CAPSTONE INFRASTRUCTURE

2015 ANNUAL REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

($000s, except for per share amounts)	As at and for the year ended December 31 2015	2014	2013
Revenue	**344,983**	441,578	389,503
Net income (loss)	**26,192**	33,547	67,210
Earnings (loss) per share [(1)]			
Basic	**(0.038)**	0.057	0.462
Diluted	**(0.038)**	0.057	0.425
Adjusted EBITDA [(2)]	**115,301**	160,359	128,421
AFFO [(2)]	**11,233**	56,412	39,934
AFFO per share	**0.116**	0.584	0.493
Cash dividends per share			
Common	**0.300**	0.300	0.300
Preferred	**1.250**	1.250	1.250
Total assets	**2,522,089**	2,299,980	2,026,324
Total long-term liabilities	**1,493,836**	1,428,293	1,220,107

(1) Earnings per share uses the net income available to common shareholders. Refer to note 21 in the accompanying consolidated financial statements.
(2) Non-GAAP performance measures are defined on page 6.

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 are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "intend", "estimate", "plan", "believe" or other similar words, and include, among other things, statements found in "Message to Shareholders", "Strategic Overview", and "Results of Operations". These statements are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation ("MD&A") for the year ended December 31, 2015 under the 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 contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that the preferred shares will remain outstanding and that dividends will continue to be paid on the preferred shares after completion of the plan of arrangement (the "Arrangement") and that the listing of the preferred shares will not be affected by the Arrangement; that the meeting of securityholders will occur on March 10, 2016; that the Arrangement will be completed in the second quarter of 2016; 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 for the Corporation's power infrastructure facilities, or Värmevärden; that there will be no material changes in rate orders or rate structures for Bristol Water ; that there will be no material changes in environmental regulations for the power infrastructure facilities, Värmevärden or Bristol Water; that there will be no significant event occurring outside the ordinary course of the Corporation's businesses; the refinancing on similar terms of the Corporation's and its subsidiaries' various outstanding credit facilities and debt instruments which mature during the period in which the forward-looking statements relate; market prices for electricity in Ontario and the amount of hours Cardinal is dispatched; the price Whitecourt will receive for its electricity production considering the market price for electricity in Alberta, the impact of renewable energy credits, and Whitecourt's agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by the facility; the re-contracting of the Power Purchase Agreement ("PPA") for Sechelt; that there will be no material change from the expected amount and timing of capital expenditures by Bristol Water; that there will be no material changes to the Swedish krona to Canadian dollar and UK pound sterling to Canadian dollar exchange rates; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying the Competition and Market Authority's ("CMA") final determination, including, among others: real and inflationary changes in Bristol Water's revenue, Bristol Water's expenses changing in line with inflation and efficiency measures, and capital investment, leakage, customer service standards and asset serviceability targets being achieved.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation's securities (dividends on 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); risks related to Bristol Water (Ofwat price determinations; failure to deliver capital investment programs; economic conditions; operational performance; failure to deliver water leakage target; SIM and the serviceability assessment; pension plan obligations; regulatory environment; competition; seasonality and climate change; and labour relations); and risks related to completion of the Arrangement. For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 24, 2015, as supplemented by disclosure of risk factors contained in any subsequent annual information form, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim management's discussion and analysis and information circulars filed by the Corporation with the securities commissions or similar authorities in Canada (which are available under the Corporation's SEDAR profile at www.sedar.com). There can be no assurance that the Arrangement will occur. The proposed Arrangement is subject to various regulatory approvals, including approvals under the *Competition Act (Canada)* and *Investment Canada Act*, and the fulfillment of certain conditions, and there can be no assurance that any such approvals will be obtained and/or any such conditions will be met. The proposed Arrangement could be modified, restructured or terminated.

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

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, 2015 and 2014.

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, 2015 and 2014. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2014, 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 3, 2016, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

Amounts included in the 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, 2014	0.1605	0.1483	1.8192	1.8071
Dec 31, 2015	**0.1516**	**0.1638**	**1.9540**	**2.0407**

CHANGES IN THE BUSINESS

In 2015, Capstone entered commercial operations for two wind development projects, signed Whitecourt's fuel supply and price support agreement with Millar Western, completed several financing changes within the power segment and added financial flexibility by increasing the corporate credit facility, as well as completing an arrangement with a subsidiary of One West Holdings Ltd. ("Concord"). In addition, Capstone responded to the Ontario Electricity Financial Corporation's ("OEFC") appeal of a favourable Ontario Superior Court ruling and finalized Bristol Water's regulatory determination and review.

Saint-Philémon and Goulais Achieved Commercial Operations

The Saint-Philémon and Goulais wind development projects achieved commercial operations on budget in January and May of 2015, respectively. Approvals have been secured for five more projects, three of which began construction in 2015 and are expected to be commissioned in 2016. The remaining two Ontario projects are expected to start construction in 2016.

Whitecourt's New Fuel Supply Agreement

On March 2, 2015, Millar Western and Whitecourt completed an agreement that secures a long-term fuel supply for the facility for an initial term of 15 years, which is extendable to 20 years. The new agreement, which has a commencement date of January 1, 2015, also includes price support and revenue sharing mechanisms that reduce the merchant risk of operating in Alberta's power market.

Financing Changes - Term Conversions, Amherstburg Refinancing and Corporate Facility Expansion

Term conversions at Skyway 8, Saint-Philémon and Goulais

On February 17, 2015, the Skyway 8 construction facility converted to a three-year term facility, which has regular principal and interest payments fully amortizing over 20 years and bears interest at a fixed, annual rate of 4.80%.

On August 4, 2015, the Saint-Philémon construction facility converted to a term facility maturing on May 31, 2034, which has regular principal and interest payments fully amortizing over the remaining term and bears interest at a fixed, annual rate of 5.49%.

On October 9, 2015, the Goulais construction facility converted to a term facility maturing on September 30, 2034, which has regular principal and interest payments fully amortizing over the remaining term and bears interest at a fixed, annual rate of 5.16%.

Amherstburg Solar Park

On July 9, 2015, Capstone reached financial close on an approximately $95,000 refinancing of Amherstburg Solar Park's ("Amherstburg") project debt, which is non-recourse to Capstone. The proceeds were used to repay Amherstburg's outstanding principal, swap break fees and closing costs. The new project debt fully amortizes over the remainder of the facility's power purchase agreement, which expires in 2031, and bears interest at a fixed, annual rate of 3.49%.

Corporate Facility Expansion

On October 6, 2015, Capstone and its existing lenders increased the capacity of its corporate credit facility by $35,000 to increase the total facility to $125,000. The expanded portion of the corporate credit facility matured in January 2016 and the remaining $90,000 was extended by one year, to mature November 2018.

Wind Works

Arrangement with Concord

On November 16, 2015, a subsidiary of Capstone, issued an unsecured convertible debenture to a subsidiary of Concord. The debenture allows Concord to eventually acquire a 50% interest in the Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing wind development projects ("Wind Works"). As at December 31, 2015, Capstone and Concord have collectively contributed $47,375 in equity, which in combination with debt proceeds, will be used to construct the Wind Works projects.

Capstone continues to consolidate its investment in the Wind Works projects based on retaining control until the debenture is converted. As at December 31, 2015, Capstone holds a 75% ownership interest and the original developer holds the remaining 25%, until the projects' respective commercial operations dates ("COD"). At COD, Capstone will acquire the remaining 25%, totalling to a 100% ownership interest. Capstone expects to retain control, based on ownership interest up until the automatic conversion of Concord's convertible debenture, at which point Capstone expects to share control with Concord.

Grey Highlands ZEP and Ganaraska Financing

On December 11, 2015, Capstone, through its subsidiary that controls the Grey Highlands ZEP and Ganaraska wind projects ("GHG"), entered into a credit agreement that provides up to $82,000 for the construction of the projects. The construction term of the facility matures no later than June 30, 2016 with a variable interest rate based on the Canadian Dollar Offered Rate ("CDOR") plus 1.625%. Upon maturity, the facility will convert to a term loan, which matures no later than June 30, 2021 with a 5 year variable, annual interest rate of CDOR plus 1.625% (which increases to CDOR plus 1.875% commencing on the day following the third anniversary of the term conversion date). GHG has entered into swap contracts to convert its floating interest rate obligations under the credit agreement to a fixed rate. The effective fixed interest rate on the loan is 2.59% from inception to June 30, 2016, stepping up to 3.08% to June 30, 2021. Interest during construction is capitalized to projects under development. As at December 31, 2015, GHG had made $30,234 in draws under the credit agreement. The loan is non-recourse to Capstone.

Claim Against OEFC

On March 12, 2015, the Ontario Superior Court of Justice determined that the OEFC did not properly calculate the price paid and payable for electricity produced under its Power Purchase Agreements ("PPA") with Capstone and other power producers in Ontario. On April 10, 2015, the OEFC served a Notice of Appeal in respect of the March 12, 2015 decision. The appeal was heard on December 14 and 15, 2015.

Capstone estimates that the Court's decision, if upheld, would result in a net receipt of approximately $25,000 representing retroactive adjustments for revenue claimed from the OEFC and interest. Further, since February 2015, the future price paid for electricity at Capstone's Wawatay and Dryden hydro facilities is calculated in accordance with the March 12, 2015 judgment, resulting in higher power rates.

Capstone does not recognize contingent assets such as this claim until it is virtually certain the asset is recoverable.

Bristol Water's Regulatory Determination and Review

Capstone owns 50% of Bristol Water, a regulated water utility in the UK. In December 2014, Ofwat, the economic regulator for the UK water sector, issued a disappointing final determination for the forthcoming five-year regulatory period, known as AMP6. In March 2015, Ofwat referred an appeal from Bristol Water to the Competition and Markets Authority ("CMA"), the body responsible for arbitrating regulatory references and appeals, for a water price determination. On October 6, 2015, the CMA published its final determination for Bristol Water's AMP6 business plan, which runs until March 31, 2020. Overall, the CMA's price determination enables Bristol Water to deliver an acceptable level of service to its customers and protect the integrity of the water system.

As a result of receiving the CMA's final determination, management determined that an impairment assessment trigger for goodwill associated with the Utilities - Water segment resulted, and therefore, performed an impairment test. Management calculated the recoverable amount based on fair value less cost of disposal method and concluded that no impairment charge was required. This method was based on a discounted cash flow model and incorporated assumptions that market participants would use in estimating fair value. The discounted cash flow model incorporates management's best estimates of future cash flows, a post-tax discount rate and terminal value. Management cautions that a change in key assumptions on which the recoverable amount is based may cause the carrying amount of the Utilities - Water segment to exceed its recoverable amount, resulting in an impairment to goodwill.

SUBSEQUENT EVENTS

Arrangement Agreement for the Acquisition of Capstone by iCON Infrastructure

On January 20, 2016, Capstone announced a definitive agreement (the "Arrangement Agreement") with Irving Infrastructure Corp., a subsidiary of iCON Infrastructure Partners III, L.P., a fund advised by London, UK-based iCON Infrastructure LLP, that provides for the acquisition of all issued and outstanding common shares of Capstone and Class B exchangeable units of Capstone's subsidiary MPT LTC Holding LP for $4.90 cash per share or unit, as applicable. The acquisition will be completed by way of a plan of arrangement under the British Columbia Business Corporations Act. The total equity value of the transaction is approximately $480 million.

As previously announced by Capstone on November 23, 2015, the Corporation had retained RBC Capital Markets and TD Securities Inc. to assist management and the Board of Directors in reviewing and considering various alternatives involving the Corporation. Following this comprehensive review, Capstone entered into the Arrangement Agreement, which was unanimously approved by the Board of Directors of Capstone.

Both financial advisors to Capstone have provided fairness opinions that, as at January 20, 2016, subject to certain assumptions, qualifications and limitations, the consideration to be received by the common shareholders and convertible debenture holders of Capstone pursuant to the Arrangement Agreement is fair, from a financial point of view, to Capstone's common shareholders and convertible debenture holders, respectively. The Board of Directors and executive officers of Capstone have entered into customary voting support agreements in favour of the transaction.

The Board of Directors of Capstone unanimously recommends that common shareholders, holders of Class B exchangeable units, and holders of convertible debentures vote in favour of the resolution approving the Arrangement at the special meeting of shareholders, Class B exchangeable unit holders and debenture holders to be called to approve the transaction.

Transaction Details

The completion of the transaction is subject to court approval and the approval of Capstone's securityholders. The transaction is also subject to customary closing conditions, including receipt of all regulatory approvals, including under the Competition Act (Canada) and the Investment Canada Act. The transaction is not subject to any financing condition. The Arrangement Agreement also provides for customary Board of Directors support and non-solicitation covenants. Under the Arrangement, it is proposed that Capstone's 6.50% convertible debentures due December 31, 2016 and Capstone Power Corp.'s 6.75% convertible debentures due December 31, 2017 will be settled in accordance with the agreements, subject to individual securityholder votes.

Capstone's previously announced fourth quarter 2015 dividend was paid to common and preferred shareholders on January 29, 2016, but no further dividends will be declared to common shareholders in anticipation of the consummation of the transaction. Quarterly dividends are expected to be declared to preferred shareholders on a continuing basis and those shares will continue to be listed and trade on the Toronto Stock Exchange following closing of the Arrangement.

Capstone will hold a meeting of securityholders to consider the resolution approving the Arrangement on March 10, 2016, and if approved, is expected to complete the transaction in the second quarter of 2016 following receipt of regulatory approvals.

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, contractual settlements included in other gain and (losses) and dividends or distributions received from equity accounted investments. Adjusted EBITDA for investments in subsidiaries with non-controlling interests is included at Capstone's proportionate ownership interest by deducting amounts attributed to any non-controlling interest. The reconciliation of Adjusted EBITDA to EBITDA is provided on page 7.

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, 2015	Dec 31, 2014
EBITDA	**162,227**	177,433
Asset impairment charges	**—**	30,592
Foreign exchange (gain) loss	**(3,720)**	4,673
Other (gains) and losses, net	**10,385**	7,669
Contractual settlements in other gains and (losses)	**3,774**	(3,762)
Equity accounted (income) loss	**816**	1,127
Distributions from equity accounted investments	**5,853**	7,354
Net pension interest income	**(3,062)**	(2,132)
NCI portion of Adjusted EBITDA	**(60,972)**	(62,595)
Adjusted EBITDA (1)	**115,301**	160,359
Cash flow from operating activities (2)	**116,900**	155,718
Cash flow from operating activities of businesses with NCI	**(103,934)**	(99,093)
Distributions paid to Capstone from businesses with NCI	**7,249**	9,572
Distributions from equity accounted investments	**5,853**	7,354
Foreign exchange (gains) losses on loans receivable from Värmevärden	**(193)**	759
Power and corporate working capital changes	**10,231**	5,185
Loans receivable principal repayments	**1,442**	1,220
Power maintenance capital expenditures	**(3,518)**	(3,868)
Power and corporate scheduled principal repayments	**(19,047)**	(16,685)
Dividends on redeemable preferred shares	**(3,750)**	(3,750)
AFFO	**11,233**	56,412

(1) See page 11 for a reconciliation of Adjusted EBITDA to net income.
(2) Cash flow from operating activities for the period ended December 31, 2015 include $13,046 of one-time costs to terminate the Amherstburg interest rate swap.

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both lower than in 2014.

Adjusted EBITDA performance primarily reflected:

- Lower results from the power segment primarily attributable to the economics of Cardinal's new contract, which became effective on January 1, 2015. In addition, Capstone's operating wind facilities generally experienced poor wind conditions resulting in lower revenue. These declines were partially offset by contributions from Skyway 8, Saint-Philémon and Goulais, which commenced operations in August 2014, January 2015, and May 2015 respectively;
- Lower results from Bristol Water, reflecting Ofwat's AMP6 regulatory determination, which decreased annual regulated water tariffs as of April 1, 2015. This was partially offset by positive foreign currency translation; and
- Lower corporate expenses, primarily due to lower integration-related administrative expenses in 2015. This was partially offset by non-recurring project development costs to pursue business development opportunities and perform the strategic review.

In addition to the factors affecting Adjusted EBITDA, Capstone's AFFO was affected by:

- Lower dividends from Bristol Water and Värmevärden; and
- Partially offset by the initial distributions received from Saint-Philémon and Goulais in 2015.

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Revenue	**344,983**	441,578
Expenses	**(183,074)**	(226,450)
Interest income	**4,737**	4,234
Contractual settlements in other gains and (losses)	**3,774**	(3,762)
Distributions from equity accounted investments	**5,853**	7,354
Less: NCI	**(60,972)**	(62,595)
Adjusted EBITDA	**115,301**	160,359
Adjusted EBITDA of consolidated businesses with NCI	**(61,298)**	(62,667)
Distributions from businesses with NCI	**7,249**	9,572
Principal from loans receivable	**1,442**	1,220
Interest paid	**(24,120)**	(25,071)
Dividends paid on Capstone's preferred shares	**(3,750)**	(3,750)
Income taxes (paid) recovery	**(1,026)**	(2,698)
Maintenance capital expenditures	**(3,518)**	(3,868)
Scheduled repayment of debt principal	**(19,047)**	(16,685)
AFFO	**11,233**	56,412
AFFO per share	**0.116**	0.584
Payout ratio	**259.9%**	51.4%
Dividends declared per share	**0.300**	0.300

Revenue decreased by $96,595, or 22%, mainly due to $85,352 less power segment revenue, primarily because of $89,321 due to the economics of Cardinal's new contract, partially offset by contributions from wind, largely reflecting the new development projects reaching commercial operations. The power segment revenue decrease also reflected $12,971 less revenue at Whitecourt due to lower power rates and less production from wind (excluding the new facilities). At Bristol Water, revenue decreased by $11,243, primarily due to lower regulated water tariffs, partially offset by favourable foreign currency translation.

Expenses decreased by $43,376, or 19%, because:

- **Operating expenses** decreased by $46,481, or 22%, primarily due to lower power segment expenses of $50,474, reflecting substantially lower Cardinal production costs. This decrease was partially offset by $3,994 of higher expenses at Bristol Water, primarily due to $8,857 of higher currency translation and $4,885 of one-time costs, which include costs of restructuring and for the CMA process. These increases were partially offset by savings of $9,748 reflecting cost containment efforts and lower maintenance and bad debt expenses.
- **Administrative expenses** decreased by $1,484, or 11%, primarily reflecting an $846 HST recovery and a decrease in professional fees attributable to the integration of ReD in 2014. These decreases were partially offset by higher staff costs mainly due to increases in the long-term incentive compensation in response to a higher share price at the end of 2015.
- **Project development costs** increased by $4,589, or 172%, of which $3,252 related to corporate and $1,337 related to the power segment. The increase primarily reflects higher professional fees at corporate due to acquisition analysis, due diligence, as well as the review of alternatives, which culminated in the January 20, 2016 announcement with iCON.

Interest income increased by $503, or 12%, primarily due to higher interest from the power segment, from higher interest of $726 from the loan receivable related to the Goulais wind facility. This is partially offset by lower cash balances at the other power facilities producing lower interest income.

Contractual settlements in other gains and (losses) relate to cash settlements included in other gains and losses under IFRS in the consolidated statement of income. The current amount is comprised of a $4,035 receipt relating to the new Whitecourt fuel supply agreement, partially offset by a $261 payment under Cardinal's gas purchase agreement.

Distributions from equity accounted investments were $1,501, or 20%, lower in 2015 due to lower distributions of $1,110 from Värmevärden and $391 from the Glen Dhu wind facility ("Glen Dhu").

Distributions from businesses with NCI were $2,323, or 24%, lower in 2015 mainly due to a $6,079 decrease in dividends from Bristol Water, partially offset by initial distributions of $2,393 from Saint-Philémon and $1,489 from Goulais.

Interest paid decreased by $951, or 4%, primarily attributable to $1,584 at Amherstburg as a result of the refinancing in 2015 and $1,098 of lower interest on amortizing debt balances at Erie Shores, the hydro facilities, SkyGen and Glace Bay. These decreases were partially offset by a $977 increase at the Skyway 8 facility, since drawing on the debt in May 2014 and a $755 increase on the corporate credit facility due to a higher balance.

Interest paid by Bristol Water, Amherst, Saint-Philémon and Goulais 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, 2015.

Income taxes paid were $1,672, or 62%, lower in 2015 , primarily due to refunds of prior year taxes paid of $668 and lower corporate minimum taxes of $567. In addition, taxes paid were lower due to $342 of non-recurring CRCE penalties paid in 2014.

Maintenance capital expenditures decreased by $350, or 9%, primarily due to $1,396 of higher 2014 expenditures at the hydro facilities and at Erie Shores, partially offset by $1,046 of higher capital improvements in 2015 at Cardinal, SkyGen and Whitecourt.

Scheduled debt principal repayments increased by $2,362, or 14%, primarily due to a $1,750 increase on the amortizing debt of Amherstburg, the hydro facilities and Erie Shores, as well as $517 from Skyway 8, since drawing on the debt in May 2014.

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, Amherst, Saint-Philémon and Goulais, 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:

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, Saint-Philémon and Goulais (wind facility)	Glen Dhu and Fitzpatrick (wind facilities)
Utilities - water		Bristol Water	
Utilities - district heating			Värmevärden

(1) The power segment includes investments in several wind development projects in addition to the operating businesses disclosed above.
(2) The Confederation Power wind facilities were sold on May 19, 2015; accordingly, the results of operations are only reflected up to that date.

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, 2015	Dec 31, 2014	$	%	**Dec 31, 2015**	Dec 31, 2014	$	%
Power	**72,130**	106,674	(34,544)	(32)%	**29,195**	66,234	(37,039)	(56)%
Utilities – water	**51,961**	59,414	(7,453)	(13)%	**1,992**	8,071	(6,079)	(75)%
Utilities – district heating	**6,166**	7,435	(1,269)	(17)%	**6,166**	7,435	(1,269)	(17)%
Corporate	**(14,956)**	(13,164)	(1,792)	14%	**(26,120)**	(25,328)	(792)	3%
Total	**115,301**	160,359	(45,058)	(28)%	**11,233**	56,412	(45,179)	(80)%

Power
The following table shows the significant changes in Adjusted EBITDA and AFFO from 2014:

Change	Explanations
(32,672)	Lower Adjusted EBITDA at Cardinal under the new non-utility generator ("NUG") contract.
8,753	Adjusted EBITDA contribution from new wind facilities, Skyway 8, Saint-Philémon and Goulais, that reached their respective COD of August 2014, and January and May of 2015.
(7,296)	Lower revenue from the hydro, wind (excluding new facilities) and solar facilities due to lower production attributable to poor resources.
(1,974)	Lower revenue from Whitecourt due to lower power rates, net of contractual settlements, under the fuel supply agreement.
(1,355)	Various other changes.
(34,544)	Change in Adjusted EBITDA.
(6,084)	Change in Adjusted EBITDA attributable to non-controlling interests.
3,882	Initial distributions post COD in 2015 from Saint-Philémon ($2,393) and Goulais ($1,489).
(1,493)	Skyway 8 debt service costs post COD.
1,200	Various other changes.
(37,039)	Change in AFFO.

Utilities – water
The following table shows the significant changes in Adjusted EBITDA and AFFO from 2014:

Change	Explanations
(13,561)	Lower revenue due to decrease in regulated water tariffs.
4,400	Impact of foreign exchange on Adjusted EBITDA.
3,709	Reduced maintenance and lower staff costs.
(2,443)	Higher operating expenses related to non-recurring costs for restructuring, preparing submissions to the 2014 price review and the CMA process.
442	Various other changes.
(7,453)	Change in Adjusted EBITDA.
(6,520)	Lower dividends received.
441	Impact of foreign exchange on dividends received from Bristol Water.
(6,079)	Change in AFFO.

Utilities – district heating
The following table shows the significant changes in Adjusted EBITDA and AFFO from 2014:

Change	Explanations
(1,110)	Lower distributions received.
(159)	Impact of foreign exchange on Adjusted EBITDA and AFFO.
(1,269)	Change in Adjusted EBITDA and AFFO.

Corporate
The following table shows the significant changes in Adjusted EBITDA and AFFO from 2014:

Change	Explanations
(1,724)	Professional fees for the strategic review incurred in 2015.
(1,317)	Higher long-term incentive plan expense due to a higher share price at the end of 2015.
846	Higher HST recovery in 2015 primarily related to prior year claims.
403	Various other changes.
(1,792)	Change in Adjusted EBITDA.
1,235	Lower minimum tax and refunds of prior year taxes paid.
(235)	Various other changes.
(792)	Change in AFFO.

Net income (loss)

Net income (loss) for each business segment was:

Net income (loss)	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Power [(1)]	**(7,727)**	3,280
Utilities – water	**49,341**	48,665
Utilities – district heating	**5,703**	(3,278)
Corporate	**(21,125)**	(15,120)
Total	**26,192**	33,547

(1) Power is net of impairment charges of $30,592 for the year-ended December 31, 2014.

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

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Adjusted EBITDA	**115,301**	160,359
Adjustment from distributions from equity accounted investments to equity accounted income	**(6,669)**	(8,481)
NCI portion of Adjusted EBITDA	**60,972**	62,595
Asset impairment charges	**—**	(30,592)
Other gains and (losses), net	**(10,385)**	(7,669)
Contractual settlements in other gains and (losses)	**(3,774)**	3,762
Foreign exchange gain (loss)	**3,720**	(4,673)
Interest expense	**(57,941)**	(54,145)
Net pension interest income	**3,062**	2,132
Depreciation and amortization	**(83,981)**	(79,766)
Income tax recovery (expense)	**5,887**	(9,975)
Net Income (loss)	**26,192**	33,547

Other gains and (losses) were $2,716 higher than in 2014. Other gains and (losses) include non-cash items required by IFRS. The loss includes $7,477 of losses on capital assets replaced as part of Cardinal's conversion to a cycling facility and $2,538 primarily from the termination of the Amherstburg interest rate swap, as part of refinancing the project debt.

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 Québec. Results from these facilities were:

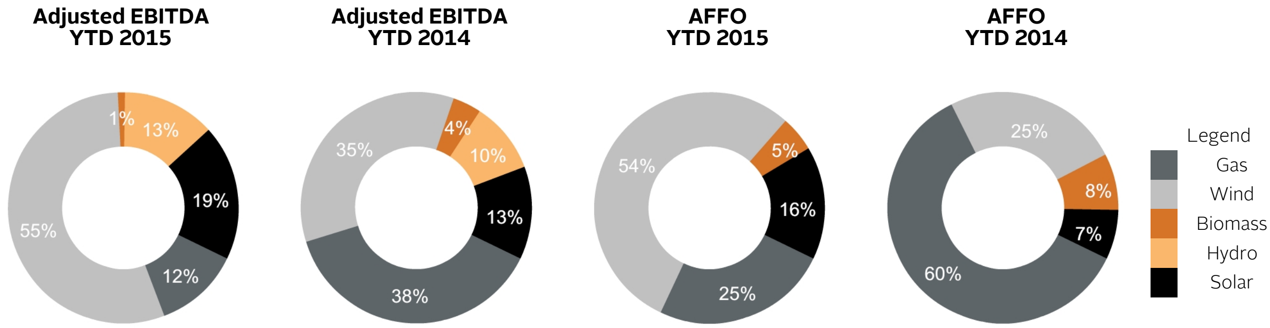


For the year ended December 31, 2015	Gas	Wind (1)	Biomass (1)	Hydro	Solar	Development (2)	Total
Power generated (GWh)	**66.5**	**554.4**	**183.1**	**142.1**	**38.1**	**n/a**	**984.2**
Capacity factor	**10.1%**	**28.1%**	**86.4%**	**45.4%**	**21.7%**	**n/a**	**n.m.f**
Availability	**85.6%**	**96.5%**	**95.5%**	**98.9%**	**97.7%**	**n/a**	**n.m.f**
Revenue	22,854	57,599	7,453	14,059	15,991	—	117,956
Expenses	(13,849)	(10,747)	(10,549)	(4,052)	(1,318)	(3,931)	(44,446)
Interest income	70	1,167	79	17	17	—	1,350
Contractual settlements (3)	(261)	—	4,035	—	—	—	3,774
Distributions from equity accounted investments	—	2,426	—	—	—	—	2,426
Less: NCI	—	(8,932)	—	—	—	2	(8,930)
Adjusted EBITDA	8,814	41,513	1,018	10,024	14,690	(3,929)	72,130
Adjusted EBITDA of consolidated businesses with NCI	—	(9,296)	—	—	—	(41)	(9,337)
Distributions from businesses with NCI	—	5,257	—	—	—	—	5,257
Principal from loans receivable	—	—	1,359	—	—	—	1,359
Interest paid	—	(8,525)	—	(4,485)	(4,639)	—	(17,649)
Maintenance capital expenditures	(670)	(1,298)	(652)	(898)	—	—	(3,518)
Scheduled repayment of debt principal	—	(9,563)	—	(4,705)	(4,779)	—	(19,047)
AFFO	8,144	18,088	1,725	(64)	5,272	(3,970)	29,195

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	(67,257)	(8,883)	(10,123)	(3,618)	(1,109)	(2,594)	(93,584)
Interest income	328	420	222	21	28	—	1,019
Contractual settlements (3)	(3,762)	—	—	—	—	—	(3,762)
Distributions from equity accounted investments	—	2,817	—	—	—	—	2,817
Less: NCI	—	(3,269)	—	—	—	145	(3,124)
Adjusted EBITDA	41,484	37,692	4,420	10,538	14,989	(2,449)	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	17,025	5,170	(31)	4,704	(2,118)	66,234

(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) Contractual settlements are included in other gains and (losses) on the consolidated statement of income.

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



Revenue decreased by $85,352, or 42%, primarily due to Cardinal where revenue was $89,321 lower due to the economics of the new NUG contract whereby Cardinal began operating as a cycling facility in 2015 versus operating as a baseload facility in 2014. In addition, revenue was $12,971 lower because of lower power rates at Whitecourt and lower production from wind (excluding the new facilities). In 2015, Whitecourt's revenue was $6,868 lower because its PPA expired and merchant power prices in 2015 were lower than 2014 PPA rates. These decreases were partially offset by $17,015 of contributions from new wind facilities, comprising production from Skyway 8, Saint-Philémon and Goulais, which reached commercial operations in August 2014, January 2015 and May 2015, respectively.

Expenses decreased by $49,138, or 53%, primarily due to $53,408 of lower operating expenses at Cardinal reflecting lower gas and gas transportation costs due to lower production under the new NUG contract. In addition, expenses at wind (excluding the new facilities) were $795 lower primarily because Confederation Power was sold in May 2015. These decreases were partially offset by higher expenses of $2,795 attributable to the new wind facilities and $1,337 to develop wind projects.

Interest income increased by $331, or 32%, primarily due to interest of $726 received from the Batchewana First Nation of Ojibways ("BFN") loan receivable related to the Goulais wind facility. This was partially offset by lower interest of $258 and $143 at Cardinal and Whitecourt, respectively, due to lower average cash balances in 2015.

Contractual settlements in other gains and (losses) related to cash settlements included in other gains and losses under IFRS, in the consolidated statement of income. In 2015, the amount comprises a $4,035 receipt from Millar Western under Whitecourt's new fuel supply agreement, partially offset by a $261 payment to Husky under Cardinal's gas purchase agreement.

Distributions from equity accounted investments decreased by $391, or 14%, due to receipts from Capstone's 49% interest in the Glen Dhu wind facility.

Non-controlling interests related to the Adjusted EBITDA attributed to Capstone's partners for the Amherst, Saint-Philémon and Goulais wind projects.

Distributions from businesses with NCI increased by $3,756, or 250%, primarily due to initial distributions of $2,393 from Saint-Philémon and $1,489 from Goulais, paid on conversion of the credit facilities, partially offset by lower accrued management fees at Saint-Philémon in 2015.

Interest paid decreased by $1,706, or 9%, primarily due to lower payments of $1,584 at Amherstburg as a result of the refinancing completed in the third quarter of 2015 and lower payments of $1,098 on amortizing debt balances at Erie Shores, the hydro facilities, SkyGen and Glace Bay. These decreases were partially offset by higher payments of $977 at the Skyway 8 facility, since drawing on the debt in May 2014.

Maintenance capital expenditures decreased by $350, or 9%, primarily due to 2014 expenditures of $965 at the hydro facilities, related to the penstock repairs, and $431 at Erie Shores, due to gearbox maintenance that did not recur in 2015. These decreases are partially offset by capital improvements of $670 at Cardinal, $195 at SkyGen and $182 at Whitecourt.

Scheduled repayments of debt principal increased by $2,362, or 14%, primarily due to a $1,750 increase on the amortizing debt of Amherstburg, the hydro facilities and Erie Shores, as well as $517 from Skyway 8, since drawing on the debt in May 2014.

Project development

The Saint-Philémon and Goulais wind development projects reached COD consistent with their targeted dates and within their budgets. Skyway 8, Saint-Philémon and Goulais began contributing to Capstone's operating results since their respective COD's of August 2014, and January and May of 2015.

As at December 31, 2015, Capstone's development pipeline included the rights to net 52 MW (gross 76 MW) summarized as follows:

Project	Expected COD	Expected Ownership Interest	Net Capacity	Counterparty	Expected PPA Expiry	Status
Ganaraska (1)	2016	50%	8.8 MW	IESO	2036	Under construction (2)
Grey Highlands ZEP (1)	2016	50%	5.0 MW	IESO	2036	COD - Feb 26, 2016
Settlers Landing (1)	2017	50%	5.0 MW	IESO	2037	ERT (3)
Snowy Ridge (1)	2016	50%	5.0 MW	IESO	2036	Received ERT, pre-construction (4)
Grey Highlands Clean	2016	100%	18.5 MW	IESO	2036	Under construction (5)
Riverhurst	2018	100%	10.0 MW	SaskPower	2038	Interconnection assessment

(1) Capstone expects to share control of the Wind Works projects, refer to page 3 of this MD&A "Changes in the Business" for further detail.
(2) The Environmental Review Tribunal ("ERT") dismissed the appeal of the project's Renewable Energy Approval ("REA"), which was subsequently appealed to the Minister of the Environment and Climate Change. Capstone is defending the appeal to the Minister, and believes the ERT decision will be upheld.
(3) The ERT ordered that the appeal of the project's REA is allowed in part, and that it will allow the parties to the appeal to make submissions in relation to the appropriate remedy. Capstone is taking the necessary procedural steps to make submissions in relation to the appropriate remedy to the ERT.
(4) The ERT dismissed the appeal of the project's REA, which was subsequently appealed to the Minister of the Environment and Climate Change. Capstone is defending the appeal to the Minister, and believes the ERT decision will be upheld.
(5) The ERT dismissed the appeal of the project's REA, which was subsequently appealed to the Ontario Divisional Court. Capstone is defending the appeal, and believes the ERT decision will be upheld.

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

Seasonality

In 2015, Cardinal's new NUG contract changed how the facility contributes to Capstone economically. Under the new contract, Cardinal earns a portion of its revenue by supplying electricity to the Ontario grid only when profitable to do so. Cardinal is no longer a baseload facility, consequently, historical production is not indicative of seasonal impacts upon production. The new contract is not expected to have a material seasonality impact.

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

In aggregate, these factors have historically resulted in higher electricity production during the first and fourth quarters as shown in the following table:

		Actual	Average long-term production (GWh) (1)				
Type	PPA Expiry	2015	Q1	Q2	Q3	Q4	Annual
Wind - existing more than one year (2)	2020 - 2037	**447.9**	145.2	106.9	76.8	146.4	475.3
Wind - existing less than one year (3)	2035	**106.5**	20.4	22.5	25.5	38.2	106.5
Biomass (2)	2030	**183.1**	49.8	45.5	50.0	48.8	194.1
Hydro	2017 - 2042	**142.1**	31.4	56.3	29.2	41.4	158.3
Solar	2031	**38.1**	7.2	12.4	12.5	5.8	37.9
Total		**917.7**	254.0	243.6	194.0	280.6	972.1

(1) Average long-term production for each of the assets included is for periods greater than five years, except for businesses acquired or built within the last five years. This means that Amherstburg, the wind facilities acquired by Capstone on October 1, 2013, and Skyway 8, Saint-Philémon and Goulais have a shorter period than five years in calculating the average long-term production.
(2) The average long-term production excludes Capstone's equity investments (Chapais biomass facility, and the Glen Dhu and Fitzpatrick wind facilities).
(3) The average long-term production for wind - existing less than one year is composed of Saint-Philémon and Goulais, since January and May 2015, respectively.

Infrastructure – Utilities

Water

Capstone's water utilities segment includes a 50% ownership interest in Bristol Water, which is located in the UK.

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Water supplied (megalitres)	**83,151**	82,528
Revenue	**227,027**	238,270
Operating expenses	**(123,524)**	(119,530)
Interest income	**500**	145
Adjusted EBITDA before NCI	**104,003**	118,885
Less: NCI	**(52,042)**	(59,471)
Adjusted EBITDA	**51,961**	59,414
Adjusted EBITDA of consolidated businesses with NCI	**(51,961)**	(59,414)
Dividends from businesses with NCI	**1,992**	8,071
AFFO	**1,992**	8,071

Revenue decreased by $11,243, or 5%, and was $28,898, or 11%, lower excluding foreign currency. The majority of the variance, or $30,820, was attributable to lower water tariffs following implementation of the Ofwat AMP6 final determination on April 1, 2015. The decrease was partially offset by $3,699 higher revenue because tariffs during the first quarter were higher before the new AMP.

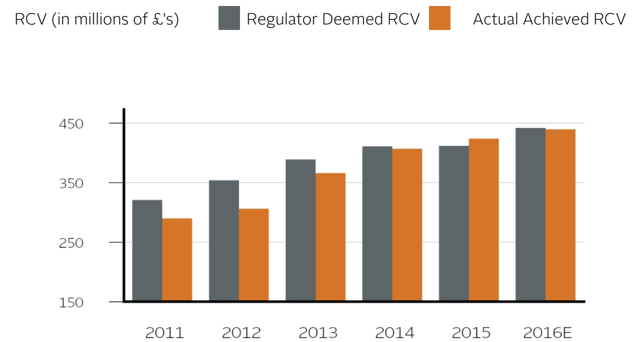
Operating expenses increased by $3,994, or 3%, and were $4,863, or 4%, lower excluding foreign currency. The decrease was primarily attributable to $9,748 in savings from cost containment efforts, lower maintenance and bad debt expenses. These decreases were partially offset by $4,885 of higher one-time costs for restructuring and the CMA appeals process.

Interest income increased by $355, or 245%, mainly because of a rebate received relating to capital leases from prior years.

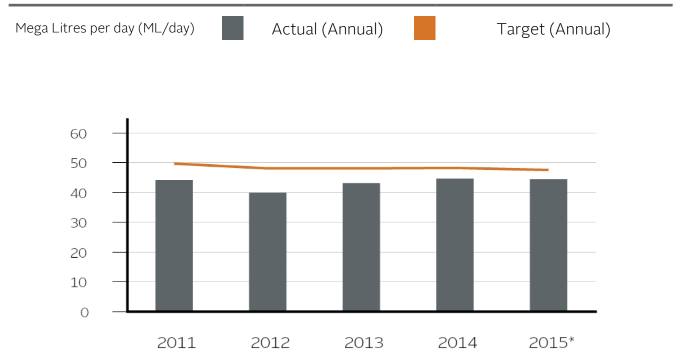
NCI relates to the Adjusted EBITDA attributable to Capstone's partners.

Dividends paid to Capstone were $6,079, or 75%, lower than in 2014, as Bristol Water retained funds in 2015.

Growth in Regulated Capital Value
(All data above reflects fiscal years ended March 31)



Water Leakage Versus Target
(* For the year ended December 31, 2015)



Capital expenditures

As at December 31, 2015, Bristol Water had spent $41,000 on AMP6 capital expenditures, incurred since April 1, 2015.

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.

Regulatory

Bristol Water is a regulated utility subject to supervision by Ofwat. In 2014, Ofwat, issued a disappointing final determination for the next five-year period, known as AMP6 and in early 2015, Ofwat referred an appeal from Bristol Water to the Competition and Markets Authority ("CMA"), for a water price determination. On October 6, 2015, the CMA published its findings for the AMP6 business plan, which overall, enables Bristol Water to deliver an acceptable level of service to its customers and protect the integrity of the water system.

Management continues to focus on achieving regulatory output targets, including leakage of less than 50 million litres of water per day ("Ml/d") in 2015/2016. For the regulatory year ended March 31, 2015, Bristol Water achieved leakage levels of 45.1 Ml/d (for regulatory year ended March 31, 2014 - 43.7 Ml/d).

Infrastructure – Utilities

District heating

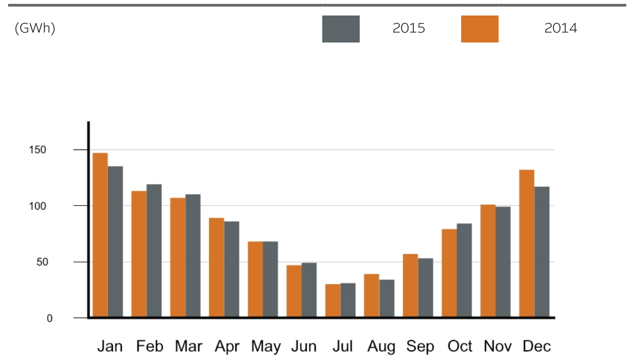
Capstone's district heating utilities segment consists of a 33.3% interest in Värmevärden, located in Sweden. Capstone's investment includes shareholder loans receivable and equity.

Värmevärden's overall financial performance in 2015 was lower than 2014, primarily due to lower revenue attributed to warmer weather conditions.

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

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Heat and steam production (GWh)	**985**	1,010
Equity accounted income (loss) proportionate to Capstone	**(1,504)**	(2,034)
Interest income	**2,739**	2,898
Dividends	**3,427**	4,537
Adjusted EBITDA and AFFO	**6,166**	7,435

Heat and Steam Production



Interest income is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. Capstone received $2,739 in interest income from Värmevärden in 2015, which was $159 lower in 2015, due to unfavourable foreign exchange translation.

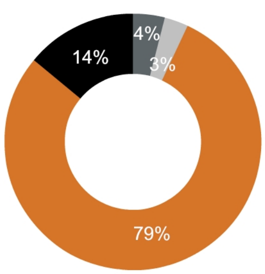
Dividends received were $1,110 lower in 2015 because Värmevärden had accumulated surplus cash allowing for a higher distribution in 2014.

Equity accounted loss included in Capstone's net income was $530 lower in 2015. Capstone suspended recording equity accounted losses in 2015 in accordance with IFRS as the equity accounted investment was a negative balance for accounting purposes.

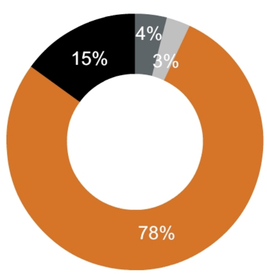
Seasonality

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.

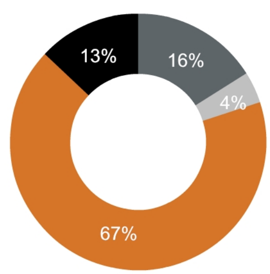
Fuel Mix Breakdown by MWh - 2015



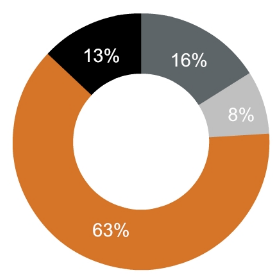
Fuel Mix Breakdown by MWh - 2014



Fuel Mix Breakdown by Cost (SEK) - 2015



Fuel Mix Breakdown by Cost (SEK) - 2014



■ Electricity ■ Fossil Fuel ■ Bio and Waste Fuel ■ 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, 2015	Dec 31, 2014
Administrative expenses	**(11,782)**	(13,266)
Project development costs	**(3,322)**	(70)
Interest income	**148**	172
Adjusted EBITDA	**(14,956)**	(13,164)
Principal from loans receivable	**83**	—
Interest paid	**(6,471)**	(5,716)
Dividends paid on Capstone's preferred shares	**(3,750)**	(3,750)
Income taxes (paid) recovery	**(1,026)**	(2,698)
AFFO	**(26,120)**	(25,328)

Administrative expenses decreased by $1,484, or 11% reflecting the net impact of higher staff costs and lower other administrative expenses as follows:

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Staff costs	**8,248**	7,528
Other administrative expenses	**3,534**	5,738
	11,782	13,266

Staff costs increased by $720, or 10%, primarily due to higher accrued, deferred incentive compensation in response to a share price increase in 2015, offset by lower salary and short-term incentive payments.

Other administrative expenses were $2,204, or 38%, lower primarily due to $846 of HST refunds and $3,050 lower professional fees primarily because 2014 included costs for the integration of ReD. Other administrative expenses include 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 increased by $3,252, primarily due to higher professional fee attributed to acquisition analysis, due diligence and the strategic review, which culminated in the January 20, 2016 announcement with iCON.

Interest income is earned on corporate cash balances and was consistent with 2014.

Interest paid increased by $755, or 13%, primarily due to a higher corporate credit facility balance.

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 $1,672, or 62%, lower in 2015, primarily due to refunds of prior year taxes paid of $668 and lower corporate minimum taxes of $567. Corporate minimum taxes were lower because Capstone paid $359 of corporate minimum tax installments in 2014, $208 of which was recovered in 2015. In addition, taxes paid were lower due to $342 of CRCE penalties paid in 2014.

FINANCIAL POSITION REVIEW

Overview

As at December 31, 2015, Capstone had a consolidated working capital deficit of $54,580 compared with a $69,694 surplus at December 31, 2014. The decrease of $124,274 was primarily due to the power segment, where restricted cash decreased as funds were used to construct wind development projects that generated capital assets. In addition, working capital decreased due to lower accounts receivable at Cardinal and a higher current portion of long-term debt at SkyGen and corporate, for debt maturing in 2016.

Capstone's 2015 debt to capitalization ratio (refer to page 19) of 71.7% was consistent with 71.2% in 2014 on a fair value basis and increased from 61.3% to 63.5% on a book value basis. On a fair value basis, increases of $100,428, or 11%, in debt and $31,843, or 9%, in equity offset each other and kept the ratio consistent. The increase in the fair value of debt primarily relates to a $45,348 increase at Bristol Water, attributable to appreciation of the UK pound sterling and a $27,000 increase in the amount drawn on the corporate credit facility. The increase in the fair value of equity is mainly due to a 13% increase in share price resulting in a $43,226 increase in equity. This was partially offset by a 25% decrease in the price of the preferred shares for a $12,780 decrease in equity.

As at December 31, 2015, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	**Dec 31, 2015**	Dec 31, 2014
Power	**(34,929)**	68,452
Utilities – water	**26,239**	8,586
Corporate	**(45,890)**	(7,344)
Working capital	**(54,580)**	69,694

Capstone's working capital was $124,274 lower than December 31, 2014, primarily due to decreases of $103,381 for the power segment and $38,546 for corporate, partially offset by an increase of $17,653 at Bristol Water. Bristol Water's increase primarily reflects the $12,224 increase in cash, due to funds retained, resulting mainly from lower dividends in 2015.

The power segment working capital decreased primarily due to $40,844 less restricted cash, which was used to fund construction of Saint-Philémon and Goulais wind development projects. In addition, Cardinal's accounts receivable decreased by $20,556 based on lower revenue under the new NUG contract. The majority of the remaining decrease related to a $34,379 increase in the current portion of long-term debt, due to 2016 maturities of the SkyGen debt. The remaining difference was primarily attributable to higher accruals for the wind development projects compared with 2014. The decrease in corporate working capital was mainly because of a $41,674 increase in the current portion of long-term debt, due to the maturity of one series of convertible debentures.

Cash and cash equivalents

As at	**Dec 31, 2015**	Dec 31, 2014
Power	**43,705**	36,637
Utilities – water	**25,495**	13,271
Corporate	**5,192**	8,934
Unrestricted cash and cash equivalents	**74,392**	58,842
Less: cash with access limitations		
Power	**(22,056)**	(18,174)
Utilities – water	**(25,495)**	(13,271)
Cash and cash equivalents available to corporate	**26,841**	27,397

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The unrestricted cash and cash equivalents increase of $15,550 was due to increases of $12,224 at Bristol Water and $7,068 at the power segment, partially offset by $3,742 at corporate. Cash and cash equivalents available to corporate are net of Bristol Water and power segment cash of $25,495 and $22,056 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, Goulais, Saint-Philémon, Amherst and the Wind Works development projects.

Restricted cash

Restricted cash decreased by $36,814 primarily to fund construction of Goulais and Saint-Philémon, partially offset by increases in restricted cash at corporate and Bristol Water.

Cash flow

Capstone's consolidated cash and cash equivalents increased by $15,550 in 2015 compared with $13,074 in 2014. The components of the increase, as presented in the consolidated statement of cash flows, are summarized as follows:

For the year ended	**Dec 31, 2015**	Dec 31, 2014
Operating activities	**116,900**	155,718
Investing activities	**(137,446)**	(297,425)
Financing activities (excluding dividends to shareholders)	**64,357**	184,528
Dividends paid to shareholders	**(30,364)**	(30,015)
Effect of exchange rate changes on cash and cash equivalents	**2,103**	268
Change in cash and cash equivalents	**15,550**	13,074

Cash flow from operating activities generated $38,818 less cash and cash equivalents in 2015 than during 2014 primarily due to $33,666 of lower cash flows at the power segment and $9,071 at the utilities segment. This was partially offset by an increase at corporate of $3,919. Cash flows at the power and utilities segments decreased primarily due to the economics of the new contract at Cardinal and reduced AMP6 revenue at Bristol Water.

Cash flow used for investing activities was $159,979 lower in 2015. In 2015, restricted cash decreased by $38,176 (2014 - $36,091 increase in restricted cash) primarily because funds were used to construct Saint-Philémon and Goulais. In addition, investment in capital assets was $100,422 (2014 - $129,813) while $93,973 (2014 - $127,624) was invested for the construction of projects under development in the power segment. Loans receivable decreased for repayments of $12,948 in 2015 (2014 - $10,280 advances), primarily related to the loan to BFN. Lastly, distributions from equity accounted investments were $5,825 in 2015 (2014 - $7,430), primarily because Värmevärden distributed accumulated cash in 2014.

Cash flow from financing activities decreased by $120,171 in 2015. In 2015, debt draws were $128,534 lower primarily because no new debt was raised to finance Bristol Water capital expenditures. In addition, contributions were $11,500 lower as no contributions were received from BFN in 2015 and repayments of debt principal were $11,231 higher in 2015. This was partially offset by convertible debenture advances of $30,159 in 2015 and $2,994 lower dividends to non-controlling interests primarily due to lower dividends.

Dividends paid to shareholders were $349 higher in 2015 due to additional shares issued as part of the dividend reinvestment program.

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:

	Dec 31, 2015		Dec 31, 2014	
As at	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Long-term debt				
Power [1]	**464,154**	**444,457**	435,808	423,365
Utilities – water [1]	**413,571**	**356,292**	368,223	315,447
Corporate	**117,811**	**116,869**	91,077	89,393
Deferred financing fees [1]	**—**	**(11,779)**	—	(9,272)
	995,536	**905,839**	895,108	818,933
Equity				
Shareholders' equity [2]	**393,423**	**520,535**	361,580	516,706
Total capitalization	**1,388,959**	**1,426,374**	1,256,688	1,335,639
Debt to capitalization	**71.7%**	**63.5%**	71.2%	61.3%

(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 at			Dec 31, 2015		Dec 31, 2014	
	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Project debt						
Wind - Operating (1)	2016 - 2034	4.72 - 6.36%	**343,012**	**321,395**	213,179	202,060
Wind - Development (2)	2021	2.59%	**30,234**	**30,234**	141,805	136,921
Hydros	2040 - 2041	4.56 - 7.00%	**88,159**	**85,196**	90,064	89,902
Solar (3)	2030	3.49%	**93,140**	**92,386**	82,618	82,618
			554,545	**529,211**	527,666	511,501
Less: non-controlling interest			**(90,391)**	**(84,754)**	(91,858)	(88,136)
Capstone share of long-term debt			**464,154**	**444,457**	435,808	423,365

(1) Wind - operating project debt consists of Erie Shores, Amherst, SkyGen, Skyway 8 and Glace Bay for both periods. In 2015, on COD the Saint-Philémon and Goulais project debt was transfered from wind - development.
(2) Wind - development project debt consists of the Grey Highlands ZEP and Ganaraska construction facility (2014 - Saint-Philémon and Goulais).
(3) Solar - On July 9, 2015, the Amherstburg Solar Park refinanced the project debt.

In 2015, long-term debt of the power segment increased by $17,710, primarily because of $30,234 of new debt relating to the construction facility for the Grey Highlands ZEP and Ganaraska wind development projects, as well as an increase of $14,546 to refinance the Amherstburg solar facility, partially offset by scheduled amortizing debt repayments of $25,758. In addition, the Skyway 8, Saint-Philémon and Goulais construction debts were converted to term facilities. Refer to page 3, the "Changes in the Business" section of the MD&A for details.

As at December 31, 2015, approximately 98% of the power segment's long-term debt was scheduled to amortize over the lives of the facilities' respective PPAs. 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 2015, Capstone's power segment complied with all covenants and expects to remain in compliance in 2016.

Utilities – water

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

As at			Dec 31, 2015		Dec 31, 2014	
	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Bank loans	2017 - 2019	1.29 - 5.73%	**139,247**	**142,381**	122,836	125,877
Term loans (1)	2032 - 2041	4.00 - 6.01%	**647,005**	**534,366**	576,696	473,301
Debentures	Irredeemable	3.50 - 4.25%	**3,137**	**2,676**	2,805	2,351
Cumulative preferred shares	Irredeemable	8.75%	**37,753**	**33,161**	34,109	29,365
Consolidated long-term debt			**827,142**	**712,584**	736,446	630,894
Less: non-controlling interest			**(413,571)**	**(356,292)**	(368,223)	(315,447)
Capstone share of long-term debt			**413,571**	**356,292**	368,223	315,447

(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, 2015, approximately 78% of the utilities - water segment's long-term debt had maturities of greater than 10 years. The earliest maturity is on December 7, 2017 for $40,814.

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 $81,690, which was primarily due to foreign exchange translation. As at December 31, 2015, $142,849 of undrawn credit capacity remained available for future capital expenditures.

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

Covenant compliance

The principal debt agreements require Bristol Water to comply with covenants relating to the minimum levels of interest coverage and net debt in relation to regulatory capital value. During 2015, Bristol Water complied with all its covenants and expects to remain in compliance in 2016.

Corporate

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

			Dec 31, 2015		Dec 31, 2014	
As at	Maturity	Interest Rate	**Fair Value**	**Carrying Value**	Fair Value	Carrying Value
Corporate credit facility	2018	3.67%	**47,000**	**47,000**	20,000	20,000
Convertible debentures (1)	2016	6.50%	**42,835**	**42,278**	42,963	41,728
Convertible debentures (1)	2017	6.75%	**27,976**	**27,591**	28,114	27,665
			117,811	**116,869**	91,077	89,393

(1) Refer to page 5, the "Subsequent events" section of the MD&A for details relating to arrangement agreement with iCON.

Long-term debt at corporate increased by $27,476 since 2014, primarily due to draws on the corporate credit facility. In 2015, for power development projects, Capstone, through its existing lenders, increased the capacity of the credit facility by $35,000, bringing the total available credit to $125,000 of which $81,648 was drawn or committed as of December 31, 2015. The expanded portion of the credit facility matured in January 2016 and the remaining $90,000 was extended by one year, to mature November 2018.

Covenant compliance

During 2015, Capstone complied with all covenants and expects to remain in compliance in 2016.

Shareholders' equity

Shareholders' equity comprised:

As at	Dec 31, 2015	Dec 31, 2014
Common shares (1)	**715,989**	713,412
Class B exchangeable units (1)	**26,710**	26,710
Preferred shares (1)	**72,020**	72,020
Share capital	**814,719**	812,142
Other equity items (2)	**9,284**	9,284
Accumulated other comprehensive income (loss)	**51,151**	19,994
Deficit	**(354,619)**	(324,714)
Equity to Capstone shareholders	**520,535**	516,706
Non-controlling interests	**261,545**	190,073
Total shareholders' equity	**782,080**	706,779

(1) Refer to page 5, the "Subsequent events" section of the MD&A for details relating to arrangement agreement with iCON.
(2) Other equity items include the equity portion of Capstone's 2016 convertible debentures.

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, 2015		Year ended Dec 31, 2014	
($000s and 000s of shares)	**Shares**	**Amount**	Shares	Amount
Opening balance	**93,573**	**713,412**	92,854	710,662
Shares issued	**—**	**—**	14	39
Dividend reinvestment plan (DRIP)	**823**	**2,577**	705	2,711
Ending balance	**94,396**	**715,989**	93,573	713,412

The composition of fair value for shareholders' equity was:

As at	Dec 31, 2015			Dec 31, 2014		
($000s, except per share amounts)	**Market Price per Share**	**Outstanding Amount**	**Fair Value**	Market Price per Share	Outstanding Amount	Fair Value
Common shares	**$3.63**	**94,396**	**342,658**	$3.20	93,573	299,432
Class B units	**$3.63**	**3,249**	**11,795**	$3.20	3,249	10,398
Preferred shares	**$12.99**	**3,000**	**38,970**	$17.25	3,000	51,750
			393,423			361,580

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, 2015, 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)	155,586	524,438	1,578,633	2,258,657
Finance lease obligations (1)	714	3,812	—	4,526
Operating leases	3,668	15,311	48,680	67,659
Asset retirement obligations	—	—	10,104	10,104
Purchase obligations	81,825	26,566	20,144	128,535
Total contractual obligations	241,793	570,127	1,657,561	2,469,481

(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 19 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:

- 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 2042.
- 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's additional operating lease commitments not included in the table with no minimum operating lease commitments required were:

- 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 25 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 and operations and management agreements:

Capital commitments

- Bristol Water has commitments for capital expenditures at December 31, 2015 of which $5,785 were contracted but had not yet occurred.
- As part of Capstone's power development operations, Capstone enters various construction and purchase agreements. As at December 31, 2015, Capstone had approximately $69,679 of construction and turbine supply agreements for the Grey Highlands Clean, Wind Works and Riverhurst projects.

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 22, Capstone has the following other commitments with no fixed minimum payments:

Management services agreements

Capstone has agreements with all the partially owned wind facilities and development projects, including Glen Dhu, Fitzpatrick, Amherst, Saint-Philémon, Goulais 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

- On March 2, 2015, Whitecourt and Millar Western completed a new fuel supply agreement for wood waste which has an initial 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 an ESA with Ingredion, which matures on December 31, 2034, reflecting the binding term sheet signed on March 26, 2014. In the event that Ingredion builds a planned 15 MW cogeneration plant, 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, 2015.

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 $5,664 mainly because of distributions of $2,504 from Värmevärden and $2,424 from Glen Dhu, as well as $736 for Capstone's share of equity accounted comprehensive losses.

Capstone's equity accounted investments were:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31, 2015	2014	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")(4)	Canada	—%	45%	Holding company
Chapais Électrique Limitée ("Chapais")(6)	Canada	31.3%	31.3%	Power generation

(1) Capstone no longer records equity accounted income (losses) for Värmevärden, as the equity accounted losses and distributions exceeded the carrying value. For 2015, Capstone has unrecognized losses of $642, relating to Värmevärden. Until cumulative unrecognized losses and dividends become positive, Capstone will carry its investment at nil and record dividends as other gains in the statement of income. Additional information about Capstone's investment in Värmevärden is further detailed in the results of operations on page 16 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 was wound up on September 4, 2015, and had no significant activity prior to disposal.
(4) No income has been recorded on the investment since its acquisition. Capstone does not expect to earn any future equity accounted income from this investment.

Capital Asset Expenditure Program

Capstone incurred $211,185 of capital asset expenditures during 2015, which included $95,918 of additions to capital assets and $115,267 of additions to projects under development. The capital asset expenditures by operating segment were:

	For the year ended Dec 31, 2015	Dec 31, 2014
Power	**141,447**	166,745
Utilities – water	**69,738**	110,590
	211,185	277,335

In 2015, capital expenditures for the power segment mainly related to costs of $111,406 to develop the Wind Works projects, as well as constructing the Saint-Philémon and Goulais wind projects. In addition, Cardinal invested $24,640 to prepare the plant to operate as a cycling facility. The majority of the remaining difference related to capital expenditures of $1,127, at Erie Shores and $904 for the hydro facilities. In 2014, capital asset expenditures in the power segment were primarily related to $150,051 to construct the Skyway 8, Saint-Philémon and Goulais wind projects and $9,884 to begin converting the Cardinal facility.

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

Capital Asset Impairment

Consistent with the prior year, Capstone reviewed the carrying values of assets for impairment because the deficit of market capitalization to the carrying amount of owners' equity is considered an indicator of potential impairment. In 2015, as a result of Capstone's analysis no impairment was necessary, whereas in 2014 Capstone recognized a $30,592 impairment loss in the statement of income.

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, 2015**	Dec 31, 2014
Fair value of assets	**407,759**	367,161
Present value of defined benefit obligation	**(309,201)**	(288,411)
	98,558	78,750

As at December 31, 2015, the defined benefit plan was in a $98,558 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 2016, Bristol Water expects to contribute $4,055 compared with its actual contribution of $4,076 in 2015.

The total defined contribution pension expense recorded in the consolidated statement of income in 2015 was $2,512. The expense comprised $2,321 for Bristol Water and $191 for Cardinal.

Income Taxes

In 2015, the current income tax recovery was $2,738 (2014 - $3,981 expense), of which $2,665 (2014- $4,021) 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 calculated on a net basis where there is a legal right of offset within the same tax jurisdictions.

Capstone's total deferred income tax assets of $220 (December 31, 2014 - nil) were attributable to its Canadian entities and primarily relate to non-capital tax loss carryforwards.

Deferred income tax liabilities of $204,125 (December 31, 2014 - $192,829) represent $64,619 (December 31, 2014 - $67,157) for Capstone's Canadian operations and $139,506 (December 31, 2014 - $125,672) for 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 2015, Capstone's net deferred income tax liability increased by $11,076. The net liability increased primarily due to differences between accounting and tax depreciation taken in 2015 and the defined benefit pension plan at Bristol Water. These increases were partially offset by a lower substantively enacted tax rate at Bristol Water from 20.0% to 18.0%.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in notes 7 (Financial Instruments) and 8 (Financial Risk Management) in the consolidated financial statements as at and for the year ended December 31, 2015. 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, 2015**	Dec 31, 2014
Derivative contract assets	**166**	5,047
Derivative contract liabilities	**(6,540)**	(17,863)
Net derivative contract liabilities	**(6,374)**	(12,816)

Net derivative contract liabilities decreased by $6,442 from December 31, 2014, mainly because several of the underlying financial instruments matured, which is primarily reflected in the $10,475 unrealized loss on derivatives in comprehensive income. The unrealized gains on derivatives were partially offset by contractual settlement payments of $4,035 for Whitecourt's new fuel supply agreement.

On March 2, 2015, Whitecourt entered into a new fuel supply agreement with Millar Western for 15 years, which is extendable to 20 years. The new agreement, which commenced on January 1, 2015, includes power price support and revenue sharing mechanisms that reduce Whitecourt's exposure to merchant price risk in Alberta. The price support and revenue sharing mechanisms are embedded derivatives that are measured at fair value and result in an asset during periods when the forecasted merchant power price is projected to be lower than the price support and a liability during periods when the merchant power price is forecast to be higher.

On December 11, 2015, GHG entered into swap agreements to convert its floating interest rate obligations under the credit agreement to a fixed rate. The effective interest rate is 2.59% from inception to June 30, 2016, increasing to 3.08% to June 30, 2021.

The gains (losses) attributable to fair value changes of derivatives in the interim consolidated statements of income and comprehensive income comprised:

	Year ended	
	Dec 31, 2015	Dec 31, 2014
Interest rate swap contracts	**(3,659)**	(4,342)
Cardinal gas purchase agreement	**4,364**	(4,364)
Forward gas sale and purchase contracts	**(3,330)**	3,330
Foreign currency option contracts	**(1,552)**	205
Whitecourt embedded derivative	**886**	—
Cardinal embedded derivative	**169**	4,454
Gains (losses) on derivatives in net income	**(3,122)**	(717)
Interest rate swap contracts in OCI	**553**	(649)
Gains (losses) on derivatives in comprehensive income	**(2,569)**	(1,366)

The loss on derivatives was primarily attributable to the expiry of the interest rate swap contracts, the forward gas sale and purchase contracts and the reduction in fair value of the foreign currency option contracts. This was partially offset by gains resulting from the expiry of Cardinal's gas purchase agreement and embedded derivative, as well as the changes in the value of the Whitecourt embedded derivative.

The loss on interest rate swap contracts was primarily due to the Amherstburg contract, which was settled on July 9, 2015, concurrent with the project debt refinancing, which resulted in a realized loss of $13,045. In addition, the fair value of the new GHG interest rate swap decreased by $1,121 since inception due to lower long-term interest rates as at December 31, 2015. The fair value changes on the forward gas sale and purchase contracts and the Cardinal gas purchase agreement were primarily due to the passage of time as these derivatives expired during 2015. The loss on foreign currency contracts was primarily due to appreciation of the UK pound sterling and Swedish krona forward-looking rates relative to the fixed Canadian dollar conversion rates and the passage of time.

The gain on the Whitecourt embedded derivative was primarily due to a decrease in the estimated forward Alberta power pool prices from inception to December 31, 2015, partially offset by a reduction in the number of net payments resulting from the passage of time.

FOREIGN EXCHANGE

The foreign exchange gains were primarily due to translation of Capstone's SEK-denominated shareholder loan receivable with Värmevärden. Capstone recorded a $3,720 foreign exchange gain in 2015 compared with a $4,673 loss in 2014. The 2015 gains primarily reflect appreciation of the Swedish krona against the Canadian dollar, thereby increasing the carrying value of the shareholder loan by $3,527 in Canadian dollars, compared with 2014.

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.
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.	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.

Risk and Description	Impact	Monitoring and Mitigation
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.	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.	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. Capstone has historically delivered all power development projects on time and on budget.
Utilities - Water		
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 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 2015-2016 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, in various jurisdictions and it is difficult to predict how these changes may apply to the certain of the Facilities. In Canada however, several of the Provinces have recently enacted, amended or proposed GHG legislation involving regimes comprised of any combination of cap and trade, emissions intensity and carbon taxes. Ontario for example is proposing a cap and trade system to address GHG and climate change initiatives, details of which are yet to be finalized. The Canadian government also recently reconfirmed its commitment to reduced GHG emissions at the World Climate Change Summit in Paris.

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. Furthermore, the increased emphasis within Canada on reduced GHG emissions may be beneficial to Capstone's renewable portfolio. For example, in the fall of 2015 Alberta unveiled a Climate Change Plan involving the early retirement of coal-fired power plants and the replacement of at least 2/3 of the electrical generation from those plants with renewable energy. The announcement of the plan was preceded by revisions to its GHG legislation that resulted in the value of Alberta GHG offset credits traded within Alberta increasing by upwards of 33% in 2016.

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,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 2015-2016 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 2015 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 2015, Capstone earned fees of $405, primarily related to the management of Glen Dhu and Fitzpatrick. In addition, Bristol Water has a joint venture interest in a shared billing services entity, providing meter reading, billing and debt recovery and customer contract management services to Bristol Water and its partner, under a cost sharing arrangement. During 2015, Bristol Water incurred charges of $6,363 for management charges and shared expenditures.

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 26 (Related Party Transactions) in the consolidated financial statements for the year ended December 31, 2015.

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.

	2015				2014			
($000s, except for per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**89,201**	**84,140**	**81,403**	**90,239**	116,683	104,085	106,413	114,397
Net income (loss) [1]	**8,885**	**301**	**(9,273)**	**222**	(7,599)	532	2,097	14,437
Adjusted EBITDA	**30,327**	**26,657**	**28,768**	**29,549**	47,017	32,159	39,492	41,691
AFFO	**1,888**	**1,949**	**932**	**6,464**	19,022	5,384	12,133	19,873
Common dividends [2]	**7,324**	**7,308**	**7,288**	**7,273**	7,261	7,252	7,244	7,220
Preferred dividends	**938**	**938**	**938**	**938**	938	938	938	938
Earnings Per Share – Basic [3]	**0.081**	**(0.007)**	**(0.105)**	**(0.008)**	(0.089)	(0.005)	0.012	0.140
Earnings Per Share – Diluted [3]	**0.080**	**(0.007)**	**(0.105)**	**(0.008)**	(0.089)	(0.005)	0.012	0.132
AFFO per share	**0.019**	**0.020**	**0.010**	**0.067**	0.196	0.056	0.126	0.207
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 common shareholders of Capstone, which excludes non-controlling interests.
(2) Common dividends include amounts declared for both the common shares of the Corporation and the Class B exchangeable units.
(3) Earnings Per Share ("EPS") is calculated using net income attributable to common shareholders of Capstone. Refer to note 21 of the consolidated financial statements for the calculation of EPS.

FOURTH QUARTER 2015 HIGHLIGHTS

	Three months ended	
	Dec 31, 2015	Dec 31, 2014
Revenue	**89,201**	116,683
Operating expenses	**(39,340)**	(53,427)
Administrative expenses	**(3,622)**	(1,258)
Project development costs	**(2,808)**	(387)
Asset impairment charges	**—**	(30,592)
Equity accounted income	**763**	1,513
Interest income	**1,363**	1,276
Net pension interest income	**844**	303
Other gains and (losses), net	**304**	(2,916)
Foreign exchange gain (loss)	**1,000**	(1,694)
Earnings before interest, taxes, depreciation and amortization	**47,705**	29,501
Interest expense	**(15,374)**	(13,232)
Depreciation of capital assets	**(18,658)**	(17,988)
Amortization of intangible assets	**(3,412)**	(2,616)
Earnings (loss) before income taxes	**10,261**	(4,335)
Income tax recovery (expense)		
Current	**393**	(757)
Deferred	**10,635**	3,932
Total income tax recovery (expense)	**11,028**	3,175
Net income (loss)	**21,289**	(1,160)
Net income (loss) attributable to:		
Shareholders of Capstone	**8,885**	(7,599)
Non-controlling interest	**12,404**	6,439
	21,289	(1,160)

Revenue decreased by $27,482, or 24%, reflecting a $22,384 decrease at the power segment, primarily because of economics of the new NUG contract at Cardinal and lower power rates at Whitecourt, partially offset by new contributions of $5,439 from Saint-Philémon and Goulais, which reached COD in 2015. In addition, Bristol Water's revenue was $5,098 lower primarily due to lower regulated water tariffs during AMP6.

Expenses decreased by $9,302, or 17%.

- **Operating expenses** decreased by $14,087, primarily because of lower expenses at the power segment or $12,269, mainly because of lower production at Cardinal, partially offset by new expenses of $851 from the new wind facilities, which reached COD in 2015. Lower expenses of $1,818 at Bristol Water was mainly due to decreased maintenance and lower staff costs.
- **Administrative expenses** increased by $2,364 primarily due to higher incentive compensation resulting from the increase in share price.
- **Project development costs** increased by $2,421, mainly relating to costs for the strategic review.

Asset impairment charges in 2014 were on the Erie Shores and Confederation Power capital assets, and the Chapais loan receivable.

Equity accounted income (loss) decreased by $750, or 50%, composed primarily of a decreases of $422 at Värmevärden and $333 at Glen Dhu.

Other gains and (losses) increased by $3,220, or 110%, to a net gain of $304 in 2015. The variance is primarily due to a $2,204 loss in 2014 attributable to Cardinal's gas purchase agreement as well as a non-recurring unrealized loss of $1,198 on the Amherstburg interest rate swap in 2014. In addition, a $900 gain was recognized in 2015, reflecting a change required by IFRS to reflect the distributions from Värmevärden, as the equity accounted investment was a negative balance for accounting purposes These increases were partially offset by a $1,121 loss in 2015 on the new GHG interest rate swaps.

Foreign exchange gain (loss) was $2,694 higher in 2015 due to the impact of the depreciation of the Swedish krona on the loan receivable.

Interest expense increased by $2,142, or 16%, primarily due to Saint-Philémon and Goulais because interest was capitalized in 2014 when the projects were still under construction.

Income taxes in 2015 comprised a $42 recovery (2014 - $6,548) in Canada and a $10,986 recovery (2014 - $3,373 expense) for Bristol Water. In 2015, Canada's deferred income tax recovery primarily relates to the excess of accounting depreciation for capital assets and intangibles over what was taken for tax. This was partially offset by the recognition of deferred tax assets for tax loss carry forwards. Bristol Water's tax recovery comprises of $10,585 for deferred taxes and $401 for current taxes. Bristol Water's deferred tax recovery primarily relates to the decrease in the substantively enacted tax rate from 20.0% to 18.0%.

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

The consolidated financial statements have been prepared in accordance with IFRS and are consistent with policies for the year ended December 31, 2014. Refer to note 2 to the December 31, 2015 consolidated financial statements for a summary of the significant accounting policies .

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, 2018]	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.
IFRS 16, Leases [Effective: Jan 1, 2019]	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, 2015 for further detail about the nature of these future accounting changes.

Accounting Estimates

The consolidated financial statements require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. 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	• Forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales.
Accounts receivable	• Probability of failing to recover amounts when they fall into arrears.
Accounting for investments in non-wholly owned subsidiaries	• Determine how relevant activities are directed (either through voting rights or contracts); • Determine if Capstone has substantive or protective rights; and • Determine Capstone's ability to influence returns.

Management's estimates 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. Consistent with the prior year, Capstone uses the 2013 version of Committee of Sponsoring Organizations (COSO) internal control framework.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at December 31, 2015 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, 2015, 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, 2015.

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, 2015, 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 3, 2016

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, 2015 and December 31, 2014 and the consolidated statements of changes in shareholders' equity, income, comprehensive income and cash flows for the years then ended , 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, 2015 and December 31, 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
March 3, 2016

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	**Dec 31, 2015**	Dec 31, 2014
Current assets			
Cash and cash equivalents	3	**74,392**	58,842
Restricted cash	3	**29,064**	65,878
Accounts receivable	4	**77,175**	94,555
Other assets	5	**10,904**	9,600
Current portion of loans receivable	6	**—**	1,448
Current portion of derivative contract assets	7a	**58**	4,279
		191,593	234,602
Non-current assets			
Loans receivable	6	**37,271**	45,244
Derivative contract assets	7a	**108**	768
Equity accounted investments	9	**23,392**	29,056
Capital assets	10	**1,702,233**	1,418,187
Projects under development	11	**106,200**	151,361
Intangible assets	12	**362,514**	342,012
Retirement benefit surplus	13	**98,558**	78,750
Deferred income tax assets	14a	**220**	—
Total assets		**2,522,089**	2,299,980
Current liabilities			
Accounts payable and other liabilities	15a	**143,903**	132,445
Current portion of derivative contract liabilities	7a	**254**	6,620
Current portion of finance lease obligations	16	**813**	693
Current portion of long-term debt	17	**101,203**	25,150
		246,173	164,908
Long-term liabilities			
Derivative contract liabilities	7a	**6,286**	11,243
Deferred income tax liabilities	14a	**204,125**	192,829
Deferred revenue	15b	**32,063**	21,600
Finance lease obligations	16	**3,261**	3,407
Long-term debt	17	**1,243,334**	1,194,850
Liability for asset retirement obligation	18	**4,767**	4,364
Total liabilities		**1,740,009**	1,593,201
Equity attributable to shareholders' of Capstone		**520,535**	516,706
Non-controlling interest	20	**261,545**	190,073
Total liabilities and shareholders’ equity		**2,522,089**	2,299,980
Commitments and contingencies	25		
Subsequent events	29		

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, 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	19a	39	—	—	—	—	39
Release of share option reserve		—	(144)	—	144	—	—
Dividends declared to common shareholders of Capstone	19a, d	2,711	—	—	(28,977)	—	(26,266)
Dividends declared to preferred shareholders of Capstone (5)	19d	—	—	—	(3,923)	—	(3,923)
Dividends declared to NCI	20	—	—	—	—	(9,137)	(9,137)
Disposal of partial interest in Chi-Wiikwedong LP	20d	—	—	—	(6,365)	7,894	1,529
Contributions from NCI	20	—	—	—	—	14,604	14,604
Balance, Dec 31, 2014		812,142	9,284	19,994	(324,714)	190,073	706,779
Other comprehensive income (loss)		—	—	31,157	3,020	25,517	59,694
Net income for the period		—	—	—	135	26,057	26,192
Dividends declared to common shareholders of Capstone	19a, d	2,577	—	—	(29,193)	—	(26,616)
Dividends declared to preferred shareholders of Capstone (5)	19d	—	—	—	(3,867)	—	(3,867)
Dividends declared to NCI	20	—	—	—	—	(6,143)	(6,143)
Net convertible debenture advances	20c	—	—	—	—	26,041	26,041
Balance, Dec 31, 2015		814,719	9,284	51,151	(354,619)	261,545	782,080

(1) Share capital includes common and preferred shares and Class B exchangeable units.
(2) Other equity items include the equity portion of Capstone's 2016 convertible debentures.
(3) Accumulated other comprehensive income (loss) ("AOCI").
(4) Non-controlling interest ("NCI"). See note 20.
(5) Dividends declared to preferred shareholders of Capstone include $117 of deferred income taxes (2014 - $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, 2015	Dec 31, 2014
Revenue		**344,983**	441,578
Operating expenses	23	**(164,039)**	(210,520)
Administrative expenses	23	**(11,782)**	(13,266)
Project development costs	23	**(7,253)**	(2,664)
Asset impairment charges	10e	**—**	(30,592)
Equity accounted income (loss)	9a	**(816)**	(1,127)
Interest income	7b	**4,737**	4,234
Net pension interest income	13	**3,062**	2,132
Other gains and (losses), net	24	**(10,385)**	(7,669)
Foreign exchange gain (loss)		**3,720**	(4,673)
Earnings before interest expense, taxes, depreciation and amortization		**162,227**	177,433
Interest expense	7b	**(57,941)**	(54,145)
Depreciation of capital assets	10	**(70,895)**	(67,912)
Amortization of intangible assets	12	**(13,086)**	(11,854)
Earnings before income taxes		**20,305**	43,522
Income tax recovery (expense)			
Current		**2,738**	(3,981)
Deferred		**3,149**	(5,994)
Total income tax recovery (expense)	14d	**5,887**	(9,975)
Net income (loss)		**26,192**	33,547
Net income (loss) attributable to:			
Shareholders of Capstone		**135**	9,467
Non-controlling interest	20	**26,057**	24,080
		26,192	33,547
Earnings per share	21		
Basic		**(0.038)**	0.057
Diluted		**(0.038)**	0.057

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the year ended Dec 31, 2015	Dec 31, 2014
Cumulative differences on translation of foreign operations		**53,330**	8,083
Other comprehensive income from equity accounted investments	9a	**80**	(1,438)
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2015 – $219 expense, 2014 – $120 recovery, respectively)		**244**	(866)
Total of items that may be reclassified subsequently to net income		**53,654**	5,779
Actuarial gains (losses) recognized in respect of retirement benefit obligations (net of tax in 2015 – $759 recovery, 2014 – $5,611 expense, respectively) - will not be reclassified to net income	13	**6,040**	22,444
Other comprehensive income (loss)		**59,694**	28,223
Net income (loss)		**26,192**	33,547
Total comprehensive income (loss)		**85,886**	61,770
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		**34,312**	23,671
Non-controlling interest	20	**51,574**	38,099
		85,886	61,770

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the year ended Dec 31, 2015	Dec 31, 2014
Operating activities:			
Net income		**26,192**	33,547
Deferred income tax expense (recovery)		**(3,149)**	5,994
Depreciation and amortization		**83,981**	79,766
Asset impairment charges	10e	**—**	30,592
Other gains and losses (net)		**1,115**	3,907
Amortization of deferred financing costs and non-cash financing costs		**2,934**	6,687
Equity accounted (income) loss	9a	**816**	1,127
Unrealized foreign exchange (gain) loss on loan receivable	6	**(3,527)**	3,914
Change in non-cash working capital	28	**8,538**	(9,816)
Total cash flows from operating activities		**116,900**	155,718
Investing activities:			
Investment in capital assets	10b	**(100,422)**	(129,813)
Investment in projects under development	11b	**(93,973)**	(127,624)
Decrease (increase) in restricted cash		**38,176**	(36,091)
Distributions from equity accounted investments	9a	**5,825**	7,430
Repayments of loans receivable		**12,948**	1,220
Advances of loans receivable		**—**	(11,500)
Purchase of foreign currency forwards		**—**	(1,047)
Total cash flows used in investing activities		**(137,446)**	(297,425)
Financing activities:			
Proceeds from issuance of long-term debt		**177,023**	305,557
Repayment of long-term debt and finance lease obligations		**(132,649)**	(121,418)
Dividends paid to common and preferred shareholders		**(30,364)**	(30,015)
Convertible debenture advances		**30,159**	—
Dividends paid to non-controlling interests	20	**(6,143)**	(9,137)
Transaction costs on debt issuance		**(4,033)**	(4,392)
Contributions from non-controlling interest		**—**	13,918
Total cash flows from (used in) financing activities		**33,993**	154,513
Effect of exchange rate changes on cash and cash equivalents		**2,103**	268
Increase (decrease) in cash and cash equivalents		**15,550**	13,074
Cash and cash equivalents, beginning of year		**58,842**	45,768
Cash and cash equivalents, end of year		**74,392**	58,842
Supplemental information:			
Interest paid		**58,083**	51,518
Taxes paid (recovery)		**2,980**	4,654

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, 2015, 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 468 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 3, 2016.

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 7). 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.

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, 2015	2014	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
Parc Éolien Saint-Philémon S.E.C. ("Saint-Philémon")	Canada	51%	51%	Power generation
Chi-Wiikwedong LP ("Goulais")	Canada	51%	51% (1)	Power generation
Chi-Wiikwedong Holdings LP	Canada	100%	100%	Power generation
Capstone Power Development Canada Corp.	Canada	100%	100%	Development
Ganaraska and Grey Highlands ZEP wind development projects ("GHG")	Canada	75% (2)	75%	Power generation under construction
Snowy Ridge and Settlers Landing wind development projects	Canada	75% (2)	75%	Power generation under construction
Grey Highlands Clean Energy Development LP ("Grey Highlands Clean")	Canada	75% (3)	Nil	Power generation under construction
Bristol Water plc and group companies (collectively "Bristol Water")	United Kingdom	50% (4)	50% (4)	Regulated water utility

(1) On August 14, 2014, Capstone sold a 49% interest in the Goulais wind development project.
(2) As at December 31, 2015, Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing (the "Wind Works" development projects) were 25% held by the original developer, which will continue until the respective commercial operations dates ("COD"), at which point Capstone will acquire the remaining interest.
(3) On April 7, 2015, Capstone acquired 75% interest in the Grey Highlands Clean wind development project.
(4) 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, or has the ability to exercise joint 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, 2015	2014	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:

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the year ended	**Average**	**Spot**	**Average**	**Spot**
Dec 31, 2014	0.1605	0.1483	1.8192	1.8071
Dec 31, 2015	**0.1516**	**0.1638**	**1.9540**	**2.0407**

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 consolidated 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	23 to 210 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 water 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 2015 and 2014, 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 are recorded at the hourly average weighted power pool rate.

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. In addition, costs related to the 2015 strategic review have been included with corporate project development costs.

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 22 (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 22 (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. Debenture conversions 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 • Cardinal's 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. In 2015, the Corporation's derivatives include interest rate swaps, an embedded derivative in Whitecourt's fuel supply agreement and foreign currency contracts. In addition, 2014 included an embedded derivative in Cardinal's gas purchase contract, as well as gas forward sale and purchase 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.

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’s accounting policies are consistent with those disclosed in the notes to the December 31, 2014 consolidated financial statements.

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:

Title of the New IFRS	Nature of the Impending Change to Capstone
IFRS 15, Revenue from Contracts with Customers Effective: Jan 1, 2018	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 will require 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 will 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 will be 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.
IFRS 16, Leases Effective: Jan 1, 2019	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. In addition, revised guidance on identifying a lease and for separating lease and non-lease components of a contract is provided. Lessors will continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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 • Expected settlement date, amount and discount rate • Future cash flows and discount rate
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.	• Forward Alberta power power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales

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 $612.	• 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. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Dec 31, 2015	Dec 31, 2014
Debt service and maintenance reserves	**23,434**	18,714
Construction escrow	**2,992**	47,091
Cash on deposit	**2,638**	73
Restricted cash	**29,064**	65,878
Unrestricted cash and cash equivalents	**74,392**	58,842
	103,456	124,720

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. Capstone has also provided letters of credit to back other reserve requirements. Refer to note 17 for further details.

NOTE 4. TRADE AND OTHER RECEIVABLES

	Dec 31, 2015	Dec 31, 2014
Power	**19,496**	35,542
Utilities – water	**57,665**	56,823
Corporate	**14**	2,190
Total trade and other receivables	**77,175**	94,555

Substantially all of the power segment accounts receivable are with government authorities. Refer to note 8 (b) and 8 (c) for further detail of credit risk and economic dependence.

The utilities – water segment accounts receivable comprised:

	Dec 31, 2015	Dec 31, 2014
Trade receivables	**60,618**	51,053
Less: provision for impairment of receivables	**(37,043)**	(28,478)
Net trade receivables	**23,575**	22,575
Income taxes recoverable	**1,742**	—
Other receivables	**5,895**	5,166
Accrued revenue	**26,453**	29,082
	57,665	56,823

The aging of net trade receivables at Bristol Water was:

	Dec 31, 2015	Dec 31, 2014
Past due 0 -30 days	**4,259**	4,996
Past due 31-120 days	**2,582**	5,948
Past due more than 120 days	**16,734**	11,631
	23,575	22,575

As at December 31, 2015, based on a review of collection rates, $37,043 of trade receivables in the utilities – water segment were considered impaired and have been provided for (December 31, 2014 – $28,478).

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

	2015	2014
As at January 1	**(28,478)**	(25,775)
Charge to statement of income	**(5,870)**	(6,629)
Amounts written off during the year as uncollectable	**1,194**	4,562
Net foreign exchange difference	**(3,889)**	(636)
As at December 31	**(37,043)**	(28,478)

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 5. OTHER ASSETS

	Dec 31, 2015	Dec 31, 2014
Prepaid expenses	**6,773**	4,826
Inventory of spare parts and consumable supplies, net (1)	**4,131**	4,074
Assets held for sale (2)	**—**	700
	10,904	9,600

(1) Inventory as at December 31, 2015 is net of a $557 provision for obsolescence (December 31, 2014 - $366).
(2) The Confederation Power wind facilities were sold on May 19, 2015.

The cost of inventories recognized in operating expenses for the year ended December 31, 2015 was $5,979 (December 31, 2014 – $6,615).

NOTE 6. LOANS RECEIVABLE

The following table summarizes the loans receivable:

	Maturity	Interest Rate	**Dec 31, 2015**	Dec 31, 2014
Värmevärden	2021	7.944%	**37,271**	33,744
Batchewana First Nation of Ojibways ("BFN")	Settled on Dec 3, 2015		**—**	11,500
Chapais Électrique Limitée ("Chapais")	Settled on Nov 30, 2015		**—**	1,359
Macquarie Long Term Care LP ("MLTCLP")	Settled on Sep 4, 2015		**—**	89
			37,271	46,692
Less: current portion			**—**	(1,448)
Total long-term loans receivable			**37,271**	45,244

Accrued interest on the loans receivable in the amount of $24 for the year ended December 31, 2015 is included in accounts receivable (December 31, 2014 – $379). The estimated fair values of the loans receivable as at December 31, 2015 and 2014 approximate the carrying values.

Värmevärden

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

	December 31, 2015		December 31, 2014	
	SEK	**$**	SEK	$
Opening balance	**227,541**	**33,744**	227,541	37,658
Unrealized foreign exchange gain (loss)	**—**	**3,527**	—	(3,914)
Ending balance	**227,541**	**37,271**	227,541	33,744

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

NOTE 7. FINANCIAL INSTRUMENTS

(A) Fair Value of Financial Instruments

In 2015, 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 Whitecourt fuel supply 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, 2015, 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:

- 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 continues to meet the requirements to be accounted for as a cash flow hedge and was assessed to be highly effective as at December 31, 2015.
- 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 continues to meet the requirements to be accounted for as a cash flow hedge and was assessed to be highly effective as at December 31, 2015.
- GHG has swap agreements with notional amounts equal to the outstanding principal value of the debt. The first swaps apply to the term of the construction facility, while the second applies to the period while the debt is a term loan. Under these swap agreements, Capstone will receive Canadian Dollar Offered Rate ("CDOR") in exchange for fixed rates of0.96% and 1.45%, respectively expiring on June 30, 2016 and 2021. Upon maturity of the term loan, GHG has a third set of swaps with an initial notional amount of $44,698 to exchange CDOR for a fixed rate of 3.17% expiring on June 30, 2034.

Whitecourt embedded derivative

On March 2, 2015, Whitecourt entered into a new fuel supply agreement with Millar Western for 15 years, which is extendable to 20 years. The new agreement, which has a commencement date of January 1, 2015, includes power price support and revenue sharing mechanisms that reduce Whitecourt's exposure to merchant price risk in Alberta.

The price support and revenue sharing mechanisms are embedded derivatives that are measured at fair value and result in an asset during periods when the projected merchant power price is forecast to be lower than the price support and a liability during periods when the merchant power price is forecast to be higher.

On March 2, 2015, Capstone recognized an asset of $5,297 based on the fair value of the Whitecourt fuel supply agreement, which is equal to and offsets the fair value of the embedded derivative included in Whitecourt's fuel supply agreement at inception. Capstone will amortize the inception value to income over 15 years, representing the life of the fuel supply agreement.

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, 2015, are:

	Swedish Krona (SEK)		UK Pound Sterling (£)	
Expiry	**Notional Amount**	**Conversion Rate**	**Notional Amount**	**Conversion Rate**
2016 (Jan - Jun)	9,100	6.5165	£2,600	1.8000
2016 (Jul - Dec)	9,000	6.4000	£2,600	1.8000
2017	15,000	6.4000	nil	nil
2018	6,500	6.4000	nil	nil
	39,600		£5,200	

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.
Whitecourt embedded derivative	• The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including estimates on the forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales.
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 Whitecourt embedded derivatives, the contract has been classified as Level 3 financial instruments.

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 6 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, 2015.

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 17 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, that have been recorded at fair value:

	Level 1 Quoted prices in active markets for identical assets	**Level 2** Significant other observable inputs	**Level 3** Significant unobservable inputs	**Dec 31, 2015**	Dec 31, 2014
Cash and cash equivalents	74,392	—	—	**74,392**	58,842
Restricted cash	29,064	—	—	**29,064**	65,878
Recurring measurements:					
Derivative contract assets:					
Foreign currency contracts	—	166	—	**166**	1,717
Forward gas sale contract (1)	—	—	—	**—**	3,330
Less: current portion	—	(58)	—	**(58)**	(4,279)
	—	108	—	**108**	768
Derivative contract liabilities:					
Whitecourt embedded derivative (2)	—	—	3,148	**3,148**	—
Interest rate swap contracts - hedge accounted	—	2,271	—	**2,271**	2,824
Interest rate swap contracts (3), (4)	—	1,121	—	**1,121**	10,507
Gas purchase agreements (1)	—	—	—	**—**	4,364
Cardinal embedded derivative (1)	—	—	—	**—**	168
Less: current portion	—	(254)	—	**(254)**	(6,620)
	—	3,138	3,148	**6,286**	11,243

(1) Expired in May 2015.
(2) Whitecourt's embedded derivative consists of a $1,796 fair value asset, fully offset by the $4,944 amortized contra-asset, set up on inception.
(3) In July 2015, the Amherstburg interest rate swap was terminated.
(4) In December 2015, GHG entered into three interest rate swap contracts.

Fair value continuity for Level 3 inputs

	2015	2014
Opening balance, January 1,	(4,532)	(4,622)
Day-one gain from transfer of the Cardinal gas purchase agreement included in other gains and (losses) in net income	—	2,986
Change in value of the Cardinal gas purchase agreement included in other gains and (losses) in net income	4,364	(7,350)
Change in value of the Cardinal embedded derivative included in other gains and (losses) in net income	168	4,454
	—	(4,532)
Change in value of the Whitecourt embedded derivative included in other gains and (losses) in net income	540	—
Settlement of Whitecourt embedded derivative during the period	(4,040)	—
Amortization of Whitecourt embedded derivative inception value included in other gains and (losses) in net income	352	—
Closing balance, December 31,	(3,148)	(4,532)

(B) Income and Expenses From Financial Instruments

	Dec 31, 2015	Dec 31, 2014
Financial instruments designated as held-for-trading:		
Interest income on cash and cash equivalents, restricted cash (1)	**931**	856
Financial instruments classified as held-for-trading (Refer to note 24):		
Unrealized gain (loss) on foreign currency contracts	**(1,552)**	205
Unrealized gain (loss) on interest rate swap contracts	**9,387**	(4,342)
Unrealized gain (loss) on the Whitecourt embedded derivative	**886**	—
Unrealized gain (loss) on the Cardinal derivatives (2)	**1,203**	3,420
	9,924	(717)
Realized gain (loss) on Amherstburg's interest rate swap contract	**(13,045)**	—
Loans and receivables (3):		
Interest income from loans receivable (1)	**3,806**	3,378
Other liabilities:		
Interest recovery (expense) on finance lease obligations (4)	**355**	(46)
Interest expense on long-term debt (5)	**(58,296)**	(54,099)
	(57,941)	(54,145)

(1) Interest income for 2015 of $4,737 (2014 – $4,234) includes interest income from loans receivable and cash balances.
(2) Include the Cardinal's gas purchase agreement, gas swap, and forward gas sale and purchase agreements, and embedded derivatives.
(3) Foreign exchange gains and losses on loans receivable are also recognized in the statement of income as disclosed in note 6.
(4) Interest recovery on finance lease obligations consists of interest expense of $258, offset by a recovery of $613.
(5) Interest expense on the long-term debt for 2015 includes amortization of deferred financing fees of $1,759 (2014 – $1,090).

NOTE 8. FINANCIAL RISK MANAGEMENT

The Corporation's normal operating, investing and financing activities expose it to a variety of financial risks, including market 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 commodity price risk (containing gas purchases, electricity revenue and water treatment costs), interest rate and inflation risk, foreign currency exchange risk 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 buys gas at spot rates to generate electricity and as such is exposed to changes in the market price. This risk is mitigated because Cardinal offers electricity to the IESO when prices are expected to cover the cost of gas.

Electricity revenue

In 2015, both Cardinal and Whitecourt's revenues are exposed to price risk as follows:

(i) Cardinal earns a portion of its revenue by supplying electricity to the Ontario grid only when profitable to do so.
(ii) Whitecourt sells 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:

Entity	Maturity Date	Notional Amount	Swap Fixed Rate	Stamping Fee / Margin	Effective Interest Rate
Bristol Water	Dec 7, 2017	£10,000	5.03%	0.71%	5.74%
Bristol Water	Dec 3, 2019	£50,000	1.50%	0.90%	2.40%
GHG	Jun 30, 2016	(1)	0.96%	1.63%	2.59%
GHG	Jun 30, 2021	(1)	1.45%	1.63%	3.08%
GHG	Jun 30, 2034	44,698	3.17%	1.63%	4.80%

(1) Notional amounts equal to the outstanding principal value of the debt during the term of the construction facility and term loan. Refer to note 17 (b)(ii) for further detail on the terms of GHG's long-term debt.

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 17 (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, 2015**	Dec 31, 2014
Independent Electricity System Operator ("IESO")	**5,245**	16,624
Ontario Electricity Financial Corporation ("OEFC")	**1,058**	9,081
Other	**13,207**	12,027
	19,510	37,732

There are no accounts receivable that are past due. Since the 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, 2015**	Dec 31, 2014
IESO	**67,858**	52,103
OEFC	**7,871**	101,450
Other	**42,227**	49,755
	117,956	203,308

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.

As at December 31, 2015, the Corporation has debt obligations falling due with one year of $101,203. This debt includes regular scheduled amortization on long term debt, debt that has been repaid subsequent to year end, as well as debt that comes due in 2016 some of which is planned to be repaid as part of the iCON acquisition. The Corporation expects to refinance any remaining debt maturities or find alternate sources of financing. The Corporation is actively in discussion with lenders.

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 15 (Accounts payable and other liabilities), 16 (Finance lease obligations) and 17 (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, 2015 were as follows:

Financial Liabilities	Within one year	One year to five years	Beyond five years	Total
Accounts payable and other liabilities	143,903	—	—	143,903
Derivative financial instruments				
Whitecourt embedded derivative	—	—	3,148	3,148
Interest rate swaps	254	2,666	472	3,392
	254	2,666	3,620	6,540
Finance lease obligations				
Minimum lease payments	714	3,341	—	4,055
Finance charges	—	471	—	471
	714	3,812	—	4,526
Long-term debt				
Principal payments	102,273	342,347	887,404	1,332,024
Interest payments	53,313	182,091	691,229	926,633
	155,586	524,438	1,578,633	2,258,657

(E) Sensitivity Analysis

The sensitivity analysis provided below discloses the effect on net income for the year ended December 31, 2015, 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, 2015 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, 2015 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 Whitecourt embedded derivatives' significant unobservable inputs:

Dec 31, 2015	Unobservable inputs	Estimated input	Relationship of input to fair value
$3,148	Forward Alberta power pool prices	From $30/MWh to $134/MWh over the next 15 years.	A reasonably possible increase in estimated forward prices of 5% or a decrease of 5%, would cause fair value to decrease by $4,375 and increase by $4,448, respectively.

Changes in this estimates may have a significant impact on the fair value of the embedded derivative given the 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, 2015	Carrying Amount	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]	74,392	(372)	372	—	—
Restricted cash	29,064	(145)	145	—	—
Loans receivable from Värmevärden	37,271	—	—	(3,727)	3,727
Financial liabilities:					
Finance lease obligations	4,074	22	(22)	—	—
Long-term debt [2]	67,173	336	(336)	—	—
Interest rate swap contracts, net[3]	1,121	2,982	(3,175)	—	—

(1) Cash and cash equivalents include deposits at call, which are at floating interest rates.
(2) Long-term debt excludes all fixed-rate debt totaling $1,139,050 and variable rate debt that is covered by a swap for fixed-rate debt totaling $152,441.
(3) Interest rate swaps exclude Bristol Water's cash flow hedges of $2,270 as changes flow through OCI.

UK pound sterling and Swedish krona 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, 2015	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	3,516	(3,516)	—	—
Impact on equity	2,813	(2,813)	5,161	(5,161)

NOTE 9. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

As at	Dec 31, 2015 Ownership %	Dec 31, 2015 Carrying Value	Dec 31, 2014 Ownership %	Dec 31, 2014 Carrying Value
Värmevärden [1]	**33.3%**	**—**	33.3%	3,924
Glen Dhu [2]	**49.0%**	**22,814**	49.0%	24,477
Others [3]	**31.3-50.0%**	**578**	31.3-50.0%	655
		23,392		29,056

(1) Capstone no longer records equity accounted income (losses) for Värmevärden, as the equity accounted losses and distributions exceeded the carrying value. For 2015, Capstone has unrecognized losses of $642, relating to Värmevärden. Until cumulative unrecognized losses and dividends become positive, Capstone will carry its investment at nil and record dividends as other gains in the statement of income.
(2) 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.
(3) Others are Capstone's investment in Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick") (2014 - Fitzpatrick, MLTCLP and Chapais).

Each equity accounted investment is subject to a shareholder or limited partnership agreement that governs distributions from these investments. In addition, distributions must comply with the respective credit agreements. See note 6 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	Equity Accounted Income (Loss)	Equity Share of OCI	Distributions Received [1]	Other	Ending Balance
Dec 31, 2015	**29,056**	**(816)**	**80**	**(4,928)**	**—**	**23,392**
Dec 31, 2014	39,051	(1,127)	(1,438)	(7,430)	—	29,056

(1) Distributions received excludes dividends of $897 from Värmevärden, which are included in the statement of income since equity accounted losses and distributions exceeded the carrying value. The statement of cash flows includes $5,825 in investing activities, which contains the dividends from Värmevärden, as well as the distributions received from the other equity accounted investments.

(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, 2015				Dec 31, 2014			
Summarized Statements of Financial Position	**Värmevärden**	**Glen Dhu**	**Others**	**Total**	Värmevärden	Glen Dhu	Others	Total
Assets								
Current	**49,696**	**7,338**	**260**	**57,294**	50,683	7,623	10,139	68,445
Non-current	**293,905**	**113,497**	**2,380**	**409,782**	282,917	121,083	4,943	408,943
Liabilities								
Current	**(13,431)**	**(7,267)**	**(2,494)**	**(23,192)**	(15,298)	(7,043)	(9,971)	(32,312)
Non-current	**(328,190)**	**(93,531)**	**(399)**	**(422,120)**	(300,425)	(100,021)	(27,773)	(428,219)
Equity before fair value increments on purchase and NCI	**1,980**	**20,037**	**(253)**	**21,764**	17,877	21,642	(22,662)	16,857
Amounts attributable to NCI	**(4,851)**	**—**	**—**	**(4,851)**	(6,093)	—	—	(6,093)
Amounts unrecognized for equity accounting	**2,871**	**—**	**—**	**2,871**	—	—	—	—
Fair value increments, net of amortization	**—**	**26,522**	**1,419**	**27,941**	—	28,311	23,971	52,282
Equity including unamortized fair value increments on purchase	**—**	**46,559**	**1,166**	**47,725**	11,784	49,953	1,309	63,046
Capstone's interest	**33.3%**	**49.0%**	**31.3-50.0%**		33.3%	49.0%	31.3-50.0%	
Carrying value of investment	**—**	**22,814**	**583**	**23,397**	3,924	24,477	655	29,056

For the year ended	Dec 31, 2015				Dec 31, 2014			
Summarized Statements of Income	**Värmevärden**	**Glen Dhu**	**Others**	**Total**	Värmevärden	Glen Dhu	Others	Total
Revenue	**89,171**	**19,968**	**282**	**109,421**	98,736	20,720	20,753	140,209
Net Income	**(6,692)**	**3,346**	**(44)**	**(3,390)**	(6,109)	3,630	(11,037)	(13,516)
OCI	**1,997**	**—**	**—**	**1,997**	(4,314)	—	—	(4,314)
Total comprehensive Income	**(4,695)**	**3,346**	**(44)**	**(1,393)**	(10,423)	3,630	(11,037)	(17,830)
Capstone's interest	**33.3%**	**49%**	**31.3-50.0%**		33.3%	49%	31.3-50.0%	
Sub-total	**(1,563)**	**1,640**	**(22)**	**55**	(3,471)	1,779	(3,464)	(5,156)
Amortization of fair value adjustments and other	**134**	**(881)**	**(44)**	**(791)**	—	(805)	3,396	2,591
Total	**(1,429)**	**759**	**(66)**	**(736)**	(3,471)	974	(68)	(2,565)
Net income to Capstone				**(816)**				(1,127)
OCI to Capstone				**80**				(1,438)
				(736)				(2,565)

In 2015, Capstone received distributions of $2,504 (2014 - $4,612) from Värmevärden and $2,424 (2014 - $2,818) from Glen Dhu.

NOTE 10. CAPITAL ASSETS

(A) Continuity

	Jan 1, 2015 (1)	Additions	Disposals (2)	Foreign Exchange	Transfers (3)	Dec 31, 2015
Cost						
Land	4,075	—	—	395	104	4,574
Equipment and vehicles	11,832	83	(4,015)	1,043	2,228	11,171
Property and plant	1,102,868	26,097	(29,589)	72,828	241,063	1,413,267
Water network	555,144	15,640	—	81,991	17,076	669,851
Construction in progress	61,444	54,098	—	8,343	(108,997)	14,888
	1,735,363	95,918	(33,604)	164,600	151,474	2,113,751
Accumulated depreciation						
Equipment and vehicles	(4,094)	(1,717)	3,784	(705)	—	(2,732)
Property and plant	(281,991)	(60,126)	19,633	(32,923)	—	(355,407)
Water network	(31,091)	(9,052)	—	(13,236)	—	(53,379)
Net carrying value	1,418,187	25,023	(10,187)	117,736	151,474	1,702,233

(1) The Confederation Power wind facilities were sold on May 19, 2015.
(2) Disposals include $14,831 of capital asset derecognition for Cardinal assets replaced as part of the conversion to a cycling facility. The derecognition resulted in a loss of $7,430, which is included in other gains and losses on the consolidated statement of income. Refer to note 24.
(3) Includes transfers of $153,766 for Saint-Philémon and Goulais at the COD from projects under development, less $2,292 transferred to intangibles from Bristol Water. Refer to notes 11 and 12, respectively.

	Jan 1, 2014	Additions	Disposals	Foreign Exchange	Transfers	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

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

For the year ended	Dec 31, 2015	Dec 31, 2014
Additions	**95,918**	128,840
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	**2,631**	427
Net foreign exchange difference	**1,873**	546
Cash additions	**100,422**	129,813

(C) Construction in Progress

The net book value of capital assets includes $9,577 (December 31, 2014 - $7,410) of capitalized interest at Bristol Water in accordance with IAS 23, of which $1,158 was capitalized in 2015. Capstone has used 4.5% as the interest rate to determine the amount capitalized (December 31, 2014 - 4.6%).

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, 2015	**5**	**7,188**	**414**	**7,607**
Dec 31, 2014	5	15,121	1,422	16,548

(E) Impairments

At the end of each reporting period, Capstone reviews its capital assets and amortizing intangible assets to determine if any indicators of impairment exist. Consistent with the prior year, as at December 31, 2015, Capstone identified the deficit of market capitalization to the carrying amount of owners' equity as an indicator of impairment. Consequently, Capstone performed a comprehensive analysis, which confirmed that the fair value of its assets was greater than the carrying amounts included in these consolidated financial statements. As a result, no impairments were recognized at December 31, 2015.

Capstone's determination of fair value was based on a discounted cash flow analysis of the expected future cash flows for each cash generating unit ("CGU"). The analysis then compared the recoverable amount of each CGU with the carrying amount included in the consolidated statement of financial position. For the purposes of this analysis, the recoverable amount was determined based on a fair value less costs to sell ("FVLCS"). The FVLCS analysis 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.

In 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
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 were classified as held for sale at December 31, 2014.

NOTE 11. PROJECTS UNDER DEVELOPMENT

(A) Continuity

	2015	2014
As at January 1	**151,361**	23,983
Capitalized costs during the year (1)	**115,267**	148,495
Costs transferred to capital assets (2) (refer to note 10)	**(153,766)**	(20,519)
Costs transferred to intangibles (2) (refer to note 12)	**(6,662)**	(598)
As at December 31	**106,200**	151,361

(1) Includes $1,393 of capitalized borrowing costs during the construction of Goulais using the rate of the respective long-term debt (December 31, 2014 - $2,938 for Saint-Philémon and Goulais).

(2) Amounts were transferred on COD of Saint-Philémon and Goulais (December 31, 2014 - COD of Skyway 8).

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

For the year ended	**Dec 31, 2015**	Dec 31, 2014
Additions	**115,267**	148,495
Adjustment for change in additions to projects under development included in accounts payable and accrued liabilities	**(21,294)**	(20,871)
Cash additions	**93,973**	127,624

NOTE 12. INTANGIBLE ASSETS

(A) Continuity

	Jan 1, 2015	Additions	Disposals	Foreign Exchange	Transfers	Dec 31, 2015
Assets						
Computer software (1)	19,063	—	(2,816)	5,683	2,292	24,222
Electricity supply and other contracts (2)	127,987	—	—	75	6,662	134,724
Water rights	73,018	—	—	—	—	73,018
Licence	24,034	—	—	3,107	—	27,141
Goodwill	156,079		—	20,177	—	176,256
Accumulated amortization						
Computer software	(8,714)	(3,994)	2,816	(4,408)	—	(14,300)
Electricity supply and other contracts	(33,545)	(6,976)	—	—	—	(40,521)
Water rights	(15,910)	(2,116)	—	—	—	(18,026)
	342,012	(13,086)	—	24,634	8,954	362,514

(1) Includes transfers of $2,292 for Bristol Water from capital assets. Refer to note 10.
(2) Transfer is composed of $6,662 from PUD on the COD of Goulais. Refer to note 11.

	Jan 1, 2014	Additions	Disposals	Foreign Exchange	Transfers	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)	—	598	127,987
Water rights	73,018	—	—	—	—	73,018
Licence	23,443	—	—	591	—	24,034
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, gas purchase and other contracts	12,257	—	(12,257)	—	—	—
Utilization	(10,623)	(1,630)	12,253	—	—	—
	1,634	(1,630)	(4)	—	—	—

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.

(B) Impairments

On October 6, 2015, the CMA published its final determination for Bristol Water's AMP6 business plan, which runs until March 31, 2020.

Management has updated its goodwill impairment analysis for the CMA's final determination. The recoverable amount was based on the fair value less cost of disposal method and concluded that no impairment charge was required. This method was based on a discounted cash flow model and incorporated assumptions that market participants would use in estimating fair value. The discounted cash flow model incorporates management's best estimates of future cash flows, a post-tax discount rate and terminal value. Management cautions that a change in key assumptions on which the recoverable amount is based may cause the carrying amount of the utilities - water segment to exceed its recoverable amount, resulting in an impairment to goodwill.

NOTE 13. 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, 2015 was $2,512 (December 31, 2014 – $2,189).

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, 2015 was updated to December 31, 2015, by Lane, Clark & Peacock LLP, using the following significant assumptions in accordance with IAS 19:

Assumptions	**2015**	2014
Inflation – Retail Price Index	**3.2%**	3.2%
Inflation – Consumer Price Index	**2.2%**	2.2%
Pension increases uncapped	**2.2%**	2.2%
Pension increases capped at 5%	**2.2%**	2.2%
Salary increases	**3.7%**	3.7%
Discount rate	**3.7%**	3.5%

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, 2015**		Dec 31, 2014	
	Amount	**Allocation**	Amount	Allocation
Equities	**11,671**	**3%**	17,916	5%
Diversified growth funds	**12,963**	**3%**	10,569	3%
Bonds	**367,624**	**90%**	325,327	88%
Emerging markets multi-asset funds	**6,667**	**2%**	5,860	2%
High yield bonds	**7,299**	**2%**	6,343	2%
Other	**1,535**	**—%**	1,146	—%
Market value of assets	**407,759**	**100%**	367,161	100%
Present value of liabilities	**(309,201)**		(288,411)	
Surplus	**98,558**		78,750	

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 100% adjustment to mortality rates (this adjustment reflects Bristol Water's membership profile) and with future improvements in line with CMI 2014 projections from 2007, subject to a minimum increase of 1.5% and 1.25% per annum, for males and females, respectively. Per the mortality assumptions used, the average life expectancy for a male pensioner currently aged 60 is 27.7 years and for a female pensioner currently aged 60 is 29.6 years (December 31, 2014 – 28.1 male, 29.9 female).

The allowance for future improvements in longevity is such that a male retiring at age 60 in 2040 (i.e. in 25 years' time) is expected to have an average life expectancy from retirement of 30.6 years, and a female retiring at age 60 in 2040 is assumed to have an average life expectancy of 32.1 years (December 31, 2014 – 31.1 male, 32.4 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 $4,076 (£2,086) (December 31, 2014 – $4,248 (£2,335)). For normal employer contributions after April 1, 2015 Bristol Water was required to contribute at the rates of 34% for the main sub Section and 27% 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, 2016 is $4,055 (£2,000).

Changes in Comprehensive Income

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

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Employer current service cost	**2,634**	2,376
Employee current service cost	**582**	627
Section expenses	**566**	505
Total operating expense	**3,782**	3,508
Interest income on Section assets	**13,748**	13,463
Interest expense on Section obligation	**(10,686)**	(11,331)
Net pension interest income	**3,062**	2,132
Gain/(loss) from change in financial assumptions	**8,257**	(21,459)
Gain/(loss) from change in demographic assumptions	**5,219**	(2,800)
Experience gains/(losses)	**3,077**	(739)
Return on plan assets, excluding amounts included in interest income	**(11,272)**	53,053
Deferred tax (expense)/recovery	**759**	(5,611)
Actuarial gain/(loss) recognized in OCI	**6,040**	22,444

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, 2015**			December 31, 2014	
	Asset	**Liability**	**Total**	Asset	Liability	Total
Opening surplus in Section	**367,161**	**(288,411)**	**78,750**	300,606	(254,365)	46,241
Current service cost	**—**	**(2,634)**	**(2,634)**	—	(2,376)	(2,376)
Pension interest	**13,748**	**(10,686)**	**3,062**	13,463	(11,331)	2,132
Section expenses	**(566)**	**—**	**(566)**	(505)	—	(505)
Re-measurements:						
Gain/(loss) from change in financial assumptions	**—**	**8,257**	**8,257**	—	(21,459)	(21,459)
Gain/(loss) from change in demographic assumptions	**—**	**5,219**	**5,219**	—	(2,800)	(2,800)
Experience gains/(losses)	**—**	**3,077**	**3,077**	—	(739)	(739)
Return on plan assets, excluding amounts included in interest income	**(11,272)**	**—**	**(11,272)**	53,053	—	53,053
Contributions by employer	**4,076**	**—**	**4,076**	4,248	—	4,248
Contributions by employees	**582**	**(582)**	**—**	627	(627)	—
Benefits paid	**(13,178)**	**13,178**	**—**	(11,685)	11,685	—
Foreign exchange	**47,208**	**(36,619)**	**10,589**	7,354	(6,399)	955
Ending surplus in Section	**407,759**	**(309,201)**	**98,558**	367,161	(288,411)	78,750

The actual return on the Section's assets for the year ended as at December 31, 2015 was a gain of $2,476 (£1,267) (December 31, 2014 – gain of $66,517 (£36,564)).

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%	4,490	(4,694)
Inflation	0.1%	(3,469)	3,469
Value of return seeking asset portfolio	25% (1)	9,591	(9,591)
Life expectancy	1 year	(9,183)	9,183

(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 14. INCOME TAXES

(A) Deferred Income Tax

As at	**Dec 31, 2015**	Dec 31, 2014
Deferred income tax assets	**220**	—
Deferred income tax liabilities	**(204,125)**	(192,829)
Net deferred income tax liability	**(203,905)**	(192,829)

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, 2015**	Dec 31, 2014
Non-capital loss carry forwards	**29,923**	24,731
Loan premium and deferred financing costs	**11,041**	12,005
Financial Instruments	**1,621**	3,431
Asset retirement obligations	**1,260**	1,113
Other	**3,271**	3,416
Deferred income tax assets	**47,116**	44,696
Capital assets	**(190,744)**	(179,995)
Intangibles	**(42,338)**	(41,452)
Retirement benefit surplus	**(17,603)**	(15,677)
Other	**(336)**	(401)
Deferred income tax liabilities	**(251,021)**	(237,525)
Net deferred income tax liability	**(203,905)**	(192,829)

A continuity of the net deferred income tax liability follows:

	2015	2014
Net deferred income tax liability as at January 1	**(192,829)**	(182,673)
Recorded in earnings	**3,149**	(5,994)
Recognized in OCI	**(15,604)**	(8,127)
Amounts released to equity for NCI's in Goulais and Saint-Philémon	**—**	2,637
Other	**1,379**	1,328
Net deferred income tax liability as at December 31	**(203,905)**	(192,829)

(B) Timing of Deferred Income Tax Reversal

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

As at	**Dec 31, 2015**	Dec 31, 2014
Within 12 months	**26,418**	19,677
After more than 12 months	**(230,323)**	(212,506)
Net deferred income tax liability	**(203,905)**	(192,829)

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, 2015 was $70,746 (December 31, 2014 – $48,067). 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, 2015**	Dec 31, 2014
Canadian – capital losses	No expiry	—	82,807	**82,807**	82,381
Canadian – non-capital losses	2025 – 2035	112,396	64,892	**177,288**	167,220
US – non-capital losses	2023 – 2027	—	20,016	**20,016**	16,774
UK – capital losses (£2,864)	No expiry	—	5,845	**5,845**	5,176
UK – advanced corporation tax (£3,922)	No expiry	—	8,004	**8,004**	7,087

The Corporation also has $15,210 of unrecognized deferred tax assets, which have not been recognized as at December 31, 2015 (December 31, 2014 – $12,241).

(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, 2015	Dec 31, 2014
Income (loss) before income taxes	**20,305**	43,522
Statutory income tax rate	**26.00%**	25.40%
Income tax expense based on statutory income tax rate	**5,279**	11,055
Permanent differences	**(641)**	1,346
Tax rate differentials	**(13,399)**	(4,168)
Change in unrecognized deferred tax assets	**3,714**	(269)
Other	**(840)**	2,011
Total income tax expense (recovery)	**(5,887)**	9,975

The statutory income tax rate of 26.00% (2014 – 25.40%) changes in response to Capstone's allocation of taxable income to different tax jurisdictions.

(E) Current Income Taxes

Current income taxes receivable of $1,742 are included in accounts receivable on the statement of financial position (see note 4) (2014 - $0) and current income taxes payable of $1,397 are included in accounts payable and other liabilities on the statement of financial position (see note 15(a)) (2014 - $3,729).

NOTE 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

(A) Accounts Payable and Accrued Liabilities

	Dec 31, 2015	Dec 31, 2014
Dividends payable	**7,949**	7,887
Income taxes payable	**1,397**	3,729
Other accounts payable and accrued liabilities	**134,557**	120,829
	143,903	132,445

Income taxes payable comprised:

	Dec 31, 2015	Dec 31, 2014
Canadian Renewable and Conservation Expense ("CRCE") penalties (1)	**1,157**	1,154
Taxes payable (recovery) on preferred share dividends	**250**	(380)
Current income taxes payable (recovery)	**(10)**	2,955
	1,397	3,729

(1) CRCE penalties related to flow-through shares originally issued by ReD.

(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:

	2015	2014
As at January 1	**21,600**	15,589
Contributions received	**8,059**	5,874
Amortized to statement of income	**(388)**	(256)
Net foreign exchange difference	**2,792**	393
As at December 31	**32,063**	21,600

NOTE 16. FINANCE LEASE OBLIGATIONS

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Utilities – water: equipment leases	3.64 - 4.10%	2016 - 2020	**4,074**	4,100
Less: current portion			**(813)**	(693)
Non-current portion			**3,261**	3,407

For the year ended December 31, 2015, the Corporation repaid $534 (December 31, 2014 - $782), including interest charges of $126, net of an interest rebate of $198 (December 31, 2014 – net interest charge of $286).

The present value of minimum lease payments grouped by period due was:

	Within one year	**One year to five years**	**Beyond five years**	**Less: Future Finance Charges**	**Total**
Utilities – water	714	3,812	—	(471)	4,055

NOTE 17. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Dec 31, 2015		Dec 31, 2014	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Power	**554,545**	**529,211**	527,666	511,501
Utilities – water	**827,142**	**712,584**	736,446	630,894
Corporate	**117,811**	**116,869**	91,077	89,393
Balance outstanding	**1,499,498**	**1,358,664**	1,355,189	1,231,788
Less: deferred financing costs	**—**	**(14,127)**	—	(11,788)
Total long-term debt	**1,499,498**	**1,344,537**	1,355,189	1,220,000
Less: current portion of long-term debt	**(92,182)**	**(101,203)**	(35,529)	(25,150)
Long-term debt	**1,407,316**	**1,243,334**	1,319,660	1,194,850

(B) Power

As at	Dec 31, 2015		Dec 31, 2014	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Wind - Operating (1)	**343,012**	**321,395**	213,179	202,060
Wind - Development (2)	**30,234**	**30,234**	141,805	136,921
Hydros	**88,159**	**85,196**	90,064	89,902
Solar (3)	**93,140**	**92,386**	82,618	82,618
	554,545	**529,211**	527,666	511,501
Less: deferred financing costs	**—**	**(10,682)**	—	(7,558)
Long-term debt	**554,545**	**518,529**	527,666	503,943
Less: current portion	**(49,348)**	**(59,529)**	(35,529)	(25,150)
	505,197	**459,000**	492,137	478,793

(1) Wind - operating project debt consists of Erie Shores, Amherst, SkyGen, Skyway 8 and Glace Bay for both periods. In 2015, on COD the Saint-Philémon and Goulais project debt was transfered from wind - development.
(2) Wind - development project debt consists of the GHG construction facility (2014 - Saint-Philémon and Goulais).
(3) Solar - On July 9, 2015, the Amherstburg Solar Park refinanced the project debt.

The respective project debt within the power segment have regular principal and interest payments over the term to maturity and are secured only by the assets of respective project, with no recourse to the Corporation's other assets, except as noted.

In addition, the individual project debt agreements require the respective projects to maintain certain restrictive covenants including a minimum debt service coverage ratio to allow distributions to Capstone.

As at December 31, 2015, the carrying value of the assets exceeded the total amount of project debt outstanding for each of the respective projects.

(i) Wind - Operating

Project debt	Dec 31, 2015	Dec 31, 2014
Erie Shores Wind Farm	**80,032**	86,274
Goulais (1)	**76,386**	—
Saint-Philémon (1)	**55,531**	—
Amherst	**41,051**	42,949
SkyGen	**33,867**	35,338
Skyway 8	**19,658**	21,289
Glace Bay	**14,870**	16,210
	321,395	202,060

(1) For the year ended December 31, 2014, the Goulais and Saint-Philémon project debts were included in wind - development prior to COD.

Erie Shores Wind Farm

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Tranche A	5.96%	Apr 1, 2026	**47,978**	51,181
Tranche B	5.28%	Apr 1, 2016	**497**	1,454
Tranche C	6.15%	Apr 1, 2026	**31,557**	33,639
			80,032	86,274

(1) Erie Shores project debt has a $5,000 limited recourse guarantee provided by CPC to the lenders of the Erie Shores project debt.
(2) Erie Shores is required to set aside $5,704 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.

Goulais

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Term loan	5.16%	Sep 30, 2034	**76,386**	76,386

(1) Goulais is required to set aside $3,255 as restricted cash to cover the debt service and maintenance reserves.

On October 9, 2015, the Goulais construction facility converted to a term facility.

Saint-Philémon

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Tranche A - Term loan	5.49%	May 31, 2034	**55,531**	56,102
Tranche B - Construction facility	Settled on June 15, 2015		**—**	4,433
			55,531	60,535

(1) Saint-Philémon is required to set aside $1,224 as letters of credit against the borrowing capacity of the corporate credit facility to cover the debt service. reserve. In addition, Saint-Philémon is required to set aside $1,505 as restricted cash to cover construction holdbacks with vendors.

On August 4, 2015, the Saint-Philémon construction facility converted to a term facility. In addition, on June 15, 2015 Saint-Philémon repaid $4,433 of Tranche B debt, primarily from proceeds received from Hydro-Québec.

Amherst

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Term loan	6.20%	Apr 30, 2032	**41,051**	42,949

(1) Amherst's project debt has a $1,000 limited recourse guarantee provided by CPC to the lenders of the Amherst project debt.
(2) 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, 2015**	Dec 31, 2014
Term loans	4.22 - 5.06%	Dec 17, 2016	**23,467**	24,844
Term loan	6.22%	Sep 17, 2017	**434**	519
Promissory note payable	5.00%	Feb 8, 2016	**9,966**	9,975
			33,867	35,338

(1) SkyGen is not required to set aside any reserves for debt service or maintenance.

SkyGen's $23,467 of project debt and $9,966 promissory note payable are classified as current because both mature in 2016. Capstone plans to refinance the SkyGen consistent with Capstone's other wind projects.

Skyway 8

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Term loan	4.80%	Feb 16, 2018	**19,658**	21,289

(1) Skyway 8 project debt has a $5,000 limited recourse guarantee provided by CPC to the lenders of the Skyway 8 project debt.
(2) Skyway 8 is not required to set aside any reserves for debt service or maintenance.

On February 17, 2015, the Skyway 8 construction facility converted to a three-year term facility.

Glace Bay

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Term loan	5.99%	Mar 15, 2027	**7,665**	8,207
Term loan	6.36%	Apr 21, 2019	**2,230**	2,957
Term loan	4.72%	Oct 1, 2032	**4,975**	5,046
			14,870	16,210

(1) Glace Bay is required to set aside $1,654 as restricted cash to cover the debt service and operating and maintenance reserves.

(ii) Wind - Development

Project debt	**Dec 31, 2015**	Dec 31, 2014
GHG	**30,234**	—
Goulais (1)	**—**	60,535
Saint-Philémon (1)	**—**	76,386
	30,234	136,921

(1) In 2015, the Goulais and Saint-Philémon project debts were transferred to wind - operating upon reaching COD.

GHG

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Construction facility	2.59%	Jun 30, 2021	**30,234**	—

(1) During construction, the facility does not require any reserves.
(2) As at December 31, 2015, GHG's had three swap contracts to convert interest to a fixed rate (See note 8(a)).

On December 11, 2015, Capstone, through its interest in the entity that controls the Grey Highlands ZEP and Ganaraska wind projects, entered into a credit agreement that provides up to $82,000 for the construction of the projects. The construction facility matures no later than June 30, 2016 with a variable interest rate based on the CDOR plus 1.625%. Upon maturity, the facility will convert to a term loan, which matures no later than June 30, 2021 with a five-year variable annual interest rate of CDOR plus 1.625% (which increases to CDOR plus 1.875% commencing on the day following the third anniversary of the term conversion date).

(iii) Hydros

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Senior secured bonds	4.56%	Jun 30, 2040	**64,954**	69,660
Subordinated secured bonds	7.00%	Jun 30, 2041	**20,242**	20,242
			85,196	89,902

(1) The hydro facilities are required to set aside $9,720 as letters of credit against the borrowing capacity of the corporate credit facility and $496 as restricted cash to cover the debt service and maintenance reserves.

(iv) Solar

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Amherstburg project debt	3.49%	Dec 31, 2030	**92,386**	82,618

(1) Amherstburg is required to set aside $4,350 as letters of credit against the borrowing capacity of the corporate credit facility to cover the debt service and maintenance reserves.

On July 9, 2015, Capstone reached financial close on an approximately $95,000 refinancing of Amherstburg's project debt, which is non-recourse to the Corporation's other assets. The proceeds were used to repay Amherstburg's outstanding principal, swap break fees and closing costs.

(C) Utilities – water

As at	Dec 31, 2015		Dec 31, 2014	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Bank loans	**139,247**	**142,381**	122,836	125,877
Term loans	**647,005**	**534,366**	576,696	473,301
Debentures	**3,137**	**2,676**	2,805	2,351
Irredeemable cumulative preferred shares	**37,753**	**33,161**	34,109	29,365
	827,142	**712,584**	736,446	630,894
Less: deferred financing costs	**—**	**(2,186)**	—	(2,288)
Long-term debt	**827,142**	**710,398**	736,446	628,606
Less: current portion	**—**	**—**	—	—
	827,142	**710,398**	736,446	628,606

(i) Bank loans

	Interest Rate	Maturity	**Dec 31, 2015 [£]**	**Dec 31, 2015 [$]**	Dec 31, 2014 [$]
Secured, variable interest at three month Libor plus a margin (principal £50,000) (1)	2.40%	Nov 28, 2019	**50,000**	**102,035**	90,355
Secured, variable interest at three month Libor plus a margin (principal £10,000 (2))	1.29%	Dec 7, 2017	**9,886**	**20,173**	17,761
Secured, variable interest at six month Libor plus a margin (principal £10,000 (2), (3))	5.73%	Dec 7, 2017	**9,886**	**20,173**	17,761
HSBC plc, variable interest at Libor plus a margin (4)	undrawn	Aug 17, 2017	**—**	**—**	—
The Royal Bank of Scotland plc, variable interest at Libor plus a margin (5)	undrawn	Dec 31, 2019	**—**	**—**	—
				142,381	125,877

(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 8(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 8(a)). The loan has a bullet repayment on maturity.
(4) As at December 31, 2015, Bristol Water had $102,035 (£50,000) undrawn on this credit facilities available (December 31, 2014 - £50,000 undrawn).
(5) As at December 31, 2015, Bristol Water had $40,814 (£20,000) undrawn on this credit facilities available (December 31, 2014 - £20,000 undrawn).

During 2015, Bristol Water's bank loans increased primarily due to foreign exchange. As at December 31, 2015, $142,849 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, 2015 [£]**	**Dec 31, 2015 [$]**	Dec 31, 2014 [$]
Secured, principal index-linked to RPI, fixed interest at 3.635% (2) on the indexed principal (principal £126,252 (1))	4.63%	Sep 30, 2032	**150,872**	**307,884**	272,812
Secured, fixed interest at 6.01% (2) (principal £57,500 (1))	6.01%	Sep 30, 2033	**62,637**	**127,824**	113,711
Secured, principal index-linked to RPI, fixed interest at 2.701% on the indexed principal (principal £45,197 (1))	4.00%	Mar 24, 2041	**48,345**	**98,658**	86,778
				534,366	473,301

(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 £126,252 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 £45,197 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, 2015 [£]**	**Dec 31, 2015 [$]**	Dec 31, 2014 [$]
Consolidated (principal £1,405 (1))	4.00%	Irredeemable	**1,146**	**2,340**	2,054
Perpetual (principal £37 (1))	4.25%	Irredeemable	**37**	**75**	66
Perpetual (principal £55 (1))	4.00%	Irredeemable	**55**	**112**	99
Perpetual (principal £73 (1))	3.50%	Irredeemable	**73**	**149**	132
				2,676	2,351

(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, 2015 [£]**	**Dec 31, 2015 [$]**	Dec 31, 2014 [$]
Preferred shares, cumulative (principal £12,500(1))	8.75%	Irredeemable	**16,250**	**33,161**	29,365

(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, 2015.

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, 2015**		Dec 31, 2014	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Corporate credit facility	**47,000**	**47,000**	20,000	20,000
Convertible debentures	**70,811**	**69,869**	71,077	69,393
	117,811	**116,869**	91,077	89,393
Less: deferred financing costs	**—**	**(1,259)**	—	(1,942)
Long-term debt	**117,811**	**115,610**	91,077	87,451
Less: current portion	**(42,834)**	**(41,674)**	—	—
	74,977	**73,936**	91,077	87,451

(i) Corporate credit facility

The corporate credit facility is comprised:

	Interest Rate	Maturity	**Dec 31, 2015**	Dec 31, 2014
Total available credit - Revolving facility			**125,000**	90,000
Amount drawn				
Corporate credit facility	3.67%	Nov 12, 2018	**(47,000)**	(20,000)
Letters of credit for the benefit of operating power assets			**(23,036)**	(21,432)
Letter of credit for the benefit of power development projects			**(11,612)**	(7,029)
Remaining available credit			**43,352**	41,539

As at December 31, 2015, Capstone had 25 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.

On October 6, 2015 Capstone and its existing lenders increased the capacity of its corporate credit facility by$35,000 to increase the total facility to $125,000. The expanded portion of the corporate credit facility matured in January 2016 and the remaining$90,000 was extended by one year, to mature in November 2018.

(ii) Convertible debentures

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

	Dec 31, 2015			
	2016 Debentures [(1)]	**2017 Debentures** [(1)]	**Total**	Dec 31, 2014
Liability component	**41,728**	**27,665**	**69,393**	68,807
Amortization and accretion during the year	**550**	**(74)**	**476**	586
	42,278	**27,591**	**69,869**	69,393
Deferred financing costs	**(604)**	**—**	**(604)**	(1,178)
	41,674	**27,591**	**69,265**	68,215
Equity component	**9,284**	**—**	**9,284**	9,284
	50,958	**27,591**	**78,549**	77,499

(1) For details relating to arrangement agreement with iCON refer to note 29 (Subsequent events).

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, 2015 was $42,749 (December 31, 2014 – $42,749).

2017 Debentures

The Corporation has redeemable, extendable, 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, 2015 was $27,428 (December 31, 2014 – $27,428).

(E) Long-term Debt Covenants

For the Year ended and as at December 31, 2015, 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	59,524	125,070	389,783	574,377
Utilities – water	—	142,849	497,621	640,470
Corporate	42,749	74,428	—	117,177
	102,273	342,347	887,404	1,332,024

NOTE 18. 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, the operating wind and hydro power facilities, as well as the wind development projects.

The following table provides the underlying assumptions and reconciles the Corporation's total asset retirement obligation activity:

	Dec 31, 2015	Dec 31, 2014
Assumptions:		
Expected settlement date	**2017 – 2062**	2017 – 2062
Estimated settlement amount	**Nil – $3,324**	Nil – $3,266
Inflation rate	**2.0%**	2.0%
Credit adjusted discount rate	**4.75% – 7.0%**	5.0% – 7.0%
Balance, beginning of year	**4,364**	3,293
Adjustment for assets held for sale	**—**	(278)
Liabilities incurred	**427**	634
Revision of estimates	**(268)**	478
Accretion expense	**244**	237
Balance, end of year	**4,767**	4,364

NOTE 19. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	**Dec 31, 2015**	Dec 31, 2014
Common shares (1)	**715,989**	713,412
Class B exchangeable units (1)	**26,710**	26,710
Preferred shares (1)	**72,020**	72,020
	814,719	812,142

(1) For details relating to arrangement agreement with iCON refer to note 29 (Subsequent events).

(A) Common Shares

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

Continuity for the year ended	**Dec 31, 2015**		Dec 31, 2014	
($000s and 000s shares)	**Shares**	**Carrying Value**	Shares	Carrying Value
Opening balance	**93,573**	**713,412**	92,854	710,662
Common shares issued (1)	**—**	**—**	14	39
Dividend reinvestment plan (2)	**823**	**2,577**	705	2,711
Ending balance	**94,396**	**715,989**	93,573	713,412

(1) Shares issued under the option plan in 2014.
(2) Shares issued by the Corporation under the Dividend Re-Investment Plan ("DRIP").

(B) Class B Exchangeable Units

MPT LTC Holding LP had 3,249 Class B exchangeable units outstanding as at December 31, 2015 and 2014. 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, 2015 and 2014, 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 July 31, 2021 and every five years thereafter at 25 dollars per share plus accrued and unpaid dividends.

(D) Dividends

The dividends declared were as follows:

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Common shares	**28,218**	28,002
Class B exchangeable units	**975**	975
	29,193	28,977
Preferred shares (1)	**3,867**	3,923

(1) Includes $117 of deferred income taxes for the year ended December 31, 2015 (December 31, 2014 - $173).

Capstone has included $7,324 of accrued common dividends and $625 of accrued preferred dividends as declared on November 9, 2015 (December 31, 2014 – $7,262 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 years ended December 31, 2015 and 2014.

(E) Capital Management

The Corporation defines capital as the aggregate of long-term debt and shareholders' equity as follows:

As at	**Dec 31, 2015**	Dec 31, 2014
Long-term debt	**1,358,664**	1,231,788
Shareholders' equity (1)	**520,535**	516,706
Total capitalization	**1,879,199**	1,748,494

(1) Capstone's definition excludes non-controlling interest of $261,545 (December 31, 2014 – $190,073).

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 17.

NOTE 20. 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, Chi-Wiikwedong, Wind Works and Grey Highlands Clean non-controlling interests as at December 31, 2015 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.
- Wind Works has a debenture with a subsidiary of One West Holdings Ltd. ("Concord"), convertible into a 50% ownership interest.
- Grey Highlands Clean is 25% owned by Natenco LLC ("Natenco"), the original developer.

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:

	Owners interests in Bristol Water	Firelight's interest in Amherst	Municipal interest in Saint-Philémon	BFN's interest in Chi-Wiikwedong	Concord's interest in Wind Works	Natenco's interest in Grey Highlands Clean	Total
January 1, 2014	123,736	11,472	3,405	—	—	—	138,613
Disposal of partial interest in Chi-Wiikwedong LP	—	—	—	7,894	—	—	7,894
Contributions from minority interests	—	—	3,104	11,500	—	—	14,604
NCI portion of net income (loss)	24,333	406	(659)	—	—	—	24,080
NCI portion of OCI	14,019	—	—	—	—	—	14,019
Dividends declared	(8,071)	(1,066)	—	—	—	—	(9,137)
As at December 31, 2014	154,017	10,812	5,850	19,394	—	—	190,073
NCI portion of net income (loss)	24,670	572	(340)	1,163	—	(8)	26,057
NCI portion of OCI	25,517	—	—	—	—	—	25,517
Dividends declared	(1,993)	(1,122)	(2,252)	(776)	—	—	(6,143)
Net convertible debenture advances	—	—	—	—	26,041	—	26,041
As at December 31, 2015	202,211	10,262	3,258	19,781	26,041	(8)	261,545

(1) As at December 31, 2015, Agbar's and ITOCHU's interests were $104,836 and $97,375, respectively (December 31, 2014 - $75,920 and $78,097, respectively).

(B) Summarized Information for Material Partly Owned Subsidiaries

As at	Dec 31, 2015					Dec 31, 2014			
Summarized Statements of Financial Position	**Bristol Water**	**Amherst**	**Saint-Philémon**	**Chi-Wiikwedong**	**Other** (1)	Bristol Water	Amherst	Saint-Philémon	Chi-Wiikwedong
Assets									
Current	**104,074**	**1,871**	**2,587**	**2,277**	**9,740**	86,998	2,128	9,881	—
Non-current	**1,361,609**	**63,264**	**63,159**	**—**	**81,662**	1,168,892	66,309	70,245	—
Liabilities									
Current	**(77,836)**	**(2,272)**	**(3,205)**	**(49)**	**(39,681)**	(78,411)	(2,338)	(10,975)	—
Non-current	**(887,499)**	**(39,585)**	**(53,012)**	**—**	**(26,747)**	(782,110)	(41,700)	(54,428)	—
Total Equity	**500,348**	**23,278**	**9,529**	**2,228**	**24,974**	395,369	24,399	14,723	—
Attributable to:									
Shareholders of Capstone	**298,137**	**13,016**	**6,271**	**(17,553)**	**(1,059)**	241,352	13,587	8,873	(19,394)
NCI	**202,211**	**10,262**	**3,258**	**19,781**	**26,033**	154,017	10,812	5,850	19,394
	500,348	**23,278**	**9,529**	**2,228**	**24,974**	395,369	24,399	14,723	—

(1) Other consists of the summarized financial information of Grey Highlands Clean and Wind Works.

For the year ended			Dec 31, 2015				Dec 31, 2014	
Summarized Statements of Income	**Bristol Water**	**Amherst**	**Saint-Philémon**	**Chi-Wiikwedong**	**Other** (1)	Bristol Water	Amherst	Saint-Philémon
Revenue	**227,027**	**8,068**	**6,756**	**6,573**	**—**	238,270	8,249	—
Net income	**49,341**	**1,168**	**(694)**	**3,003**	**(1,241)**	48,665	829	(1,334)
OCI	**59,614**	**—**	**—**	**—**	**—**	29,661	—	—
Total comprehensive income	**108,955**	**1,168**	**(694)**	**3,003**	**(1,241)**	78,326	829	(1,334)
Attributable to:								
Shareholders of Capstone	**58,768**	**596**	**(354)**	**1,840**	**(1,233)**	39,974	423	(675)
NCI	**50,187**	**572**	**(340)**	**1,163**	**(8)**	38,352	406	(659)
	108,955	**1,168**	**(694)**	**3,003**	**(1,241)**	78,326	829	(1,334)

(1) Other consists of the summarized financial information of Grey Highlands Clean and Wind Works.

Distributions of $2,252 (2014 - nil) from Saint-Philémon, $1,993 (2014 - $8,071) from Bristol Water, $1,122 (2014 - $1,066) from Amherst, $776 (2014 - nil) from Chi-Wiikwedong were paid to non-controlling interests in 2015.

For the year ended			Dec 31, 2015				Dec 31, 2014	
Summarized Statements of Cash Flows	**Bristol Water**	**Amherst**	**Saint-Philémon**	**Chi-Wiikwedong**	**Other** (1)	Bristol Water	Amherst	Saint-Philémon
Operating	**91,261**	**3,820**	**8,730**	**2,000**	**123**	100,478	3,545	(4,930)
Investing	**(76,541)**	**—**	**709**	**—**	**(51,218)**	(115,416)	—	(63,625)
Financing	**(4,600)**	**(4,057)**	**(9,504)**	**(776)**	**57,372**	26,882	(3,865)	64,002
Foreign exchange	**2,103**	**—**	**—**	**—**	**—**	268	—	—
Net increase / (decrease) in cash and equivalents	**12,223**	**(237)**	**(65)**	**1,224**	**6,277**	12,212	(320)	(4,553)

(1) Other consists of the summarized financial information of Grey Highlands Clean and Wind Works.

(C) Convertible Debenture with Concord

On November 16, 2015, a subsidiary of CPC, issued an unsecured convertible debenture to a subsidiary of Concord. The debenture allows Concord to eventually acquire a 50% interest in the Wind Works development projects, consisting of Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing.

Under the terms of the debenture, both Capstone and Concord will equally fund ongoing equity requirements relating to the Wind Works development projects. In addition, Capstone and Concord will equally share any distributions made from the projects, which are based on the availability of cash from the projects. Distributions to Concord prior to conversion of the debenture are principal repayments. At either Capstone or Concord's option, subject to limited conditions, the debenture is convertible into 50% of the outstanding equity of the entities holding the Wind Works development projects.

The debenture is classified as an equity instrument in accordance with IAS 32 because there are no fixed payment obligations, including principal and interest. The debenture is included in the non-controlling interest component within the consolidated statement of shareholders' equity because it is attributable to Concord's interest in the Wind Works development projects.

The initial principal contribution of the debenture was $31,408. In December 2015, the value increased due to a capital contribution of $3,000 and decreased by an accrued distribution of $8,367, reducing the face value of the debenture to $26,041 as at December 31, 2015.

(D) 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 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, which was settled in 2015. 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 21. EARNINGS PER SHARE ("EPS")

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Net income	**26,192**	33,547
Non-controlling interest	**(26,057)**	(24,080)
Dividends declared on preferred shares	**(3,867)**	(3,923)
Net income available to common shareholders	**(3,732)**	5,544
Weighted average number of common shares (including Class B exchangeable units) outstanding	**97,240**	96,534
Basic and Diluted EPS [1]	**(0.038)**	0.057

(1) 2016 and 2017 convertible debentures were anti-dilutive for all periods in the table above.

NOTE 22. 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, 2015		Dec 31, 2014	
($000s, except unit amounts)	**Number of Units**	**Fair Value**	Number of Units	Fair Value
Outstanding at January 1	**90,910**	**291**	50,667	180
Fixed quarterly grants during the period	**54,237**	**175**	43,894	175
Redemptions in the period	**—**	**—**	(9,077)	(37)
Dividend equivalents	**10,438**	**34**	5,426	22
	155,585	**500**	90,910	340
Unrealized gain (loss) on revaluation	**—**	**65**	—	(49)
Outstanding at December 31	**155,585**	**565**	90,910	291

The average VWAP per DSU granted during 2015 was 3.24 dollars (2014 – 4.01 dollars). As at December 31, 2015, the carrying value of the DSUs, based on a market price of 3.63 dollars, was $565 and is included in accounts payable and other liabilities in the consolidated statement of financial position (December 31, 2014 – 3.20 dollars and $291). The DSU expense for 2015 was $281 and is recorded as compensation expense in the consolidated statement of income (2014 – $139).

(B) Long-term Incentive Plans ("LTIP")

Capstone has a Corporate LTIP and a Power Development LTIP for which Restricted Stock Units ("RSUs") and Performance Share Units ("PSUs") of the Corporation were granted as follows:

	Dec 31, 2015		Dec 31, 2014	
Grants during the year ended	**RSUs**	**PSUs**	RSUs	PSUs
Number of units granted at a 3.17 dollar five-day VWAP on January 2 (Granted at a 3.55 dollar five-day VWAP in 2014)	**284,154**	**205,001**	227,608	171,240
Number of units granted at a 3.38 dollar five-day VWAP on March 13 (Granted at a 4.07 dollar five-day VWAP in 2014)	**171,558**	**—**	127,393	—
Number of units granted at a 3.06 dollar five-day VWAP on July 31	**64,807**	**—**	—	—

Effective January 1, 2014, Capstone amended the employee incentive plans to allow LTIP participants to voluntarily receive up to 100% of the awards under the LTIP or short-term incentive plan ("STIP") as DSUs, instead of RSU / PSU grants or cash , respectively. 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, 2015**		Dec 31, 2014	
($000s, except unit amounts)	**Notional Number of Units**	**Fair Value (3)**	Notional Number of Units	Fair Value (3)
Outstanding at January 1	**1,391,694**	**3,869**	1,032,354	3,373
Grants during the period (1)	**725,520**	**2,331**	526,241	1,934
Payouts	**(528,564)**	**(1,127)**	(169,844)	(302)
Forfeitures	**(68,560)**	**(193)**	(88,238)	(353)
Dividend equivalents (2)	**129,360**	**426**	91,181	374
	1,649,450	**5,306**	1,391,694	5,026
Unrealized gain (loss) on revaluation	**—**	**620**	—	(1,157)
Outstanding at December 31,	**1,649,450**	**5,926**	1,391,694	3,869

(1) On January 2, 2015, Capstone granted 58,664 RSUs to the power development team, based on milestones reached on the development projects. Beginning July 1, 2015, the RSU component of the power development LTIP was replaced by an all-cash component. Consequently, all future milestone payments will be settled in cash, and only 16,206 of the 2015 RSU grants remain outstanding.
(2) 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.
(3) Fair value considers the amount of the PSUs is subject to Capstone's total return over the period relative to a peer group.

As at December 31, 2015, the carrying value of the RSUs and PSUs, based on a VWAP of 3.66 dollars, was $3,806 and is included in accounts payable and other liabilities in the consolidated statement of financial position (December 31, 2014 – 3.17 dollars and 2,355). In addition to the RSUs granted under the Power Development LTIP, Capstone has recorded $453 in accounts payable and other liabilities for milestones achieved but not yet vested.

The Corporate LTIP expense of $2,135 is recorded in administrative expenses in the consolidated statement of income for 2015 (2014 – $818). The Power Development LTIP expense of $1,175 is included in project development expenses.

(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 23. EXPENSES – ANALYSIS BY NATURE

For the year ended	**Dec 31, 2015**				Dec 31, 2014			
	Operating	**Admin.**	**Project Development Costs**	**Total**	Operating	Admin.	Project Development Costs	Total
Raw materials, chemicals and supplies	**84,864**	**—**	**—**	**84,864**	88,183	—	—	88,183
Wages and benefits	**36,174**	**8,248**	**2,169**	**46,591**	29,865	7,528	1,169	38,562
Professional fees (1)	**9,328**	**1,580**	**4,726**	**15,634**	5,579	3,234	949	9,762
Maintenance	**8,481**	**—**	**—**	**8,481**	6,848	—	—	6,848
Bad debts	**5,870**	**—**	**—**	**5,870**	6,629	—	—	6,629
Fuel	**5,234**	**—**	**—**	**5,234**	60,232	—	—	60,232
Leases	**1,899**	**395**	**—**	**2,294**	1,831	464	—	2,295
Insurance	**2,290**	**(183)**	**—**	**2,107**	2,360	157	—	2,517
Property taxes	**2,083**	**—**	**—**	**2,083**	1,439	—	—	1,439
Utilities	**1,924**	**—**	**—**	**1,924**	1,011	—	—	1,011
Manager fees	**1,764**	**—**	**—**	**1,764**	1,653	—	—	1,653
Other	**4,128**	**1,742**	**358**	**6,228**	4,890	1,883	546	7,319
Total	**164,039**	**11,782**	**7,253**	**183,074**	210,520	13,266	2,664	226,450

(1) Professional fees include legal, audit, tax and other advisory services.

NOTE 24. OTHER GAINS AND LOSSES

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Loss on disposal of capital assets [1]	**(8,063)**	(3,414)
Realized loss on derivative financial instruments [2]	**(13,046)**	—
Unrealized gain (loss) on derivative financial instruments	**9,924**	(717)
Adjustment for Cardinal gas payment [3]	**—**	(3,762)
Other	**800**	224
Other gains and (losses), net	**(10,385)**	(7,669)

(1) Primarily relates to $7,430 of losses on capital assets replaced as part of Cardinal's conversion to a cycling facility.
(2) Realized loss resulted from the termination of the Amherstburg interest rate swap, as part of the refinancing.
(3) In 2014, Other gains and (losses); net, included $3,762 for the Cardinal gas payments as required by IFRS. This adjustment reconciled the amount included in the statement of income to the $3,907 non-cash adjustment included in the statement of cash flow.

NOTE 25. 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 16 finance lease obligations, 17 long-term debt and 18 liability for asset retirement obligation as at December 31, 2015 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	$3,668	$15,311	$48,680	$67,659

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 2042.
- 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, 2015 of which $5,785 were contracted for but not accrued (December 31, 2014 – $16,026).

Development projects

As part of Capstone's power development operations, Capstone enters various construction and purchase agreements. As at December 31, 2015 Capstone had approximately $69,679 of construction and turbine supply agreements for the Grey Highlands Clean, Wind Works and Riverhurst projects.

(D) 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.

(E) Management Services Agreements

Capstone has agreements with all of the partially owned wind facilities and development projects, including Glen Dhu, Fitzpatrick, Amherst, Saint-Philémon, Goulais 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.

(F) Wood Waste Supply Agreement

On March 2, 2015, Whitecourt and Millar Western completed a new fuel supply agreement for wood waste, which has an initial term of 15 years, extendable to 20 years. The new agreement also includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

(G) Energy Savings Agreement ("ESA")

In December 2014, Cardinal entered into an ESA with Ingredion, which matures on December 31, 2034, reflecting the binding term sheet signed on March 26, 2014. In the event that Ingredion builds a planned 15 MW cogeneration plant, Cardinal is required to provide O&M services, and supply steam and compressed air to Ingredion for its plant operations.

(H) Guarantees

Capstone has provided limited recourse guarantees on the project debt of the various wind projects totalling $11,500 as at December 31, 2015.

(I) Power Purchase Agreements ("PPA")

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 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.

(J) Contingent asset

On March 12, 2015, the Ontario Superior Court of Justice determined that the OEFC did not properly calculate the price paid and payable for electricity produced under its PPAs with Capstone and other power producers in Ontario. On April 10, 2015, the OEFC served a Notice of Appeal in respect of the March 12, 2015 decision. The appeal was heard on December 14 and 15, 2015.

Capstone estimates that the Court's decision, if upheld, would result in a net receipt of approximately$25,000 representing retroactive adjustments for revenue claimed from the OEFC and interest. Further, since February 2015, the future price paid for electricity at Capstone's Wawatay and Dryden hydro facilities is calculated in accordance with the March 12, 2015 judgment, resulting in higher power rates.

Capstone does not recognize contingent assets such as this claim until it is virtually certain the asset is recoverable.

NOTE 26. 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 2015, Capstone earned management fees of $405 from Fitzpatrick and Glen Dhu (2014 - $420).

As at December 31, 2015, accounts receivable included $15 , due from Fitzpatrick (2014 - $16). Accounts payable and other liabilities included $980, due to Glen Dhu (2014 - $984). All related party transactions were carried out at commercial terms.

In addition, Bristol Water has a joint venture interest in a shared billing services entity, providing meter reading, billing and debt recovery, and customer contract management services to Bristol Water and its partner, under a cost sharing arrangement. In2015, Bristol Water incurred charges of $6,363 for management charges and shared expenditures and had $1,616 included in accounts payable and other liabilities as at December 31, 2015 (2014 - $6,000 of charges and $1,551 included in accounts payable and other liabilities).

(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 22.

The following table summarizes key management compensation:

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Salaries, directors' fees and short-term employee benefits (1)	**1,469**	1,456
Share based compensation	**705**	478
	2,174	1,934

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

NOTE 27. SEGMENTED INFORMATION

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

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

Infrastructure segments consist of:	**Geographical Location**
Power	Canada
The Corporation's investments in gas cogeneration, wind, hydro, biomass and solar power, 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, 2015					Year ended Dec 31, 2014				
		Utilities					Utilities			
	Power	**Water**	**DH**	**Corporate**	**Total**	Power	Water	DH	Corporate	Total
Revenue	**117,956**	**227,027**	**—**	**—**	**344,983**	203,308	238,270	—	—	441,578
Depreciation of capital assets	**(35,822)**	**(34,949)**	**—**	**(124)**	**(70,895)**	(37,613)	(30,166)	—	(133)	(67,912)
Amortization of intangible assets	**(9,091)**	**(3,936)**	**—**	**(59)**	**(13,086)**	(8,105)	(3,696)	—	(53)	(11,854)
Interest income	**1,350**	**500**	**2,739**	**148**	**4,737**	1,019	145	2,898	172	4,234
Interest expense	**(26,675)**	**(23,767)**	**—**	**(7,499)**	**(57,941)**	(22,572)	(24,870)	—	(6,703)	(54,145)
Income tax recovery (expense)	**(810)**	**4,434**	**69**	**2,194**	**5,887**	(783)	(13,074)	(11)	3,893	(9,975)
Net income (loss)	**(7,727)**	**49,341**	**5,703**	**(21,125)**	**26,192**	3,280	48,665	(3,278)	(15,120)	33,547
Cash flow from operations	**41,842**	**91,261**	**2,814**	**(19,017)**	**116,900**	75,508	100,478	2,668	(22,936)	155,718
Additions to capital assets	**26,180**	**69,738**	**—**	**—**	**95,918**	18,250	110,590	—	—	128,840
Additions to PUD	**115,267**	**—**	**—**	**—**	**115,267**	148,495	—	—	—	148,495

(1) For the year ended December 31, 2014, Capstone incurred an asset impairment charge in the power segment. Refer to note 10 (e) for detail.

	As at Dec 31, 2015					As at Dec 31, 2014				
		Utilities					Utilities			
	Power	**Water**	**DH**	**Corporate**	**Total**	Power	Water	DH	Corporate	Total
Total assets	**1,010,669**	**1,465,683**	**39,795**	**5,942**	**2,522,089**	998,130	1,255,890	40,610	5,350	2,299,980
Total liabilities	**649,625**	**965,335**	**—**	**125,049**	**1,740,009**	636,034	860,521	—	96,646	1,593,201

NOTE 28. NON-CASH WORKING CAPITAL

The change in non-cash working capital comprised:

	For the year ended	
	Dec 31, 2015	Dec 31, 2014
Accounts receivable	**24,449**	(1,981)
Other assets	**(5,248)**	(7,737)
Accounts payable and other liabilities	**(10,663)**	(98)
	8,538	(9,816)

NOTE 29. SUBSEQUENT EVENTS

Arrangement Agreement for the Acquisition of Capstone by iCON Infrastructure

On January 20, 2016, Capstone announced a definitive arrangement agreement with Irving Infrastructure Corp., a subsidiary of iCON Infrastructure Partners III, L.P., a fund advised by London, UK-based iCON Infrastructure LLP, that provides for the acquisition of all issued and outstanding common shares of Capstone and the Class B exchangeable units of Capstone's subsidiary MPT LTC Holding LP for $4.90 cash per share or unit, as applicable. Under the arrangement agreement, it is also proposed that Capstone's 6.50% 2016 Debentures and CPC's 6.75% 2017 Debentures will be settled in accordance with the debenture agreements, subject to individual securityholder votes. Capstone's preferred shares will continue to be listed and trade on the Toronto Stock Exchange following closing of the arrangement.

The acquisition is subject to the approval of Capstone's common shareholders which is scheduled for March 10, 2016. The transaction is also subject to customary closing conditions, including receipt of all regulatory approvals, including under the Competition Act (Canada) and the Investment Canada Act. The transaction is not subject to any financing conditions.

SUPPLEMENTARY INFORMATION

PORTFOLIO

Power

Type of Facility	Province	Year Built	Ownership Interest	Total Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Gas Cogeneration									
Cardinal	ON	1994	100%	156	IESO	2034	n/a	n/a	18
Wind									
Operating	ON	2002 - 2015	100%	143	IESO	2026 - 2035	n/a	n/a	12
	NS	2007 - 2012	49% - 100%	67	NSPI	2020 - 2037	n/a	n/a	2
	PQ	2015	51%	12	Hydro Québec	2035	n/a	n/a	n/a
Development	ON	2016E - 2017E	50% - 100%	42	IESO	2036E - 2037E	n/a	n/a	n/a
	SK	2018E	100%	10	SaskPower	2038E	n/a	n/a	n/a
Biomass									
Whitecourt (1)	AB	1994	100%	33.8	(2)	(2)	Millar Western	(3)	28
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 (3)	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) Whitecourt total net capacity includes Capstone's 31.3% equity accounted interest in Chapais.
(2) 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.
(3) 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	91
Bristol Water	50%	Average daily supply of 270 million litres	Mix of commercial and residential customers.	6,680 kilometres	1.2 million	Ofwat	451

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Information for 2006 to 2009 is presented in Canadian GAAP and may not be comparable with information provided under IFRS for 2010 to 2015.

Earnings Measures ($000s)	**2015**	2014	2013	2012	2011	2010	2009	2008	2007	2006
Revenue	**344,983**	441,578	389,503	357,610	215,967	158,512	148,384	153,186	122,811	89,940
EBITDA (1)	**162,227**	177,433	185,058	163,471	32,557	37,953	52,691	15,394	54,616	21,279
Net income (loss)	**26,192**	33,547	67,210	45,971	(2,837)	15,901	11,259	(26,534)	5,426	8,411
Basic earnings per share	**(0.038)**	0.057	0.462	0.315	(0.103)	0.339	0.226	(0.531)	0.135	0.280

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

Cash Flow Measures ($000s)	**2015**	2014	2013	2012	2011	2010	2009	2008	2007	2006
Cash flows from operating activities	**116,900**	155,718	135,676	114,678	50,881	29,011	38,040	50,516	29,663	21,044
Adjusted EBITDA (1)	**115,301**	160,359	128,421	120,343	55,673	55,818	61,244	67,324	61,250	34,104
Adjusted funds from operations ("AFFO") (1)	**11,233**	56,412	39,934	35,563	34,884	34,774	42,989	50,626	72,835	33,267
AFFO per share (1)	**0.116**	0.584	0.493	0.473	0.541	0.693	0.861	1.013	1.806	1.107

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

Capital Structure – At Fair Value ($000s)	**2015**	2014	2013	2012	2011	2010	2009	2008	2007	2006
Long-term debt										
Power (1)	**464,154**	435,808	346,244	305,497	314,196	245,911	214,107	246,960	219,162	35,000
Utilities – water (1)	**413,571**	368,223	313,816	259,830	353,135	—	—	—	—	—
Corporate	**117,811**	91,077	81,694	44,416	155,124	61,311	89,437	35,026	38,918	—
Common shares	**342,658**	299,432	330,560	291,955	270,348	463,217	273,161	310,066	376,275	214,231
Class B exchangeable units	**11,795**	10,398	11,568	13,093	12,380	26,710	19,854	15,565	30,642	32,656
Preferred shares	**38,970**	51,750	45,930	58,200	52,500	—	—	—	—	—
Debt to capitalization	**71.7%**	71.2%	65.7%	62.7%	71.0%	38.5%	50.9%	46.4%	38.8%	12.4%

(1) Calculated based on proportionate share based on ownership interest of 51% for Amherst, 51% forSaint-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	94,396,092
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

	2015				2014			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Common shares								
High price	**3.78**	**3.36**	**3.78**	**3.72**	4.27	4.54	4.54	4.22
Low price	**2.96**	**2.82**	**2.98**	**3.10**	2.88	4.00	3.97	3.55
Closing price	**3.63**	**3.09**	**2.99**	**3.55**	3.20	4.15	4.25	4.02
Average daily volume	**152,764**	**104,990**	**208,368**	**249,813**	845,000	405,000	337,000	516,000
Dividend declared	**0.075**	**0.075**	**0.075**	**0.075**	0.075	0.075	0.075	0.075
Preferred shares								
High price	**13.21**	**13.25**	**14.20**	**17.16**	20.20	19.90	19.35	17.49
Low price	**9.50**	**9.50**	**12.65**	**12.89**	15.26	18.50	17.10	14.90
Closing price	**12.99**	**10.25**	**12.91**	**13.20**	17.25	19.83	19.06	17.48
Average daily volume	**4,913**	**4,487**	**2,732**	**3,969**	4,735	2,094	3,294	4,016
Dividend declared	**0.3125**	**0.3125**	**0.3125**	**0.3125**	0.3125	0.3125	0.3125	0.3125
2016 - Convertible debentures								
High price	**101.55**	**101.51**	**102.50**	**102.99**	103.32	104.00	104.51	102.99
Low price	**100.00**	**100.25**	**100.26**	**100.61**	100.25	101.40	101.01	100.00
Closing price	**100.20**	**100.75**	**100.42**	**101.01**	100.50	102.92	103.00	102.99
Average daily volume	**393**	**681**	**403**	**338**	3,315	272	179	799
2017 - Convertible debentures								
High price	**102.75**	**102.75**	**102.25**	**102.99**	103.32	105.90	105.00	101.25
Low price	**101.20**	**101.26**	**101.50**	**100.61**	100.25	103.51	101.10	100.00
Closing price	**101.21**	**102.01**	**102.00**	**102.24**	102.50	104.19	104.00	101.25
Average daily volume	**278**	**345**	**243**	**99**	3,494	197	435	122

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.