**	**—**	**(505)**	(520)	—	(520)
Re-measurements:						
Gain/(loss) from change in financial assumptions	**—**	**(21,459)**	**(21,459)**	—	3,565	3,565
Gain/(loss) from change in demographic assumptions	**—**	**(2,800)**	**(2,800)**	—	(2,027)	(2,027)
Experience gains/(losses)	**—**	**(739)**	**(739)**	—	2,211	2,211
Return on plan assets, excluding amounts included in interest income	**53,053**	**—**	**53,053**	(1,558)	—	(1,558)
Contributions by employer	**4,248**	**—**	**4,248**	3,840	—	3,840
Contributions by employees	**627**	**(627)**	**—**	649	(649)	—
Benefits paid	**(11,685)**	**11,685**	**—**	(9,705)	9,705	—
Foreign exchange	**7,354**	**(6,399)**	**955**	24,615	(21,040)	3,575
Ending surplus in Section	**367,161**	**(288,411)**	**78,750**	300,606	(254,365)	46,241

The actual return on the Section's assets for the year ended as at December 31, 2014 was a gain of $66,517 (£36,564) (December 31, 2013 – gain of $10,077 (£6,184)).

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 reduce the surplus.
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%	4,337	(4,518)
Inflation	0.1%	(3,253)	3,253
Value of return seeking asset portfolio	25% (1)	10,120	(10,120)
Life expectancy	1 year	(8,855)	8,855

(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 15. INCOME TAXES

(A) Deferred Income Tax

As at	**Dec 31, 2014**	Dec 31, 2013
Deferred income tax assets	**—**	494
Deferred income tax liabilities [1]	**(192,829)**	(183,167)
Net deferred income tax liability	**(192,829)**	(182,673)

(1) Deferred income tax liabilities were restated for the year ended December 31, 2013 related to the purchase equation, refer to note 3 (a) for more information.

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, 2014**	Dec 31, 2013
Non-capital loss carry forwards	**24,731**	45,520
Loan premium and deferred financing costs	**12,005**	13,076
Financial Instruments	**3,431**	3,319
Levelization amounts	**—**	1,505
Asset retirement obligations	**1,113**	873
Other	**3,416**	224
Deferred income tax assets	**44,696**	64,517
Capital assets	**(179,995)**	(193,516)
Intangibles	**(41,452)**	(44,246)
Retirement benefit surplus	**(15,677)**	(9,246)
Other	**(401)**	(182)
Deferred income tax liabilities	**(237,525)**	(247,190)
Net deferred income tax liability	**(192,829)**	(182,673)

A continuity of the net deferred income tax liability follows:

	2014	2013
Net deferred income tax liability as at January 1	**(182,673)**	(152,457)
Recorded in earnings	**(5,994)**	(6,206)
Recognized in OCI	**(8,127)**	(8,540)
Amounts released to equity for NCI's in Goulais and Saint-Philémon	**2,637**	28
Business acquisition	**—**	(15,548)
Other	**1,328**	50
Net deferred income tax liability as at December 31	**(192,829)**	(182,673)

(B) Timing of Deferred Income Tax Reversal

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

As at	**Dec 31, 2014**	Dec 31, 2013
Within 12 months	**19,677**	4,731
After more than 12 months	**(212,506)**	(187,404)
Net deferred income tax liability	**(192,829)**	(182,673)

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, 2014 was $48,067 (December 31, 2013 – $31,805). 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, 2014**	Dec 31, 2013
Canadian – capital losses	No expiry	—	82,381	**82,381**	84,610
Canadian – non-capital losses	2025 – 2034	92,984	74,236	**167,220**	242,433
US – non-capital losses	2023 – 2027	—	16,774	**16,774**	15,379
UK – capital losses (£2,864)	No expiry	—	5,176	**5,176**	5,048
UK – advanced corporation tax (£3,922)	No expiry	—	7,087	**7,087**	6,913

The Corporation also has $12,241 of unrecognized deferred tax assets, which have not been recognized as at December 31, 2014 (December 31, 2013 – $17,544).

(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, 2014	Dec 31, 2013
Income (loss) before income taxes	**43,522**	75,420
Statutory income tax rate	**25.4%**	25.9%
Income tax expense based on statutory income tax rate	**11,055**	19,534
Permanent differences	**1,346**	492
Tax rate differentials	**(4,168)**	(14,812)
Unrecognized losses arising in the year	**(269)**	2,018
Impact on attributes renounced to shareholders	**—**	1,200
Part XII.6 taxes and penalties	**—**	294
Other	**2,011**	(516)
Total income tax expense	**9,975**	8,210

The statutory income tax rate of 25.4% (2013 – 25.9%) changes in response to Capstone's allocation of taxable income to different tax jurisdictions.

(E) Current Income Taxes

Current income taxes payable of $3,729 are included in accounts payable and other liabilities on the statement of financial position (see note 16(a)).

NOTE 16. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(A) Accounts Payable and Accrued Liabilities

	Dec 31, 2014	Dec 31, 2013
Dividends payable	**7,887**	7,833
Income taxes payable	**3,729**	2,581
Other accounts payable and accrued liabilities	**120,829**	106,438
	132,445	116,852

Income taxes payable primarily comprised $2,729 (2013 - $379) for Bristol Water and $1,154 (2013 - $1,494) for the shortfall of Canadian Renewable and Conservation Expense ("CRCE") penalties related to flow-through shares previously issued by ReD. This is partially offset by taxes recoverable of $380 (2013 - payable of $318) related to preferred share dividends.

(B) Deferred Revenue

Deferred revenue represents 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:

	2014	2013
As at January 1	**15,589**	6,298
Contributions received	**5,874**	7,933
Amortized to statement of income	**(256)**	(290)
Net foreign exchange difference	**393**	1,648
As at December 31	**21,600**	15,589

NOTE 17. FINANCE LEASE OBLIGATIONS

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Utilities – water: equipment leases	3.62 - 4.10%	2015 - 2020	**4,100**	4,370
Less: current portion			**(693)**	(609)
Non-current portion			**3,407**	3,761

For the year ended December 31, 2014, the Corporation repaid $782 (December 31, 2013 - $3,339) on finance leases, including interest of $286 (December 31, 2013 – $126).

The present value of minimum lease payments grouped by period due are as follows:

	Within one year	**One year to five years**	**Beyond five years**	**Less: Future Finance Charges**	**Total**
Utilities – water	743	3,363	949	(915)	4,140

NOTE 18. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	**Dec 31, 2014**		Dec 31, 2013	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Power	**527,666**	**511,501**	368,045	371,744
Utilities – water	**736,446**	**630,894**	627,632	576,034
Corporate	**91,077**	**89,393**	81,694	80,107
Balance outstanding	**1,355,189**	**1,231,788**	1,077,371	1,027,885
Less: deferred financing costs	**—**	**(11,788)**	—	(8,469)
Total long-term debt	**1,355,189**	**1,220,000**	1,077,371	1,019,416
Less: current portion of long-term debt	**(35,529)**	**(25,150)**	(26,743)	(18,374)
Long-term debt	**1,319,660**	**1,194,850**	1,050,628	1,001,042

(B) Power

As at	**Dec 31, 2014**		Dec 31, 2013	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Wind - Operating	**213,179**	**202,060**	195,345	191,134
Wind - Development	**141,805**	**136,921**	—	—
Hydros	**90,064**	**89,902**	86,020	93,930
Solar	**82,618**	**82,618**	86,680	86,680
	527,666	**511,501**	368,045	371,744
Less: deferred financing costs	**—**	**(7,558)**	—	(3,992)
Long-term debt	**527,666**	**503,943**	368,045	367,752
Less: current portion	**(35,529)**	**(25,150)**	(26,743)	(18,374)
	492,137	**478,793**	341,302	349,378

(i) Wind - Operating

Project debt	**Dec 31, 2014**	Dec 31, 2013
Erie Shores Wind Farm	**86,274**	92,156
Amherst	**42,949**	44,770
SkyGen	**35,338**	36,965
Skyway 8	**21,289**	—
Glace Bay	**16,210**	17,243
	202,060	191,134

Erie Shores Wind Farm

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Tranche A	5.96%	Apr 1, 2026	**51,181**	54,198
Tranche B	5.28%	Apr 1, 2016	**1,454**	2,361
Tranche C	6.15%	Apr 1, 2026	**33,639**	35,597
			86,274	92,156

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, 2014, the carrying value of the assets of Erie Shores exceeded the total amount of project debt outstanding.

Under the agreement, Erie Shores must maintain certain restrictive covenants including a minimum debt service coverage ratio. Additionally, Erie Shores is required to set aside $5,701 as restricted cash and $550 as letters of credit against the borrowing capacity of the corporate credit facility to cover the debt service and maintenance reserves.

Amherst

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Term loan	6.20%	Apr 30, 2032	**42,949**	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 CPC to the lenders of the Amherst project debt. As at December 31, 2014, the carrying value of the assets of Amherst exceeded the total amount of project debt outstanding.

Under the agreement, Amherst must maintain certain restrictive covenants including a minimum debt service coverage ratio. 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.

SkyGen

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Term loans	4.22 - 5.06%	Dec 17, 2016	**24,844**	26,372
Term loan	6.22%	Sep 17, 2017	**519**	608
Promissory note payable	5.00%	Feb 8, 2016	**9,975**	9,985
			35,338	36,965

SkyGen project debt has regular principal and interest payments over the term to maturity and is secured only by the assets of SkyGen, excluding the Skyway 8 wind project. The SkyGen project debt has no recourse to the Corporation's other assets. As at December 31, 2014, the carrying value of the assets of SkyGen exceeded the total amount of project debt outstanding.

Under the agreement, SkyGen must maintain certain restrictive covenants including a minimum debt service coverage ratio.

Skyway 8

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Construction facility	5.25%	Feb 16, 2018	**21,289**	—

On April 17, 2014 Capstone, through its wholly owned subsidiary SkyGen, entered into a credit agreement for the construction of the Skyway 8 wind facility. The project debt is secured only by the assets of Skyway 8, with no recourse to the Corporation's other assets, except for a $5,000 limited recourse guarantee by CPC to the lenders of the Skyway 8 project debt. As at December 31, 2014, the carrying value of the assets of Skyway 8 exceeded the total amount of project debt outstanding. Interest during construction was capitalized to projects under development and ceased upon achieving COD.

On February 17, 2015, the construction facility converted to a term facility, which has regular principal and interest payments fully amortizing over 20 years. After conversion of the facility, the agreement requires Skyway 8 to maintain certain restrictive covenants including a minimum debt service coverage ratio.

Glace Bay

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Term loan	5.99%	Mar 15, 2027	**8,207**	8,533
Term loan	6.36%	Apr 21, 2019	**2,957**	3,570
Term loan	4.72%	Oct 1, 2032	**5,046**	5,140
			16,210	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, 2014, the carrying value of the assets of Glace Bay exceeded the total amount of project debt outstanding.

Under the agreement, Glace Bay must maintain certain restrictive covenants including a minimum debt service coverage ratio. Additionally, Glace Bay is required to set aside $1,635 as restricted cash to cover the debt service and operating and maintenance reserves.

(ii) Wind - Development

Project debt	**Dec 31, 2014**	Dec 31, 2013
Saint-Philémon	**60,535**	—
Goulais	**76,386**	—
	136,921	—

Saint-Philémon

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Tranche A - Construction facility	5.49%	Jun 30, 2034	**56,102**	—
Tranche B - Construction facility	3.99%	Conversion Date	**4,433**	—
			60,535	—

On May 16, 2014 Capstone, through its indirect partially owned subsidiary Saint-Philémon, entered into a credit agreement for the construction of the Saint-Philémon wind project. The project debt is secured only by the assets of Saint-Philémon, with no recourse to the Corporation's other assets. Interest during construction is capitalized to projects under development.

The construction term of the facility matures no later than September 30, 2015. On maturity Tranche A will convert to a term facility and Tranche B will be repaid primarily from proceeds received from Hydro-Québec. Tranche A of the facility will have a term of 19 ½ years bearing a fixed, annual interest rate of 5.49% and will be fully amortizing over its remaining term.

Goulais

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Construction facility	5.16%	Sep 30, 2034	**76,386**	—

On September 30, 2014 Capstone, through its indirect partially owned subsidiary Chi-Wiikwedong Holdings LP, entered into a credit agreement for the construction of the Goulais wind project. The project debt is secured only by the assets of Goulais, with no recourse to the Corporation's other assets. Interest during construction is capitalized to projects under development.

The construction term of the facility matures no later than December 31, 2015. Upon maturity, the facility will convert to a loan with a term of 19 ½ years, which is fully amortizing over its remaining term and bears a fixed annual interest rate of 5.16%.

(iii) Hydros

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Senior secured bonds	4.56%	Jun 30, 2040	**69,660**	73,688
Subordinated secured bonds	7.00%	Jun 30, 2041	**20,242**	20,242
			89,902	93,930

The senior secured and subordinated secured bonds are fully amortizing over their respective terms and are secured by the hydro facilities alone and are non-recourse to the Corporation’s other businesses. As atDecember 31, 2014, the carrying value of the assets of the hydro facilities exceeded the total amount of bonds outstanding.

Under the agreement, the hydro facilities must maintain certain restrictive covenants including a minimum debt service coverage ratio. Additionally, the hydro facilities are required to set aside $7,100 as letters of credit against the borrowing capacity of the corporate credit facility and $966 as restricted cash to cover the debt service and maintenance reserves.

(iv) Solar

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Amherstburg project debt	7.32%	Jun 30, 2016	**82,618**	86,680

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, 2014, the carrying value of the assets of Amherstburg exceeded the total amount of project debt outstanding.

Under the agreement, Amherstburg must maintain certain restrictive covenants including a minimum debt service coverage ratio. 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, 2014, Amherstburg's project debt had an interest rate swap contract to mitigate interest rate risk (see note 9(a)).

(C) Utilities – water

As at	**Dec 31, 2014**		Dec 31, 2013	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Bank loans	**122,836**	**125,877**	87,056	87,329
Term loans	**576,696**	**473,301**	505,322	457,786
Debentures	**2,805**	**2,351**	2,424	2,275
Irredeemable cumulative preferred shares	**34,109**	**29,365**	32,830	28,644
	736,446	**630,894**	627,632	576,034
Less: deferred financing costs	**—**	**(2,288)**	—	(2,047)
Long-term debt	**736,446**	**628,606**	627,632	573,987
Less: current portion	**—**	**—**	—	—
	736,446	**628,606**	627,632	573,987

(i) Bank loans

	Interest Rate	Maturity	**Dec 31, 2014 [£]**	**Dec 31, 2014 [$]**	Dec 31, 2013 [$]
Secured, variable interest at three month Libor plus a margin (principal £50,000)(1)	2.40%	Dec 3, 2019	**50,000**	**90,355**	—
Secured, variable interest at three month Libor plus a margin (principal £10,000(2))	1.26%	Dec 7, 2017	**9,828**	**17,761**	17,224
Secured, variable interest at six month Libor plus a margin (principal £10,000(2 and 3))	5.73%	Dec 7, 2017	**9,828**	**17,761**	17,224
HSBC plc, variable interest at Libor plus a margin(4)	undrawn	Aug 17, 2017	**—**	**—**	45,830
The Royal Bank of Scotland plc, variable interest at Libor plus a margin(5)	undrawn	Dec 31, 2019	**—**	**—**	7,051
				125,877	87,329

(1) The £50,000 variable rate bank loan is fixed by an interest rate swap exchanging three month LIBOR for a fixed rate of 1.5038%. The fixing dates of the swap match those of the loan (see note 9(a)). The loan has a bullet repayment on maturity.
(2) The principal due on maturity is different from the balance in pounds sterling due to the fair value adjustment required on acquisition.
(3) The £10,000 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 9(a)). The loan has a bullet repayment on maturity.
(4) As at December 31, 2014, Bristol Water had $90,355 (£50,000) undrawn on this credit facilities available (December 31, 2013 - £26,000 drawn).
(5) As at December 31, 2014, Bristol Water had $36,142 (£20,000) undrawn on this credit facilities available (December 31, 2013 - £4,000 drawn).

During 2014, Bristol Water's bank loans increased because of £20,000 of draws from the existing HSBC plc and the Royal Bank of Scotland plc credit facilities. The drawings under these facilities amounted to £50,000 in total by the beginning of December 2014. On December 3, 2014, Bristol Water entered a new bank loan of £50,000 with an existing lender and repaid full amounts drawn under the credit facilities, providing additional flexibility for future capital expenditures. As at December 31, 2014, $126,497 or £70,000 of undrawn credit capacity was available.

The bank loans are secured only by the assets of Bristol Water, with no recourse to the Corporation's other assets. In addition, these loans are fully repayable on maturity and incur non-utilization fees on the undrawn portion of the total available credit.

(ii) Term loans

	Interest Rate	Maturity	**Dec 31, 2014 [£]**	**Dec 31, 2014 [$]**	Dec 31, 2013 [$]
Secured, principal index-linked to RPI, fixed interest at 3.635%(2) on the indexed principal (principal £124,868(1))	6.14%	Sep 30, 2032	**150,967**	**272,812**	262,921
Secured, fixed interest at 6.01%(2) (principal £57,500(1))	6.01%	Sep 30, 2033	**62,925**	**113,711**	111,424
Secured, principal index-linked to RPI, fixed interest at 2.701% on the indexed principal (principal £44,778(1))	4.10%	Mar 24, 2041	**48,020**	**86,778**	83,441
				473,301	457,786

(1) The principal due on maturity is different from the balance in pounds sterling due to the fair value adjustment required on acquisition.
(2) Coupons as specified in loan documentation.

The interest rate on the £124,868 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 £44,778 indexed-linked loan is adjusted in March and September, by reference to the RPI, with a two-month lag.

(iii) Debentures

	Interest Rate	Maturity	**Dec 31, 2014 [£]**	**Dec 31, 2014 [$]**	Dec 31, 2013 [$]
Consolidated (principal £1,405(1))	4.00%	Irredeemable	**1,136**	**2,054**	1,985
Perpetual (principal £37(1))	4.25%	Irredeemable	**37**	**66**	65
Perpetual (principal £55(1))	4.00%	Irredeemable	**55**	**99**	97
Perpetual (principal £73(1))	3.50%	Irredeemable	**73**	**132**	128
				2,351	2,275

(1) The principal due on maturity is different from the balance in pounds sterling due to the fair value adjustment required on acquisition.

The rate of interest is fixed and payable every six months.

(iv) Irredeemable cumulative preferred shares

	Interest Rate	Maturity	**Dec 31, 2014 [£]**	**Dec 31, 2014 [$]**	Dec 31, 2013 [$]
Preferred shares, cumulative (principal £12,500(1))	8.75%	Irredeemable	**16,250**	**29,365**	28,644

(1) The principal due on maturity is different from the balance in pounds sterling due to the fair value adjustment required 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, 2014.

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

As at	Dec 31, 2014		Dec 31, 2013	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Corporate credit facility	**20,000**	**20,000**	11,300	11,300
Convertible debentures	**71,077**	**69,393**	70,394	68,807
	91,077	**89,393**	81,694	80,107
Less: deferred financing costs	**—**	**(1,942)**	—	(2,430)
Long-term debt	**91,077**	**87,451**	81,694	77,677
Less: current portion	**—**	**—**	—	—
	91,077	**87,451**	81,694	77,677

(i) Corporate credit facility

The corporate credit facility is comprised:

	Interest Rate	Maturity	**Dec 31, 2014**	Dec 31, 2013
Total available credit - Revolving facility			**90,000**	32,500
Amount drawn				
Corporate credit facility	3.01%	Nov 12, 2017	**(20,000)**	(11,300)
Letters of credit for the benefit of operating power assets			**(21,432)**	(9,519)
Letter of credit for the benefit of power development projects			**(7,029)**	(4,023)
Letter of credit for the benefit of CPC			**—**	(397)
Remaining available credit			**41,539**	7,261

As at December 31, 2014, Capstone had 21 letters of credit authorized under the revolving facility.

The corporate credit 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; 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 2014, Capstone and its existing lenders increased the capacity of the facility by $57,500, bringing the total available credit to $90,000 of which $48,461 was drawn or committed as of December 31, 2014.

(ii) Convertible debentures

The carrying values and changes of the liability and the equity components of the debentures were as follows:

	Dec 31, 2014			
	2016 Debentures	**2017 Debentures**	**Total**	Dec 31, 2013
Liability component	**41,068**	**27,739**	**68,807**	75,479
Conversion to shares, net of costs during the year(1)	**—**	**—**	**—**	(100)
Redemptions during the year	**—**	**—**	**—**	(6,972)
Amortization and accretion during the year	**660**	**(74)**	**586**	400
	41,728	**27,665**	**69,393**	68,807
Deferred financing costs	**(1,178)**	**—**	**(1,178)**	(1,726)
	40,550	**27,665**	**68,215**	67,081
Equity component	**9,284**	**—**	**9,284**	9,284
	49,834	**27,665**	**77,499**	76,365

(1) During the year ended December 31, 2014, no debentures were converted to shares (see note 20) (December 31, 2013 – $100). 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 maturing on December 31, 2016 ("2016 Debentures"). The 2016 Debentures have a fixed, annual interest rate of 6.50% 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 2016 Debentures as at December 31, 2014 was $42,749 (December 31, 2013 – $42,749).

2017 Debentures

The Corporation has redeemable, extendible, convertible unsecured subordinated debentures maturing on December 31, 2017 ("2017 Debentures"). The 2017 Debentures have a fixed, annual interest rate of 6.75% payable semi-annually in arrears on June 30 and December 31 of each year. Each $1,000 principal amount of the debentures is 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.The face value of the 2017 Debentures as at December 31, 2014 was $27,428 (December 31, 2013 – $27,428).

(E) Long-term Debt Covenants

For the year ended and as at December 31, 2014, 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	25,150	202,255	282,519	509,924
Utilities – water	—	126,497	437,437	563,934
Corporate	—	90,177	—	90,177
	25,150	418,929	719,956	1,164,035

NOTE 19. 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, 2014	Dec 31, 2013
Assumptions:		
Expected settlement date	**2017 – 2062**	2014 – 2062
Estimated settlement amount	**Nil – $3,266**	Nil – $3,205
Inflation rate	**2.0%**	2.0%
Credit adjusted discount rate	**5.0% – 7.0%**	7.2% – 8.0%
Balance, beginning of year	**3,293**	2,096
Business acquisition	**—**	860
Adjustment for assets held for sale (refer to note 6 and 11(f))	**(278)**	—
Liabilities incurred	**634**	—
Revision of estimates	**478**	138
Accretion expense	**237**	199
Balance, end of year	**4,364**	3,293

NOTE 20. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	**Dec 31, 2014**	Dec 31, 2013
Common shares	**713,412**	710,662
Class B exchangeable units	**26,710**	26,710
Preferred shares	**72,020**	72,020
	812,142	809,392

The Corporation's other equity items comprised:

As at	**Dec 31, 2014**	Dec 31, 2013
Equity portion of convertible debentures	**9,428**	9,284
Share option reserve	**(144)**	144
	9,284	9,428

(A) Common Shares

Capstone is authorized to issue an unlimited number of common shares.

Continuity for the year ended	**Dec 31, 2014**		Dec 31, 2013	
($000s and 000s shares)	**Shares**	**Carrying Value**	Shares	Carrying Value
Opening balance	**92,854**	**710,662**	72,445	632,474
Common shares issued (1)	**14**	**39**	19,719	75,453
Dividend reinvestment plan (2)	**705**	**2,711**	670	2,635
Conversion of convertible debentures, net of cost (3)	**—**	**—**	20	100
Ending balance	**93,573**	**713,412**	92,854	710,662

(1) Shares issued under the option plan in 2014 (2013 - Shares issued for the acquisition of ReD).
(2) Shares issued by the Corporation under the Dividend Re-Investment Plan (DRIP).
(3) No convertible debentures were converted to shares of the Corporation during 2014 (note 18(d)(ii)) (December 31, 2013 – $100). 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, 2014 and 2013. 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 at December 31, 2014 and 2013, 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 five-year fixed rate period, the issuer will determine the annual dividend for the next five-year period based on the five-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 five 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 expired March 6, 2014.

(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. During 2014, the option reserve was released to deficit as the majority of the options were exercised or expired.

(F) Dividends

The dividends declared were as follows:

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Common shares	**28,002**	23,358
Class B exchangeable units	**975**	975
	28,977	24,333
Preferred shares (1)	**3,923**	3,923

(1) Includes $173 of deferred income taxes for the year ended December 31, 2014 (December 31, 2013 - $173).

Capstone has included $7,262 of accrued common dividends and $625 of accrued preferred dividends as declared on November 11, 2014 (December 31, 2013 – $7,208 was accrued for common shares and $625 for preferred shares).

Capstone paid $0.30 per common share and $1.25 per preferred share during the year ended December 31, 2014 (December 31, 2013 – $0.30 per common share and $1.25 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, 2014**	Dec 31, 2013
Long-term debt	**1,231,788**	1,027,885
Shareholders' equity (1)	**516,706**	529,550
Total capitalization	**1,748,494**	1,557,435

(1) Capstone's definition excludes non-controlling interest of $190,073 (December 31, 2013 – $138,613).

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 18.

NOTE 21. NON-CONTROLLING INTERESTS

(A) Non-controlling Interests

Non-controlling interests represent ownership interests by third parties in businesses consolidated by Capstone. Bristol Water, Amherst, Saint-Philémon and Chi-Wiikwedong non-controlling interests as at December 31, 2014 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")
- Chi-Wiikwedong LP is 49% owned by BFN.

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 are 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	BFN's (49%) interest in Chi-Wiikwedong	Total
January 1, 2013	38,477	53,133	—	—	—	91,610
Business acquisition	—	—	12,833	—	—	12,833
Contributions from minority interests	—	—	—	3,405	—	3,405
NCI portion of net income (loss)	15,443	10,296	109	—	—	25,848
NCI portion of OCI	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
Contributions from minority interests	—	—	—	3,104	11,500	14,604
NCI portion of net income (loss)	14,600	9,733	406	(659)	—	24,080
NCI portion of OCI	8,411	5,608	—	—	—	14,019
Disposal of partial interest in Chi-Wiikwedong LP	—	—	—	—	7,894	7,894
Dividends declared	(4,843)	(3,228)	(1,066)	—	—	(9,137)
As at December 31, 2014	75,920	78,097	10,812	5,850	19,394	190,073

(B) Summarized Information for Material Partly Owned Subsidiaries

As at	**Dec 31, 2014**				Dec 31, 2013		
Summarized Statements of Financial Position	**Bristol Water**	**Amherst**	**Saint-Philémon**	**Chi-Wiikwedong**	Bristol Water	Amherst	Saint-Philémon
Assets							
Current	**86,998**	**2,128**	**9,881**	**—**	78,252	2,305	4,789
Non-current	**1,168,892**	**66,309**	**70,245**	**—**	1,036,245	73,968	2,460
Liabilities							
Current	**(78,411)**	**(2,338)**	**(10,975)**	**—**	(77,319)	(2,294)	(1,135)
Non-current	**(782,110)**	**(41,700)**	**(54,428)**	**—**	(704,003)	(43,616)	—
Total Equity	**395,369**	**24,399**	**14,723**	**—**	333,175	30,363	6,114
Attributable to:							
Shareholders of Capstone	**241,352**	**13,587**	**8,873**	**(19,394)**	209,439	18,891	2,709
NCI	**154,017**	**10,812**	**5,850**	**19,394**	123,736	11,472	3,405
	395,369	**24,399**	**14,723**	**—**	333,175	30,363	6,114

For the year ended	Dec 31, 2014				Dec 31, 2013		
Summarized Statements of Income	**Bristol Water**	**Amherst**	**Saint-Philémon**	**Chi-Wiikwedong**	Bristol Water	Amherst	Saint-Philémon
Revenue	**238,270**	**8,249**	**—**	**—**	195,576	1,952	—
Net income	**48,665**	**829**	**(1,334)**	**—**	51,477	223	—
OCI	**29,661**	**—**	**—**	**—**	30,853	—	—
Total comprehensive income	**78,326**	**829**	**(1,334)**	**—**	82,330	223	—
Attributable to:							
Shareholders of Capstone	**39,974**	**423**	**(675)**	**—**	43,901	114	—
NCI	**38,352**	**406**	**(659)**	**—**	38,429	109	—
	78,326	**829**	**(1,334)**	**—**	82,330	223	—

Distributions of $8,071 (2013 - $6,303) from Bristol Water and $1,066 (2013 - $1,470) from Amherst were paid to non-controlling interests in 2014.

For the year ended	Dec 31, 2014				Dec 31, 2013		
Summarized Statements of Cash Flows	**Bristol Water**	**Amherst**	**Saint-Philémon**	**Chi-Wiikwedong**	Bristol Water	Amherst	Saint-Philémon
Operating	**100,478**	**3,545**	**(4,930)**	**—**	86,413	1,242	(60)
Investing	**(115,416)**	**—**	**(63,625)**	**—**	(134,126)	—	(96)
Financing	**26,882**	**(3,865)**	**64,002**	**—**	31,038	(3,407)	4,935
Foreign exchange	**268**	**—**	**—**	**—**	491	—	—
Net increase / (decrease) in cash and equivalents	**12,212**	**(320)**	**(4,553)**	**—**	(16,184)	(2,165)	4,779

NOTE 22. EARNINGS PER SHARE ("EPS")

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Net income	**33,547**	67,210
Non-controlling interest	**(24,080)**	(25,848)
Dividends declared on preferred shares	**(3,923)**	(3,923)
Net income available to common shareholders	**5,544**	37,439
Weighted average number of common shares (including Class B exchangeable units) outstanding	**96,534**	81,033
Basic EPS	**0.057**	0.462

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Basic net income	**5,544**	37,439
Effect of dilutive securities:		
2016 convertible debentures (1)	**—**	2,056
2017 convertible debentures (1), (2)	**—**	431
Diluted net income	**5,544**	39,926
Basic weighted-average number of shares outstanding	**96,534**	81,033
Effect of dilutive securities:		
2016 convertible debentures (1)	**—**	6,107
2017 convertible debentures (1), (2)	**—**	6,900
Diluted weighted average number of common shares (including Class B exchangeable units) outstanding	**96,534**	94,040
Diluted EPS	**0.057**	0.425

(1) 2016 and 2017 convertible debentures were anti-dilutive for the year ended December 31, 2014.
(2) 2017 convertible debentures were assumed on October 1, 2013, and the impact on net income (loss) is included since the acquisition date.

NOTE 23. 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, 2014**		Dec 31, 2013	
($000s, except unit amounts)	**Number of Units**	**Fair Value**	Number of Units	Fair Value
Outstanding at January 1	**50,667**	**180**	30,198	122
Fixed quarterly grants during the period	**43,894**	**175**	25,106	99
Redemptions in the period	**(9,077)**	**(37)**	(6,905)	(30)
Dividend equivalents	**5,426**	**22**	2,268	9
	90,910	**340**	50,667	200
Unrealized gain (loss) on revaluation	**—**	**(49)**	—	(20)
Outstanding at December 31	**90,910**	**291**	50,667	180

The average VWAP per DSU granted during 2014 was 4.01 dollars (2013 – 3.98 dollars). As at December 31, 2014, the carrying value of the DSUs, based on a market price of 3.20 dollars, was $291 and is included in accounts payable and other liabilities in the consolidated statement of financial position (December 31, 2013 – 3.56 dollars and $180). The DSU expense for 2014 was $139 and is recorded as compensation expense in the consolidated statement of income (2013 – $88).

(B) Long-term Incentive Plan

During 2014, Capstone granted to the senior management of the Corporation 355,001 Restricted Stock Units ("RSUs") and 171,240 Performance Share Units ("PSUs"). The five-day VWAP per RSU and PSU granted January 2, 2014 was 3.55 dollars and 4.07 dollars per RSU granted March 31, 2014 and all RSUs and PSUs granted vest on December 31, 2016. In 2013, 243,886 RSUs and 133,917 PSUs were granted and they vest on December 31, 2015.

Effective January 1, 2014, Capstone amended the employee incentive plans to allow senior management to voluntarily receive up to 100% of the awards under the short-term incentive plan ("STIP") or LTIP as DSUs, instead of cash or RSU / PSU grants, respectively.

Under the LTIP, DSUs vest on the same terms as the original RSU or PSU award, as applicable, but must be held, at a minimum, until the date employment ceases, following which each DSU will be redeemed for cash at the prevailing common share price.

For the year ended	**Dec 31, 2014**		Dec 31, 2013	
($000s, except unit amounts)	**Notional Number of Units**	**Fair Value** (2)	Notional Number of Units	Fair Value (2)
Outstanding at January 1	**1,032,354**	**3,373**	588,160	2,211
Grants during the period	**526,241**	**1,934**	377,803	1,537
Payouts	**(169,844)**	**(302)**	—	—
Forfeitures	**(88,238)**	**(353)**	—	—
Dividend equivalents (1)	**91,181**	**374**	66,391	268
	1,391,694	**5,026**	1,032,354	4,016
Unrealized loss on revaluation	**—**	**(1,157)**	—	(643)
Outstanding at December 31,	**1,391,694**	**3,869**	1,032,354	3,373

(1) 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.
(2) Fair value considers the amount of the PSUs is subject to Capstone's total return over the period relative to a peer group.

The average VWAP per RSU and PSU granted on during 2014 was 3.81 dollars (2013 – 4.12 dollars). As at December 31, 2014, the carrying value of the RSUs and PSUs, based on a market price of 3.20 dollars, was $2,355 and is included in accounts payable and other liabilities in the consolidated statement of financial position (December 31, 2013 – 3.56 dollars and $1,839). The RSU and PSU compensation expense of $818 is recorded as compensation expense in the consolidated statement of income for 2014 (2013 – $1,004).

Capstone also has an accrued liability of $360 for the LTIP and cash incentive payments for Capstone's power development projects. The LTIP will be awarded as future RSUs grants.

(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 a maximum of $3 per year. Shares acquired as a matching contribution (including any dividends on those shares) vest after one year of match.

NOTE 24. EXPENSES – ANALYSIS BY NATURE

For the year ended	Dec 31, 2014				Dec 31, 2013			
	Operating	**Admin.**	**Project Development Costs**	**Total**	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	**88,183**	**—**	**—**	**88,183**	70,457	—	—	70,457
Fuel	**60,232**	**—**	**—**	**60,232**	78,196	—	—	78,196
Wages and benefits	**29,865**	**7,528**	**1,169**	**38,562**	28,932	6,133	831	35,896
Professional fees for legal, audit, tax and other advisory	**5,579**	**3,234**	**949**	**9,762**	3,567	1,965	4,178	9,710
Maintenance	**6,848**	**—**	**—**	**6,848**	4,869	—	—	4,869
Bad debts	**6,629**	**—**	**—**	**6,629**	6,618	—	—	6,618
Insurance	**2,360**	**157**	**—**	**2,517**	2,058	168	—	2,226
Leases	**1,831**	**464**	**—**	**2,295**	1,565	382	—	1,947
Manager fees	**1,653**	**—**	**—**	**1,653**	1,600	—	—	1,600
Property taxes	**1,439**	**—**	**—**	**1,439**	1,323	—	—	1,323
Other	**5,901**	**1,883**	**546**	**8,330**	5,349	1,721	521	7,591
Total	**210,520**	**13,266**	**2,664**	**226,450**	**204,534**	**10,369**	**5,530**	**220,433**

NOTE 25. OTHER GAINS AND LOSSES

For the year ended	**Dec 31, 2014**	Dec 31, 2013
Unrealized gain (loss) on derivative financial instruments	**(717)**	11,538
Realized gain (loss) on derivative financial instruments	**—**	295
Adjustment for Cardinal gas payment	**(3,762)**	—
Other	**224**	(70)
Loss on disposal of capital assets	**(3,414)**	(1,974)
Other gains and (losses), net (1)	**(7,669)**	9,789

(1) Other gains and (losses); net, includes $3,762 for the Cardinal gas payments as required by IFRS.This adjustment reconciles the amount included in the statement of income to the $3,907 non-cash adjustment included in the statement of cash flow.

NOTE 26. 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 17 finance lease obligations, 18 long-term debt and 19 liability for asset retirement obligation as at December 31, 2014 were as follows:

(A) Derivative Contracts

The Corporation has various derivative contracts for foreign exchange, gas sale and purchases and interest, which have been further disclosed in notes 8 and 9.

(B) Leases

Minimum operating lease payments comprised:

	Within one year	**One year to five years**	**Beyond five years**	**Total**
Operating leases	$2,747	$11,608	$31,128	$45,483

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 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.
- Cardinal leases the site on which it is located from Ingredion Canada Incorporated ("Ingredion"); under the lease, Cardinal pays monthly rent. The lease extends through 2034 and expires concurrently with the energy savings agreement between Ingredion and Cardinal.

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.

(C) Capital Commitments

Capstone enters into capital commitments in the normal course of operations. The following is a list of Capstone's material purchase commitments:

Bristol Water capital expenditure program

Bristol Water had commitments for capital expenditures at December 31, 2014 of which $16,026 were contracted for but not accrued (December 31, 2013 – $26,172).

Cardinal turbine maintenance

Cardinal placed a purchase order for a $22,042 ($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, 2014, the potential penalty would be $10,775 ($9,288 USD) and increased to $11,972 ($10,320 USD) by January 2015. As at December 31, 2014 Cardinal has paid $9,362 to the vendor.

Development projects

As part of Capstone's power development operations, Capstone enters various construction and purchase agreements. As at December 31, 2014, Capstone had approximately $21,000 of construction and turbine supply agreements for the Saint-Philémon and Goulais 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 ("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.

(F) Management Services Agreements

Capstone has agreements with all of its partially owned wind facilities and development projects, 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 an agreement with Millar Western to ensure an adequate supply of wood waste. The agreement expires in June 2016. Effective March 2, 2015, Millar Western and Whitecourt completed a new fuel supply agreement, which replaces the existing agreement and has a term of 15 years, extendable to 20 years. The new agreement also includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

(H) Energy Savings Agreement ("ESA")

In December 2014, Cardinal entered into a new ESA with Ingredion, which matures on December 31, 2034, reflecting the binding term sheet signed on March 26, 2014. Under the terms of the new ESA, Cardinal is required to provide O&M services, and supply steam and compressed air to Ingredion for its plant operations.

(I) Guarantees

Capstone has provided limited recourse guarantees on the project debt of the various wind projects totalling $11,500 as at December 31, 2014.

(J) Power Purchase Agreements ("PPA")

A significant portion of the Corporation's electricity revenue is earned through long-term PPA's. The majority of these contracts include terms and conditions customary to the industry. For Cardinal's new contract, the nature of the material commitments includes: electricity capacity; availability; and production targets. For the remaining facilities in the power segment, Capstone is not obligated to deliver electricity; however, in certain circumstances if a facility or development project fails to meet the performance requirements under its respective PPA, liquidated damages may apply or the PPA may be terminated after a specified period of time.

NOTE 27. 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 2014, Capstone earned management fees of $420 (2013 - $115).

As at December 31, 2014, included in accounts receivable was $16 (2013 - $7), due from Fitzpatrick and included in accounts payable and other liabilities was $984, due to Glen Dhu (2013 - $980). 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 23.

The following table summarizes key management compensation:

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Salaries, directors' fees and short-term employee benefits [(1)]	**1,456**	1,494
Share based compensation	**478**	815
	1,934	2,309

(1) The short-term incentive plan component of this balance is based on amounts paid during the period.

NOTE 28. 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 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.	
Utilities – district heating ("DH")	Sweden
The district heating business (Värmevärden), in which the Corporation holds a 33.3% indirect interest.	

	Year ended Dec 31, 2014					Year ended Dec 31, 2013				
		Utilities					Utilities			
	Power	**Water**	**DH**	**Corporate**	**Total**	Power	Water	DH	Corporate	Total
Revenue	**203,308**	**238,270**	**—**	**—**	**441,578**	193,928	195,575	—	—	389,503
Depreciation of capital assets	**(37,613)**	**(30,166)**	**—**	**(133)**	**(67,912)**	(27,662)	(23,399)	—	(122)	(51,183)
Amortization of intangible assets	**(8,105)**	**(3,696)**	**—**	**(53)**	**(11,854)**	(8,158)	(2,784)	—	(42)	(10,984)
Interest income	**1,019**	**145**	**2,898**	**172**	**4,234**	781	275	2,861	179	4,096
Interest expense	**(22,572)**	**(24,870)**	**—**	**(6,703)**	**(54,145)**	(21,384)	(21,644)	—	(4,443)	(47,471)
Income tax recovery (expense)	**(783)**	**(13,074)**	**(11)**	**3,893**	**(9,975)**	(12,992)	2,133	16	2,633	(8,210)
Net income (loss)	**3,280**	**48,665**	**(3,278)**	**(15,120)**	**33,547**	29,912	51,477	2,850	(17,029)	67,210
Cash flow from operations	**75,636**	**100,478**	**2,898**	**(23,294)**	**155,718**	70,698	86,411	2,818	(24,251)	135,676
Additions to capital assets	**18,250**	**110,590**	**—**	**—**	**128,840**	5,722	129,925	—	49	135,696
Additions to PUD	**148,495**	**—**	**—**	**—**	**148,495**	8,991	—	—	—	8,991

(1) For the year ended December 31, 2014, Capstone incurred an asset impairment charge in the power segment. Refer to note 11 (f) for detail.

	As at Dec 31, 2014					As at Dec 31, 2013				
		Utilities					Utilities			
	Power	**Water**	**DH**	**Corporate**	**Total**	Power	Water	DH	Corporate	Total
Total assets	**998,130**	**1,255,890**	**40,610**	**5,350**	**2,299,980**	855,045	1,114,532	51,357	5,390	2,026,324
Total liabilities	**636,034**	**860,521**	**—**	**96,646**	**1,593,201**	489,345	781,357	—	87,459	1,358,161

Certain comparative figures for the year ended December 31, 2013 have been adjusted to conform with the presentation in the current year.

NOTE 29. NON-CASH WORKING CAPITAL

The change in non-cash working capital comprised:

	For the year ended	
	Dec 31, 2014	Dec 31, 2013
Accounts receivable	**(1,981)**	(5,968)
Other assets	**(7,737)**	(4,654)
Accounts payable and other liabilities	**(98)**	11,736
	(9,816)	1,114

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 (1)	ON	1994	100%	156	IESO	2034	Husky	2015	18
Wind									
Operating	ON	2002 - 2014	100%	131	IESO	2026 - 2034	n/a	n/a	11
	NS	2006 - 2012	49% - 100%	74	NSPI	2020 - 2037	n/a	n/a	2
	PQ	2015 (2)	51%	12	Hydro-Québec	2035	n/a	n/a	n/a
Development	ON	2016E	50% - 100%	55	IESO	2036E	n/a	n/a	n/a
	SK	2017E	100%	10	SaskPower	2037E	n/a	n/a	n/a
Biomass									
Whitecourt (3)	AB	1994	100%	32.8	(4)	(4)	Millar Western	(4)	33
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 (5)	ON	1992 and 1986	100%	17	OEFC	2042 and 2020	n/a	n/a	n/a
Solar									
Amherstburg	ON	2011	100%	20	IESO	2031	n/a	n/a	n/a

(1) On March 26, 2014, Capstone announced the signing of a new 20-year non-utility generator contract with the OPA, now IESO, effective January 1, 2015 with an expiry of December 31, 2034.
(2) On January 16, 2015, Saint-Philémon commenced commercial operations.
(3) Whitecourt total net capacity includes Capstone's 31.3% equity accounted interest in Chapais.
(4) Whitecourt's PPA with TransAlta expired on December 31, 2014. Effective March 2, 2015, Millar Western and Whitecourt completed a new fuel supply agreement, which replaces the existing agreement and has a term of 15 years, extendable to 20 years. The new agreement also includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.
(5) Year built for Wawatay and Dryden represent the date of significant refurbishments.

Utilities

Business	Ownership Interest	Capacity	Counterparties	Length of Network	Approximate Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 639 MWth	Mix of industrial and retail customers.	300 kilometres	163,000	No	92
Bristol Water	50%	Average daily supply of 266 million litres	Mix of commercial and residential customers.	6,716 kilometres	1.2 million	Ofwat	514

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 2014.

Earnings Measures ($000s)	**2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenue	**441,578**	389,503	357,610	215,967	158,512	148,384	153,186	122,811	89,940	90,235
EBITDA (1)	**177,433**	185,058	163,471	32,557	37,953	52,691	15,394	54,616	21,279	20,980
Net income (loss)	**33,547**	67,210	45,971	(2,837)	15,901	11,259	(26,534)	5,426	8,411	8,372
Basic earnings per share	**0.057**	0.462	0.315	(0.103)	0.339	0.226	(0.531)	0.135	0.280	0.364

(1) EBITDA includes asset impairment charges of $30,592 in 2014 and $43,279 in 2008.

Cash Flow Measures ($000s)	**2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005
Cash flows from operating activities	**155,718**	135,676	114,678	50,881	29,011	38,040	50,516	29,663	21,044	20,230
Adjusted EBITDA (1)	**160,359**	128,421	120,343	55,673	55,818	61,244	67,324	61,250	34,104	27,912
Adjusted funds from operations ("AFFO") (1)	**56,412**	39,934	35,563	34,884	34,774	42,989	50,626	72,835	33,267	27,708
AFFO per share (1)	**0.584**	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 25 for a definition of each measure.

Capital Structure – At Fair Value ($000s)	**2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005
Long-term debt										
Power (1)	**435,808**	346,244	305,497	314,196	245,911	214,107	246,960	219,162	35,000	35,000
Utilities – water (1)	**368,223**	313,816	259,830	353,135	—	—	—	—	—	—
Corporate	**91,077**	81,694	44,416	155,124	61,311	89,437	35,026	38,918	—	—
Common shares	**299,432**	330,560	291,955	270,348	463,217	273,161	310,066	376,275	214,231	235,382
Class B exchangeable units	**10,398**	11,568	13,093	12,380	26,710	19,854	15,565	30,642	32,656	33,501
Preferred shares	**51,750**	45,930	58,200	52,500	—	—	—	—	—	—
Debt to capitalization	**71.2%**	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, 51% for Saint-Philémon, 51% for Chi-Wiikwedong, 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	93,572,576
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

	2014				2013			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shares								
High price	**4.27**	**4.54**	**4.54**	**4.22**	3.93	4.11	4.25	4.48
Low price	**2.88**	**4.00**	**3.97**	**3.55**	3.51	3.76	3.76	4.10
Closing price	**3.20**	**4.15**	**4.25**	**4.02**	3.56	3.85	3.79	4.25
Average daily volume	**845,000**	**405,000**	**337,000**	**516,000**	366,000	219,000	564,000	286,000
Dividend declared	**0.075**	**0.075**	**0.075**	**0.075**	0.075	0.075	0.075	0.075
Preferred shares								
High price	**20.20**	**19.90**	**19.35**	**17.49**	17.97	19.10	19.15	19.50
Low price	**15.26**	**18.50**	**17.10**	**14.90**	15.00	16.64	16.25	18.53
Closing price	**17.25**	**19.83**	**19.06**	**17.48**	15.31	18.30	17.08	19.00
Average daily volume	**4,735**	**2,094**	**3,294**	**4,016**	10,765	2,838	4,416	2,746
Dividend declared	**0.3125**	**0.3125**	**0.3125**	**0.3125**	0.3125	0.3125	0.3125	0.3125
2016 - Convertible debentures								
High price	**103.32**	**104.00**	**104.51**	**102.99**	101.50	102.89	104.49	105.00
Low price	**100.25**	**101.40**	**101.01**	**100.00**	97.51	100.10	100.02	99.01
Closing price	**100.50**	**102.92**	**103.00**	**102.99**	100.50	100.31	101.52	100.50
Average daily volume	**3,315**	**272**	**179**	**799**	457	279	544	374
2017 - Convertible debentures								
High price	**103.32**	**105.90**	**105.00**	**101.25**	103.49	n/a	n/a	n/a
Low price	**100.25**	**103.51**	**101.10**	**100.00**	100.01	n/a	n/a	n/a
Closing price	**102.50**	**104.19**	**104.00**	**101.25**	100.01	n/a	n/a	n/a
Average daily volume	**3,494**	**197**	**435**	**122**	378	n/a	n/a	n/a

Note: All high and low security price information is intraday.

Glossary

AMP
Asset management plan, which is developed by water utilities in the United Kingdom every five years and approved by Ofwat.

Annual long-term average production
An average production figure based on the actual electricity production of a facility since the start of full operations.

Availability
Availability is the number of hours that a generating unit is able to provide service at full output, whether or not it is actually in service, as a percentage of total hours in the period.

Capacity
Capacity is the net amount of electricity generated by a generating unit as a percentage of the total possible generation over the period.

Cogeneration
Cogeneration refers to the simultaneous production of electricity and thermal energy in the form of heat or steam from a single fuel source, a process that results in high efficiency and an effective use of energy.

Consumer Price Index (CPI)
The CPI is an indicator of inflation that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food and transportation.

Direct Customer Rate (DCR)
The Direct Customer Rate, which is set by the Ontario Electricity Financial Corporation, is calculated based on a three-year average of the total market cost of electricity to industrial customers.

Gigajoule (GJ)
One GJ is equivalent to the amount of energy available from 26.1 m3 of natural gas.

Gigawatt hour (GWh)
A unit of electrical energy equal to 1,000 megawatt hours.

Green metric tonne (GMT)
A unit of weight equal to 1,000 kilograms.

Hydrology
The effect of precipitation and evaporation upon the occurrence and distribution of water in streams, lakes and on or below the land surface.

Megawatt (MW)
A megawatt is 1,000 kilowatts.

Megawatt hour (MWh)
This is a measure of energy production or consumption equal to one million watts produced or consumed in one hour (total amount of power required to light 10,000 100-watt light bulbs).

ML/d
Millions of litres of water per day.

MMBtu
A unit of heat equal to one million British thermal units. A British thermal unit is the quantity of energy necessary to raise the temperature of one pound of water by one degree Fahrenheit.

Ofwat
The UK Water Services Regulation Authority.

Outage
A period of time when a power generation facility does not produce any electricity.

P3
A partnership between the public and private sectors to deliver infrastructure projects.

Power Purchase Agreement (PPA)
A PPA is an agreement to purchase electricity at a specified rate for a defined period of time.

PR 14
Price Review 14, the regulatory review process of water companies' business plans for the next asset management plan period from 2015 to 2020.

RCV
The regulated capital value, or capital base, that is used by Ofwat as one component to set the prices a water utility may charge its customers in each asset management plan period.

REC
A renewable energy credit is a certificate issued by a government agency to a power company that uses environmentally friendly methods to generate electricity. The RECs can in turn be sold and traded to third parties or on the open market.

RPI
The Retail Price Index is a measure of inflation in the United Kingdom. The rates Bristol Water may charge its customers increase by RPI each year.

SIM
Service Incentive Mechanism, a new incentive mechanism introduced by Ofwat to reward or penalize water companies' service performance.

Total return
The total return on an investment includes income from dividends, as well as share price appreciation or depreciation, over a given time period.

Watt
A watt is the scientific unit of electric power.

Yield
Yield refers to the amount of dividends paid per share over the course of a year divided by the trading price of the common shares.

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

Aaron Boles
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]

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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
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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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ANNUAL GENERAL MEETING OF SHAREHOLDERS

Wednesday, June 17, 2015
10 a.m. EDT

Ivey Tangerine Leadership Centre
The Exchange Tower
130 King Street West, Ground Floor
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.

Connect with Capstone on LinkedIn:
Capstone Infrastructure Corporation

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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.

This annual report is not an offer or invitation for subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of the investor. Before making an investment in Capstone, the investor or prospective investor should consider whether such investment is appropriate to their particular needs, objectives and financial circumstances and consult an investment advisor if necessary.

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 Business Conduct and Ethics. We are accountable for our decisions and seek to communicate with transparency.

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.

STRIVE FOR PROFITABILITY

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

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 businesses and seek to effectively manage and mitigate risk.

FULFILMENT 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.