CAPSTONE INFRASTRUCTURE

2016 ANNUAL
MD&A and Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

	As at and for the year ended December 31		
	2016	2015	2014
Revenue [1]	**172,940**	117,956	203,308
Net income (loss) [2]	**(15,541)**	26,192	33,547
Adjusted EBITDA [2, 3]	**125,862**	115,301	160,359
AFFO [2, 3]	**23,476**	11,233	56,412
Total assets [4]	**1,148,404**	2,522,089	2,299,980
Total long-term liabilities [4]	**786,474**	1,493,836	1,428,293

(1) Comparative figures for revenue have been adjusted to remove amounts from discontinued operations. Including discontinued operations, total revenue is $364,255, $344,983 and $441,578 in 2016, 2015 and 2014, respectively.
(2) Results include continuing operations and discontinued operations for all periods.
(3) Non-GAAP performance measures are defined on page 6.
(4) Comparative figures include balances relating to discontinued operations.

INSIDE THIS SECTION

LEGAL NOTICE

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

Caution Regarding Forward-Looking Statements

Certain of the statements contained within this document are forward-looking and reflect management’s expectations regarding the future growth, results of operations, performance and business of Capstone Infrastructure Corporation (the “Corporation”) based on information currently available to the Corporation. Forward-looking statements are provided for the purpose of presenting information about management’s current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as “anticipate”, “continue”, “could”, “expect”, “may”, “will”, “intend”, “estimate”, “plan”, “believe” or other similar words, and include, among other things, statements found in “Results of Operations” and "Financial Position Review". These statements are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management’s discussion and analysis of the results of operations and the financial condition of the Corporation (“MD&A”) for the year endedDecember 31, 2016 under the headings "Changes in the Business", “Results of Operations” and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation’s SEDAR profile at www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements contained herein include or relate to the following: that the business and economic conditions affecting the Corporation’s operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that the preferred shares will remain outstanding and that dividends will continue to be paid on the preferred shares; that there will be no further material delays in the Corporation’s wind development projects achieving commercial operation; that the Corporation’s power infrastructure facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no material changes to the Corporation’s facilities, equipment or contractual arrangements; that there will be no material changes in the legislative, regulatory and operating framework for the Corporation’s businesses; that there will be no material delays in obtaining required approvals for the Corporation’s power infrastructure facilities or Värmevärden; that there will be no material changes in environmental regulations for the power infrastructure facilities or Värmevärden; that there will be no significant event occurring outside the ordinary course of the Corporation’s businesses; the refinancing on similar terms of the Corporation’s and its subsidiaries’ various outstanding credit facilities and debt instruments which mature during the period in which the forward-looking statements relate; market prices for electricity in Ontario and the amount of hours that Cardinal is dispatched; the price that Whitecourt will receive for its electricity production considering the market price for electricity in Alberta, the impact of renewable energy credits, and Whitecourt’s agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by the facility; the re-contracting of the power purchase agreement ("PPA") for Sechelt; and that there will be no material changes to the Swedish krona to Canadian dollar exchange rate.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation’s securities (dividends on preferred shares are not guaranteed; volatile market price for the Corporation’s preferred shares; and subordination and absence of covenant protection); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; foreign currency exchange rates; acquisitions, development and integration; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); risks related to the Corporation’s power infrastructure facilities (market price for electricity; power purchase agreements; completion of the Corporation’s wind development projects; operational performance; contract performance and reliance on suppliers; land tenure and related rights; environmental; and regulatory environment); and risks related to Värmevärden (operational performance; fuel costs and availability; industrial and residential contracts; environmental; regulatory environment; and labour relations);.

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

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

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, 2016 and 2015.

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, 2016 and 2015. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2015, 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 February 28, 2017, 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.

Discontinued Operations and Assets Held for Sale

On December 15, 2016, Capstone sold its 50% interest in Bristol Water resulting in the utilities - water segment being presented as a discontinued operation. This means Capstone's consolidated statement of financial position as at December 31, 2016 does not contain balances related to Bristol Water. In addition, the statements of income for the years ended December 31, 2016 and 2015 only include results for Bristol Water as a discontinued operation up until December 15, 2016.

As at December 31, 2016, Capstone's plan to sell its 33.3% investment in Värmevärden results in the utilities - district heating segment meeting the assets held for sale ("AHFS") criteria and consequently being presented as a discontinued operation. This means Capstone's consolidated statement of financial position as at December 31, 2016 classifies balances related to Värmevärden as AHFS within the current assets and liabilities. In addition, the statements of income for the years ended December 31, 2016 and 2015 include Värmevärden as a discontinued operation.

Foreign Currency Translation and Presentation

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**
December 31, 2015	0.1516	0.1638	1.9540	2.0407
December 31, 2016 (1)	**0.1550**	**0.1478**	**1.8014**	**1.6597**

(1) Bristol Water's spot rate and average rate were as at and for the period ended December 15, 2016, the date of sale.

CHANGES IN THE BUSINESS

In 2016, Capstone's power segment was able to conclude the legal proceedings and receive payment for retroactive amounts owing from the Ontario Electricity Financial Corporation ("OEFC"), as well as progress the wind development projects, and complete several financings. During the year, changes to Capstone's ownership and key management allowed for significant steps to be taken towards refocusing on the core power business, which include the decision to divest of the Corporation's utilities businesses, Bristol Water and Värmevärden. In addition, Capstone's preferred share dividend rate was reset.

Acquisition of Capstone by iCON III

On April 29, 2016, Capstone completed the previously announced arrangement under which Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund managed by London, UK-based iCON Infrastructure LLP ("iCON"), acquired all the issued and outstanding common shares of Capstone and all the Class B exchangeable units of Capstone's subsidiary MPT LTC Holding LP ("Class B units") for $4.90 cash per share or unit, as applicable ("iCON III acquisition"). Pursuant to the arrangement agreement, the outstanding 2016 convertible debentures were redeemed and the 2017 convertible debentures were converted into common shares prior to being acquired by Irving. As part of the transaction, Capstone issued a demand interest-free promissory note to Irving for $316,225, which consisted of three multi-currency tranches: £106,000, 712,700 SEK, and $10,370, and Capstone Power Corp. ("CPC") entered into a credit agreement for $125,000 in part to fund the convertible debenture redemption. Upon completion, the common shares, Class B units, and 2016 and 2017 convertible debentures were delisted from the Toronto Stock Exchange and ceased trading. Capstone also settled all outstanding share-based compensation.

Key Management Changes

On closing of the iCON III acquisition, four of the independent directors of Capstone resigned and were replaced by one new independent director and three directors from iCON. In June 2016, the President and Chief Executive Officer and a director of Capstone, Michael Bernstein, left Capstone subsequent to the iCON III acquisition. Paul Malan, the chairman of Capstone's board of directors and Senior Partner of iCON, was appointed as interim Executive Chairman until December 31, 2016 and Michael Smerdon, Capstone's Executive Vice President and Chief Financial Officer, was appointed to the board of Capstone. On January 1, 2017, David Eva was appointed as Chief Executive Officer and as a member of the Board of Directors. Paul Malan stepped down as Executive Chair of Capstone, but remains as chairman of Capstone's Board of Directors.

Sale of Bristol Water

On December 15, 2016, Capstone sold its 50% ownership interest in Bristol Water to iCON III Bristol Limited, a subsidiary of Capstone's ultimate parent, iCON III. As part of the sale, Irving converted its £106,000 tranche of the promissory note into 123,905 Class A shares of the Corporation, which reduced the promissory note payable to Irving by $194,531. In return, Capstone distributed $192,011 to Irving as a return of capital. This results in a $2,520 increase in Capstone's Class A shares and a loss of $2,803 on the sale.

As a result of the sale, the utilities - water segment is presented as a discontinued operation (refer to page 3 "Basis of Presentation" in this MD&A).

Värmevärden Refinancing and Expected Sale

On May 26, 2016, Värmevärden made an in-kind distribution of 1,095,000 SEK to its shareholders, representing gains recognized from a restructuring, of which Capstone's portion was 365,000 SEK. Capstone subsequently reinvested these gains back in to Värmevärden in return for a new shareholder loan. On June 30, 2016, Värmevärden completed a third-party financing raising 1,425,000 SEK, which was used to repay the 1,000,000 SEK senior secured bonds. The excess proceeds were used to repay the early call premium, transaction costs, as well as a portion of the pre-existing shareholder loan. The net excess proceeds, including operating cash flows generated from the business, were used to repay 162,424 SEK to Capstone. In the third quarter, Capstone used 160,000 SEK of the refinancing proceeds to partially repay the SEK tranche of the promissory note to Irving.

During 2016, Capstone and its co-shareholder evaluated strategic options for Värmevärden, including a potential sale. As at December 31, 2016, management expects to sell its 33.3% ownership interest Värmevärden in 2017. As such, Capstone has classified Värmevärden's assets and liabilities as AHFS and the results of the utilities - district heating segment are presented as a discontinued operation (refer to page 3 "Basis of Presentation" in this MD&A).

OEFC Settlement

On March 12, 2015, the Ontario Superior Court of Justice determined that the OEFC had not properly calculated the price paid for electricity produced under its power purchase agreements with Cardinal, Wawatay and Dryden, as well as a number of other power producers in Ontario. This determination was upheld by the Ontario Court of Appeal in its April 19, 2016 decision. On January 19, 2017, the Supreme Court of Canada dismissed the OEFC's application for leave to appeal the April 19, 2016 decision.

On October 21, 2016, Capstone received $23,527 in net retroactive payments from the OEFC. This was recorded in the statement of income, with $33,288 in revenue and $2,288 in interest income. In addition, associated expenses of $12,049 were recorded in operating expenses.

Wind Development Projects Achieved Commercial Operations

In 2016, four of Capstone's Ontario wind development projects reached commercial operations ("COD") as follows:

- February 26, 2016 - Grey Highlands ZEP, a 10 MW facility with a PPA expiring in 2036;
- May 6, 2016 - Ganaraska, an 18 MW facility with a PPA expiring in 2036;
- September 21, 2016 - Grey Highlands Clean, an 18 MW facility with a PPA expiring in 2036; and
- October 5, 2016 - Snowy Ridge, a 10 MW facility with a PPA expiring in 2036.

In addition, on September 19, 2016, the Environmental Review Tribunal ("ERT") issued its decision accepting the Settlers Landing Ontario wind project's modification proposal, which included removal of one turbine, reducing the project nameplate capacity from 10 MW to 8 MW and enhancing the site restoration plan. Construction commenced in the fourth quarter of 2016 and COD is expected in 2017.

Financing Changes - CPC Acquisition and Project Financings

CPC Financing

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

This replaced the corporate credit facility capacity which was reduced concurrent with the Cardinal financing on March 18, 2016, to $60,000 and repaid as part of the iCON III acquisition on April 29, 2016.

Project Financings

Capstone, through its subsidiaries, completed several project financings in 2016, which are non-recourse to Capstone. All of these financings amortize over the term of the PPA's with variable interest rates which are fixed using interest rate swap contracts until the end of the PPA (refer to page 19 "Derivative Financial Instruments" in this MD&A).

- On March 18, 2016, Cardinal gas cogeneration plant entered into a credit agreement, consisting of a term loan and a letter of credit facility;
- On March 24, 2016, the Grey Highlands Clean wind project entered into a credit agreement which funded construction of the project and was converted to a term facility on December 23, 2016;
- On July 8, 2016, the Snowy Ridge wind project entered into a credit agreement which funded the construction of the project and was converted to a term facility on December 23, 2016; and
- On December 2, 2016, the Settlers Landing wind project entered into a credit agreement to fund the construction of the project. The construction term of the facility is expected to mature in the third quarter of 2017 and convert into a term facility.

In addition, on August 26, 2016, the Grey Highlands ZEP and Ganaraska ("GHG") construction facility was converted to term facility.

Preferred Shares Dividend Rate Reset

On July 4, 2016, Capstone announced to preferred shareholders the applicable fixed and floating dividend rates for its cumulative five-year rate reset preferred shares, which is effective from July 31, 2016 to July 30, 2021. In accordance with the terms of the share agreement, all preferred shares accrue dividends at a fixed rate of 3.271% per annum and preferred dividends are paid quarterly.

SUBSEQUENT EVENTS

Whitecourt Bioenergy Producer Program

On February 8, 2017, Whitecourt, Capstone's biomass facility, was notified that the Government of Alberta approved its application to the Bioenergy Producer Program ("BPP"). Whitecourt expects to receive grants of up to $4,800 for contributing to Alberta's bioenergy production capacity over the 18 month program, ending September 30, 2017.

Värmevärden Sale

On February, 21 2017, Capstone announced that, alongside its co-shareholder Macquarie European Infrastructure Fund 2 ("MEIF 2"), it has agreed to sell 100% of Värmevärden. Capstone expects to receive approximately$140,000 in net proceeds for its 33.3% indirect interest in Värmevärden and the related outstanding loans receivable. The transaction is expected to close in March 2017. The net proceeds exceed the carrying value of$13,197 by $126,803. On completion, the excess will be included as a gain on sale, net of applicable taxes and foreign exchange translation. A portion of the proceeds from the sale will be used to eliminate the remaining outstanding balance of the promissory note to Irving.

Sechelt Creek Facility Electricity Purchase Agreement Extension

On February 28, 2017, Capstone's electricity purchase agreement for the Sechelt Creek facility with BC Hydro was extended from its original expiry on an interim basis. The interim arrangement, and any new or amended electricity purchase agreement that may be entered, is expected to provide a lower price for electricity supplied than was paid under the expiring contract and would generate lower revenues than in 2016.

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 from discontinued operations is consistent with the definition for continuing operations. 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. Adjusted EBITDA from discontinued operations are added or subtracted as a single line consistent with the net result following the definition for continuing operations, up to the date of Capstone's disposal. 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 available to the preferred shareholders and Capstone's common shareholder.

AFFO is calculated from Adjusted EBITDA by:

Deducting:	Adding:	Deducting items for corporate and businesses without significant 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

AFFO from discontinued operations are added or subtracted as a single line consistent with the net result following the definition for continuing operations, up to the date of Capstone's disposal.

Reconciliation of GAAP and Non-GAAP Performance Measures

The following tables reconcile Adjusted EBITDA and AFFO to the nearest GAAP measures, Net Income and EBITDA:

For the year ended	**Dec 31, 2016**	Dec 31, 2015
Net Income (loss) from continuing operations	**18,830**	(28,680)
Interest expense	**34,476**	34,174
Depreciation and amortization	**58,802**	45,096
Income tax recovery (expense)	**(3,859)**	(1,453)
EBITDA from continuing operations	**108,249**	49,137
Foreign exchange (gain) loss	**(397)**	(193)
Other (gains) and losses, net	**(23,410)**	11,779
Contractual settlements in other gains and (losses)	**8,142**	3,774
Equity accounted (income) loss	**(958)**	(688)
Distributions from equity accounted investments	**1,886**	2,426
NCI portion of Adjusted EBITDA	**(14,947)**	(8,930)
Adjusted EBITDA from continuing operations	**78,565**	57,305
Continuing operations cash flow from operating activities (1)	**50,323**	22,922
Cash flow from operating activities of businesses with NCI	**5,759**	(12,673)
Distributions paid to Capstone from businesses with NCI	**7,322**	5,257
Distributions from equity accounted investments	**1,886**	2,426
Foreign exchange (gains) losses on loans receivable	**—**	(193)
Power and corporate working capital changes	**(18,945)**	10,340
Loans receivable principal repayments	**—**	1,442
Power and corporate maintenance capital expenditures	**(3,917)**	(3,518)
Power and corporate scheduled principal repayments	**(23,575)**	(19,047)
Dividends on redeemable preferred shares	**(3,426)**	(3,750)
AFFO from continuing operations	**15,427**	3,206

(1) 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.

For the year ended	**Dec 31, 2016**	Dec 31, 2015
Net Income (loss) from discontinued operations	**(34,371)**	54,872
Interest expense	**24,081**	23,767
Depreciation and amortization	**33,983**	38,885
Income tax recovery (expense)	**(1,752)**	(4,434)
EBITDA from discontinued operations	**21,941**	113,090
Asset impairment charges	**58,000**	—
Foreign exchange (gain) loss	**5,333**	(3,527)
Other (gains) and losses, net	**1,000**	(1,394)
Net pension interest income	**(3,169)**	(3,062)
Equity accounted (income) loss	**—**	1,504
Distributions from equity accounted investments	**4,167**	3,427
NCI portion of Adjusted EBITDA	**(39,975)**	(52,042)
Adjusted EBITDA from discontinued operations	**47,297**	57,996
Discontinued operations cash flow from operating activities	**70,866**	93,896
Cash flow from operating activities of businesses with NCI	**(70,019)**	(91,181)
Distributions paid to Capstone from businesses with NCI	**660**	1,992
Distributions from equity accounted investments	**4,167**	3,427
Utilities working capital changes	**2,375**	(107)
AFFO from discontinued operations	**8,049**	8,027

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both higher than in 2015.

Higher Adjusted EBITDA from continuing operations primarily reflected:

- Higher power segment results, primarily attributable to net OEFC proceeds awarded for retroactive payments to Cardinal and the Ontario hydro facilities. The new wind facilities added since January 1, 2015, which consist of Goulais, GHG, Grey Highlands Clean and Snowy Ridge, also contributed to the increase. In addition, Capstone's hydro facilities generally experienced favourable hydrology conditions producing higher revenue; partially offset by
- Higher corporate expenses, relating to costs associated with the acquisition of Capstone by iCON III, including professional fees and staff costs.

Lower Adjusted EBITDA from discontinued operations consisted of:

- Lower results from Bristol Water, reflecting lower revenues, primarily attributable to a rate decrease in AMP 6 and unfavourable foreign currency translation, and lower expenses, mainly due to the favourable impact of a decrease the UK Pound Sterling on expenses, which was partially offset by fees accrued for the notice of termination of the operations and maintenance ("O&M") agreement, partially offset by
- Higher interest income and dividends from Värmevärden.

In addition to the factors affecting Adjusted EBITDA, Capstone's AFFO was affected by higher debt service payments at the power segment and corporate as well as lower dividends from Bristol Water.

	For the year ended		
	Dec 31, 2016	Dec 31, 2015	Change
Revenue	**172,940**	117,956	54,984
Expenses	**(92,078)**	(59,419)	(32,659)
Interest income	**2,622**	1,498	1,124
Contractual settlements in other gains and (losses)	**8,142**	3,774	4,368
Distributions from equity accounted investments	**1,886**	2,426	(540)
Less: NCI	**(14,947)**	(8,930)	(6,017)
Adjusted EBITDA from continuing operations	**78,565**	57,305	21,260
Adjusted EBITDA from discontinued operations	**47,297**	57,996	(10,699)
Adjusted EBITDA	**125,862**	115,301	10,561
Adjusted EBITDA of discontinued operations	**(47,297)**	(57,996)	10,699
Adjusted EBITDA of consolidated businesses with NCI	**(16,304)**	(9,337)	(6,967)
Distributions from businesses with NCI	**7,322**	5,257	2,065
Principal from loans receivable	**—**	1,442	(1,442)
Interest paid	**(21,891)**	(24,120)	2,229
Dividends paid on Capstone's preferred shares	**(3,426)**	(3,750)	324
Income taxes (paid) recovery	**(1,347)**	(1,026)	(321)
Maintenance capital expenditures	**(3,917)**	(3,518)	(399)
Scheduled repayment of debt principal	**(23,575)**	(19,047)	(4,528)
AFFO from continuing operations	**15,427**	3,206	12,221
AFFO from discontinued operations	**8,049**	8,027	22
AFFO	**23,476**	11,233	12,243

Revenue increased by $54,984, or 47%, due to higher power segment revenue, primarily due to proceeds awarded of $33,288 for retroactive revenue adjustments from the OEFC for Cardinal and the Ontario hydro facilities. New wind facilities also contributed $16,998. In addition, revenue increased by $6,492 due to higher production because of more favourable resource conditions from the hydro facilities. These were partially offset by $2,770 of lower revenue at Whitecourt due to lower merchant power rates in Alberta.

Expenses increased by $32,659, or 55%, because:

- **Operating expenses** increased by $16,432, or 41%, due to higher power segment expenses, mainly because of a one time increase in fuel expenses of $12,049, directly related to contractual obligations from the OEFC settlement. New wind facilities also contributed $2,750 of higher expenses. In addition, expenses increased by $1,316 for costs incurred for tower repairs at the Ferndale site, net of interim insurance recoveries as part of Capstone's claim.
- **Administrative expenses** increased by $8,225, or 71%, primarily due to higher non-recurring staff costs of $9,761 because of the iCON III acquisition, including long-term incentive plan payments and employee separation costs.
- **Project development costs** increased by $8,002, or 110%, of which $9,170 related to higher corporate development costs, partially offset by $1,168 of lower power segment costs. The corporate development costs increased due to $10,154 of non-recurring costs related to the iCON III acquisition, partially offset by $984 of lower acquisition due diligence costs. Power segment costs decreased by $1,168 due to the stage of progress on the wind development projects.

Interest income increased by $1,124, or 75%, primarily due to $2,288 of interest income related to the OEFC settlement, partially offset by $998 of lower interest income because the Goulais wind facility loan receivable matured in 2015.

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 revenue sharing receipts in Whitecourt's fuel supply agreement with Millar Western and the payments are higher in response to lower merchant power rates in Alberta.

Distributions from equity accounted investments were $540, or 22%, lower in 2016 due to lower distributions from the Glen Dhu wind facility ("Glen Dhu").

Adjusted EBITDA from discontinued operations decreased by $10,699, or 18%, primarily due to lower Bristol Water contributions of $12,053, partially offset by higher Värmevärden contributions of $1,354, due to higher interest on the shareholder loans and higher dividends.

Bristol Water's revenue decreased by $35,712, primarily due to lower regulated water tariffs since April 1, 2015 and unfavourable foreign currency translation. These were partially offset by lower operating expenses of $11,860 primarily due to a recovery of past service costs on closing the defined benefit pension plan and non-recurring costs in 2015 related to the CMA process. In addition, operating expenses were lower due to favourable foreign currency translation. These decreases in operating expenses were partially offset by $13,940 of costs to terminate the O&M agreement with Agbar.

Distributions from businesses with NCI were $2,065, or 39%, higher in 2016 mainly due to distributions of $3,601 from the new wind facilities, partially offset by $1,791 of lower distributions from Saint-Philémon.

Interest paid decreased by $2,229, or 9%, primarily attributable to $4,189 of lower corporate interest, resulting from the settlement of the convertible debentures and corporate credit facility on April 29, 2016, and $1,501 of lower interest due to the Amherstburg refinancing, completed in the third quarter of 2015. In addition, $871 of lower interest on amortizing debt for the wind facilities contributed to the decrease. These decreases were partially offset by $2,883 of higher interest at CPC and $1,664 at Cardinal due to the new debt facilities put in place in 2016.

Interest paid by businesses with significant NCI are excluded from Capstone's definition of AFFO and represent the primary difference between interest expense included in consolidated net income and interest paid in AFFO. The remaining difference between interest expense and interest paid was attributable to the amortization of financing costs and accrued interest to December 31, 2016.

Scheduled debt principal repayments increased by $4,528, or 24%, primarily due to payments on new debt at Cardinal and Grey Highlands Clean which were completed in 2016, as well as higher debt amortization at Amherstburg, the hydro facilities, SkyGen and Glace Bay.

AFFO from discontinued operations increased by $22, or 0.3%, primarily due to $1,354 of higher interest and dividends from Värmevärden, offset by $1,332 of lower distributions from Bristol Water.

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. Both of the utilities segments are presented as discontinued operations resulting from Capstone's sale of its 50% ownership interest in Bristol Water on December 15, 2016 and Capstone's plan to sell its investment in Värmevärden in 2017.

Capstone's operating segments, including discontinued operations, by ownership interest are:

Accounting treatment	Control		Significant influence
Ownership	Wholly owned	Partially owned	Minority interest
Power (1)	Cardinal (gas cogeneration facility), Erie Shores, SkyGen, Glace Bay and Grey Highlands Clean (wind facilities), Whitecourt (biomass facility), Amherstburg (solar facility) and the hydro facilities.	Amherst, Saint-Philémon, Goulais, GHG and Snowy Ridge (wind facilities)	Glen Dhu and Fitzpatrick (wind facilities)
Discontinued Operations:			
Utilities - water (2)		Bristol Water	
Utilities - district heating (2)			Värmevärden

(1) The power segment includes investments in wind development projects in addition to the operating businesses disclosed above.
(2) Capstone's ownership interests in Bristol Water and Värmevärden are presented as discontinued operations (refer to page 3 "Basis of Presentation" in this MD&A).

Performance measures

Capstone's performance measures from continuing operations are shown before several large one-time transactions in 2016 and with discontinued operations. These one-time transactions include the net OEFC proceeds awarded for retroactive payments to Cardinal and the Ontario hydro facilities and corporate costs relating to the iCON III acquisition.

	Net Income			**Adjusted EBITDA**			**AFFO**		
	For the year ended		Change	For the year ended		Change	For the year ended		Change
	2016	2015	$	**2016**	2015	$	**2016**	2015	$
Power	**35,395**	(8,054)	43,449	**110,842**	72,130	38,712	**54,856**	29,195	25,661
Corporate	**(16,565)**	(20,626)	4,061	**(32,277)**	(14,825)	(17,452)	**(39,429)**	(25,989)	(13,440)
Total continuing operations	**18,830**	(28,680)	47,510	**78,565**	57,305	21,260	**15,427**	3,206	12,221
Add: Costs relating to the iCON III acquisition, including staff costs	**21,639**	—	21,639	**21,639**	—	21,639	**21,639**	—	21,639
Less: Net OEFC proceeds	**(23,527)**	—	(23,527)	**(23,527)**	—	(23,527)	**(23,527)**	—	(23,527)
Adjusted total continuing operations	**16,942**	(28,680)	45,622	**76,677**	57,305	19,372	**13,539**	3,206	10,333
Discontinued operations:									
Utilities – water	**(34,723)**	49,341	(84,064)	**39,908**	51,961	(12,053)	**660**	1,992	(1,332)
Utilities – district heating	**352**	5,531	(5,179)	**7,389**	6,035	1,354	**7,389**	6,035	1,354
Total discontinued operations	**(34,371)**	54,872	(89,243)	**47,297**	57,996	(10,699)	**8,049**	8,027	22
Total continuing operations	**18,830**	(28,680)	47,510	**78,565**	57,305	21,260	**15,427**	3,206	12,221
Total	**(15,541)**	26,192	(41,733)	**125,862**	115,301	10,561	**23,476**	11,233	12,243

(1) See page 7 for a reconciliation of Adjusted EBITDA and AFFO to GAAP measures.

Infrastructure: Power

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

For the year ended December 31, 2016	**Gas**	**Wind (1)**	**Biomass (1)**	**Hydro (2)**	**Solar**	**Development & Corporate (3)**	**Total**
Power generated (GWh)	**88.6**	**689.2**	**196.8**	**181.7**	**39.2**	**n/a**	**1,195.5**
Capacity factor	**6.8%**	**30.4%**	**92.6%**	**57.9%**	**22.3%**	**n/a**	**n.m.f**
Availability	**98.6%**	**96.2%**	**95.5%**	**99.1%**	**98.2%**	**n/a**	**n.m.f**
Revenue	54,293	76,935	4,683	20,551	16,478	—	172,940
Expenses	(24,873)	(15,221)	(10,911)	(4,803)	(1,139)	(2,763)	(59,710)
Interest income	2,143	171	6	187	8	16	2,531
Contractual settlements (4)	—	—	8,142	—	—	—	8,142
Distributions from equity accounted investments	—	1,886	—	—	—	—	1,886
Less: NCI	—	(15,020)	—	—	—	73	(14,947)
Adjusted EBITDA	31,563	48,751	1,920	15,935	15,347	(2,674)	110,842
Adjusted EBITDA of consolidated businesses with NCI	—	(16,380)	—	—	—	76	(16,304)
Distributions from businesses with NCI	—	7,192	—	—	—	130	7,322
Interest paid	(1,664)	(7,654)	—	(4,270)	(3,138)	(2,883)	(19,609)
Maintenance capital expenditures	(946)	(2,094)	(271)	(487)	(22)	—	(3,820)
Scheduled repayment of debt principal	(2,443)	(10,601)	—	(5,207)	(5,324)	—	(23,575)
AFFO	26,510	19,214	1,649	5,971	6,863	(5,351)	54,856

(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) On August 23, 2016, BC Hydro exercised its right to terminate the existing electricity purchase agreement ("EPA") with Capstone's Sechelt hydro facility. The current Sechelt EPA will expire on February 28, 2017 and Capstone is in discussions for a new EPA with the relevant parties.
(3) Development & Corporate consists of costs related to Capstone's power development projects, as well as interest income and CPC's debt service costs.
(4) Contractual settlements are included in other gains and (losses) on the consolidated statement of income.

For the year ended December 31, 2015	Gas	Wind (1)	Biomass (1)	Hydro (2)	Solar	Development & Corporate (3)	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 (4)	(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

(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) On August 23, 2016, BC Hydro exercised its right to terminate the existing electricity purchase agreement ("EPA") with Capstone's Sechelt hydro facility. The current Sechelt EPA will expire on February 28, 2017 and Capstone is in discussions for a new EPA with the relevant parties.
(3) Development & Corporate consists of costs related to Capstone's power development projects, as well as interest income and CPC's debt service costs.
(4) Contractual settlements are included in other gains and (losses) on the consolidated statement of income.

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

Change	Explanations
23,527	Adjusted EBITDA contributions from OEFC proceeds awarded for retroactive payments to Cardinal and the Ontario hydro facilities.
8,156	Adjusted EBITDA contributions from the new wind facilities, consisting of Goulais which reached COD on May 21, 2015, and the GHG, Grey Highlands Clean and Snowy Ridge wind facilities, which reached COD in 2016.
2,891	Higher revenue from the hydro facilities (excluding the OEFC proceeds awarded) and Amherstburg due to higher production, resulting from strong hydrology and solar resources.
2,544	Lower operating expenses at Cardinal due to lower fuel and repair expenses (excluding payments to suppliers resulting from the OEFC proceeds awarded).
1,764	Higher revenue from the operating wind facilities (excluding new facilities) due to increased production and payments to curtail, reflecting stronger wind resource.
(1,316)	Higher operating expenses at SkyGen to repair a tower at Ferndale, net of $2,000 of interim insurance recoveries.
1,146	Various other changes.
38,712	Change in Adjusted EBITDA.
(6,967)	Change in Adjusted EBITDA attributable to non-controlling interests.
(6,990)	Higher debt service at Cardinal and CPC, due to the financings completed in 2016.
(1,000)	Higher maintenance capital expenditures on gearboxes at Erie Shores.
3,587	Higher distributions from Goulais, GHG and Snowy Ridge, which did not distribute in the prior periods.
(1,681)	Various other changes.
25,661	Change in AFFO.

Project development

The Grey Highlands ZEP[1], Ganaraska[1], Grey Highlands Clean and Snowy Ridge[1] wind development projects reached COD on schedule and within budget and began contributing to Capstone's operating results for a portion of 2016, since their respective COD's. As at December 31, 2016, Capstone's development pipeline included the rights to net 14 MW (gross 18 MW) summarized as follows:

Project	Expected COD	Expected Ownership Interest	Net Capacity	Counterparty	Expected PPA Expiry	Status
Settlers Landing [1]	2017	50%	4.0 MW	IESO	2037	Under construction
Riverhurst	2019	100%	10.0 MW	SaskPower	2039	Interconnection agreement [2]

(1) Capstone expects to share control of these projects.
(2) As at December 31, 2016, Capstone continues to progress the previously awarded PPA and interconnection agreement with SaskPower.

Seasonality

Overall, the results for Capstone's power segment fluctuate during the year because of seasonal factors that affect quarterly production of each facility. These factors include scheduled maintenance and environmental factors such as water flows, solar radiation, 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.

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, 2016	Dec 31, 2015	Change
Administrative expenses	**(19,876)**	(11,651)	(8,225)
Project development costs	**(12,492)**	(3,322)	(9,170)
Interest income	**91**	148	(57)
Adjusted EBITDA	**(32,277)**	(14,825)	(17,452)
Principal from loans receivable	**—**	83	(83)
Interest paid	**(2,282)**	(6,471)	4,189
Dividends paid on Capstone's preferred shares	**(3,426)**	(3,750)	324
Income taxes paid	**(1,347)**	(1,026)	(321)
Maintenance capital expenditures	**(97)**	—	(97)
AFFO	**(39,429)**	(25,989)	(13,440)

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

Change	Explanations
(10,154)	Higher professional fees attributable to the iCON III acquisition.
(9,761)	Higher staff costs related to the iCON III acquisition, including final long-term incentive plan payments and employee separation costs.
1,448	Lower professional fees attributable to 2015 acquisition due diligence costs.
1,015	Various other changes.
(17,452)	Change in Adjusted EBITDA.
3,095	Lower interest paid on convertible debentures following redemption on April 29, 2016.
1,094	Lower interest paid on the corporate facility following settlement on April 29, 2016.
(177)	Various other changes.
(13,440)	Change in AFFO.

Discontinued Operations:

For detail regarding the presentation and background of the utilities segments refer to page 3, "Basis of Presentation" and page 3, "Changes in the Business" in this MD&A.

Infrastructure: Utilities – Water

Bristol Water is a regulated water utility located in the UK and these non-GAAP results are included to December 15, 2016, when Capstone sold its 50% ownership interest.

	For the year ended		
	Dec 31, 2016	Dec 31, 2015	Change
Water supplied (megalitres)	**80,712**	83,151	(2,439)
Revenue	**191,315**	227,027	(35,712)
Operating expenses	**(111,664)**	(123,524)	11,860
Interest income	**232**	500	(268)
Adjusted EBITDA before NCI from discontinued operations	**79,883**	104,003	(24,120)
Less: NCI	**(39,975)**	(52,042)	12,067
Adjusted EBITDA from discontinued operations	**39,908**	51,961	(12,053)
Adjusted EBITDA of consolidated businesses with NCI	**(39,908)**	(51,961)	12,053
Dividends from businesses with NCI	**660**	1,992	(1,332)
AFFO from discontinued operations	**660**	1,992	(1,332)

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

Change	Explanations
(6,970)	Higher operating expenses reflecting accrued termination fees for the O&M agreement.
(5,586)	Lower revenue due to the decrease in regulated water tariffs.
(4,057)	Impact of foreign exchange.
(1,927)	Lower operating results due to the sale of Bristol Water on December 15, 2016.
3,025	Lower operating expenses for non-recurring recovery of past service costs on closing of the defined benefit pension plan in 2016.
2,905	Lower operating expenses due to 2015 non-recurring costs for restructuring and participating in the CMA process.
557	Various other changes.
(12,053)	Change in Adjusted EBITDA from discontinued operations.
(1,332)	Lower dividends received during 2016.
(1,332)	Change in AFFO from discontinued operations.

Infrastructure: Utilities – District Heating

Värmevärden is a district heating business located in Sweden. Capstone's investment includes shareholder loans receivable and a 33.3% ownership interest, which are presented as AHFS.

	For the year ended		
	Dec 31, 2016	Dec 31, 2015	Change
Heat and steam production (GWh)	**1,011**	985	26
Administrative expenses	**(588)**	(131)	(457)
Interest income	**3,810**	2,739	1,071
Dividends	**4,167**	3,427	740
Adjusted EBITDA and AFFO from discontinued operations	**7,389**	6,035	1,354

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

Change	Explanations
2,316	Higher interest income attributable to the new shareholder loan.
740	Higher dividends received.
(1,245)	Lower interest income on the pre-existing shareholder loan.
(457)	Higher professional fees attributable to Värmevärden's refinancing.
1,354	Change in Adjusted EBITDA and AFFO from discontinued operations.

FINANCIAL POSITION REVIEW

Overview

On April 29, 2016, Capstone was acquired by iCON III, refer to page 3 of "Changes in the Business" in this MD&A for details. Overall, iCON III's investment in Capstone consists of a combination of Class A shares and a multi-currency demand promissory note, which were issued in exchange for Class A shares of the Corporation. In addition, a new credit facility was put in place at CPC and the existing corporate credit facility was repaid.

The 2016 consolidated statement of financial position excludes balances relating to Capstone's 50% interest in Bristol Water as a result of the December 15, 2016 sale. In addition, Värmevärden's assets and liabilities are classified as held for sale because the Corporation expects to sell its ownership interest in 2017.

As at December 31, 2016, Capstone was in a $55,627 net current liabilities position, compared with $54,580 as at December 31, 2015. Excluding items that Capstone does not expect to fund from current assets, the working capital surplus of $41,075 sufficiently meets foreseeable current commitments.

As at December 31, 2016, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	**Dec 31, 2016**	Dec 31, 2015
Power	**26,092**	(34,929)
Utilities – water (1)	**—**	26,239
Corporate	**(81,719)**	(45,890)
Net current assets (liabilities)	**(55,627)**	(54,580)
Corporate - promissory note payable (2), (4)	**96,702**	—
Corporate - 2016 convertible debentures (3), (4)	**—**	42,278
Working capital (4)	**41,075**	(12,302)

(1) 2015 balances include amounts relating to Bristol Water sold on December 15, 2016. Refer to page 3 "Changes in the Business" in this MD&A.
(2) The promissory note is held by Irving, the owner of the Corporation's Class A shares, and is classified as current due to the demand feature of the note. Capstone does not expect to settle the promissory note from the current liquidity. Refer to page 16 of "Financial position review" in this MD&A.
(3) The 2016 convertible debentures were redeemed as part of the iCON III acquisition.
(4) GAAP does not define working capital. To assist in understanding liquidity it is calculated as current assets less current liabilities adjusted for items Capstone does not expect to fund from current liquidity, including the promissory note payable in 2016 and the 2016 convertible debentures in 2015.

As at December 31, 2016, Capstone had a consolidated working capital surplus of $41,075 compared with a deficit of $12,302 at December 31, 2015. Capstone's working capital was $53,377 higher than December 31, 2015, due to increases of $61,021 for the power segment, and $18,595 for corporate, partially offset by a decrease of $26,239 due to the sale of Bristol Water on December 15, 2016.

The power segment working capital increase includes the $23,527 net increase in cash at Cardinal and the Ontario hydro facilities from the proceeds of the OEFC litigation, and a $21,127 reduction in accounts payable, as vendors were paid while construction of the wind projects progressed. In addition, there was higher restricted cash of $13,557 for new project debt reserves. These were offset by a $2,640 increase in the current portion of long-term debt. The long-term debt increase primarily includes $24,675 relating to the new CPC Credit Agreement and $9,953 for new credit facilities at Cardinal, GHG, Grey Highlands Clean and Snowy Ridge, partially offset by decreases from a $20,802 project debt extension and a $9,966 promissory note repayment at SkyGen, and scheduled repayments.

The corporate working capital increase primarily reflects the reclassification of Värmevärden's long term assets of $10,968 to current assets, as part of assets held for sale. The remaining difference relates to ongoing distributions from the power segment.

Cash and cash equivalents

As at	Dec 31, 2016	Dec 31, 2015
Power	**56,000**	43,705
Utilities – water [(1)]	**—**	25,495
Corporate [(2)]	**6,246**	5,192
Unrestricted cash and cash equivalents	**62,246**	74,392
Less: cash with access limitations		
Power	**(56,000)**	(22,056)
Utilities – water	**—**	(25,495)
Cash and cash equivalents available to corporate	**6,246**	26,841

(1) 2015 balances include amounts relating to Bristol Water sold on December 15, 2016. Refer to page 3 "Changes in the Business" in this MD&A .
(2) 2015 balances include amounts relating to Värmevärden, which was transferred to AHFS as at December 31, 2016. Refer to page 3 "Changes in the Business" in this MD&A.

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The unrestricted cash and cash equivalents decrease of $12,146, consists of a $25,495 reduction due to the sale of Bristol Water, partially offset by increases of $12,295 at the power segment and $1,054 at corporate.

Cash and cash equivalents available to corporate were net of power segment cash of $56,000, which is only periodically accessible by Capstone through distributions. The power segment's cash and cash equivalents are accessible to Capstone through distributions under the terms of the new CPC Credit Agreement, which allows for distributions to Capstone, subject to certain conditions. In turn, CPC receives distributions from its subsidiary power assets, which are subject to the terms of their project-specific credit agreements.

Restricted cash

Restricted cash decreased by $1,331 because of a $12,325 reduction due to the sale of Bristol Water and $2,563 of lower corporate restricted cash. These were partially offset by a $13,557 increase at the power segment. The power segment increase was primarily due to draws on the new construction facilities to develop the GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing wind projects and additional funds into the maintenance reserve for Cardinal's new debt facility, partially offset by releases of the remaining construction reserves at Goulais and Saint-Philémon.

Cash flow

Capstone's consolidated cash and cash equivalents decreased by $12,012 in 2016 compared with an increase of $15,550 in 2015. The components of the increase, as presented in the consolidated statement of cash flows, from both continuing and discontinued operations, are summarized as follows:

For the year ended	Dec 31, 2016	Dec 31, 2015
Operating activities	**121,189**	116,818
Investing activities	**(210,235)**	(137,445)
Financing activities (excluding dividends to shareholders)	**93,185**	64,438
Dividends paid to shareholders	**(9,887)**	(30,364)
Exchange difference on translation of discontinued operations	**(6,264)**	2,103
Change in cash and cash equivalents	**(12,012)**	15,550

Cash flow from operating activities were $4,371 higher in 2016 and $27,401 higher, excluding discontinued operations. The increase from continuing operations consists of $35,686 of higher cash flows from the power segment, partially offset by $8,285 of lower corporate cash flows. The increase in cash flows at the power segment primarily reflects the net OEFC proceeds awarded for retroactive payments to Cardinal and the Ontario hydro facilities, as well as contributions from the new wind facilities. Cash flows from corporate decreased primarily due to costs associated with iCON III's acquisition of Capstone. Cash flows from the discontinued operations decreased primarily due to lower revenue at Bristol Water, resulting from lower water tariffs, and unfavorable foreign currency translation.

Cash flow used in investing activities were $72,790 higher in 2016, and $119,706 higher, excluding discontinued operations. In 2016, cash used by the continuing operations primarily included power segment funding of $120,992 for the construction of projects under development (2015 - $93,973) and $15,536 (2015 - $24,511) to fund capital asset additions. Cash also decreased by $38,374 due to Capstone's sale of its 50% ownership interest in Bristol Water. In addition, restricted cash increased by $10,994 in 2016 (2015- $38,806 decrease in restricted cash) primarily due to debt draws on the construction facilities for the projects under development. The remaining significant 2015 cash flows include a $12,859 non-recurring loan settlement at Chapais and BFN.

For 2016, the significant cash flows from the discontinued operations included $49,624 (2015 - $75,911) used to fund capital asset additions at Bristol Water and $23,432 from Värmevärden as a partial settlement of the pre-existing shareholder loan receivable.

Cash flow from financing activities were $28,747 higher in 2016 and $27,438 higher, excluding discontinued operations. In 2016, cash from the continuing operations were higher primarily because of higher proceeds from debt draws of $122,488 due to the new debt raised for CPC, Cardinal, GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing. In addition, debt payments were $38,853 lower, primarily due to the repayment of Amherstburg's old project debt in 2015. These increases were partially offset by $53,836 paid to settle a portion of the promissory notes issued to Irving, $43,176 paid to redeem the 2016 convertible debentures and $35,089 lower convertible debenture advances for the GHG, Snowy Ridge and Settlers Landing wind projects in 2016.

Dividends paid to shareholders were $20,477 lower in 2016, due to the suspension of common share dividends because of the iCON III acquisition. Refer to page 3 of "Changes in the Business" in this MD&A.

Promissory Note Payable

On April 29, 2016, Capstone issued a $316,225 demand interest-free promissory note to Irving, the owner of the Corporation's Class A shares. Refer to page 3, "Changes in the Business" in this MD&A for details on the iCON III acquisition. IFRS requires the promissory note to be classified as a current liability because it is due on demand. On issuance, the promissory note consisted of three tranches: £106,000, 712,700 SEK, and $10,370 which are repayable at either the holder or borrower's option any time prior to the maturity date of December 31, 2021. On September 2, 2016, 160,000 SEK or $24,992 was repaid and on December 15, 2016, the £106,000 tranche was converted into $194,531 of Class A shares of the Corporation, decreasing the outstanding balance of the promissory note payable to $96,702 as at December 31, 2016.

Settlement of the remaining SEK tranche can occur in cash in the source currency or by transferring the equity securities of Värmevärden at an agreed upon fair market value. In addition, the promissory note is convertible at the holder's option into Class A shares of Capstone at fair value using the foreign exchange rate as at April 29, 2016.

Long-term Debt

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

	Dec 31, 2015	Additions	Repayments & Redemptions	Foreign Exchange	Disposal of business (1)	Other	Dec 31, 2016
Long-term debt (2)							
Power (3), (4), (5), (6) and (7)	529,211	292,511	(39,262)	—	—	(240)	**782,220**
Utilities – water (1)	712,584	—	—	(132,379)	(580,205)	—	**—**
Corporate (5)	116,869	7,000	(126,804)	—	—	2,935	**—**
Deferred financing fees	(14,127)	(6,916)	1,259	758	1,603	1,194	**(16,229)**
	1,344,537	292,595	(164,807)	(131,621)	(578,602)	3,889	**765,991**
Less: current portion of long-term debt	(101,203)	(11,605)	50,751	—	—	(112)	**(62,169)**
	1,243,334	280,990	(114,056)	(131,621)	(578,602)	3,777	**703,822**

(1) 2015 balances include amounts relating to Bristol Water sold on December 15, 2016. Refer to page 3 "Changes in the Business" in this MD&A.
(2) Refer to page 3 "Changes in the Business" in this MD&A for details of Capstone's financing changes.
(3) Power completed financings of $85,000 for the CPC credit facilities and $70,000 of project debt at Cardinal and made draws of $137,511 for the construction of the GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing wind development projects.
(4) Power made $29,296 of scheduled debt payments. In addition, $9,966 of SkyGen promissory notes were repaid on February 8, 2016.
(5) On April 29, 2016, Capstone redeemed or converted the 2016 and 2017 convertible debentures and settled the corporate credit facility.
(6) On August 5, 2016, SkyGen and its existing lenders extended the term loan maturity date to February 2018.
(7) The power segment has a cumulative $45,370 utilized on its letter of credit facilities.

Power

As at December 31, 2016, the power segment's long-term debt consisted of $85,000 for the CPC credit facility and $697,220 of project debt. The current portion of long-term debt was $62,169, consisting of scheduled debt amortization. Capstone expects to repay the long-term debt from income generated by the power assets.

The new CPC credit facilities include $85,000 drawn on the non-revolving facility and $32,161 utilized on the revolving letter of credit facility. In addition, CPC has undrawn credit capacity of $5,000 as a source for future capital and development expenditures. The new CPC credit facilities mature on April 29, 2019 and bear interest at a variable rate plus an applicable margin. In addition, fixed annual minimum repayments are required, which are paid quarterly from excess cash as defined in the credit agreement.

CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios. All of the power segment's project debt is non-recourse to Capstone, except for $9,000 of limited recourse guarantees provided to the lenders of the various wind projects.

Equity

Shareholders' equity comprised:

As at	**Dec 31, 2016**	Dec 31, 2015
Common shares [(1)]	**40,433**	715,989
Class B exchangeable units [(1)]	**—**	26,710
Preferred shares [(2)]	**72,020**	72,020
Share capital	**112,453**	814,719
Other equity items	**—**	9,284
Accumulated other comprehensive income (loss) [(3)]	**—**	51,151
Retained earnings (Deficit) [(4), (5)]	**2,800**	(366,579)
Equity to Capstone shareholders	**115,253**	508,575
Non-controlling interests [(4)]	**61,417**	273,505
Total shareholders' equity	**176,670**	782,080

(1) Refer to page 3 of "Changes in the Business" in this MD&A for details on the iCON III acquisition which closed on April 29, 2016.
(2) Capstone continues to publicly list its 3,000 Series A preferred shares on the Toronto Stock Exchange.
(3) 2015 balances include amounts relating to Bristol Water sold on December 15, 2016 (refer to page 3 "Changes in the Business" in this MD&A).
(4) Opening equity balances have been revised to reflect historical adjustments to non-controlling interests associated with Bristol Water, resulting in an increase to non-controlling interests of $11,960 as at December 31, 2014 and December 31, 2015, and a corresponding decrease to opening retained earnings (deficit).
(5) On April 29, 2016, the deficit balance of $389,178 was reclassified to share capital on the iCON III acquisition.

Contractual Obligations

As at December 31, 2016, 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)]	95,601	344,766	639,251	1,079,618
Promissory note payable	96,702	—	—	96,702
Operating leases	3,975	14,735	42,461	61,171
Asset retirement obligations	—	—	12,351	12,351
Purchase obligations	18,008	19,544	12,624	50,176
Total contractual obligations	**214,286**	**379,045**	**706,687**	**1,300,018**

(1) Long-term debt include principal and interest payments.

Long-term debt

- Long-term debt is discussed on page 16 "Long-term Debt" in this MD&A.

Promissory note payable

- The promissory note payable is discussed on page 16 "Promissory Note Payable" in this MD&A. The Promissory note is held by Irving, the owner of the Corporation's Class A shares, and is classified as current due to the demand feature of the note. Capstone does not expect to settle the promissory note from the current liquidity.

Operating leases

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

- 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 2061.
- 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.
- Amherstburg leases the land on which its operating facilities are located. The terms of the lease agreements extend to 2036.
- The Corporation has an operating lease for the corporate office ending in 2018, with an option to extend.

Capstone's operating lease commitments 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 2033 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

- As part of Capstone's power development operations, Capstone enters various construction and purchase agreements. As at December 31, 2016, Capstone had commitments of $7,153 for construction and turbine supply agreements for the Settlers Landing project.
- Capstone plans to refurbish Whitecourt's steam turbine and boiler in 2017. This project is expected to cost approximately $14,000 and to extend the life of the facility by 20 years. As at December 31, 2016, Capstone had commitments of approximately$1,260.

Operations and maintenance ("O&M") agreements

- On October 15, 2016, Capstone renegotiated its O&M agreement with SunPower Energy Systems Canada to operate and maintain Amherstburg to internalize several O&M functions. The agreement expires October 15, 2018 with a one-year renewal option. Capstone has the ability to terminate the agreement during the term of the contract.
- On November 30, 2016, Cardinal entered into a maintenance contract with Siemens Canada Limited covering the gas turbine at the 15 MW cogeneration plant that Ingredion is building. The contract has a 6 year term.
- Capstone has several service and maintenance agreements covering the turbines in operation on various wind facilities. 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. Regional is paid a monthly management fee and is eligible for an annual incentive fee. The agreement expires on November 30, 2021.

Other commitments

In addition to the commitments included in the table on page 17, Capstone has the following other commitments with no fixed minimum payments:

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 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 fails to meet the performance requirements under its respective PPA, liquidated damages may apply for development facilities, or the operating facilities' PPA may be terminated after a specified period of time.

Management services agreements

Capstone has agreements with all the partially owned wind facilities and development projects, including Glen Dhu, Fitzpatrick, Amherst, Saint-Philémon, Goulais, GHG, Snowy Ridge and Settlers Landing. For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue. The development projects additionally include a development fee for the successful completion of the projects, which pays an agreed fee per MW on completion of development.

Wood waste supply agreement

The Whitecourt and Millar Western fuel supply agreement for wood waste 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. Under the terms of the ESA, Cardinal is required to provide O&M services in respect of the 15 MW cogeneration plant that Ingredion is building, and supply steam and compressed air to Ingredion for the use of its manufacturing facility. Cardinal entered into a maintenance contract with Siemens Canada Limited in connection with the operation and maintenance of the 15 MW plant in order to support Cardinal's satisfaction of the O&M terms of the ESA.

Guarantees

Capstone has provided limited recourse guarantees on the project debt of certain wind projects totalling $9,000 as at December 31, 2016. Capstone has also provided a guarantee to the former 25% owner of the Grey Highlands Clean wind facility which provides future contractual payments based on operational performance up to an aggregate amount of $4,614. The guarantee terminates when the final payment is made on March 21, 2021.

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

Equity Accounted Investments

Equity accounted investments decreased by $928 mainly because of distributions of $1,886 from Glen Dhu, offset by $958 for Capstone's share of equity accounted comprehensive income.

Capstone's significant equity accounted investments were:

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

(1) 2015 balance for Värmevärden was nil as a result of a cumulative excess of dividends and equity accounted losses above the carrying value. Capstone has $3,210 of cumulative unrecognized losses. For 2016, Capstone had $3,071 of unrecognized losses and $642 in 2015. In 2016, this investment was transferred to assets held for sale (refer to note 3b(ii)).
(2) Under the limited partnership agreement, Capstone has the option to acquire an additional 1% interest from November 2017 to November 2018 at a price based on a predetermined calculation.

Capital Asset Expenditure Program

Capstone incurred $168,411 of capital asset expenditures during 2016, which included $67,864 of additions to capital assets and $100,547 of additions to projects under development. The capital asset expenditures by operating segment were:

	For the year ended Dec 31, 2016	Dec 31, 2015
Power	**114,719**	141,447
Utilities – water	**53,590**	69,738
Corporate	**102**	—
	168,411	211,185

In 2016, capital asset expenditures for the power segment mainly related to additions of $108,505 for the development and construction of GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing. The majority of the remaining difference related to capital expenditures of $4,406 at Erie Shores and Cardinal. In 2015, capital asset expenditures in the power segment of $111,406 were primarily related to developing the Saint-Philémon, Goulais, GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing wind projects. In addition, Cardinal invested $24,640 to prepare the plant to operate as a cycling facility.

Capital expenditures for the utilities – water segment, included both growth and maintenance activities as planned in Bristol Water's regulatory capital expenditure program. On December 15, 2016, Capstone sold its 50% interest in Bristol Water.

Income Taxes

In 2016, the current income tax expense was $1,658 (2015 - $74 recovery), all related to the Canadian operations. The current income taxes primarily relate to amounts for a shortfall of Canadian renewable and conservation expenses arising from flow through shares issued by a previously acquired business.

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 $14,750 (December 31, 2015 - $220) were due to a temporary difference attributable to the cost base of the shares of Värmevärden.

Deferred income tax liabilities of $72,673 (December 31, 2015 - $204,125) represent for Capstone's Canadian operations (December 31, 2015 - $64,399) and nil (December 31, 2015 - $139,506) for Bristol Water. Deferred income tax liabilities primarily relate to the differences between the amortization of intangible and capital assets for tax and accounting purposes.

In 2016, Capstone's net deferred income tax liability decreased by $145,982. The net liability decreased primarily due to derecognition of the Bristol Water's net deferred income tax liability upon sale of Capstone's interest (refer to page 3 "Changes in the Business" in this MD&A).

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in note 8 financial Instruments and note 9 financial risk management in the consolidated financial statements as at and for the year ended December 31, 2016. 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 primarily to mitigate the economic impact of the fluctuations in interest rates, foreign exchange rates and gas commodity prices for Cardinal in 2015. The fair values of these contracts, as well as the Whitecourt embedded derivative included in the consolidated statement of financial position, were:

As at	**Dec 31, 2016**	Dec 31, 2015
Derivative contract assets	**18,526**	166
Derivative contract liabilities	**(3,572)**	(6,540)
Net derivative contract assets (liabilities)	**14,954**	(6,374)

Net derivative contracts increased by $21,328 from December 31, 2015 to a net asset, primarily due to a gain on derivatives in net income from continuing operations of $27,480 and the disposal of Bristol Water's $2,271 interest rate swap liability. These increases were partially offset by contractual settlement payments of $8,142 received from Millar Western. The remaining difference relates to the settlement of the foreign currency option contracts.

In 2016, Cardinal, GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing entered into swap agreements to convert floating interest rate obligations under the respective credit agreements to a fixed rate. These swaps are effective for the remaining amortization periods, respectively.

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

For the year ended	**Dec 31, 2016**	Dec 31, 2015
Whitecourt embedded derivative	**24,964**	886
Interest rate swap contracts	**2,401**	(3,659)
Foreign currency option contracts	**115**	(1,552)
Cardinal gas purchase agreement	**—**	4,364
Cardinal embedded derivative	**—**	169
Forward gas sale and purchase contracts	**—**	(3,330)
Gains (losses) on derivatives in net income from continuing operations	**27,480**	(3,122)
Interest rate swap contracts in other comprehensive income from discontinued operations	**(608)**	553
Gains (losses) on derivatives in total comprehensive income	**26,872**	(2,569)

The gain on derivatives was primarily attributable to increases in the Whitecourt embedded derivative, mainly because of significantly lower estimated forward Alberta power pool prices since December 31, 2015. In addition, the interest rate swap contracts and settlement of the foreign currency contracts contributed to the gains. The gains from the interest rate swaps primarily reflect higher long-term interest rates since inception.

FOREIGN EXCHANGE

Capstone recorded a $397 foreign exchange gain in 2016 compared with a $193 gain in 2015. The 2016 foreign exchange gain was primarily due to $408 realized on the partial settlement of the SEK tranche of the promissory note held by Irving.

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 interpretation of the ERM framework includes the following hierarchy of responsibilities:

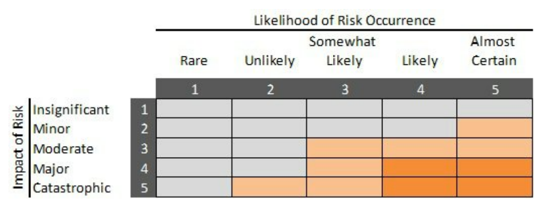
- **Board of Directors and Audit Committee** have overall governance responsibility for setting and overseeing management's implementation of the risk management policy.
- **Internal Audit** reports to the Audit Committee and is responsible for reviewing management's practices to manage risks in specific areas agreed from time to time between management and 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 the power segment and at the corporate level.

In addition to these risks, 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 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; and interim management's discussion and analysis.

Risks Related to the Corporation and its Businesses

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. Risks specific to Capstone's power segment, as well as at the corporate-level, are included. The table excludes risks related to the utilities segments because the risks are not considered to have a material financial impact to Capstone's consolidated results. This is because Capstone sold its interest in the Water segment in 2016 and the District heating segment accounts for its investment using the equity method, which is carried at a nil value.

Therefore changes from risks disclosed in the MD&A for the year-ended December 31, 2015 predominately reflect changes to the strategic direction of the Corporation, since the acquisition by iCON III, to focus on the power segment.

Risk and Description	Impact	Monitoring and Mitigation
Operational Risks		
Succession and human resources retention risks concern the ability to replace senior management and attract, retain and motivate key staff.	Inability to retain or replace key staff or senior management 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 to its employees.
PPA renewal risk concerns the ability to recontract expiring PPA's on economically feasible terms and failing to align with the useful lives of the power facilities.	If Capstone is unsuccessful or delayed in recontracting its expiring PPAs, it would cause Capstone to fall short of its financial forecasts, as revenue short-falls could result from operating in merchant or other markets.	Capstone mitigates by starting negotiations with counter-party(ies), utilizing external advisors where applicable, and working to ensure the broader benefits of the facility are considered in the process. In addition, company-wide mitigation is provided by maintaining a diversified portfolio to reduce the impact of any one facility to the overall consolidated financial results.
Production resources risk concerns 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 and capital delivery risks concern the construction of new power generation facilities in line with the requirements of awarded PPAs and refurbishment of existing facilities to maintain operations.	Delays and cost overruns in the construction of new facilities or refurbishments 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 operation dates.
Strategic Risks		
Business development risk concerns the ability to source and complete attractive investment opportunities that support Capstone's growth initiatives within the power segment.	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 a mandate. Capstone actively monitors the power segment for opportunities using internal resources and external advisers.
Financial Risks		
Expense management risk concerns 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.
Forecasting Risk concerns 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, reducing cash flows.	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.
Taxation risk concerns 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.	Higher taxation results in both lower income and cash flow available.	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. In addition, Capstone monitors the trends and policies of taxation authorities in the OECD jurisdictions where its businesses operate.
Foreign currency risk concerns volatility of the Canadian dollar against currencies from countries where Capstone entities either operate or make purchases. For 2016, this primarily reflects Capstone's interest in Värmevärden and former interest in Bristol Water.	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, presenting a risk at the corporate-level.	Capstone's exposure to its interests in foreign businesses is significantly hedged by the foreign denominated promissory notes reducing the risk to cash flows between Canada and the Corporation's foreign jurisdictions. In addition, this was further reduced on December 15, 2016 when Capstone sold its ownership interest in Bristol Water.
Financing risk concerns the ability to access timely and cost effective debt or equity to support the development and construction of power facilities, 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.	Capstone maintains relationships with multiple financial institutions that have the resources to provide some or all financing requirements. In addition, most existing project debt amortizes over the term of the PPAs to minimize refinancing requirements and debt maturities are staggered. Capstone endeavours to secure committed financing prior to making offers to acquire businesses.

Risk and Description	Impact	Monitoring and Mitigation
Legal and Regulatory Risks		
Permit compliance risk concerns the ability to operate Capstone's power businesses within the allowances of an increasing number of requirements.	Failure to comply with permits can impact Capstone's power contracts, debt facilities, and other agreements, which can lead to lower cash flow from the existing businesses by reducing revenue or increasing costs to restore the ability to operate at capacity.	Capstone maintains its permits and licenses, works with knowledgeable contractors and responds to adverse findings promptly to minimize the impact.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone's power facilities (collectively the "Facilities") hold all material permits and approvals required for their construction and operation, depending on project phase and operational status. All assets are managed to comply with health, safety and environmental ("HSE") laws in addition to Capstone's corporate and facility-specific HSE policies.

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

- Commitment to identify, eliminate, mitigate and manage health and safety issues for all workers, visitors, nearby landowners and other personnel at each of the Facilities;
- Regulatory compliance of emissions and discharges related to air, noise, water, and sewage.
- Proper storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual materials including the prevention of releases of these materials to the environment;
- Management of construction and operation related permits to ensure compliance with all HSE regulations; and
- Protection of the natural and built environment including environmentally sensitive features and wildlife.

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.

Climate Change, Greenhouse Gases and Policy Changes

Due to the emission of greenhouse gases, such as carbon dioxide ("CO2") and nitrous oxides ("NOx), some of the Facilities, particularly the Cardinal and Whitecourt facilities, have an ongoing operational impact on the environment. All Facilities comply in all material respects with the applicable Canadian, Swedish and European Union legislation and guidelines regarding greenhouse gases and other emissions. 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 contravention of permits and approvals.

There are a number of proposals in respect of changes to climate change legislation and guidelines (including proposed limits on greenhouse gas emissions) in various stages of development, in various jurisdictions. The Canadian federal government ratified the Paris Accord, negotiated under the United Nations Framework Convention on Climate Change, in the fall of 2016. Pursuant to the Paris Accord, the parties committed, in a non-binding manner, to accelerate actions and investments needed to limit global average temperatures to below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C.

The federal government and each of the Provinces, with the exception of Saskatchewan, jointly issued the Pan-Canadian Framework on Clean Growth and Climate Change ("Framework"). The Framework is the blueprint by which the federal government and the provinces will attempt to meet their previously agreed-upon target of a 30% reduction in greenhouse gas emissions from 2005 levels by 2030. Elements of the Framework include all provincial jurisdictions being required to price carbon by 2018. However, provincial jurisdictions have the flexibility to implement a variety of carbon regimes ranging from price-based regimes such as a carbon tax, to performance-based emissions regimes such as cap and trade. For jurisdictions with a price-based regime, the price should at least start at $10/tonne in 2018 and rise by $10/tonne each year to $50/tonne by 2022.

The Alberta Climate Leadership Act was proclaimed in force as of January 1, 2017. It imposes a carbon levy on certain fuels, such as natural gas and oil, imported into the Province or sold in the Province. This legislation will not have a direct effect on renewable generation including the Whitecourt facility.

The Ontario cap-and-trade regime came into force on January 1, 2017 under the Climate Change Mitigation and Low-carbon Economy Act. Under the regime, a participating facility, which does not include any of the Capstone Facilities, can only emit as much carbon as it has allowances for. The total number of allowances for all participating facilities (i.e. the cap) will steadily decline each year during the first compliance period effective from January 1, 2017 until December 31, 2020. The regime will be updated in the course of 2017 to include provisions addressing offset credits and early reduction credits, which may allow for Capstone's involvement as a voluntary market participant.

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 greenhouse gas reporting requirements and is in compliance with these requirements.

Hydro Facilities

Capstone's hydro facilities do not produce greenhouse gases. 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 greenhouse gases, but are subject to regulations and/or approvals relating to the natural and built environment.

Amherstburg Solar Park

The operation of Amherstburg does not generate greenhouse gases.

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

Bristol Water complied in all material respects with the applicable UK legislation and guidelines regarding greenhouse gases and other emissions. Subsequent to Bristol Water's sale on December 15, 2016, Capstone is no longer be subject to UK legislation.

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 2016 related party transactions and balances are primarily comprised of the sale of Bristol Water and promissory note payable to Irving, management fees paid by Capstone's equity accounted investments and compensation to key management.

Sale of Bristol Water and Promissory Note

On December 15, 2016, Capstone's 50% ownership interest in Bristol Water was sold to iCON III Bristol Limited, a related party subsidiary of Capstone's ultimate parent entity, iCON III. Capstone's shares of CSE Water UK Limited were sold for an agreed upon amount of £115,690. The transaction was reviewed and approved by a special committee of independent directors of the Corporation (the "Special Committee"). In the course of its deliberations, the Special Committee retained legal counsel and engaged a valuation advisor. The valuation advisor delivered a fairness opinion to the Special Committee to the effect that the price received by the Corporation in the transaction is fair, from a financial point of view, to the Corporation. As a result, the GBP tranche of the promissory note payable held by Irving was converted into Class A shares of Capstone, leaving a $96,702 balance as at December 31, 2016. In addition, no balances remain outstanding with iCON III Bristol Limited.

Management Fees Paid

Management fees earned from Capstone's equity accounted investments are reported in the consolidated statements of income as revenue. During 2016, Capstone earned fees of $406, 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. Up to its sale on December 15, 2016, Bristol Water incurred charges of $5,909 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, short-term employee benefits and termination benefits. Eligible directors and senior management of the Corporation also received forms of stock-based compensation, prior to April 29, 2016, before the Corporation was acquired by iCON. Key management compensation is described in note 26 related party transactions in the consolidated financial statements for the year ended December 31, 2016.

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")	Long-term incentive plan ("LTIP")
Description	Salary is a fixed component of compensation that provides income certainty by establishing a base level of compensation for executives fulfilling their roles and responsibilities.	The STIP provides the possibility of an additional annual cash award based on the achievement of corporate and individual goals.	Capstone is evaluating options available to motivate and retain executives on a long-term basis. The pre-existing plan was settled on April 29, 2016, when Capstone's common shares were acquired by iCON.
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.	Capstone is evaluating options.

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

SUMMARY OF QUARTERLY RESULTS

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

	2016				2015			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue (1)	**40,128**	**66,145**	**32,492**	**34,175**	32,794	27,063	29,349	28,750
Net income (loss) (2), (3)	**18,407**	**(9,488)**	**(18,170)**	**(4,507)**	8,885	301	(9,273)	222
Adjusted EBITDA (3)	**31,424**	**52,308**	**12,201**	**29,929**	30,327	26,657	28,768	29,549
AFFO (3)	**5,160**	**25,674**	**(9,616)**	**2,257**	1,888	1,949	932	6,464
Preferred dividends	**613**	**938**	**938**	**938**	938	938	938	938

(1) Comparative figures for revenue have been adjusted to remove amounts from discontinued operations.
(2) Net income (loss) attributable to the common shareholders of Capstone, which excludes non-controlling interests.
(3) Results include continuing operations and discontinued operations for all periods.

FOURTH QUARTER 2016 HIGHLIGHTS

	Three months ended	
	Dec 31, 2016	Dec 31, 2015
Revenue	**40,128**	32,794
Operating expenses	**(11,684)**	(10,146)
Administrative expenses	**(2,945)**	(3,548)
Project development costs	**(672)**	(2,808)
Equity accounted income	**747**	763
Interest income	**51**	363
Other gains and (losses), net	**11,007**	(552)
Foreign exchange gain (loss)	**(46)**	44
Earnings before interest, taxes, depreciation and amortization	**36,586**	16,910
Interest expense	**(8,645)**	(8,689)
Depreciation of capital assets	**(18,080)**	(9,708)
Amortization of intangible assets	**(2,573)**	(2,379)
Earnings (loss) before income taxes	**7,288**	(3,866)
Income tax recovery (expense)		
Current	**(1,637)**	(8)
Deferred	**14,236**	50
Total income tax recovery (expense)	**12,599**	42
Net income (loss) from continuing operations	**19,887**	(3,824)
Net income (loss) from discontinued operations, net of tax	**1,708**	25,113
Net income (loss)	**21,595**	21,289
Net income (loss) attributable to:		
Shareholders of Capstone	**18,407**	8,885
Non-controlling interest	**3,188**	12,404
	21,595	21,289

Revenue increased by $7,334, or 22%, due to higher power segment revenue mainly from the new wind facilities.

Expenses decreased by $1,201, or 7%.

- **Operating expenses** increased by $1,538, due to higher power segment expenses mainly from the new wind facilities and higher expenses at the hydro facilities related to the Sechelt re-contracting.
- **Administrative expenses** decreased by $603 primarily due to lower staff costs.
- **Project development costs** decreased by $2,136, mainly due to costs for the strategic review in 2015.

Other gains and (losses) increased by $11,559, or 2,094%, to a net gain of $11,007 in 2016. The increase is primarily due to gains of $7,285 on new interest rate swaps and $3,905 on the existing GHG interest rate swap.

Depreciation of capital assets increased by $8,372, or 86.2%, due to the wind facilities.

Income taxes were a $12,599 recovery in 2016 compared with a $42 recovery in 2015 from the Canadian operations. For 2016, the income tax expense consists of $1,637 of current income taxes and a deferred income tax recovery of$14,236. The current income taxes primarily relate to amounts for a shortfall of Canadian renewable and conservation expenses arising from flow through shares issued by a previously acquired business. The deferred income taxes primarily relate to differences in accounting and tax treatments for depreciation of capital assets and intangibles, as well as the recognition of $14,750 relating to the cost base of Värmevärden's shares.

Depreciation of capital assets increased by $8,372, or 86.2%, due to higher power segment depreciation mainly from the new wind facilities.

Net income (loss) from discontinued operations decreased by $23,405, or 93%, primarily due to a deferred income tax recovery at Bristol Water in 2015 of $10,585 due to a decrease in the substantively enacted rate at Bristol Water from 20% to 17%. In addition, lower Bristol Water EBITDA of $7,195 was due to the sale on December 15, 2016.

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, 2015. Refer to note 2 to the December 31, 2016 consolidated financial statements for a summary of 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 the following standards that Capstone continues to assess as follows:

Title of the New IFRS [(1)]
• **IFRS 15**, Revenue from Contracts with Customers [Effective: Jan 1, 2018]
• **IFRS 9**, Financial Instruments [Effective: Jan 1, 2018]
• **IFRS 16**, Leases [Effective: Jan 1, 2019]

(1) See note 2 to the consolidated financial statements for the year ended December 31, 2016 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 and intangibles assets	• 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.
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, 2016 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, 2016, 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, 2016.

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, 2016, 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.

David Eva
Chief Executive Officer

Michael Smerdon
Executive Vice President and Chief Financial Officer

Toronto, Canada
February 28, 2017

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, 2016 and December 31, 2015 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, 2016 and December 31, 2015 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
February 28, 2017

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	**Dec 31, 2016**	Dec 31, 2015
Current assets			
Cash and cash equivalents	4	**62,246**	74,392
Restricted cash	4	**27,733**	29,064
Accounts receivable	5	**23,064**	77,175
Other assets	6	**3,145**	10,904
Current portion of derivative contract assets	8a	**—**	58
Assets held for sale	3b(ii)	**13,445**	—
		129,633	191,593
Non-current assets			
Loans receivable	7	**—**	37,271
Derivative contract assets	8a	**18,526**	108
Equity accounted investments	10	**22,464**	23,392
Capital assets	11	**787,271**	1,702,233
Projects under development	12	**22,267**	106,200
Intangible assets	13	**153,493**	362,514
Retirement benefit surplus	14	**—**	98,558
Deferred income tax assets	15a	**14,750**	220
Total assets		**1,148,404**	2,522,089
Current liabilities			
Accounts payable and other liabilities	16a	**25,383**	143,903
Promissory note payable	8 & 20	**96,702**	—
Current portion of derivative contract liabilities	8a	**758**	254
Current portion of finance lease obligations	17	**—**	813
Current portion of long-term debt	18	**62,169**	101,203
Liabilities held for sale	3b(ii)	**248**	—
		185,260	246,173
Long-term liabilities			
Derivative contract liabilities	8a	**2,814**	6,286
Deferred income tax liabilities	15a	**72,673**	204,125
Deferred revenue	16b	**—**	32,063
Finance lease obligations	17	**—**	3,261
Long-term debt	18	**703,822**	1,243,334
Liability for asset retirement obligation	19	**7,165**	4,767
Total liabilities		**971,734**	1,740,009
Equity attributable to shareholders' of Capstone		**115,253**	508,575
Non-controlling interest	21	**61,417**	273,505
Total liabilities and shareholders' equity		**1,148,404**	2,522,089
Commitments and contingencies	25		
Subsequent events	28		

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

		Equity attributable to shareholders of Capstone					
	Notes	Share Capital (1)	Other Equity Items (2)	AOCI (3)	Retained Earnings (Deficit)	NCI (4)	Total Equity
Balance, December 31, 2014	21	812,142	9,284	19,994	(336,674)	202,033	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	20a, d	2,577	—	—	(29,193)	—	(26,616)
Dividends declared to preferred shareholders of Capstone (7)	20d	—	—	—	(3,867)	—	(3,867)
Dividends declared to NCI	21	—	—	—	—	(6,143)	(6,143)
Net convertible debenture advances	21	—	—	—	—	26,041	26,041
Balance, December 31, 2015	21	814,719	9,284	51,151	(366,579)	273,505	782,080
Other comprehensive income (loss) from January 1 - April 29, 2016 (5)		—	—	(29,743)	(10,004)	(32,192)	(71,939)
Net income (loss) from January 1 - April 29, 2016 included in retained earnings reset (6)		—	—	—	(20,600)	6,501	(14,099)
Dividends declared to common shareholders of Capstone	20a, d	617	—	—	—	—	617
Dividends declared to preferred shareholders of Capstone (7)	20d	—	—	—	(1,279)	—	(1,279)
Redemption of Capstone's 2016 convertible debentures	3a	—	(9,284)	—	9,284	—	—
Dividends declared to NCI from January 1 - April 29, 2016	21	—	—	—	—	(1,060)	(1,060)
Convertible debenture advances, net (8)	21	—	—	—	—	3,077	3,077
Elimination of deficit	3a	(389,178)	—	—	389,178	—	—
Issuance of promissory note in exchange for common shares	3a	(316,225)	—	—	—	—	(316,225)
Balance, April 29, 2016 (9)		109,933	—	21,408	—	249,831	381,172
Other comprehensive income (loss) after April 29, 2016 (5)		—	—	(21,408)	(1,789)	(19,208)	(42,405)
Net income (loss) after April 29, 2016 (6)		—	—	—	6,842	(8,284)	(1,442)
Sale of Bristol Water (10)	3b(i)	—	—	—	—	(159,268)	(159,268)
Conversion of promissory note (10)	20a	194,531	—	—	—	—	194,531
Return of capital (10)	20a	(192,011)	—	—	—		(192,011)
Dividends declared to preferred shareholders of Capstone (7)	20d	—	—	—	(2,253)	—	(2,253)
Dividends declared to NCI after April 29, 2016	21	—	—	—	—	(2,014)	(2,014)
Convertible debenture advances, net (8)	21	—	—	—	—	360	360
Balance, December 31, 2016		112,453	—	—	2,800	61,417	176,670

(1) After April 29, 2016, share capital consists of Class A shares and preferred shares. Just prior to April 29, 2016, share capital was comprised of common shares, preferred shares and Class B exchangeable units (refer to note 3a).
(2) Other equity items include the equity portion of Capstone's 2016 convertible debentures, which was redeemed on April 29, 2016, resulting in an increase in retained earnings.
(3) Accumulated other comprehensive income (loss) ("AOCI").
(4) Non-controlling interest ("NCI") (refer to note 21).
(5) Total other comprehensive loss for 2016 is $114,344, including the reclassification of foreign currency translation of $2,462 on the sale of Bristol Water.
(6) Total net loss for 2016 is $15,541, including a loss of $2,803 on the sale of Bristol Water.
(7) Dividends declared to preferred shareholders of Capstone include deferred income taxes of $31 prior to April 29, 2016 and $295 after April 29, 2016 (2015 - $117).
(8) Capital contributions, net of repayments are with One West Holdings Ltd. ("Concord"), the agreed future 50% partner on the GHG, Snowy Ridge and Settlers Landing projects (refer to note 21).
(9) Refer to note 3a for changes related to the iCON III acquisition.
(10) Refer to note 3b for changes related to the sale of Bristol Water.

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

	Notes	For the year ended Dec 31, 2016	Dec 31, 2015
Revenue	25	**172,940**	117,956
Operating expenses	23	**(56,947)**	(40,515)
Administrative expenses	23	**(19,876)**	(11,651)
Project development costs	23	**(15,255)**	(7,253)
Equity accounted income (loss)	10a	**958**	688
Interest income	8b	**2,622**	1,498
Other gains and (losses), net	24	**23,410**	(11,779)
Foreign exchange gain (loss)		**397**	193
Earnings before interest expense, taxes, depreciation and amortization		**108,249**	49,137
Interest expense	8b	**(34,476)**	(34,174)
Depreciation of capital assets	11	**(48,878)**	(35,946)
Amortization of intangible assets	13	**(9,924)**	(9,150)
Earnings before income taxes		**14,971**	(30,133)
Income tax recovery (expense)			
Current		**(1,658)**	74
Deferred		**5,517**	1,379
Total income tax recovery (expense)	15d	**3,859**	1,453
Net income (loss) from continuing operations		**18,830**	(28,680)
Net income (loss) from discontinued operations, net of tax	3b	**(34,371)**	54,872
Net income (loss)		**(15,541)**	26,192
Net income (loss) attributable to:			
Shareholders of Capstone		**(13,758)**	135
Non-controlling interest	21	**(1,783)**	26,057
		(15,541)	26,192

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the year ended Dec 31, 2016	Dec 31, 2015
Other comprehensive income (loss) from discontinued operations, net of tax	3b(i)	**(114,344)**	59,694
Net income (loss) from discontinued operations, net of tax		**(34,371)**	54,872
Total comprehensive income (loss) from discontinued operations, net of tax		**(148,715)**	114,566
Total comprehensive income (loss) from continuing operations		**18,830**	(28,680)
Total comprehensive income (loss)		**(129,885)**	85,886
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		**(76,702)**	34,312
Non-controlling interest	21	**(53,183)**	51,574
		(129,885)	85,886

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the year ended Dec 31, 2016	Dec 31, 2015
Operating activities:			
Net income (loss) from continuing operations		**18,830**	(28,680)
Deferred income tax expense (recovery)		**(5,517)**	(1,379)
Depreciation and amortization		**58,802**	45,096
Non-cash other gains and losses (net)		**(15,268)**	2,509
Amortization of deferred financing costs and non-cash financing costs		**2,321**	2,033
Equity accounted income	10a	**(958)**	(688)
Foreign exchange loss (gain)		**(397)**	—
Change in non-cash working capital		**(7,490)**	4,031
Cash flows from continuing operations		**50,323**	22,922
Cash flows from discontinued operations	3b	**70,866**	93,896
Total cash flows from operating activities		**121,189**	116,818
Investing activities:			
Investment in projects under development	12b	**(120,992)**	(93,973)
Cash disposed of from discontinued operations		**(38,374)**	—
Investment in capital assets	11b	**(15,536)**	(24,511)
Decrease (increase) in restricted cash		**(10,994)**	38,806
Distributions from equity accounted investments	10a	**1,886**	2,426
Repayments of loans receivable		**—**	12,948
Cash flows used in continuing operations		**(184,010)**	(64,304)
Cash flows used in discontinued operations	3b	**(26,225)**	(73,141)
Total cash flows used in investing activities		**(210,235)**	(137,445)
Financing activities:			
Proceeds from issuance of long-term debt		**299,511**	177,023
Settlement of interest rate swaps		**85**	—
Repayment of long-term debt		**(93,262)**	(132,115)
Repayment of promissory note		**(53,836)**	—
Redemption of debentures	3a	**(43,176)**	—
Dividends paid to common and preferred shareholders		**(9,887)**	(30,364)
Transaction costs on debt issuance		**(6,916)**	(3,953)
Convertible debenture advances, net		**(4,930)**	30,159
Dividends paid to non-controlling interests	21	**(3,074)**	(4,150)
Cash flows from continuing operations		**84,515**	36,600
Cash flows used by discontinued operations	3b	**(1,217)**	(2,526)
Total cash flows from financing activities		**83,298**	34,074
Exchange difference on translation of discontinued operations		**(6,264)**	2,103
Increase in cash and cash equivalents		**(12,012)**	15,550
Cash reclassified to held for sale	3	**(134)**	—
Cash and cash equivalents, beginning of year		**74,392**	58,842
Cash and cash equivalents, end of year		**62,246**	74,392
Supplemental information:			
Interest paid (Bristol Water in 2016 - $22,044, 2015 - $24,345)		**56,518**	58,083
Taxes paid (Bristol Water in 2016 - $1,052 recovery, 2015 - $1,954 payment)		**295**	2,980

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. Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") have refocused their mission to provide investors with an attractive total return from responsibly managed long-term investments in power generation in North America. The Corporation's strategy is to develop, acquire and manage a portfolio of high quality power businesses that operate in a contractually-defined environment and generate stable cash flow. As at December 31, 2016, Capstone owns, operates and develops thermal and renewable power generation facilities in Canada with an approximate net installed capacity of 505 MW. In addition, Capstone has a 33.3% shareholding in Värmevärden, a district heating business in Sweden, which is treated as an asset held for sale ("AHFS").

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 February 28, 2017.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value as explained in the accounting policies set out below and on a going concern basis of accounting (see note 8). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

As further discussed in note 3, on December 15, 2016, Capstone sold its 50% interest in Bristol Water resulting in the utilities - water segment being presented as a discontinued operation. This means Capstone's consolidated statement of financial position as at December 31, 2016 does not contain balances related to Bristol Water. In addition, the statements of income for the years ended December 31, 2016 and 2015 only include results for Bristol Water as a discontinued operation up until December 15, 2016.

As at December 31, 2016, Capstone's plan to sell its 33.3% investment in Värmevärden results in the utilities - district heating segment meeting the AHFS criteria and consequently being presented as a discontinued operation. This means Capstone's consolidated statement of financial position as at December 31, 2016 classifies balances related to Värmevärden as AHFS within the current assets and liabilities. In addition, the statements of income for the years ended December 31, 2016 and 2015 include Värmevärden as a discontinued operation.

The cash flows of the segments are presented as cash provided (used) by discontinued operations for the years ended December 31, 2016 and 2015.

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, 2016	2015	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
Glace Bay Lingan Wind Power Ltd. ("Glace Bay")	Canada	100%	100%	Power generation
Sky Generation L.P. ("SkyGen"), formerly Sky Generation Inc.(1)	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%	Power generation
Chi-Wiikwedong Holdings LP	Canada	100%	100%	Power holding company
Capstone Power Development (B.C.) Corp.	Canada	100%	100%	Development
Grey Highlands Clean Energy Development LP ("Grey Highlands Clean")	Canada	100%	75% (2)	Power generation
Ganaraska and Grey Highlands ZEP Wind Development LP ("GHG")	Canada	75% (3)	75%	Power generation
Snowy Ridge Wind Development LP ("SR")	Canada	75% (3)	75%	Power generation
Settlers Landing Wind Development LP ("SL")	Canada	75% (3)	75%	Power generation under construction
Bristol Water plc and group companies (collectively "Bristol Water")	United Kingdom	Nil (4)	50% (4)	Regulated water utility

(1) The SkyGen entity holds the Ferndale, Ravenswood, Proof Line and Skyway 8 operating wind facilities.
(2) On April 7, 2015, Capstone acquired a 75% interest in the Grey Highlands Clean wind development project. On December 9, 2016, Capstone acquired the remaining 25% of the project.
(3) As at December 31, 2016, Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing projects were 25% held by the original developer. On January 27, 2017, Capstone acquired the original developer's ownership interest of GHG and expects to acquire the remaining interests in Snowy Ridge and Settlers Landing during 2017.
(4) Capstone's 50% interest in Bristol Water was sold on December 15, 2016. Capstone had control until that point 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, 2016	2015	Principal activity
Sefyr Värme AB and Värmevärden AB ("Värmevärden")(1)	Sweden	33.3%	33.3%	District heating
Glen Dhu Wind Energy Limited Partnership ("Glen Dhu")	Canada	49%	49%	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	50%	50%	Power generation

(1) As of December 31, 2016, the investment was classified as held for sale due to the plan to sell Capstone's investment in Värmevärden in 2017.

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
December 31, 2015	0.1516	0.1638	1.9540	2.0407
December 31, 2016 (1)	**0.1550**	**0.1478**	**1.8014**	**1.6597**

(1) Bristol Water's spot rate and average rate were as at and for the period ended December 15, 2016, the date of sale.

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.

On the disposal of a foreign operation, the cumulative translation adjustments recognized in other comprehensive income is reclassified to the statement of income when the gain or loss on disposal is recognized.

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 within AHFS.

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 (discontinued operations)**
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

Up until the sale of Bristol Water, 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

Up until the sale of Bristol Water, 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 up until the sale of Bristol Water. 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 ("PUD")

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;
- An offtake 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 (discontinued operations)**
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

Up until the sale of Bristol Water, goodwill recorded on the statement of financial position represented 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, all goodwill and indefinite life assets pertained to the utilities – water segment. After the sale of Bristol Water, neither of these remained.

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. The financial reporting impacts of the Bristol Water defined benefit pension plan was included in the financial statements up until the sale of Bristol Water.

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, which is included in net income (loss) from discontinued operations, net of tax.

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

Past service costs are recognized immediately to income. When a settlement or curtailment occurs the gain or loss on settlement or reversal of past service costs included in operating expenses are 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.

Promissory Note Payable

The Corporation has a financial liability that consists of a demand interest-free promissory note to the owner of the Corporation's Class A shares. This financial liability is carried at fair value through profit and loss and presented as current.

Assets Held for Sale

Assets and liabilities that meet the criteria to be classified as held for sale are reclassified to current assets and liabilities on the statement of financial position. They are measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets is no longer recorded. The results of discontinued operations are presented separately in the statements of income and cash flows for the current and comparative periods.

Share Capital

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

Exchangeable Securities

Up until the acquisition of Capstone by iCON III ("iCON III acquisition"), 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.

Up until the sale of Bristol Water, the irredeemable preferred shares of Bristol Water have been classified as debt in accordance with IAS 39.

Dividends

Dividends on common shares, up until the iCON III acquisition, 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. In addition, capacity and availability payments to Cardinal are recognized in accordance with the non-utility generator contract. Certain power purchase arrangements provide for an electricity rate adjustment, which is updated periodically both for the current and prior periods. Capstone 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.

Up until the sale of Bristol Water, 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 iCON III acquisition 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

Up until the iCON III acquisition, the Corporation had a Deferred Share Unit ("DSU") plan for eligible directors and employees of Capstone. 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

Up until the iCON III acquisition, the Corporation had a long-term incentive plan ("LTIP") for members of senior management. 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.

Comprehensive Income

Other comprehensive income ("OCI") represents changes in shareholders' equity during a period arising from transactions and other events, including the equity share of OCI of equity accounted investments, unrealized gains and losses on translation of net assets of foreign operations, and actuarial gains recognized in respect of retirement benefit obligations at Bristol Water. 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 • Promissory note payable	• 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 2016, the Corporation's derivatives include interest rate swaps, an embedded derivative in Whitecourt's fuel supply agreement and foreign currency contracts. In addition, 2015 included movement related to 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. Up until the sale of Bristol Water, 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. Hedge accounting was only applied at Bristol Water, prior to its sale.

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.

Discontinued Operations

Entities or components of entities that have been disposed of or classified as held for sale and represent separate CGUs are presented separately as discontinued operations. The results of discontinued operations for both the current and comparative periods are included in a separate line item in the statement of comprehensive income which includes post-tax profit or loss of the entities and the post-tax gain or loss recognized on the disposal or re-measurement of the entities.

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”) and discontinued operations, 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, 2015 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

Area of Significance	Critical Estimate	Critical Judgment
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 pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales
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. ACQUISITIONS, DISPOSALS AND DISCONTINUED OPERATIONS

(A) Acquisition of Capstone by iCON III

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

Convertible debentures

In accordance with the arrangement agreement, CPC's 2017 convertible debentures were converted into 6,047 common shares per the conversion ratio and Capstone's 2016 convertible debentures were redeemed for cash of $43,176. For both debenture series, the Corporation paid the accrued interest owed and subsequently cancelled the debentures. On extinguishing these debentures, a net loss of $3,324 was recognized in the statement of income and the equity component of the 2016 convertible debentures of $9,284 was released to retained earnings.

Common Shares and Class B Units

The Class B Units acquired by Irving for cash and subsequently exchanged for 3,249 common shares. All 103,828 outstanding common shares not already held by Irving were then acquired by Irving and replaced by the same number of newly issued Class A shares without par value and the promissory notes described below. The common shares acquired by the Corporation were then cancelled. Additionally, the deficit as at April 29, 2016 of $389,178 was reclassified to share capital, resulting in the Class A shares being recorded at a carrying value of $37,913.

Promissory Notes

Capstone issued a demand interest-free promissory note to Irving for $316,225 in exchange for common share capital. On April 29, 2016, the promissory note consisted of three multi-currency tranches: £106,000, 712,700 SEK, and $10,370 which could be repaid at any time prior to the maturity date of December 31, 2021. Settlement of each tranche can occur in cash in the underlying currency or by transferring the equity securities of Bristol Water or Värmevärden at an agreed upon fair market value. In addition, the promissory note is convertible at the holder's option into Class A shares of Capstone at fair value using the respective foreign exchange rates as at April 29, 2016 (refer to note 20f). On April 29, 2016, Capstone also issued a $29,628 promissory note to Irving in exchange for common share capital which was settled in cash on the same day.

CPC Credit Agreement

CPC entered into credit facilities for an aggregate amount of $125,000, consisting of an $85,000 non-revolving facility, a $5,000 revolving facility, and a $35,000 revolving letter of credit facility ("the CPC Credit Agreement"). The proceeds drawn on the non-revolving facility were used to repay the outstanding 2016 convertible debentures and to replace the existing corporate credit facility.

Share-based Compensation

As part of the acquisition, all vesting conditions were satisfied on April 29, 2016 for Capstone's share-based compensation, including Deferred Share Units ("DSU"), Restricted Stock Units ("RSU") and Performance Share Units ("PSU"). The total accrued liability of $9,172 was paid to plan participants in May 2016. The charges to administrative expenses for share-based compensation were $6,867 in 2016.

(B) Discontinued Operations

Capstone's consolidated statements of income and cash flows for the years ended December 31, 2016 and 2015 include results for the discontinued operations of Bristol Water and Värmevärden as follows:

For the year ended	Notes	Dec 31, 2016	Dec 31, 2015
Net income (loss) from discontinued operations, net of tax:			
Bristol Water	3b(i)	**(34,723)**	49,341
Värmevärden	3b(ii)	**352**	5,531
		(34,371)	54,872

For the year ended	Dec 31, 2016	Dec 31, 2015
Operating cash flows provided by discontinued operations:		
Bristol Water	**70,019**	91,181
Värmevärden	**847**	2,715
	70,866	93,896
Investing cash flows used (provided) by discontinued operations:		
Bristol Water	**(49,657)**	(76,541)
Värmevärden	**23,432**	3,400
	(26,225)	(73,141)
Financing cash flows used by discontinued operations:		
Bristol Water	**(1,217)**	(2,526)
Värmevärden	**—**	—
	(1,217)	(2,526)

(i) Sale of Bristol Water to iCON III

On December 15, 2016, Capstone sold its 50% ownership interest in Bristol Water to iCON III Bristol Limited, a subsidiary of Capstone's ultimate parent, iCON III. As part of the sale, Irving converted its £106,000 tranche of the promissory note into 123,905 Class A shares of the Corporation, which reduced the promissory note payable to Irving by $194,531. In return, Capstone received a promissory note receivable of £115,690 or $192,011 from iCON III Bristol Limited and then distributed the promissory note receivable to Irving as a $192,011 return of capital. This results in a $2,520 increase in Capstone's Class A shares and a loss of $2,803 comprised of:

As at December 15, 2016	$
Net assets of Bristol Water at 100% (1)	351,620
Less: non-controlling interest	(159,268)
Net assets of Bristol Water attributable to Capstone	192,352
Less: proceeds on sale	(192,011)
Reclassification of foreign currency translation on sale of Bristol Water	2,462
Loss on sale of Bristol Water	**2,803**

(1) Bristol Water had $25,674 working capital, $1,039,094 non-current assets and $713,148 long-term liabilities on December 15, 2016.

The results of Bristol Water, the utilities - water segment, are disclosed in the current and prior periods as a discontinued operation, including the loss on sale. Financial information relating to the discontinued operations for the years ended December 15, 2016 and December 31, 2015 is set out below.

Net income from discontinued operations

Net income (loss) from Bristol Water's discontinued operations for the years ended December 15, 2016 and December 31, 2015 was:

For the period ended	**Dec 15, 2016**	Dec 31, 2015
Revenue	**191,315**	227,027
Operating expenses	**(111,664)**	(123,524)
Goodwill impairment charges	**(58,000)**	—
Other expenses	**(55,323)**	(58,596)
Loss on sale	**(2,803)**	—
Earnings before income taxes	**(36,475)**	44,907
Income tax recovery (expense)		
Current	**(2,416)**	2,664
Deferred	**4,168**	1,770
Net income (loss) from discontinued operations, net of tax	**(34,723)**	49,341

Comprehensive income from discontinued operations

Comprehensive income (loss) from Bristol Water's discontinued operations for the years ended December 15, 2016 and December 31, 2015 was:

For the period ended	**Dec 15, 2016**	Dec 31, 2015
Total comprehensive income (loss) from discontinued operations, net of tax	**(114,344)**	59,694
Net income (loss) from discontinued operations, net of tax	**(34,723)**	49,341
Total comprehensive income (loss) from discontinued operations, net of tax	**(149,067)**	109,035

(ii) Värmevärden Assets Held for Sale

In 2016, Capstone and its co-shareholder evaluated strategic options for Värmevärden, including a potential sale. In the fourth quarter of 2016, management concluded that the expected outcome is the sale of Värmevärden within one year. As such, Capstone has classified Värmevärden's assets and liabilities as held for sale and the results of the utilities - district heating segment are presented in the current and prior periods as a discontinued operations.

Net income from discontinued operations

The net income from Värmevärden's discontinued operations for the years ended December 31, 2016 and December 31, 2015 was:

For the year ended	**Dec 31, 2016**	Dec 31, 2015
Administrative expenses	**(587)**	(131)
Other income	**939**	5,662
Net income from discontinued operations, net of tax	**352**	5,531

Assets and liabilities held for sale

The major classes of assets and liabilities held for sale for Värmevärden are made up of the following components:

For the year ended	**Dec 31, 2016**
Cash and cash equivalents	**134**
Accounts receivable	**2,330**
Other assets	**13**
Loans receivable	**10,968**
Assets held for sale	**13,445**
Accounts payable and other liabilities	**248**
Liabilities held for sale	**248**

NOTE 4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Dec 31, 2016	Dec 31, 2015
Debt service and maintenance reserves (1)	**14,973**	23,434
Construction escrow	**12,685**	2,992
Cash on deposit	**75**	2,638
Restricted cash	**27,733**	29,064
Unrestricted cash and cash equivalents (1), (2)	**62,246**	74,392
	89,979	103,456

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).
(2) 2015 balances include amounts relating to Värmevärden, which was transferred to assets held for sale as at December 31, 2016 (refer to note 3b(ii)).

Restricted cash is primarily cash that is held by the Corporation's subsidiaries in support of segregated bank accounts to support debt service reserves, operating and maintenance reserves in support of specific long-term debt and/or proceeds from construction facilities used for specific project costs. Capstone has also provided letters of credit to back other reserve requirements (refer to note 18).

NOTE 5. TRADE AND OTHER RECEIVABLES

	Dec 31, 2016	Dec 31, 2015
Power	**22,689**	19,496
Utilities – water (1)	**—**	57,665
Corporate (2)	**375**	14
	23,064	77,175

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).
(2) 2015 balances include amounts relating to Värmevärden, which was transferred to assets held for sale as at December 31, 2016 (refer to note 3b(ii)).

For both periods presented, Capstone's power segment and corporate trade and other receivables did not require a provision for impairment. Substantially all of the accounts receivable are with government authorities and none are past due. Refer to note 9b and 9c for further detail of credit risk and economic dependence.

The provision for impairment of trade receivables associated with Bristol Water and recognized in discontinued operations for the year ended December 15, 2016 was $4,517 (December 31, 2015 –$5,870).

NOTE 6. OTHER ASSETS

	Dec 31, 2016	Dec 31, 2015
Prepaid expenses (1), (2)	**1,377**	6,773
Inventory of spare parts and consumable supplies, net (1), (3)	**1,768**	4,131
	3,145	10,904

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).
(2) 2015 balances include amounts relating to Värmevärden, which was transferred to assets held for sale as at December 31, 2016 (refer to note 3b(ii)).
(3) No inventory obsolescence provision is required as at December 31, 2016.

The cost of inventories recognized in operating expenses for the year ended December 31, 2016 was $361 (December 31, 2015 – $781). In addition, the cost of inventories associated with Bristol Water and recognized in discontinued operations for the year ended December 31, 2016 was $4,430 (December 31, 2015 – $5,198).

NOTE 7. LOANS RECEIVABLE

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

	December 31, 2016		December 31, 2015	
	SEK	**$**	SEK	$
Opening balance	**227,541**	**37,271**	227,541	33,744
Principal repayment of pre-existing loan receivable(1)	**(153,333)**	**(23,432)**	—	—
Foreign exchange gain (loss)	**—**	**(2,871)**	—	3,527
	74,208	**10,968**	227,541	37,271
Issuance of new loan receivable(2)	**365,134**	**57,363**	—	—
Contra-asset(2)	**(365,134)**	**(57,363)**	—	—
Assets held for sale (3)	**(74,208)**	**(10,968)**	—	—
Ending balance (3), (4)	**—**	**—**	227,541	37,271

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

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

(3) Accrued interest on the loans receivable in the amount of $2,330 for the year ended December 31, 2016 is included in assets held for sale (December 31, 2015 – $24 in accounts receivable).

(4) 2015 balances include amounts relating to Värmevärden, which was transferred to assets held for sale (refer to note 3b(ii)).

NOTE 8. FINANCIAL INSTRUMENTS

(A) Fair Value of Financial Instruments

In 2016, financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, loans receivable, accounts payable and other liabilities, promissory note payable, 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 assets and liabilities at fair value through profit and loss

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, 2016, 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.

Interest rate swaps

The Corporation has interest rate swap contracts to effectively fix the interest cost on its long-term debt with variable rates, specifically for Cardinal, GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing. Under these swap agreements, these projects receive Canadian Dollar Offered Rate ("CDOR") in exchange for fixed rate (refer to note 9a).

Whitecourt embedded derivative

On March 2, 2015, Whitecourt entered into a fuel supply agreement with Millar Western for 15 years, which is extendable to 20 years. The agreement, which was effective 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 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 was equal to and offset the fair value of the embedded derivative included in Whitecourt's fuel supply agreement at inception. Capstone amortizes the inception value to income over 15 years, representing the life of the fuel supply agreement.

Promissory note payable

On April 29, 2016, as part of the acquisition of Capstone by iCON III described in note 3a, Capstone issued a demand interest-free promissory note to Irving. Refer to note 3a and 20f for more details.

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

Interest rate swaps	• 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.
Promissory note payable	• The promissory note's fair value fluctuates with changes in the relative currencies to the Canadian dollar. • The promissory note has a minimum value equal to the liability's fair value converted using the respective foreign exchange rates as at April 29, 2016, which is the value at which the note can be converted to Class A shares of Capstone.

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.

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, 2016.

The Corporation's long-term debt is recorded at amortized cost using the effective interest rate method. The fair value of the Corporation's long-term debt is determined using level 2 inputs as follows:

- Floating rate debt approximates its carrying value.

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, 2016**	Dec 31, 2015
Cash and cash equivalents	62,246	—	—	**62,246**	74,392
Restricted cash	27,733	—	—	**27,733**	29,064
Recurring measurements:					
Derivative contract assets:					
Whitecourt embedded derivative (1)	—	—	13,674	**13,674**	—
Interest rate swap contracts (2)	—	4,852	—	**4,852**	—
Foreign currency contracts	—	—	—	**—**	166
Less: current portion	—	—	—	**—**	(58)
	—	4,852	13,674	**18,526**	108
Promissory note payable (3)	—	96,702	—	**96,702**	—
Derivative contract liabilities:					
Interest rate swap contracts (2)	—	3,572	—	**3,572**	1,121
Whitecourt embedded derivative (1)	—	—	—	**—**	3,148
Interest rate swap contracts - hedge accounted (4)	—	—	—	**—**	2,271
Less: current portion	—	(758)	—	**(758)**	(254)
	—	2,814	—	**2,814**	6,286

(1) Whitecourt's embedded derivative consists of a $18,265 fair value asset, offset by the $4,591 amortized contra-asset, set up on inception (2015 - $1,796 fair value asset, fully offset by the $4,944 of contra-asset).
(2) In 2016, Cardinal, GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing entered into interest rate swap contracts (2015 - GHG entered into interest rate swap contracts).
(3) Capstone's demand interest-free promissory note to Irving is designated as fair value through profit and loss.
(4) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).

Fair value continuity for Level 3 inputs

	2016	2015
Opening balance, January 1,	**(3,148)**	(4,532)
Change in value of the Cardinal gas purchase agreement included in other gains and (losses) in net income	**—**	4,364
Change in value of the Cardinal embedded derivative included in other gains and (losses) in net income	**—**	168
	(3,148)	—
Change in value of the embedded derivative included in other gains and (losses) in net income	**24,612**	540
Settlement of Whitecourt embedded derivative during the period	**(8,142)**	(4,040)
Amortization of Whitecourt embedded derivative inception value included in other gains and (losses) in net income	**352**	352
Closing balance, December 31,	**13,674**	(3,148)

(B) Income and Expenses From Financial Instruments

	Dec 31, 2016	Dec 31, 2015
Financial instruments designated as held-for-trading:		
Interest income on cash and cash equivalents, restricted cash [1], [2]	**334**	424
Financial instruments classified as held-for-trading (refer to note 18):		
Unrealized gain (loss) on the Whitecourt embedded derivative	**24,964**	886
Unrealized gain (loss) on interest rate swap contracts	**2,401**	9,387
Unrealized gain (loss) on foreign currency contracts	**138**	(1,552)
Unrealized gain (loss) on the Cardinal derivatives [3]	**—**	1,203
	27,503	9,924
Realized gain (loss) on foreign currency contracts	**(23)**	—
Realized gain (loss) on Amherstburg's interest rate swap contract[4]	**—**	(13,045)
	(23)	(13,045)
Loans and receivables [5]:		
Interest income from loans receivable [1], [2]	**—**	1,067
Other liabilities:		
Interest expense on long-term debt [2], [6]	**(34,476)**	(34,174)
	(34,476)	(34,174)

(1) Interest income for 2016 of $2,622 (2015 – $1,498) includes interest income directly related to the OEFC proceeds awarded of$2,288 and interest income on cash balances of $334. The loans receivable from Chapais and Batchewana First Nations were settled in 2015.
(2) Certain comparative figures for the periods ended December 31, 2015 have been adjusted for discontinued operations (refer to note 3b(i)).
(3) Cardinal's gas purchase agreement, gas swap, and forward gas sale and purchase agreements, and embedded derivatives.
(4) In 2015, Amherstburg's interest rate swap was settled.
(5) Foreign exchange gains and losses on loans receivable are also recognized in the statement of income as disclosed in note 7.
(6) Interest expense on the long-term debt for 2016 includes amortization of deferred financing fees and accretion on liability for asset retirement obligations of $1,839 and $317, respectively (2015 – $1,759 and $244) .

NOTE 9. FINANCIAL RISK MANAGEMENT

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

In 2016, 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. Millar Western and Whitecourt's fuel supply agreement includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

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
GHG [(1)]	Jun 30, 2021	77,000	1.34% - 1.45%	1.63% - 1.88%	2.97% - 3.33%
GHG	Jun 30, 2034	57,363	3.04% - 3.17%	1.88%	4.92% - 5.50%
Cardinal [(1)]	Dec 30, 2022	70,000	1.24%	1.63%	2.87%
Cardinal	Jun 30, 2034	41,292	2.77%	1.63%	4.40%
Grey Highlands Clean [(1)]	Sep 30, 2021	55,130	1.24%	1.63% - 1.88%	2.87% - 3.12%
Grey Highlands Clean	Sep 30, 2034	41,616	2.61%	1.88%	4.49%
Snowy Ridge [(1)]	Dec 31, 2021	30,804	1.13%	1.63% - 1.88%	2.76% - 3.01%
Snowy Ridge	Dec 31, 2034	21,011	2.07%	1.88%	3.95%
Settlers Landing	Jun 30, 2017	4,623	1.12%	1.63%	2.75%
Settlers Landing [(1)]	Jun 30, 2022	25,502	1.71%	1.63% - 1.88%	3.34% - 3.59%
Settlers Landing	Jun 30, 2035	17,719	2.93%	1.88%	4.81%

(1) Notional amounts equal to the term loan commitments as defined in the credit agreements. Refer to note 18b(ii-iii) for further detail on the terms of the long-term debt.

Foreign currency exchange risk

The Corporation's exposure to foreign currency exchange risk is primarily related to the discontinued operations, consisting of Bristol Water and 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 net income from discontinued operations in the consolidated statement of income. Bristol Water has a foreign functional currency requiring movements until December 15, 2016 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 loans with Värmevärden resulting in changes to net income from discontinued operations, 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, promissory note payable 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, 2016**	Dec 31, 2015
Independent Electricity System Operator ("IESO")	**13,191**	9,825
Millar Western	**1,906**	1,574
Ontario Electricity Financial Corporation ("OEFC")	**1,228**	1,058
Nova Scotia Power Inc. ("NSPI")	**1,161**	1,408
Other	**5,578**	5,645
	23,064	19,510

There are no accounts receivable that are past due. Since the IESO and OEFC are government agencies and NSPI is regulated by the provincial government, management considers credit risk to be minimal. For Millar Western, which is not a government agency, management considers the risk of loss to be low due to collections history and because the receivable balances are settled quarterly.

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, 2016**	Dec 31, 2015
IESO	**99,744**	80,007
OEFC	**40,801**	7,871
Other	**32,395**	30,078
	172,940	117,956

(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, 2016, the Corporation has debt obligations falling due within one year of $62,169. This debt includes regular scheduled amortization on long term debt.

Compliance with debt covenants

The Corporation has financial liabilities in its power operating segments and at corporate. Refer to notes 16 accounts payable and other liabilities, 17 finance lease obligations, and 18 long-term debt for further details 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 preferred dividends.

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

(i) Generate sufficient cash flow from operations in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs; or

(ii) That future preferred dividends will be available; or

(iii) 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, 2016 were as follows:

Financial Liabilities	**Within one year**	**One year to five years**	**Beyond five years**	**Total**
Accounts payable and other liabilities	25,383	—	—	**25,383**
Promissory note payable(1)	96,702	—	—	**96,702**
Derivative financial instruments				
Interest rate swaps	758	1,194	1,620	**3,572**
Long-term debt				
Principal payments	62,169	242,452	476,245	**780,866**
Interest payments	33,432	102,314	163,006	**298,752**
	95,601	344,766	639,251	**1,079,618**

(1) Capstone does not expect to settle the remaining promissory note from the current liquidity (refer to note 20f).

(E) Sensitivity Analysis

The sensitivity analysis provided below discloses the effect on net income for the year ended December 31, 2016, 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, 2016 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 in place at December 31, 2016 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, 2016	Unobservable inputs	Estimated input	Relationship of input to fair value
$13,674	Forward Alberta power pool prices	From $21/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 $4,989 and increase by $4,102, 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:

	Carrying	Interest Rate Risk		Foreign Exchange Rate Risk	
For year ended Dec 31, 2016	Amount	(0.5)%	0.5%	(10)%	10%
Financial assets:					
Cash and cash equivalents (1)	62,246	(311)	311	—	—
Restricted cash	27,733	(139)	139	—	—
Interest rate swap assets, net	1,280	(11,414)	10,727	—	—
Loans receivable from Värmevärden(3)	10,968	—	—	(1,097)	1,097
Financial liabilities:					
Long-term debt (2)	85,000	425	(425)	—	—

(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 $464,625 and variable rate debt that is covered by a swap for fixed-rate debt totaling $232,595.
(3) Loans receivable from Värmevärden has now been classified as AHFS (refer to note 3b(ii)).

NOTE 10. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

	Dec 31, 2016		Dec 31, 2015	
As at	Ownership %	Carrying Value	Ownership %	Carrying Value
Värmevärden (1)	**33.3%**	**—**	33.3%	—
Glen Dhu (2)	**49.0%**	**21,946**	49.0%	22,814
Fitzpatrick	**50.0%**	**518**	50.0%	578
		22,464		23,392

(1) 2015 balance for Värmevärden was nil as a result of a cumulative excess of dividends and equity accounted losses above the carrying value. Capstone has $3,210 of cumulative unrecognized losses. For 2016, Capstone had $3,071 of unrecognized losses and $642 in 2015. In 2016, this investment was transferred to assets held for sale (refer to note 3b(ii)).
(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.

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 7 for detail on loans receivable with Värmevärden.

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) (1)	Equity Share of OCI	Distributions Received (2)	Ending Balance
Dec 31, 2016	**23,392**	**958**	**—**	**(1,886)**	**22,464**
Dec 31, 2015	29,056	(816)	80	(4,928)	23,392

(1) 2015 equity accounted loss of $816 includes Värmevärden, before its cumulative dividends and equity accounted losses became greater than carrying value.
(2) 2015 distributions received included $2,502 from Värmevärden and $2,426 from Glen Dhu.

(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, 2016			Dec 31, 2015			
Summarized Statements of Financial Position	**Glen Dhu**	**Fitzpatrick**	**Total**	Värmevärden [1]	Glen Dhu	Other	Total
Assets							
Current	**9,134**	**197**	**9,331**	49,696	7,338	260	57,294
Non-current	**106,440**	**2,202**	**108,642**	293,905	113,497	2,380	409,782
Liabilities							
Current	**(7,492)**	**(2,491)**	**(9,983)**	(13,431)	(7,267)	(2,494)	(23,192)
Non-current	**(88,028)**	**(205)**	**(88,233)**	(328,190)	(93,531)	(399)	(422,120)
Equity before fair value increments on purchase and NCI	**20,054**	**(297)**	**19,757**	1,980	20,037	(253)	21,764
Amounts attributable to NCI	**—**	**—**	**—**	(4,851)	—	—	(4,851)
Amounts unrecognized for equity accounting	**—**	**—**	**—**	2,871	—	—	2,871
Fair value increments, net of amortization	**24,734**	**1,332**	**26,066**	—	26,522	1,419	27,941
Equity including unamortized fair value increments on purchase	**44,788**	**1,035**	**45,823**	—	46,559	1,166	47,725
Capstone's interest	**49.0%**	**50.0%**		33.3%	49.0%	31.3% - 50%	
Carrying value of investment	**21,946**	**518**	**22,464**	—	22,814	578	23,392

For the year ended	Dec 31, 2016			Dec 31, 2015			
Summarized Statements of Income	**Glen Dhu**	**Fitzpatrick**	**Total**	Värmevärden [1]	Glen Dhu	Other	Total
Revenue	**20,404**	**270**	**20,674**	89,171	19,968	282	109,421
Net Income	**3,866**	**(44)**	**3,822**	(6,692)	3,346	(44)	(3,390)
OCI	**—**	**—**	**—**	1,997	—	—	1,997
Total comprehensive Income	**3,866**	**(44)**	**3,822**	(4,695)	3,346	(44)	(1,393)
Capstone's interest	**49%**	**50%**		33.3%	49%	31.3% - 50%	
Sub-total	**1,894**	**(22)**	**1,872**	(1,563)	1,640	(22)	55
Amortization of fair value adjustments and other	**(876)**	**(38)**	**(914)**	134	(881)	(44)	(791)
Total	**1,018**	**(60)**	**958**	(1,429)	759	(66)	(736)
Net income to Capstone			**958**				(816)
OCI to Capstone			**—**				80
			958				(736)

(1) 2015 balances include amounts relating to Värmevärden, which was transferred to assets held for sale (refer to note 3b(ii)).

In 2016, Capstone received distributions of $1,886 (2015 - $2,426) from Glen Dhu.

NOTE 11. CAPITAL ASSETS

(A) Continuity

	Jan 1, 2016	Additions	Disposals	Foreign Exchange	Transfers [3]	Disposal of business [4]	Dec 31, 2016
Cost [1]							
Land	4,574	—	—	(658)	—	(2,865)	1,051
Equipment and vehicles	11,171	327	—	(1,694)	701	(5,270)	5,235
Property and plant	1,413,267	13,782	(23,878)	(127,849)	191,003	(398,627)	1,067,698
Water network	669,851	7,437	(15)	(139,361)	13,120	(551,032)	—
Construction in progress	14,888	46,318	—	(7,828)	(35,912)	(17,466)	—
	2,113,751	67,864	(23,893)	(277,390)	168,912	(975,260)	1,073,984
Accumulated depreciation [2]							
Equipment and vehicles	(2,732)	(1,424)	—	1,084	—	(331)	(3,403)
Property and plant	(355,407)	(69,621)	22,225	55,294	—	64,199	(283,310)
Water network	(53,379)	(8,324)	—	23,364	—	38,339	—
Net carrying value	1,702,233	(11,505)	(1,668)	(197,648)	168,912	(873,053)	787,271

(1) Additions to cost of $67,864 include $14,274 relating to the power and corporate segments and $53,590 relating to Bristol Water up to its sale on December 15, 2016 (refer to note 3b(i)).
(2) Additions to accumulated depreciation of $79,369 include $48,878 relating to the power segment and $30,491 relating to Bristol Water, up to its sale on December 15, 2016 (refer to note 3b(i)).
(3) Includes transfers of $170,165 for GHG, Grey Highlands Clean and Snowy Ridge from projects under development upon reaching their respective commercial operation dates ("CODs"), less $1,253 transferred to intangibles(refer to notes 12 and 13, respectively).
(4) Bristol Water was sold on December 15, 2016 (refer to note 3b(i)).

	Jan 1, 2015	Additions	Disposals	Foreign Exchange	Transfers	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

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

For the year ended	Dec 31, 2016	Dec 31, 2015
Additions	**67,864**	95,918
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	**(95)**	2,631
Net foreign exchange difference	**(2,609)**	1,873
Cash additions attributable to Bristol Water	**(49,624)**	(75,911)
Cash additions	**15,536**	24,511

NOTE 12. PROJECTS UNDER DEVELOPMENT

(A) Continuity

	2016	2015
As at January 1	**106,200**	151,361
Capitalized costs during the year (1)	**100,547**	115,267
Costs transferred to capital assets (2) (refer to note 11)	**(170,165)**	(153,766)
Costs transferred to intangibles (2) (refer to note 13)	**(14,315)**	(6,662)
As at December 31	**22,267**	106,200

(1) Includes $2,777 of capitalized borrowing costs during the construction of the GHG, Snowy Ridge, Settlers Landing and Grey Highlands Clean wind development projects using the interest rate of the long-term debt (December 31, 2015 - $1,393 for Goulais).
(2) Amounts were transferred on the COD's of GHG, Grey Highlands Clean and Snowy Ridge (December 31, 2015 - COD of Saint-Philémon and Goulais).

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

For the year ended	**Dec 31, 2016**	Dec 31, 2015
Additions	**100,547**	115,267
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	**20,445**	(21,294)
Cash additions	**120,992**	93,973

NOTE 13. INTANGIBLE ASSETS

	Jan 1, 2016	**Additions**	**Disposals**	**Foreign Exchange**	**Transfers**	**Impairment (4)**	**Disposal of business (2)**	**Dec 31, 2016**
Assets								
Computer software (1), (2)	24,222	—	(1,387)	(9,178)	1,253	—	(14,653)	257
Electricity supply and other contracts (3)	134,724	—	—	—	14,315	—	—	149,039
Water rights	73,018	—	—	—	—	—	—	73,018
Licence (2)	27,141	—	—	(5,067)	—	—	(22,074)	—
Goodwill (2), (4)	176,256			(31,305)	—	(58,000)	(86,951)	—
Accumulated amortization								
Computer software (2)	(14,300)	(3,399)	1,387	7,493	—	—	8,562	(257)
Electricity supply and other contracts	(40,521)	(7,906)	—	—	—	—	—	(48,427)
Water rights	(18,026)	(2,111)	—	—	—	—	—	(20,137)
Net carrying value	362,514	(13,416)	—	(38,057)	15,568	(58,000)	(115,116)	153,493

(1) Includes transfers of $1,253 for Bristol Water from capital assets, prior to December 15, 2016 (refer to note 11).
(2) Bristol Water was sold on December 15, 2016 (refer to note 3b(i)).
(3) Transfer is composed of $14,315 from PUD on the COD's of GHG, Grey Highlands Clean and Snowy Ridge (refer to note 12).
(4) As at September 30, 2016, Capstone performed the annual impairment test on goodwill, which consisted of Bristol Water within the utilities - water segment. Capstone used a fair value less costs to sell ("FVLCS") approach and determined that the recoverable amount for Capstone's interest ($198,000) was lower than the carrying amount of the CGU. The result was a pre-tax impairment charge of $58,000 recognized against the carrying value of Bristol Water's goodwill in discontinued operations. The FVLCS reflected market pricing information at September 30, 2016. The valuation technique was considered a level 3 estimate per the financial instrument hierarchy.

	Jan 1, 2015	**Additions**	**Disposals**	**Foreign Exchange**	**Transfers**	**Dec 31, 2015**
Assets						
Computer software	19,063	—	(2,816)	5,683	2,292	24,222
Electricity supply, gas purchase and other contracts	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 gas purchase contracts	(33,545)	(6,976)	—	—	—	(40,521)
Water rights	(15,910)	(2,116)	—	—	—	(18,026)
Net carrying value	342,012	(13,086)	—	24,634	8,954	362,514

NOTE 14. RETIREMENT BENEFIT PLANS

Defined Contribution Plans

Bristol Water and Cardinal offer defined contribution retirement plans for certain employees. The total cost recorded in the statement of income for the year ended December 31, 2016 was $2,948 (December 31, 2015 – $2,512). Of this, $192 was recorded in operating expenses for the power segment and $2,756 was included in net income from discontinued operations for Bristol Water up until its sale.

Defined Benefit Plan

Defined benefit pension arrangements for some of Bristol Water's employees were provided through Bristol Water's membership in the WCPS. The financial reporting impacts of Bristol Water's defined benefit pension plan are included in comprehensive income from discontinued operations until the sale of Bristol Water. On March 31, 2016, Bristol Water's defined benefit pension plan was curtailed and plan members ceased to earn additional pension benefits. All eligible employees were offered membership in the defined contribution pension plan. On curtailment, Capstone recognized a reversal of past service costs included in operating expenses of $6,050, which increased the surplus. The reversal consisted of a gain on curtailment of the plan, partially offset by an increase in the obligation due to discretionary benefits provided to plan members.

IFRS restricts the value of a retirement benefit surplus to the present value of economic benefits available in the form of plan refunds or reductions in future contributions. For Bristol Water, the benefit is now only available as a plan refund as no additional defined pension benefits will be earned. In the UK, a withholding tax of 35% is applicable to a refund of a defined benefit surplus and is applied regardless of the company's tax position. This amount has therefore been treated as an expense that arises on any future refund and, in accordance with IFRIC 14, this expense has been netted against the gross value of the retirement benefit surplus. Accordingly, the surplus recorded on December 15, 2016 relating of Bristol Water was a gross surplus of $78,344, reduced by a 35% withholding tax of $27,421.

Basis of Valuation

The formal actuarial valuation of Bristol Water's Section of the WCPS as at March 31, 2016 was updated to December 15, 2016, by Lane, Clark & Peacock LLP, using assumptions in accordance with IAS 19.

Changes in Comprehensive Income

Analysis of operating expense, interest expense and amounts recognized in comprehensive income from discontinued operations:

For the period ended	**Dec 15, 2016**	Dec 31, 2015
Employer current service cost	**465**	2,634
Employee current service cost	**121**	582
Past service cost (recovery)	**(6,050)**	—
Section expenses	**641**	566
Total operating expense (recovery)	**(4,823)**	3,782
Interest income on Section assets	**12,514**	13,748
Interest expense on Section obligation	**(9,345)**	(10,686)
Net pension interest income	**3,169**	3,062
Gain/(loss) from change in financial assumptions	**(52,037)**	8,257
Gain/(loss) from change in demographic assumptions	**(7,288)**	5,219
Experience gains/(losses)	**4,064**	3,077
Return on plan assets, excluding amounts included in interest income	**44,835**	(11,272)
Tax (expense)/recovery	**(13,160)**	759
Actuarial gain/(loss) recognized in OCI	**(23,586)**	6,040

Changes in Financial Position

The following table summarizes the movement in the Bristol Water defined benefit surplus for the asset and liability components up to its sale (refer to note 3b(i)):

For the year ended	**December 15, 2016**			December 31, 2015		
	Asset	**Liability**	**Total**	Asset	Liability	Total
Opening surplus in Section	**407,759**	**(309,201)**	**98,558**	367,161	(288,411)	78,750
Current service cost	**—**	**(465)**	**(465)**	—	(2,634)	(2,634)
Past service cost recovery	**—**	**6,050**	**6,050**	—	—	—
Net pension interest	**12,514**	**(9,345)**	**3,169**	13,748	(10,686)	3,062
Section expenses	**(641)**	**—**	**(641)**	(566)	—	(566)
Re-measurements:						
Gain/(loss) from change in financial assumptions	**—**	**(52,037)**	**(52,037)**	—	8,257	8,257
Gain/(loss) from change in demographic assumptions	**—**	**(7,288)**	**(7,288)**	—	5,219	5,219
Experience gains/(losses)	**—**	**4,064**	**4,064**	—	3,077	3,077
Return on plan assets, excluding amounts included in interest income	**44,835**	**—**	**44,835**	(11,272)	—	(11,272)
Contributions by employer	**1,070**	**—**	**1,070**	4,076	—	4,076
Contributions by employees	**121**	**(121)**	**—**	582	(582)	—
Benefits paid	**(14,997)**	**14,997**	**—**	(13,178)	13,178	—
Foreign exchange	**(79,503)**	**60,532**	**(18,971)**	47,208	(36,619)	10,589
Deferred tax restriction	**(129,906)**	**102,485**	**(27,421)**	—	—	—
Ending surplus in Section	**241,252**	**(190,329)**	**50,923**	407,759	(309,201)	98,558
Disposal of business [(1)]	**(241,252)**	**190,329**	**(50,923)**	—	—	—
Ending balance	**—**	**—**	**—**	407,759	(309,201)	98,558

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).

NOTE 15. INCOME TAXES

(A) Deferred Income Tax

As at	**Dec 31, 2016**	Dec 31, 2015
Deferred income tax assets	**14,750**	220
Deferred income tax liabilities [(1)]	**(72,673)**	(204,125)
Net deferred income tax liability	**(57,923)**	(203,905)

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).

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, 2016**	Dec 31, 2015
Non-capital loss carry forwards	**27,835**	29,923
Other	**16,711**	3,271
Loan premium and deferred financing costs	**—**	11,041
Asset retirement obligations	**1,920**	1,260
Financial Instruments	**—**	1,621
Deferred income tax assets	**46,466**	47,116
Capital assets	**(59,752)**	(190,744)
Intangibles	**(39,036)**	(42,338)
Financial Instruments	**(3,985)**	—
Loan premium and deferred financing costs	**(1,129)**	—
Other	**(487)**	(336)
Retirement benefit surplus	**—**	(17,603)
Deferred income tax liabilities	**(104,389)**	(251,021)
Net deferred income tax liability	**(57,923)**	(203,905)

A continuity of the net deferred income tax liability follows:

	2016	2015
Net deferred income tax liability as at January 1	**(203,905)**	(192,829)
Recorded in earnings	**5,517**	1,379
Net deferred income tax liability attributable to Bristol Water	**139,506**	(13,834)
Other	**959**	1,379
Net deferred income tax liability as at December 31	**(57,923)**	(203,905)

(B) Timing of Deferred Income Tax Reversal

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

As at	**Dec 31, 2016**	Dec 31, 2015
Within 12 months	**59,420**	26,418
After more than 12 months	**(117,343)**	(230,323)
Net deferred income tax liability	**(57,923)**	(203,905)

(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, 2016**	Dec 31, 2015
Canadian – non-capital losses	2025 – 2036	104,424	82,678	**187,102**	177,288
US – non-capital losses	2023 – 2027	—	19,419	**19,419**	20,016
Canadian – capital losses	No expiry	—	—	**—**	82,807
UK – capital losses (£2,864)	No expiry	—	—	**—**	5,845
UK – advanced corporation tax (£3,922)	No expiry	—	—	**—**	8,004

The Corporation also has $7,382 of unrecognized deferred tax assets, which have not been recognized as at December 31, 2016 (December 31, 2015 – $15,210).

(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, 2016**	Dec 31, 2015
Income (loss) before income taxes(1)	**14,971**	(30,133)
Statutory income tax rate	**26.51%**	26.00%
Income tax expense based on statutory income tax rate(1)	**3,969**	(7,835)
Permanent differences(1)	**1,484**	(1,031)
Tax rate differentials(1)	**344**	2,446
Change in unrecognized deferred tax assets	**(9,977)**	3,714
Impact on attributes renounced to shareholders	**1,111**	—
Part XII.6 taxes and penalties	**241**	—
Other (1)	**(1,031)**	1,253
Total income tax recovery (1)	**(3,859)**	(1,453)

(1) Certain comparative figures for the periods ended December 31, 2015 have been adjusted for discontinued operations (refer to note 3b).

The statutory income tax rate of 26.51% (2015 – 26.00%) changes in response to Capstone's allocation of taxable income to different tax jurisdictions.

(E) Current Income Taxes

Current income taxes receivable included in accounts receivable on the statement of financial position were nil (2015 - $1,742) and current income taxes payable of $2,958 are included in accounts payable and other liabilities on the statement of financial position (refer to note 16a) (2015 - $1,397).

NOTE 16. ACCOUNTS PAYABLEAND OTHER LIABILITIES

(A) Accounts Payable and Accrued Liabilities

	Dec 31, 2016	Dec 31, 2015
Dividends payable	**409**	7,949
Income taxes payable (1), (2)	**2,958**	1,397
Other accounts payable and accrued liabilities (1), (2)	**22,016**	134,557
	25,383	143,903

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).
(2) 2015 balances include amounts relating to Värmevärden, which was transferred to assets held for sale as at December 31, 2016 (refer to note 3b(ii)).

Income taxes payable	**Dec 31, 2016**	Dec 31, 2015
Canadian Renewable and Conservation Expense ("CRCE") penalties (1)	**2,509**	1,157
Taxes payable (recovery) on preferred share dividends	**164**	250
Current income taxes payable (recovery)	**285**	(10)
	2,958	1,397

(1) CRCE penalties related to flow-through shares originally issued by Renewable Energy Developers Inc., which was acquired by Capstone in 2013.

(B) Deferred Revenue

All deferred revenue related to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)). Up until the sale, deferred revenue represented contributions received by Bristol Water in respect of assets that are not related to the water network, less amounts amortized. These impacts are included in net income from discontinued operations.

NOTE 17. FINANCE LEASE OBLIGATIONS

	Interest Rate	Maturity	**Dec 31, 2016**	Dec 31, 2015
Utilities – water: equipment leases (1)	3.64 - 4.10%	2016 - 2020	**—**	4,074
Less: current portion (1)			**—**	(813)
Non-current portion (1)			**—**	3,261

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).

Up to its sale on December 15, 2016, Bristol Water repaid $809 (December 31, 2015 - $534), including interest charges of $193 (December 31, 2015 – net interest rebate of $72). These impacts are included in net income from discontinued operations.

NOTE 18. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	**Dec 31, 2016**		Dec 31, 2015	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
Power	**794,967**	**782,220**	554,545	529,211
Utilities – water (1)	**—**	**—**	827,142	712,584
Corporate (2) (3)	**—**	**—**	117,811	116,869
Balance outstanding	**794,967**	**782,220**	1,499,498	1,358,664
Less: deferred financing costs		**(16,229)**		(14,127)
Total long-term debt		**765,991**		1,344,537
Less: current portion of long-term debt		**(62,169)**		(101,203)
		703,822		1,243,334

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).
(2) On January 31, 2016, the corporate credit facility capacity decreased to $90,000. Concurrent with the Cardinal financing on March 18, 2016, the capacity was further decreased to $60,000 and settled with the proceeds from debt raised by CPC on April 29, 2016.
(3) All outstanding convertible debentures were either redeemed by Capstone or converted and then cancelled on April 29, 2016 and the corporate credit facility was repaid (refer to note 3a).

(B) Power

As at	Dec 31, 2016		Dec 31, 2015	
	Fair Value	**Carrying Value**	Fair Value	Carrying Value
CPC credit facility	**85,000**	**85,000**	—	—
Wind - Operating	**467,445**	**453,050**	343,012	321,395
Wind - Development	**7,700**	**7,700**	30,234	30,234
Hydros	**81,087**	**81,851**	88,159	85,196
Solar	**86,178**	**87,062**	93,140	92,386
Gas	**67,557**	**67,557**	—	—
	794,967	**782,220**	554,545	529,211
Less: deferred financing costs		**(16,229)**		(10,682)
Long-term debt		**765,991**		518,529
Less: current portion		**(62,169)**		(59,529)
		703,822		459,000

The power segment has a cumulative $45,370 utilized on its letter of credit facilities.

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.

(i) CPC Credit Agreement

	Interest Rate	Maturity	**Dec 31, 2016**	Dec 31, 2015
Total available credit - all facilities			**125,000**	—
Amount drawn				
Non-revolving credit facility	3.56%	Apr 29, 2019	**85,000**	—
Revolving credit facility			**—**	—
Letter of credit facility (1)			**32,161**	—
Remaining available credit			**7,839**	—

(1) As at December 31, 2016, Capstone had 19 letters of credit authorized under the revolving facility.

On April 29, 2016, Capstone entered into the CPC Credit Agreement for an aggregate amount of$125,000, comprising an $85,000 non-revolving facility, a $5,000 revolving facility, and a $35,000 revolving letter of credit facility. The CPC Credit Agreement bears interest at a variable rate plus an applicable margin and fixed annual minimum repayments are required, which are paid quarterly by excess cash as determined in accordance with the credit agreement. In addition, CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios. The collateral for the CPC credit facility is provided by a combination of a limited recourse guarantee and postponement of debts and claims of Capstone in favour of the CPC lenders. The collateral also includes a first ranking lien against all property of CPC and its guarantors, with few exceptions for entities with project financing, as well as equity pledges from CPC and its guarantors.

(ii) Wind - Operating

Project debt	**Dec 31, 2016**	Dec 31, 2015
GHG (1)	**74,723**	—
Erie Shores	**73,934**	80,032
Goulais	**73,823**	76,386
Saint-Philémon	**53,988**	55,531
Grey Highlands Clean	**51,963**	—
Amherst	**39,242**	41,051
Snowy Ridge	**30,652**	—
SkyGen (2)	**22,095**	33,867
Skyway 8 (2)	**19,013**	19,658
Glace Bay	**13,617**	14,870
	453,050	321,395

(1) For the year ended December 31, 2015, the GHG project debt was included in wind - development prior to COD.
(2) SkyGen project debt includes financing related to the Ferndale, Ravenswood, and Proof Line facilities. Skyway 8 was financed separately as it reached COD at a later date.

GHG	Interest Rate (2)	Maturity	**Dec 31, 2016**	Dec 31, 2015
Term loan	3.08%	Aug 26, 2021	**74,723**	—

(1) GHG has set aside $189 as restricted cash to cover the distribution reserve and $3,200 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2016, GHG had swap contracts to convert interest to a fixed rate (See note 9a).

On August 26, 2016, the GHG construction facility converted into a term facility, which has regular principal and interest payments fully amortizing over the remaining term and a $3,500 letter of credit facility.

Erie Shores	Interest Rate	Maturity	**Dec 31, 2016**	Dec 31, 2015
Tranche A	5.96%	Apr 1, 2026	**44,588**	47,978
Tranche B	5.28%	Apr 1, 2016	**—**	497
Tranche C	6.15%	Apr 1, 2026	**29,346**	31,557
			73,934	80,032

(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 $5,155 as restricted cash and $550 as letters of credit against the borrowing capacity of the CPC Credit Agreement to cover the debt service and maintenance reserves.

Goulais	Interest Rate	Maturity	**Dec 31, 2016**	Dec 31, 2015
Term loan	5.16%	Sep 30, 2034	**73,823**	76,386

(1) Goulais is required to set aside $3,288 as restricted cash to cover the debt service reserve.

Saint-Philémon	Interest Rate	Maturity	**Dec 31, 2016**	Dec 31, 2015
Tranche A - Term loan	5.49%	May 31, 2034	**53,988**	55,531

(1) Saint-Philémon is required to set aside $1,224 as letters of credit against the borrowing capacity of the CPC Credit Agreement to cover the debt service reserve.

Grey Highlands Clean	Interest Rate (2)	Maturity	**Dec 31, 2016**	Dec 31, 2015
Term loan	2.87%	Dec 23, 2021	**51,963**	—

(1) Grey Highlands Clean is required to set aside $2,100 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2016, Grey Highlands Clean had swap contracts to convert interest to a fixed rate (See note 9a).

On March 24, 2016, Capstone, through a subsidiary that controls the Grey Highlands Clean wind project, entered into a credit agreement that provided funds for the construction of the project.

On December 23, 2016, the Grey Highlands Clean construction facility converted into a term facility which has regular principal and interest payments fully amortizing over the remaining term and a $3,000 letter of credit facility.

Amherst	Interest Rate	Maturity	**Dec 31, 2016**	Dec 31, 2015
Term loan	6.20%	Apr 30, 2032	**39,242**	41,051

(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 CPC Credit Agreement to cover the debt service and maintenance reserves.

Snowy Ridge	Interest Rate (2)	Maturity	**Dec 31, 2016**	Dec 31, 2015
Term loan	2.75%	Dec 23, 2021	**30,652**	—

(1) Snowy Ridge is required to set aside $4,181 as restricted cash to cover construction holdbacks with vendors and $1,300 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2016, Snowy Ridge had swap contracts to convert interest to a fixed rate (See note 9a).

On July 8, 2016, Capstone, through a subsidiary that controls the Snowy Ridge wind project, entered into a credit agreement that provided funds for the construction of the project.

On December 23, 2016, the Snowy Ridge construction facility converted into a term facility which has regular principal and interest payments fully amortizing over the remaining term and a $2,000 letter of credit facility.

SkyGen	Interest Rate	Maturity	**Dec 31, 2016**	Dec 31, 2015
Term loans	4.22 - 5.06%	Feb 23, 2018	**21,772**	23,467
Term loan	6.22%	Feb 17, 2018	**323**	434
Promissory note payable	5.00%	Feb 8, 2016	**—**	9,966
			22,095	33,867

(1) On August 5, 2016, SkyGen and its existing lenders extended the term loan maturity date to February 2018.
(2) SkyGen is not required to set aside any reserves for debt service or maintenance.
(3) On February 8, 2016, SkyGen repaid $9,966 of promissory notes.

Skyway 8	Interest Rate	Maturity	Dec 31, 2016	Dec 31, 2015
Term loan	4.80%	Feb 16, 2018	**19,013**	19,658

(1) Skyway 8 project debt has a $2,500 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.

Glace Bay	Interest Rate	Maturity	Dec 31, 2016	Dec 31, 2015
Term loan	5.99%	Mar 15, 2027	**7,211**	7,665
Term loan	6.36%	Apr 21, 2019	**1,537**	2,230
Term loan	4.72%	Oct 1, 2032	**4,869**	4,975
			13,617	14,870

(1) Glace Bay is required to set aside $1,646 as restricted cash to cover the debt service and operating and maintenance reserves.

(iii) Wind - Development

Project debt	Dec 31, 2016	Dec 31, 2015
Settlers Landing	**7,700**	—
GHG [(1)]	**—**	30,234
	7,700	30,234

(1) In 2016, the GHG project debt was transferred to wind - operating both projects having reached COD.

Settlers Landing	Interest Rate [(2)]	Maturity	Dec 31, 2016	Dec 31, 2015
Construction facility	2.75%	2022	**7,700**	—

(1) Settlers Landing is required to set aside $2,697 as restricted cash to cover construction holdbacks with vendors.
(2) As at December 31, 2016, Settlers Landing had swap contracts to convert interest to a fixed rate (See note 9a).

On December 2, 2016, Capstone, through a subsidiary that controls the Settlers Landing wind project, entered into a credit agreement that provides up to $30,502 for the construction of the project. The construction term of the facility is expected to mature in the third quarter of 2017 and has a variable interest rate based on CDOR plus 1.625% Upon maturity, the facility will convert to a term loan, which matures no later than the third quarter of 2022 with a five-year variable annual interest rate of CDOR plus 1.625% (which increases to CDOR plus 1.875% commencing on the day following the third anniversary of the term conversion date).

(iv) Hydros

	Interest Rate	Maturity	Dec 31, 2016	Dec 31, 2015
Senior secured bonds	4.56%	Jun 30, 2040	**61,609**	64,954
Subordinated secured bonds	7.00%	Jun 30, 2041	**20,242**	20,242
			81,851	85,196

(1) The hydro facilities are required to set aside $16,241 as letters of credit against the borrowing capacity of the CPC Credit Agreement and $2,599 as restricted cash to cover the debt service and maintenance reserves.

(v) Solar

	Interest Rate	Maturity	Dec 31, 2016	Dec 31, 2015
Amherstburg project debt	3.49%	Dec 31, 2030	**87,062**	92,386

(1) Amherstburg is required to set aside $4,707 as letters of credit against the borrowing capacity of the CPC Credit Agreement to cover the debt service and maintenance reserves.

(vi) Gas

	Interest Rate [(2)]	Maturity	Dec 31, 2016	Dec 31, 2015
Term loan	2.87%	Mar 18, 2023	**67,557**	—

(1) Cardinal is required to set aside $2,096 as restricted cash to cover the operating and maintenance reserves and $2,700 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2016, Cardinal had swap contracts to convert interest to a fixed rate (See note 9a).

On March 18, 2016, Capstone, through a wholly owned subsidiary, entered into an approximately $83,000 financing for the Cardinal gas cogeneration plant, consisting of a $70,000 term loan and a $13,000 letter of credit facility. The proceeds were used to increase the financial flexibility of Capstone by repaying the drawn portion of the corporate credit facility, as well as funding Cardinal's ongoing reserve requirements and transaction costs for arranging the financing.

(C) Long-term Debt Covenants

For the year ended and as at December 31, 2016, the Corporation and its subsidiaries complied with all financial and non-financial debt covenants.

(D) 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	62,169	242,452	476,245	780,866

NOTE 19. LIABILITY FOR ASSET RETIREMENT OBLIGATION

The carrying value of these obligations is based on estimated cash flows required to settle these obligations in present day costs. The costs relate to site restoration and decommissioning of Cardinal, 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, 2016	Dec 31, 2015
Assumptions:		
Expected settlement date	**2017– 2062**	2017 – 2062
Estimated settlement amount	**Nil – $3,406**	Nil – $3,324
Inflation rate	**2.0%**	2.0%
Credit adjusted discount rate	**3.25% - 6.5%**	4.75% – 7.0%
Balance, beginning of year	**4,767**	4,364
Liabilities incurred	**441**	427
Revision of estimates	**1,640**	(268)
Accretion expense	**317**	244
Balance, end of year	**7,165**	4,767

NOTE 20. SHAREHOLDERS' EQUITY AND PROMISSORY NOTE PAYABLE

The following table summarizes the Corporation's share capital:

As at	Dec 31, 2016	Dec 31, 2015
Common shares (1), (2)	**40,433**	715,989
Class B exchangeable units (1)	**—**	26,710
Preferred shares	**72,020**	72,020
	112,453	814,719

(1) After April 29, 2016, share capital consists of Class A shares and preferred shares. Just prior to April 29, 2016, share capital was comprised of common shares, preferred shares and Class B exchangeable units (refer to note 3a)
(2) On December 15, 2016, Capstone sold its 50% interest in Bristol Water to iCON III Bristol Limited, a subsidiary of its ultimate parent entity, iCON III. The transaction resulted in an increase in the carrying value of Class A shares of $2,520 (refer to note 3b(i)).

(A) Common and Class A Shares

Capstone is authorized to issue an unlimited number of common and Class A shares, all of which have the same rights and attributes.

Continuity for the year ended	Dec 31, 2016		Dec 31, 2015	
(000s shares and $000s)	**Shares**	**Carrying Value**	Shares	Carrying Value
Opening balance	**94,396**	**715,989**	93,573	713,412
Dividend reinvestment plan (1)	**136**	**617**	823	2,577
Exchange of Class B units and conversion of debentures (2)	**9,296**	**26,710**	—	—
Cancellation of common shares for issuance of promissory note (2)	**(103,828)**	**(316,225)**	—	—
Issuance of Class A shares (2)	**103,828**	**—**	—	—
Elimination of deficit (3)	**—**	**(389,178)**	—	—
Conversion of promissory note (4)	**123,905**	**194,531**		
Return of capital (4)	**—**	**(192,011)**	—	—
Ending balance	**227,733**	**40,433**	94,396	715,989

(1) Shares issued by the Corporation under the Dividend Re-Investment Plan ("DRIP").
(2) On April 29, 2016, the 3,249 Class B units were acquired by Irving and subsequently exchanged for the same number of common shares and the 2017 convertible debentures were also converted into 6,047 newly issued common shares. Irving acquired all 103,828 outstanding common shares and exchanged them for the same number of Class A shares of the Corporation and two promissory notes payable from the Corporation. The common shares acquired by the Corporation were then cancelled (refer to note 3a).
(3) On April 29, 2016 deficit as at April 29, 2016 of $389,178 was reclassified to share capital (refer to note 3a).
(4) On December 15, 2016, Irving converted the GBP tranche of the promissory note payable into 123,905 newly issued Class A shares and which reduced the balance by $194,531. In return, Capstone received a promissory note receivable of $192,011 from iCON III Bristol Limited and then distributed the promissory note receivable to Irving as a $192,011 return of capital (refer to note 3b(i)).

(B) Class B Exchangeable Units

MPT LTC Holding LP had 3,249 Class B exchangeable units outstanding as at December 31, 2015. These units were each exchanged into one share of the Corporation on April 29, 2016 as part of the iCON III acquisition (refer to note 3a).

(C) Preferred Shares

As at December 31, 2016 and 2015, 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 cumulative discretionary dividend, which resets on each 5-year anniversary; the next anniversary date is July 31, 2021. The shares are non-voting and redeemable at the Corporation's discretion. Capstone is authorized to issue preferred shares equal to 50% of the outstanding common shares.

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

(D) Dividends

No dividends were declared in 2016 in respect of the Corporation's common shareholders, nor for Class B Exchangeable Units of MPT LTC Holding LP (a subsidiary entity of the Corporation) pursuant to the iCON III acquisition of Capstone (2015 - $29,193 of common and Class B dividends were declared).

For the year ended	**Dec 31, 2016**	Dec 31, 2015
Preferred shares declared (1), (2)	**3,532**	3,867

(1) Includes $326 of deferred income taxes for the year ended December 31, 2016 (December 31, 2015 - $117).
(2) Capstone has included $409 of accrued preferred dividends as declared on November 10, 2016 (December 31, 2015 – $7,324 was accrued for common shares and $625 for preferred shares).

(E) Capital Management

The Corporation manages its capital, which is defined as the aggregate of long-term debt and preferred shareholders' equity, to achieve the following objectives:

- Maintain a capital structure that provides financial flexibility to the Corporation to ensure access to debt 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 security holders.

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 receive capital contributions from its common shareholder, issue additional shares, issue additional debt, issue debt to replace existing debt with similar or different characteristics, or adjust the amount of dividends paid to shareholders.

The Corporation's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Corporation's needs and economic conditions at the time of the transaction.

The Corporation is not subject to any external capital requirements and is in compliance with all debt covenants as described in note 18.

(F) Promissory Note Payable

On April 29, 2016, as part of the acquisition of Capstone by iCON III described in note 3a, Capstone issued a demand interest-free promissory note to Irving for $316,225 in exchange for common share capital. The promissory note is repayable at either the holder or borrower's option any time prior to the maturity date of December 31, 2021.

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

For the year ended Dec 31, 2016	GBP Tranche	SEK Tranche	CAD Tranche	Total
Inception balance in source currency - April 29, 2016 acquisition by iCON III	£106,000	712,700 SEK	$10,370	n/a
Foreign exchange rate on inception(1)	1.8352	0.1562	1.0000	n/a
Opening balance in Canadian dollars	194,531	111,324	10,370	**316,225**
Less: Cash repayments in Canadian dollars - September 2, 2016 (2)	—	(24,992)	—	**(24,992)**
Less: Conversions to Class A shares in Canadian dollars - December 15, 2016 (3)	(194,531)	—	—	**(194,531)**
Closing balance	**—**	**86,332**	**10,370**	**96,702**

(1) Exchange rates used are the greater of the current period ended spot rate or the April 29, 2016 historical spot rate, as a result of the conversion feature to Capstone's Class A shares.
(2) On September 2, 2016, Capstone repaid 160,000 SEK or $24,992 of the SEK tranche of the promissory note from proceeds of the Värmevärden refinancing.
(3) On December 15, 2016, the GBP tranche was converted into Class A shares of Capstone as part of the sale of Bristol Water (refer to note 3b(i)).

As further described in note 8, the promissory note has been designated as fair value through profit and loss and the carrying value fluctuates for changes in underlying exchange rates, with a minimum liability equal to the conversion value based on the respective foreign exchange rates at April 29, 2016.

NOTE 21. NON-CONTROLLING INTERESTS

(A) Non-controlling Interests

Non-controlling interests represent ownership interests by third parties in businesses consolidated by Capstone. Amherst, Saint-Philémon, Chi-Wiikwedong, Grey Highlands ZEP and Ganaraska ("GHG"), Snowy Ridge ("SR") and Setters Landing ("SL") non-controlling interests as at December 31, 2016 were:

- 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").
- Goulais is 49% owned by BFN.
- GHG, SR and SL have a debenture with a subsidiary of One West Holdings Ltd. ("Concord"), convertible into a 50% ownership interest in the projects.

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 Goulais	Concord's interest in GHG, SR & SL	Total
January 1, 2015 (1)	165,977	10,812	5,850	19,394	—	202,033
NCI portion of net income (loss) (2)	24,670	572	(340)	1,163	(8)	26,057
NCI portion of OCI (2)	25,517	—	—	—	—	25,517
Dividends declared (2)	(1,993)	(1,122)	(2,252)	(776)	—	(6,143)
Net convertible debenture advances	—	—	—	—	26,041	26,041
As at December 31, 2015	214,171	10,262	3,258	19,781	26,033	273,505
NCI portion of net income (loss)	(3,503)	552	(354)	1,522	—	(1,783)
NCI portion of OCI	(51,400)	—	—	—	—	(51,400)
Dividends declared	—	(1,240)	(569)	(1,265)	—	(3,074)
Net convertible debenture advances	—	—	—	—	3,437	3,437
Disposal of business (2)	(159,268)	—	—	—	—	(159,268)
As at December 31, 2016	—	9,574	2,335	20,038	29,470	61,417

(1) Opening equity balances have been revised to reflect historical adjustments to non-controlling interests associated with Bristol Water, resulting in an increase to non-controlling interests of $11,960 as at December 31, 2014 and December 31, 2015, and a corresponding decrease to opening retained earnings (deficit) attributable to shareholders' of Capstone. This revision did not impact previously reported net income or cash flows.
(2) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).

(B) Summarized Information for Material Partly Owned Subsidiaries

As at	Dec 31, 2016				Dec 31, 2015				
Summarized Statements of Financial Position	**Amherst**	**Saint-Philémon**	**Goulais**	**Concord's interest in GHG, SR & SL**	Bristol Water (1)	Amherst	Saint-Philémon	Goulais	Other (2)
Assets									
Current	**1,919**	**1,192**	**2,724**	**2,211**	104,074	1,871	2,587	2,277	9,740
Non-current	**60,249**	**59,926**	**—**	**67,891**	1,361,609	63,264	63,159	—	81,662
Liabilities									
Current	**(2,681)**	**(1,813)**	**(645)**	**—**	(77,836)	(2,272)	(3,205)	(49)	(39,681)
Non-current	**(37,612)**	**(51,530)**	**—**	**—**	(887,499)	(39,585)	(53,012)	—	(26,747)
Total Equity	**21,875**	**7,775**	**2,079**	**70,102**	500,348	23,278	9,529	2,228	24,974
Attributable to:									
Shareholders of Capstone	**12,301**	**5,440**	**(17,959)**	**40,632**	286,177	13,016	6,271	(17,553)	(1,059)
NCI	**9,574**	**2,335**	**20,038**	**29,470**	214,171	10,262	3,258	19,781	26,033
	21,875	**7,775**	**2,079**	**70,102**	500,348	23,278	9,529	2,228	24,974

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 15, 2016 (refer to note 3b(i)).
(2) Other consists of the summarized financial information of GHG, Grey Highlands Clean, SR and SL.

For the year ended	Dec 31, 2016				
Summarized Statements of Income	**Bristol Water (1)**	**Amherst**	**Saint-Philémon**	**Goulais**	**Concord's interest in GHG, SR & SL**
Revenue	**191,315**	**8,197**	**6,854**	**11,479**	**6,232**
Net income	**31,921**	**1,127**	**(722)**	**3,234**	**(217)**
OCI	**(114,344)**	**—**	**—**	**—**	**—**
Total comprehensive income	**(82,423)**	**1,127**	**(722)**	**3,234**	**(217)**
Attributable to:					
Shareholders of Capstone	**(27,520)**	**575**	**(368)**	**1,712**	**(217)**
NCI	**(54,903)**	**552**	**(354)**	**1,522**	**—**
	(82,423)	**1,127**	**(722)**	**3,234**	**(217)**

For the year ended	Dec 31, 2015				
Summarized Statements of Income	Bristol Water (1)	Amherst	Saint-Philémon	Goulais	Other (2)
Revenue	227,027	8,068	6,756	6,573	—
Net income	49,341	1,168	(694)	3,003	(1,241)
OCI	59,614	—	—	—	—
Total comprehensive income	108,955	1,168	(694)	3,003	(1,241)
Attributable to:					
Shareholders of Capstone	58,768	596	(354)	1,840	(1,233)
NCI	50,187	572	(340)	1,163	(8)
	108,955	1,168	(694)	3,003	(1,241)

(1) Bristol Water, which was sold on December 15, 2016, is included in discontinued operations (refer to note 3b(i)).
(2) Other consists of the summarized financial information of GHG, Grey Highlands Clean, SR and SL.

Distributions of $569 (2015 - $2,252) from Saint-Philémon, nil (2015 - $1,993) from Bristol Water, $1,240 (2015 - $1,122) from Amherst, $1,265 (2015 - $776) from Goulais were paid to non-controlling interests in 2016.

For the year ended			Dec 31, 2016		
Summarized Statements of Cash Flows	**Bristol Water [1]**	**Amherst**	**Saint-Philémon**	**Goulais**	**GHG, SR & SL**
Operating	**70,019**	**4,124**	**1,258**	**4,398**	**(13,849)**
Investing	**(49,657)**	**—**	**1,497**	**1,455**	**(5,336)**
Financing	**(1,217)**	**(4,210)**	**(2,574)**	**(7,326)**	**16,611**
Foreign exchange	**(6,266)**	**—**	**—**	**—**	**—**
Net increase / (decrease) in cash and equivalents	**12,879**	**(86)**	**181**	**(1,473)**	**(2,574)**

For the year ended			Dec 31, 2015		
Summarized Statements of Cash Flows	Bristol Water [1]	Amherst	Saint-Philémon	Goulais	Other [2]
Operating	91,261	3,820	8,730	2,000	123
Investing	(76,541)	—	709	—	(51,218)
Financing	(4,600)	(4,057)	(9,504)	(776)	57,372
Foreign exchange	2,103	—	—	—	—
Net increase / (decrease) in cash and equivalents	12,223	(237)	(65)	1,224	6,277

(1) Bristol Water was sold on December 15, 2016, is included in discontinued operations (refer to note 3b(i)).
(2) Other consists of the summarized financial information of GHG, Grey Highlands Clean, SR and SL.

(C) Convertible debentures 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 GHG, Snowy Ridge and Settlers Landing projects. Under the terms of the debenture, both Capstone and Concord will equally fund ongoing equity requirements relating to the these 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 GHG, Snowy Ridge and Settlers Landing 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 GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing projects. The initial principal contribution of the debenture was $31,408. The face value decreased to $26,041 as at December 31, 2015 and increased to $29,470 as at December 31, 2016.

NOTE 22. SHARE-BASED COMPENSATION

In 2016, all former share-based compensation arrangements were settled as part of the iCON III acquisition. As at December 31, 2016, no deferred share units ("DSUs"), restricted share units ("RSUs") or performance share unit ("PSUs") remain outstanding (refer to note 3a).

(A) Deferred Share Units

Prior to the iCON III acquisition, eligible directors received quarterly DSUs. In addition, directors could elect to receive their quarterly director fees in the form of DSUs. All DSUs were settled on April 29, 2016 as part of the iCON III acquisition for cash of $864. The DSU expense for 2016 of $299 is included in wages and benefits (refer to note 23) (2015 – $281).

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

Prior to the iCON III acquisition, Capstone had an LTIP for which RSUs and PSUs of the Corporation were granted annually to senior management. All RSUs and PSUs were settled on April 29, 2016 as part of the iCON III acquisition for cash of $8,308. The share-based LTIP expense for 2016 of $6,568 is included in wages and benefits (refer to note 23) (2015 – $2,135).

NOTE 23. EXPENSES – ANALYSIS BY NATURE

For the year ended	Dec 31, 2016				Dec 31, 2015			
	Operating	**Admin.**	**Project Development Costs**	**Total**	Operating	Admin.	Project Development Costs	Total
Wages and benefits (1)	**8,594**	**15,913**	**1,990**	**26,497**	9,419	8,248	2,169	19,836
Fuel and transportation (2)	**19,131**	**—**	**—**	**19,131**	5,647	—	—	5,647
Professional fees (1), (3)	**3,036**	**1,216**	**13,031**	**17,283**	1,819	1,514	4,726	8,059
Maintenance	**9,910**	**—**	**—**	**9,910**	8,481	—	—	8,481
Leases	**2,313**	**484**	**—**	**2,797**	1,899	395	—	2,294
Insurance	**2,448**	**209**	**—**	**2,657**	2,290	(183)	—	2,107
Utilities	**2,356**	**—**	**—**	**2,356**	1,924	—	—	1,924
Property taxes	**2,231**	**—**	**—**	**2,231**	2,083	—	—	2,083
Manager fees	**1,751**	**—**	**—**	**1,751**	1,764	—	—	1,764
Raw materials, chemicals and supplies (1)	**1,261**	**—**	**—**	**1,261**	1,474	—	—	1,474
Other	**3,916**	**2,054**	**234**	**6,204**	3,715	1,677	358	5,750
Total	**56,947**	**19,876**	**15,255**	**92,078**	40,515	11,651	7,253	59,419

(1) Certain comparative figures for the periods ended December 31, 2015 have been adjusted for discontinued operations (refer to note 3b).
(2) Fuel and transportation expenses include $12,049 of fuel expenses resulting from OEFC settlement (refer to note 25).
(3) Professional fees include legal, audit, tax and other advisory services.

NOTE 24. OTHER GAINS AND LOSSES

	For the year ended	
	Dec 31, 2016	Dec 31, 2015
Unrealized gains (losses) on derivative financial instruments	**27,503**	9,924
Losses on settlement of convertible debentures (1)	**(3,324)**	—
Losses on disposal of capital assets (2)	**(727)**	(8,557)
Realized losses on derivative financial instruments (3), (4)	**(23)**	(13,046)
Other (4)	**(19)**	(100)
Other gains and (losses), net	**23,410**	(11,779)

(1) Capstone's 2016 and 2017 convertible debentures were redeemed and converted as part of the iCON III acquisition (refer to note 3a).
(2) Certain comparative figures for the periods ended December 31, 2015 have been adjusted for discontinued operations (refer to note 3b).
(3) 2016 realized losses results from the settlement of Capstone's UK Pound Sterling and Swedish Krona foreign currency contracts.
(4) 2015 realized loss results from the termination of the Amherstburg interest rate swap, as part of the refinancing in 2015.

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 note 8 financial instruments, note 9 financial risk management, notes 17 finance lease obligations, 18 long-term debt, 19 liability for asset retirement obligation and 20 shareholders' equity and promissory note payable as at December 31, 2016 were as follows:

(A) Leases

Minimum operating lease payments comprised:

	Within one year	**One year to five years**	**Beyond five years**	**Total**
Operating leases	$3,975	$14,735	$42,461	$61,171

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

- 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 2061.
- 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.
- Amherstburg leases the land on which its operating facilities are located. The terms of the lease agreements extend to 2036.
- The Corporation has an operating lease for the corporate office ending in 2018, with an option to extend.

Capstone's operating lease commitments 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 between 2033 and 2042.

(B) Capital Commitments

Capstone enters into capital commitments in the normal course of operations. As part of Capstone's power development operations, Capstone enters various construction and purchase agreements. As at December 31, 2016, Capstone had commitments of $7,153 for construction and turbine supply agreement for the Settlers Landing project.

Capstone plans to refurbish Whitecourt's steam turbine and boiler in 2017. This project is expected to cost approximately $14,000 and to extend the life of the facility by 20 years. As at December 31, 2016, Capstone had commitments of approximately $1,260.

(C) 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 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 fails to meet the performance requirements under its respective PPA, liquidated damages may apply for development facilities or the operating facilities' PPA may be terminated after a specified period of time.

(D) OEFC Settlement

On March 12, 2015, the Ontario Superior Court of Justice determined that the OEFC had not properly calculated the price paid for electricity produced under its power purchase agreements with Cardinal, Wawatay and Dryden, as well as a number of other power producers in Ontario. This determination was upheld by the Ontario Court of Appeal in its April 19, 2016 decision. On January 19, 2017, the Supreme Court of Canada dismissed the OEFC's application for leave to appeal the April 19, 2016 decision relating to the $23,527 in net OEFC retroactive payments Capstone received on October 21, 2016. This was recorded in the statement of income, with $33,288 in revenue and $2,288 in interest income. In addition, associated expenses of $12,049 were recorded in operating expenses.

(E) Management Services Agreements

Capstone has agreements with all the partially owned wind facilities and development projects, including Glen Dhu, Fitzpatrick, Amherst, Saint-Philémon, Goulais, GHG, Snowy Ridge and Settlers Landing. 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. Under the terms of the ESA, Cardinal is required to provide O&M services in respect of the 15 MW cogeneration plant that Ingredion is building, and supply steam and compressed air to Ingredion for the use of its manufacturing facility. Cardinal entered into a maintenance contract with Siemens Canada Limited in connection with the operation and maintenance of the 15 MW plant in order to support Cardinal's satisfaction of the O&M terms of the ESA.

(H) Operations and Maintenance ("O&M") Agreements

On October 15, 2016, Capstone renegotiated its O&M agreement with SunPower Energy Systems Canada to operate and maintain Amherstburg to internalize several O&M functions. The agreement expires October 15, 2018 with an automatic one-year renewal option. Capstone has the ability to terminate the agreement during the term of the contract.

On November 30, 2016, Cardinal entered into a maintenance contract with Siemens Canada Limited covering the gas turbine at the 15 MW cogeneration plant that Ingredion is building. The contract has a 6 year term.

Capstone has several service and maintenance agreements covering the turbines in operation on various wind facilities. 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. Regional is paid a monthly management fee and is eligible for an annual incentive fee. The original agreement expires on November 30, 2021.

(I) Guarantees

Capstone has provided limited recourse guarantees on the project debt of certain wind projects totalling $9,000 as at December 31, 2016. Capstone has also provided a guarantee to the former 25% owner of the Grey Highlands Clean wind facility which provides future contractual payments based on operational performance up to an aggregate amount of $4,614. The guarantee terminates when the final payment is made on March 21, 2021.

NOTE 26. RELATED PARTY TRANSACTIONS

(A) Sale of Bristol Water and Promissory Note

On December 15, 2016, Capstone's 50% ownership interest in Bristol Water was sold to iCON III Bristol Limited, a related party subsidiary of Capstone's ultimate parent entity, iCON III. Capstone's shares of CSE Water UK Limited were sold for an agreed upon amount of £115,690. The transaction was reviewed and approved by a special committee of independent directors of the Corporation (the "Special Committee"). In the course of its deliberations, the Special Committee retained legal counsel and engaged a valuation advisor. The valuation advisor delivered a fairness opinion to the Special Committee to the effect that the price received by the Corporation in the transaction is fair, from a financial point of view, to the Corporation. As a result, the GBP tranche of the promissory note payable held by Irving was converted into Class A shares of Capstone, leaving a $96,702 balance as at December 31, 2016. In addition, no balances remain outstanding with iCON III Bristol Limited.

(B) 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 2016, Capstone earned management fees of $406 from Fitzpatrick and Glen Dhu (2015 - $405).

As at December 31, 2016, accounts receivable included $28 due from Fitzpatrick (2015 - $15). Accounts payable and other liabilities included $1,269, due to Glen Dhu (2015 - $980). All related party transactions were carried out at commercial terms.

Up to its sale on December 15, 2016, Bristol Water had 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 2016, Bristol Water incurred charges of $5,909 for management charges and shared expenditures.

(C) 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, short-term employee benefits and termination benefits. Eligible directors and senior management of the Corporation also received forms of stock-based compensation, prior to April 29, 2016, before the Corporation was acquired by iCON. As part of the acquisition, all vesting conditions on the stock-based compensation were satisfied and these were settled (refer to note 3a).

Key Management Compensation for the year ended	**Dec 31, 2016**	Dec 31, 2015
Salaries, directors’ fees and short-term employee benefits (1)	**954**	1,469
Share-based compensation (2)	**7,525**	705
Termination benefits (3)	**1,792**	—
	10,271	2,174

(1) The short-term incentive plan component of this balance is based on amounts paid during the period.
(2) As part of the iCON III acquisition, all vesting conditions of Capstone's share-based compensation (DSUs, RSUs and PSUs) were satisfied on April 29, 2016 (refer to note 3a).
(3) As part of the iCON III acquisition on April 29, 2016, there were changes to key management resulting in termination benefits (refer to note 3a).

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.

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.	
Discontinued operations (refer to note 3b)	
Utilities – water	United Kingdom
The regulated water services business (Bristol Water), in which the Corporation held a 50% indirect interest until December 15, 2016.	
Utilities – district heating ("DH")	Sweden
The district heating business (Värmevärden), in which the Corporation holds a 33.3% indirect interest.	

	Year ended Dec 31, 2016					
	Continuing Operations			**Discontinued Operations**		
	Power	**Corporate**	**Total**	**Water**	**DH**	**Total**
Revenue	**172,940**	**—**	**172,940**	**—**	**—**	**—**
Depreciation of capital assets	**(48,825)**	**(53)**	**(48,878)**	**—**	**—**	**—**
Amortization of intangible assets	**(9,916)**	**(8)**	**(9,924)**	**—**	**—**	**—**
Interest income	**2,531**	**91**	**2,622**	**—**	**—**	**—**
Interest expense	**(31,511)**	**(2,965)**	**(34,476)**	**—**	**—**	**—**
Income tax recovery (expense)	**(15,237)**	**19,096**	**3,859**	**—**	**—**	**—**
Net income (loss)	**35,395**	**(16,565)**	**18,830**	**(34,723)**	**352**	**(34,371)**
Cash flow from operations	**77,532**	**(27,209)**	**50,323**	**70,019**	**847**	**70,866**
Additions to capital assets	**14,172**	**102**	**14,274**	**53,590**	**—**	**53,590**
Additions to PUD	**100,547**	**—**	**100,547**	**—**	**—**	**—**

	Year ended Dec 31, 2015					
	Continuing Operations			Discontinued Operations		
	Power	Corporate	Total	Water	DH	Total
Revenue	117,956	—	117,956	—	—	—
Depreciation of capital assets	(35,822)	(124)	(35,946)	—	—	—
Amortization of intangible assets	(9,091)	(59)	(9,150)	—	—	—
Interest income	1,350	148	1,498	—	—	—
Interest expense	(26,675)	(7,499)	(34,174)	—	—	—
Income tax recovery (expense)	(1,140)	2,593	1,453	—	—	—
Net income (loss)	(8,054)	(20,626)	(28,680)	49,341	5,531	54,872
Cash flow from operations	41,846	(18,924)	22,922	91,181	2,715	93,896
Additions to capital assets	26,180	—	26,180	69,738	—	69,738
Additions to PUD	115,267	—	115,267	—	—	—

	As at Dec 31, 2016					As at Dec 31, 2015				
			Utilities					Utilities		
	Power	**Corporate**	**Water**	**DH**	**Total**	Power	Corporate	Water	DH	Total
Total assets(1), (2)	**1,112,861**	**22,098**	**—**	**13,445**	**1,148,404**	1,010,669	5,942	1,465,683	39,795	2,522,089
Total liabilities(1), (2)	**869,766**	**101,721**	**—**	**247**	**971,734**	649,625	125,049	965,335	—	1,740,009

(1) 2015 balances include amounts relating to Bristol Water, which was sold on December 31, 2016 (refer to note 3b).
(2) The utilities – district heating segment has been presented as AHFS (refer to note 3b(ii)).

Certain comparative figures for the periods ended December 31, 2015 have been adjusted to conform with the presentation in the current year.

NOTE 28. SUBSEQUENT EVENTS

Whitecourt Bioenergy Producer Program

On February 8, 2017, Whitecourt, Capstone's biomass facility, was notified that the Government of Alberta approved its application to the Bioenergy Producer Program ("BPP"). Whitecourt expects to receive grants of up to $4,800 for contributing to Alberta's bioenergy production capacity over the 18 month program, ending September 30, 2017.

Värmevärden Sale

On February 21, 2017, Capstone announced that, alongside its co-shareholder Macquarie European Infrastructure Fund 2 ("MEIF 2"), it has agreed to sell 100% of Värmevärden. Capstone expects to receive approximately$140,000 in net proceeds for its 33.3% indirect interest in Värmevärden and the related outstanding loans receivable. The transaction is expected to close in March 2017. The net proceeds exceed the carrying value of $13,197 by $126,803. On completion, the excess will be included as a gain on sale, net of applicable taxes and foreign exchange translation. A portion of the proceeds from the sale will be used to eliminate the remaining outstanding balance of the promissory note to Irving.

Sechelt Creek Facility Electricity Purchase Agreement Extension

On February 28, 2017, Capstone's electricity purchase agreement for the Sechelt Creek facility with BC Hydro was extended from its original expiry on an interim basis. The interim arrangement, and any new or amended electricity purchase agreement that may be entered, is expected to provide a lower price for electricity supplied than was paid under the expiring contract and would generate lower revenues than in 2016.

INVESTOR INFORMATION

Quick Facts	
Preferred shares outstanding	3,000,000
Securities exchange and symbols	Toronto Stock Exchange: CSE.PR.A

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