BUILDING FOR TOMORROW ›

Financial Report for the
Quarter Ended March 31, 2014

CAPSTONE INFRASTRUCTURE

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Earnings Measures ($000s)	Three months ended Mar 31, 2014	Mar 31, 2013
Revenue	114,397	94,255
Net income	19,457	15,898
Basic earnings per share	0.140	0.145

Cash Flow Measures ($000s)	Three months ended Mar 31, 2014	Mar 31, 2013
Cash flows from operating activities	44,443	30,629
Adjusted EBITDA [(1)]	41,691	32,342
Adjusted funds from operations ("AFFO") [(1)]	19,886	13,644
Payout ratio [(1)]	36.3%	41.7%

(1) These performance measures are not defined by International Financial Reporting Standards ("IFRS"). Please see page 7 for a definition of each measure.

Capital Structure – At Fair Value ($000s)	Mar 31, 2014	Dec 31, 2013
Long-term debt – power [(1)]	347,861	346,244
Long-term debt – utilities – water [(1)]	337,338	313,816
Long-term debt – corporate	82,902	81,694
Common shares	373,926	330,560
Class B exchangeable units	13,063	11,568
Preferred shares	52,440	45,930
Debt to capitalization	63.6%	65.7%

(1) Capstone's proportionate share based on ownership interest.

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	93,016,357
Class B exchangeable units	3,249,390
Preferred shares outstanding	3,000,000
2016 - Convertible debentures outstanding	42,749
2017 - Convertible debentures outstanding	27,428
Securities exchange and symbols	Toronto Stock Exchange: CSE, CSE.PR.A, CSE.DB.A, CPW.DB

QUARTERLY TRADING INFORMATION

	High Price	Low Price	Closing Price	Average daily volume
Common shares	$4.22	$3.55	$4.02	516,000
Preferred shares	$17.49	$14.90	$17.48	4,016
2016 - Convertible debentures	$102.99	$100.00	$102.99	799
2017 - Convertible debentures	$101.25	$100.00	$101.25	122

TABLE OF CONTENTS

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

Other potential material factors or assumptions that were applied in formulating the forward-looking statements and financial outlook contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that there will be no material delays in the Corporation's wind development projects achieving commercial operation; that the Corporation's power infrastructure facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; an effective TCPL gas transportation toll of approximately $1.65 per gigajoule in 2014; that there will be no material changes to the Corporation's facilities, equipment or contractual arrangements; that there will be no material changes in the legislative, regulatory and operating framework for the Corporation's businesses, that there will be no material delays in obtaining required approvals and no material changes in rate orders or rate structures for the Corporation's power infrastructure facilities, Värmevärden or Bristol Water, that there will be no material changes in environmental regulations for power infrastructure facilities, Värmevärden or Bristol Water; that there will be no significant event occurring outside the ordinary course of the Corporation's businesses; the refinancing on similar terms of the Corporation's and its subsidiaries' various outstanding credit facilities and debt instruments which mature during the period in which the forward-looking statements and financial outlook relate; market prices for electricity in Ontario and Alberta; the re-contracting of the PPA for the Sechelt hydro power generating station; that there will be no material change to the accounting treatment for Bristol Water's business under International Financial Reporting Standards, particularly with respect to accounting for maintenance capital expenditures; that there will be no material change to the amount and timing of capital expenditures by Bristol Water; that there will be no material changes to the Swedish krona to Canadian dollar and UK pound sterling to Canadian dollar exchange rates; and that Bristol Water will operate and perform in a manner consistent with the regulatory assumptions underlying asset management plan ("AMP") 5 and those expected under AMP6, including, among others: real and inflationary increases in Bristol Water's revenue, Bristol Water's expenses increasing in line with inflation, and capital investment, leakage, customer service standards and asset serviceability targets being achieved.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements and financial outlook, actual results may differ from those suggested by the forward-looking statements and financial outlook for various reasons, including: risks related to the Corporation's securities (dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation's securities; shareholder dilution; and convertible debentures credit risk, subordination and absence of covenant protection); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; foreign currency exchange rates; acquisitions, development and integration; environmental, health and safety; changes in legislation and administrative policy; and reliance on key personnel); risks related to the Corporation's power infrastructure facilities (power purchase agreements; completion of the Corporation's wind development projects; operational performance; fuel costs and supply; contract performance and reliance on suppliers; land tenure and related rights; environmental; and regulatory environment); risks related to Värmevärden (operational performance; fuel costs and availability; industrial and residential contracts; environmental; regulatory environment; and labour relations); and risks related to Bristol Water (Ofwat price determinations and changes to Instrument of Appointment; failure to deliver capital investment programs; economic conditions; operational performance; failure to deliver water leakage target; service incentive mechanism ("SIM") and the serviceability assessment; pension plan obligations; regulatory environment; competition; seasonality and climate change; and labour relations). For a comprehensive description of these risk factors, please refer to the “Risk Factors” section of the Corporation’s Annual Information Form dated March 26, 2014 as supplemented by risk factors contained in any 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 securities commissions or similar authorities in Canada (which are available under the Corporation's SEDAR profile at www.sedar.com).

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

MESSAGE TO SHAREHOLDERS

I am pleased to report on Capstone Infrastructure's first quarter results, recent activities and outlook.

We achieved strong overall business performance in the quarter, reflecting the quality of operations across the portfolio, the contribution from the wind power facilities we acquired in October 2013, and the favourable impact of foreign currency exchange rates on our international investments, particularly Bristol Water.

Our solid financial performance was complemented by a major strategic accomplishment: the signing of a new 20-year non-utility generator contract with the Ontario Power Authority (OPA) for Cardinal, which will be effective January 1, 2015. At the same time, we entered into an agreement to renew our energy savings agreement with Ingredion Canada Incorporated, Cardinal's industrial host, for a term of 20 years. These two agreements secure Cardinal's future and help support our current 30-cent common share dividend. Our new contract with the OPA represents the culmination of many years of hard work across our organization and we are very pleased with the outcome.

Financial Highlights

Revenue in the first quarter of 2014 increased by 21.4% over the same quarter in 2013, due mostly to our expanded operating wind power portfolio following our acquisition of Renewable Energy Developers Inc. (ReD) on October 1, 2013. The revenue variance at Bristol Water reflected favourable foreign currency exchange rates along with revenue growth arising from higher regulated water rates, which increase annually, and higher water consumption.

Total expenses increased by 15.0% over the first quarter of 2013, reflecting higher operating expenses primarily at Bristol Water due to foreign currency translation and greater repairs and maintenance activities. In the power segment, higher operating expenses reflected our expanded wind power portfolio, partially offset by lower gas transportation and fuel costs at Cardinal. Administrative expenses in the quarter increased by 100.6%, due to the reversal of an over-accrual in the first quarter of 2013 and higher staffing costs arising from the growth of our team at head office following the ReD acquisition.

Adjusted EBITDA increased by 28.9%, primarily due to the growth in our operating wind power portfolio and lower operating costs at Cardinal along with the positive foreign currency impact and higher revenue at Bristol Water. Our Adjusted Funds from Operations (AFFO) increased by 45.7% as a result of the growth in Adjusted EBITDA partially offset by higher debt service and maintenance capital expenditures resulting from our larger power portfolio.

Our quarterly payout ratio, which is based on AFFO, was 36% compared with 42% in the same quarter last year reflecting strong financial performance and the growth of our portfolio. Our long-term target is to achieve an average payout ratio of approximately 70% to 80%.

As described on page 21, we ended the quarter in a solid financial position with a debt to capitalization ratio of 63.6%. Notably, our outstanding debt is almost entirely fixed rate or linked to inflation and is predominantly secured at the operating business level, which means it is non-recourse to Capstone. Approximately 97% of the long-term debt at our power facilities is scheduled to amortize over our PPA terms. At Bristol Water, 77.5% of long-term debt has a maturity longer than 10 years. Our capital structure at the corporate and subsidiary level aligns with the cash flow profile and duration of our businesses and gives us the flexibility to pursue new investments.

As at March 31, 2014, we had unrestricted cash and cash equivalents of $67.3 million, including $38.5 million from our power segment and $14.6 million from Bristol Water. Bristol Water has an additional $57.1 million in credit capacity to support its capital expenditure program. Approximately $34.3 million of our total cash and cash equivalents is available for general corporate purposes. In addition, during the quarter we increased the amount of credit available under our new corporate credit facility, which was established in November 2013, to $50 million from $32.5 million.

Priorities for 2014

A key priority for Capstone in 2014 is to advance our near-term wind power projects on time and on budget. The 10-megawatt (MW) Skyway 8 and and 24 MW Saint-Philémon projects are both currently under construction in Ontario and Quebec, respectively, and are expected to achieve commercial operations in 2014. Subsequent to quarter end, we completed a $21.4 million financing for Skyway 8 and expect to establish financing for Saint-Philémon later this month. In addition, we expect to start construction of our 25 MW Goulais wind project in Ontario in June. The Environmental Review Tribunal delivered a decision on April 17, 2014 upholding the project's Renewable Energy Approval issued by the Ministry of Environment last fall, enabling the project to move forward.

The balance of our development pipeline consists of medium-term projects in Ontario and Saskatchewan. We anticipate that these remaining projects will enter commercial operations over 2015 and 2016, assuming they receive the various regulatory approvals and permits required to proceed.

A second priority for our company in 2014 is to maximize the performance of our existing businesses, including preventive and predictive maintenance, detailed planning for capital expenditures that boost value, and finding new ways to increase cash flow.

A major focus for us at the moment is preparing Cardinal to become a dispatchable facility. We have budgeted an approximately $30-million capital investment, including work in 2014 to enable the facility to provide operational flexibility to Ontario's electricity grid between now and the end of our current power purchase agreement in December 2014. In 2015, we are planning a one-month maintenance outage to install a new rotor and exhaust cylinder. We expect to finance these investments either through project financing or by expanding our credit facility at the corporate level.

A third priority is to advance organic growth initiatives, including working closely with management at Bristol Water to complete the company's $542 million capital expenditure program for the current regulatory period (AMP5), which commenced in April 2010 and concludes in March 2015. As at March 31, 2014, Bristol Water's cumulative capital expenditures in AMP5 were $444 million. This capital expenditure program, which is aimed at improving and expanding Bristol Water's network of reservoirs, treatment facilities, water mains and pipes, is driving significant growth in Bristol Water's regulated capital value, which supports growing revenue and cash flow over time, which in turn increases the value of our investment.

In this vein, we are also working closely with the Bristol Water team on the UK Water Services Regulation Authority (Ofwat) Price Review 14 ("PR14") process. Bristol Water submitted its five-year business plan PR14 in December 2013 and will submit further information in June 2014. In 2014, Ofwat will respond to Bristol Water's submissions and in December will publish their decision on the pricing Bristol Water is permitted to apply to customers' charges in the five-year AMP6 period commencing in April 2015.

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

Finally, a fourth priority is to grow the value of our company through acquisitions that increase our cash flow, diversify our portfolio and expand future opportunities. With a resolution on Cardinal, we are squarely focused on the future and planning to build our company across four targeted core infrastructure categories: utilities, power, public-private partnerships (P3s) and transportation. We are concentrating our business development efforts primarily on North America, the United Kingdom, and Western and Northern Europe, with Australia and New Zealand remaining markets of interest, with a focus on:

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

In 2014, we are particularly focused on the utilities and P3 segments while remaining receptive to other opportunities. At the same time, through Capstone Power Development we will continue to target early and later-stage opportunities in markets where there is a defined need for new capacity and energy supply.

Outlook

We are looking forward to a productive, successful year in 2014. We now anticipate that annual Adjusted EBITDA will be $150 million to $160 million compared with $140 million to $150 million previously. This increase primarily reflects the greater than anticipated favourable impact of foreign exchange rates at Bristol Water in the first quarter of the year as well as our expectation of better economics from Cardinal. Overall, we expect continuing stable performance from our power assets, some growth from our utilities businesses, and a full year of contribution from the operating wind power facilities we acquired from ReD.[1]

Since 2010, we have made a concerted effort to shift the mix and cash flow characteristics of the businesses we own. We have diversified, de-risked and repositioned our portfolio toward long life, perpetual businesses that will be operating and generating attractive, growing cash flow for years to come. At the same time, we have moved into a higher return niche with our power development projects, while still prudently managing risk. Furthermore, with our last four acquisitions --- ReD, Bristol Water, Värmevärden and Amherstburg Solar Park --- we have extended the life and sustainability of Capstone's cash flows, and significantly improved the investment quality of our company.

With the quality and strong performance of our portfolio, and with a new contract for Cardinal now in hand, we are confident in our ability to deliver on our dividend commitment to shareholders while pursuing our vision to be a Canadian leader in owning and operating diversified infrastructure businesses that benefit the communities we serve, the people we employ, and our investors.

Thank you for your continuing support.

Sincerely,

Michael Bernstein
President and Chief Executive Officer

[1]Please refer to the Legal Notice for a description of various other material factors or assumptions underlying our outlook.

MANAGEMENT'S DISCUSSION AND ANALYSIS

TABLE OF CONTENTS

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated operating results and cash flows for the three months ended March 31, 2014 with the comparative prior period and the Corporation's financial position as at March 31, 2014 and December 31, 2013. This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at and for the three months ended March 31, 2014 and the financial statements and MD&A for the year ended December 31, 2013. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 26, 2014 and its Annual Report for the year ended December 31, 2013. These filings are available under the Corporation's profile on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com. The information contained in this MD&A reflects all material events up to May 12, 2014, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

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

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the periods ended	**Average**	**Spot**	**Average**	**Spot**
Year ended December 31, 2013	0.1581	0.1655	1.6113	1.7627
Quarter ended March 31, 2014	0.1707	0.1707	1.8256	1.8430

CHANGES IN THE BUSINESS

Cardinal's New Contract

On March 26, 2014, Capstone announced the signing of a new 20-year non-utility generator contract (the "Contract") with the Ontario Power Authority for its 156-megawatt Cardinal combined-cycle, natural gas-fired facility ("Cardinal"). The new Contract will be effective January 1, 2015.

Starting in 2015, Cardinal will become a dispatchable facility rather than a baseload generator, supplying electricity to the Ontario grid only when needed. The new Contract provides Cardinal with a fixed monthly payment, escalating annually according to a pre-defined formula, intended to cover Cardinal's fixed operating costs and return on capital. Cardinal will also earn variable market revenue from the electricity it delivers to Ontario's power grid and will be responsible for arranging its own gas supply. The Corporation expects to invest approximately $30 million of capital over 2014 and 2015 to prepare Cardinal for cycling, including purchasing a new rotor and related equipment to extend and enhance the facility's capabilities. The new Contract will expire on December 31, 2034.

The Corporation and the OPA also reached a mutually beneficial agreement for Cardinal to provide additional operational flexibility to Ontario's electricity system for the duration of its current power purchase agreement, which expires on December 31, 2014.

The Corporation also announced that Cardinal has a binding term sheet to enter into an agreement with Ingredion to renew its energy savings agreement (“ESA”) for a term of 20 years. This agreement includes O&M services to be provided to Ingredion for a fee, an extension of the lease for the land on which the Cardinal facility is located, and a royalty payable by Cardinal to Ingredion based on variable market revenue from electricity sales.

SUBSEQUENT EVENTS

Skyway 8 Financing

On April 17, 2014 Capstone, through its wholly owned subsidiary Sky Generation LP ("SkyGen"), entered into a credit agreement that will provide $21,375 of financing for the construction of the Skyway 8 wind project. The construction term of the facility matures no later than February 28, 2015, and bears interest at 5.25%. Upon maturity, the debt converts to a term facility which has a term of three years and bears interest at a variable rate based on 1.05% over the lender’s posted three-year commercial mortgage rate and fully amortizes over 20 years.

NON-GAAP AND ADDITIONAL GAAP PERFORMANCE MEASURE DEFINITIONS

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

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

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

Adjusted EBITDA

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

Adjusted Funds from Operations (“AFFO”)

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

AFFO is calculated from Adjusted EBITDA by:

Deducting:

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

Adding:

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

Deducting items for corporate and businesses without significant non-controlling interests:

- Interest paid
- Income taxes paid
- Dividends paid on the preferred shares included in shareholders' equity
- Maintenance capital expenditure payments
- Scheduled repayments of principal on debt

Payout Ratio

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

Reconciliation of Non-GAAP Performance measures

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

	Three months ended	
	Mar 31, 2014	**Mar 31, 2013**
EBITDA	58,324	46,998
Foreign exchange (gain) loss	(1,151)	(749)
Other (gains) and losses, net	(421)	(2,536)
Equity accounted (income) loss	(1,247)	(585)
Distributions from equity accounted investments	1,225	—
Net pension interest income	(638)	(389)
Non-controlling interest ("NCI") portion of Adjusted EBITDA	(14,401)	(10,397)
Adjusted EBITDA	41,691	32,342
Cash flow from operating activities	44,443	30,629
Cash flow from operating activities from businesses with non-controlling interests	(20,920)	(16,957)
Distributions paid to Capstone from businesses with non-controlling interests	2,341	1,609
Distributions from equity accounted investments	1,225	—
Foreign exchange on loans receivable from Värmevärden	32	26
Chapais loans receivable principal repayments	293	263
Power maintenance capital expenditures	(172)	(403)
Power and corporate scheduled principal repayments	(3,334)	(2,686)
Power and corporate working capital changes	(3,084)	2,101
Dividends on redeemable preferred shares	(938)	(938)
AFFO	19,886	13,644

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both higher than in the first quarter of 2013.

Capstone's Adjusted EBITDA performance reflected the following:

- Increased results from the power segment due to the acquisition of Renewable Energy Developers Inc. ("ReD") on October 1, 2013;
- Improved results from Cardinal due to lower fuel transportation costs and the annual increase in contracted power rates;
- Increased results from Bristol Water, reflecting the positive impact of foreign currency translation and the annual increase in regulated water tariffs; and
- Increased corporate administrative expenses, primarily due to ReD, reflecting staffing and integration-related costs.

In addition, Capstone's AFFO was affected by:

- Lower corporate taxes paid in 2014 as there was no final installment for prior year taxes on the preferred dividends;
- Increased distributions from power businesses with non-controlling interests following the acquisition of ReD; and
- Increased debt interest and principal payments following the acquisition of ReD.

	Three months ended	
	Mar 31, 2014	**Mar 31, 2013**
Revenue	114,397	94,255
Expenses	(60,504)	(52,620)
Interest income	974	1,104
Distributions from equity accounted investments	1,225	—
Less: non-controlling interest (“NCI”)	(14,401)	(10,397)
Adjusted EBITDA	41,691	32,342
Adjusted EBITDA of consolidated businesses with NCI	(14,415)	(10,381)
Distributions from businesses with NCI	2,341	1,609
Principal from loans receivable	293	263
Interest paid	(4,887)	(4,703)
Dividends paid on Capstone’s preferred shares	(938)	(938)
Income taxes (paid) recovery	(693)	(1,459)
Maintenance capital expenditures	(172)	(403)
Scheduled repayment of debt principal	(3,334)	(2,686)
AFFO	19,886	13,644
AFFO per share	0.207	0.180
Payout ratio	36.3%	41.7%
Dividends declared per share	0.075	0.075

Revenue for the quarter was $20,142, or 21.4%, higher than in 2013. The increase was mainly due to $12,134 of higher revenue at Bristol Water, primarily due to favourable foreign currency translation of $7,390. Bristol Water's revenue increase also reflected contributions of $3,673 and $1,071 from higher regulated water tariffs and greater water consumption, respectively. In the power segment, revenue was $8,008 higher in 2014, primarily due to the Corporation's larger portfolio of operating wind power facilities.

Expenses for the quarter were $7,884, or 15.0%, higher than in 2013.

- **Operating expenses** increased by $5,514 during the quarter, primarily due to a $5,992 increase at Bristol Water reflecting foreign exchange translation and greater repairs and maintenance activities. In addition, the expanded wind power portfolio contributed $1,518. These variances were partially offset by a $2,117 decrease in Cardinal's operating expenses, primarily due to lower gas transportation costs and lower gas costs.
- **Administrative expenses** were $2,175 higher in 2014, primarily reflecting a reversal of an accrual in the first quarter of 2013, as well as higher compensation expenses following the acquisition of ReD. In addition, professional fees increased for the integration of ReD.
- **Project development costs** were $195 higher in 2014, primarily due to a $250 recovery in 2013 of previously accrued expenses.

Distributions from equity accounted investments for the quarter were $1,225 higher than in 2013 due to a distribution from the Glen Dhu wind facility. Värmevärden was not expected to provide a dividend in either the first quarter of 2014 or 2013.

Dividends from businesses with non-controlling interests for the quarter were $732, or 45.5%, higher than in 2013, primarily due to acquisition of the Amherst wind facility ("Amherst"), which generated $411 during the quarter. In addition, Bristol Water's dividend was $321 higher, primarily due to favourable foreign exchange translation.

Interest paid for the quarter increased by $184, or 3.9%, mainly due to $395 of additional interest in the power segment as a result of the expanded wind power portfolio. This was partially offset by $211 of interest savings following settlement of an interest rate swap contract in November 2013.

Interest paid by Bristol Water and Amherst are excluded from Capstone's definition of AFFO and represent the primary difference between interest expense included in consolidated net income and interest paid in AFFO. The remaining difference between interest expense and interest paid is attributed to amortization of financing costs and accrued interest to March 31, 2014.

Income taxes paid for the quarter decreased by $766, or 53%, primarily due to a one-time $1,100 payment during the first quarter of 2013 for taxes on the 2012 preferred share dividends. This was partially offset by a $119 increase of tax installments on the preferred share dividends and a $215 increase in corporate income taxes paid in 2014.

Maintenance capital expenditures for the quarter decreased by $231, or 57.3%, from 2013, primarily due to the timing of maintenance capital expenditures at the hydro facilities.

Scheduled repayment of debt principal for the quarter increased by $648, or 24.1%, from 2013, mainly due to $669 in repayments related to the wind power facilities acquired on October 1, 2013. This was partially offset by a $250 decrease in debt payments on the CPC-Cardinal credit facility following the refinancing in November 2013.

Results by Segment

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

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

The table summarizes Capstone's operating segments by ownership interest as follows:

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

(1) Capstone's interests in the SkyGen, Glace Bay, Confederation Power, Amherst, Glen Dhu and Fitzpatrick were acquired as operating wind facilities on October 1, 2013.

Non-GAAP performance measures

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

	Three months ended		
	Mar 31, 2014	Mar 31, 2013	Change
Power	31,857	23,362	8,495
Utilities – water	13,422	10,381	3,041
Utilities – district heating	761	699	62
Corporate	(4,349)	(2,100)	(2,249)
Adjusted EBITDA	41,691	32,342	9,349
Power	23,258	16,127	7,131
Utilities – water	1,930	1,609	321
Utilities – district heating	761	699	62
Corporate	(6,063)	(4,791)	(1,272)
AFFO	19,886	13,644	6,242

Power

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

Change	Explanations
4,932	Adjusted EBITDA of operating facilities acquired on October 1, 2013.
1,374	Lower operating expenses at Cardinal as a result of lower gas transportation rates.
999	Higher revenue from favourable wind, hydrology and sunlight in 2014.
743	Lower other operating expenses at Cardinal.
447	Various other changes.
8,495	Change in Adjusted EBITDA.
(1,361)	Additional debt service and maintenance capital expenditures from a larger power portfolio.
(993)	Reversal of Adjusted EBITDA for businesses with significant non-controlling interests.
411	Distributions from Amherst.
251	Lower maintenance expenditures at the hydro facilities in 2014.
328	Various other changes.
7,131	Change in AFFO.

Utilities – water

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

Change	Explanations
1,300	Increased business performance primarily due to higher revenue as a result of annual increase in regulated water tariffs, offset by higher repairs and maintenance expenses.
1,741	Impact of foreign exchange on Adjusted EBITDA.
3,041	Change in Adjusted EBITDA.
332	Impact of foreign exchange on AFFO.
(11)	Other business performance variances.
321	Change in AFFO.

Utilities – district heating

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

Change	Explanations
62	Impact of foreign exchange.
62	Change in Adjusted EBITDA and AFFO.

Corporate

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

Change	Explanations
(1,082)	Higher staff costs due to the reversal of an accrual in the first quarter of 2013, plus new LTIP grants in 2014 and additional employees in 2014.
(369)	Higher professional fees in 2014 relating to the integration of ReD.
(250)	Recovery in 2013 of project development costs against the amount accrued in 2012.
(548)	Various other changes.
(2,249)	Change in Adjusted EBITDA.
766	Lower taxes paid in 2014 primarily due to a one-time payment in 2013 for 2012 taxes on the preferred share dividends.
211	Various other changes.
(1,272)	Change in AFFO.

Net income

Net income for each business segment was as follows:

	Three months ended	
Net Income	**Mar 31, 2014**	**Mar 31, 2013**
Power	12,422	12,685
Utilities – Water	9,900	7,757
Utilities – District Heating	2,764	2,055
Corporate	(5,629)	(6,599)
Total	19,457	15,898

Capstone's net income includes non-cash items required by IFRS. The major differences between net income and Adjusted EBITDA are summarized below:

	Three months ended	
($000s)	**Mar 31, 2014**	**Mar 31, 2013**
Adjusted EBITDA	41,691	32,342
Adjustment from distributions from equity accounted investments to equity accounted income	22	585
NCI portion of Adjusted EBITDA	14,401	10,397
Other gains and (losses), net	421	2,536
Foreign exchange gain (loss)	1,151	749
Interest expense	(13,766)	(11,014)
Net pension interest income	638	389
Depreciation and amortization	(19,020)	(14,659)
Income tax recovery (expense)	(6,081)	(5,427)
Net income	19,457	15,898

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 Quebec. Results from these facilities were:

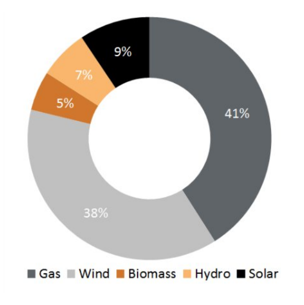
Three months ended Mar 31, 2014	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	327.9	143.9	50.1	29.2	7.7	n/a	558.8
Capacity factor	95.4%	35.6%	99.9%	37.8%	17.8%	n/a	n.m.f
Availability	100.0%	98.2%	100.0%	98.2%	97.4%	n/a	n.m.f
Revenue	34,182	14,160	3,712	2,923	3,235	—	58,212
Expenses	(20,807)	(2,456)	(2,117)	(852)	(267)	(259)	(26,758)
Interest income	24	36	67	4	7	—	138
Distributions from equity accounted investments	—	1,225	—	—	—	—	1,225
Less: non-controlling interest ("NCI")	—	(960)	—	—	—	—	(960)
Adjusted EBITDA	13,399	12,005	1,662	2,075	2,975	(259)	31,857
Adjusted EBITDA of consolidated businesses with NCI	—	(993)	—	—	—	—	(993)
Distributions from businesses with NCI	—	411	—	—	—	—	411
Principal from loans receivable	—	—	293	—	—	—	293
Interest paid	—	(2,054)	—	(1,186)	(1,564)	—	(4,804)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	—	(100)	(45)	(27)	—	—	(172)
Scheduled repayment of debt principal	—	(2,108)	—	(862)	(364)	—	(3,334)
AFFO	13,399	7,161	1,910	—	1,047	(259)	23,258

Three months ended Mar 31, 2013	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	347.3	80.8	49.4	27.0	6.1	n/a	510.6
Capacity factor	101.1%	37.8%	99.3%	35.0%	14.0%	n/a	n.m.f
Availability	100.0%	98.7%	99.8%	99.0%	99.6%	n/a	n.m.f
Revenue	33,305	7,934	3,768	2,533	2,664	—	50,204
Expenses	(22,924)	(1,021)	(1,997)	(733)	(302)	(165)	(27,142)
Interest income	29	23	224	13	11	—	300
Adjusted EBITDA	10,410	6,936	1,995	1,813	2,373	(165)	23,362
Principal from loans receivable	—	—	263	—	—	—	263
Interest paid	(136)	(1,468)	—	(1,226)	(1,579)	—	(4,409)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(63)	(14)	(48)	(278)	—	—	(403)
Scheduled repayment of debt principal	(250)	(1,356)	—	(764)	(316)	—	(2,686)
AFFO	9,961	4,098	2,210	(455)	478	(165)	16,127

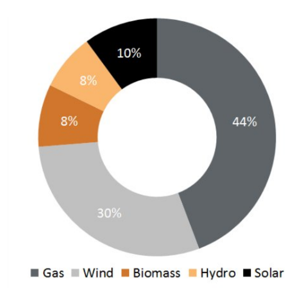
(1) For equity accounted investments, Adjusted EBITDA reflects management fees earned, interest income, as well as distributions paid to Capstone. Principal received on outstanding loans receivable are included in AFFO. The statistics for power generated, capacity factors and availability exclude those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

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

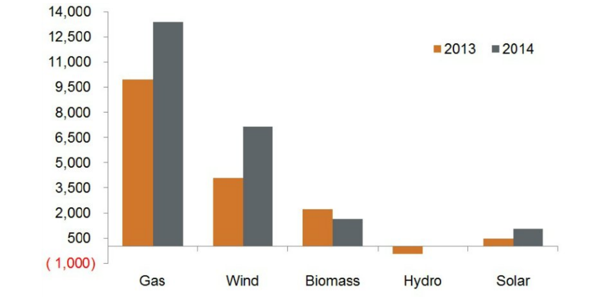
Adjusted EBITDA
YTD 2014



Adjusted EBITDA
YTD 2013



AFFO
YTD 2014 and 2013



Revenue for the quarter was $8,008, or 16.0%, higher than in 2013, mainly due to $6,173 attributable to Capstone's larger operating wind power portfolio. In addition, revenue increased by $961 as a result of higher production at Amherstburg Solar Park ("Amherstburg") and the hydro facilities. Cardinal's revenue increased by $877 primarily due to higher contractual power rates.

Power production increased by 8.1% at the hydro facilities and 26.2% at Amherstburg due to more favourable hydrology and sunlight, respectively.

Expenses for the quarter were $384, or 1.4%, lower than in 2013, primarily due to a $2,117 decrease in operating expenses at Cardinal, which reflected lower fuel transportation costs and lower fuel costs. This variance was partially offset by $1,518 of higher expenses related to Capstone's larger operating wind power portfolio.

Interest income for the quarter was $162, or 54.0%, lower than in 2013 when a special interest payment was received from Chapais on Tranche B.

Distributions from equity accounted investments for the quarter were $1,225, or 100%, higher than in 2013 primarily due to funds received from the Glen Dhu wind facility ("Glen Dhu"), which Capstone acquired on October 1, 2013.

Non-controlling interest and distributions from businesses with NCI for the quarter were $960 and $411 higher, respectively, reflecting the addition of Amherst, which Capstone acquired on October 1, 2013.

Interest paid for the quarter increased by $395, or 9.0%, primarily due to $669 attributable to the wind facilities acquired from ReD, This was partially offset by a $136 decrease in interest paid on the former CPC-Cardinal credit facility following repayment in November 2013. In addition, interest paid decreased by $138 due to amortizing debt balances at Erie Shores Wind Farm ("Erie Shores"), the hydro facilities and Amherstburg.

Maintenance capital expenditures for the quarter decreased by $231, or 57.3% , primarily due to the timing of scheduled maintenance capital expenditures at the hydro facilities.

Scheduled repayment of debt principal for the quarter was $648, or 24.1%, higher than in 2013, primarily due to $669 of payments for the wind facilities Capstone acquired on October 1, 2013. This was partially offset by a $250 decrease in principal paid on the former CPC-Cardinal credit facility.

Project development

Capstone's development pipeline currently includes the rights to net 79 MW across nine wind development projects. Seven of these projects are being developed in Ontario under power purchase agreements ("PPAs") awarded by the Ontario Power Authority ("OPA"), one project is in Quebec with a PPA awarded by Hydro-Québec and one project is in Saskatchewan with a PPA awarded by SaskPower. Three projects are characterized as near term, with construction having commenced on two of these projects in the fourth quarter of 2013. Capstone currently expects all of the near-term projects to be completed on time and without material cost over-runs. The remaining six development-stage projects are expected to enter commercial operations ("COD") in 2015 or 2016, assuming they receive the various regulatory approvals and permits required to proceed.

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

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

Capstone expects to fund these development projects with a combination of equity and project-level debt financing. Capstone's equity contributions will be funded from existing cash and available credit in combination with equity partners, including First Nations and municipalities. The project debt financing for each near-term project has been or is expected to be arranged in 2014, and will be non-recourse to Capstone and on comparable terms to typical wind power projects. Refer to the "Subsequent Events" section of the MD&A for additional information.

Seasonality

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

		Actual	Average long-term production (GWh) (1)				
Type	PPA Expiry	Q1	Q1	Q2	Q3	Q4	Annual
Gas	2034	327.9	341.8	281.4	302.3	334.1	1,259.6
Wind (2)	2020 - 2037	143.9	140.7	105.6	75.4	135.9	457.6
Biomass (2)	2014	50.1	50.2	45.5	50.3	49.3	195.3
Hydro	2017 - 2042	29.2	31.3	57.2	30.4	41.0	159.9
Solar	2031	7.7	6.9	13.1	12.4	5.9	38.3
Total		558.8	570.9	502.8	470.8	566.2	2,110.7

(1) Average long-term production is from March 2005 to March 31, 2014, except for Erie Shores, which is from June 2006; Amherstburg, which is from July 2011; and the wind facilities acquired by Capstone on October 1, 2013, which is from January 2013.
(2) The average long-term production excludes Capstone's equity investments (Chapais biomass facility, and the Glen Dhu and Fitzpatrick wind facilities).

Outlook (3)

In 2014, production and revenue are expected to increase based on a full year of ownership of the wind power facilities acquired on October 1, 2013. All power facilities, other than Cardinal, are expected to perform consistently with their long-term average production, subject to variations in wind, water flows, ambient temperatures and sunlight. In addition, we expect two of Capstone's development projects to contribute after COD.

For Cardinal, production will be lower as a result of our agreement with the OPA to provide additional flexibility to Ontario’s electricity system in 2014. The agreement provides for compensation to maintain our economics at the level they would have been without altering our operations.

Ultimately, we expect higher Adjusted EBITDA from Cardinal than in 2013 as a result of lower gas transportation costs and higher power rates.

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

(3) See page 2 for a description of various other material factors or assumptions underlying our outlook.

Infrastructure - Utilities

Water

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

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Water supplied (megalitres)	19,638	19,238
Revenue	56,185	44,051
Operating expenses	(29,359)	(23,367)
Interest income	37	94
Adjusted EBITDA before non-controlling interest	26,863	20,778
Less: non-controlling interest ("NCI")	(13,441)	(10,397)
Adjusted EBITDA	13,422	10,381
Adjusted EBITDA of consolidated businesses with NCI	(13,422)	(10,381)
Dividends from businesses with NCI	1,930	1,609
AFFO	1,930	1,609

Revenue for the quarter increased by $12,134, or 27.5%, from 2013. Excluding foreign currency, revenue increased by $4,744, or 9.2%.The balance of the variance was attributable to $3,673 in higher water tariffs following the annual increase on April 1, 2013, and $1,071 arising from greater water consumption.

Operating expenses for the quarter increased by $5,992, or 25.6%, from 2013. Excluding foreign currency, operating expenses increased by $2,072, or 7.6%, over 2013. The balance of the variance was mostly due to higher repairs and maintenance activities.

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

Dividends paid to Capstone by Bristol Water for the quarter were $321 higher than in 2013, due to the effect of foreign currency translation.

Capital expenditures

The approved and planned capital expenditures for the current asset management plan ("AMP5") period, which concludes in March 2015, are approximately $542,000, or £294,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at March 31, 2014, cumulative capital expenditures incurred during AMP5 were $444,000, which were $13,000 lower than the original plan agreed with the Water Services Regulation Authority ("Ofwat"). Bristol Water's focus on meeting the AMP5 capital target has reduced the shortfall by 36% as cumulative capital expenditures for regulatory purposes increased $50,000 during the quarter ended March 31, 2014. The shortfall was primarily the result of delays at the start of AMP5 due to the Competition Commission review process. Capstone expects its cumulative capital expenditures over AMP5 to achieve the regulator-approved capital expenditure.

Seasonality

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

Regulatory

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

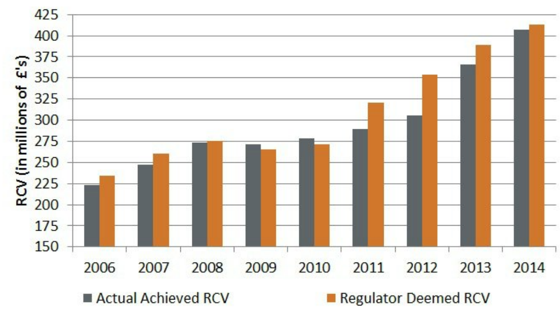
The company submitted its five-year business plan for the 2014 price review ("PR14") in December 2013 and will submit further information in June 2014. In 2014, Ofwat will respond to Bristol Water's submissions and in December will publish their decision on the pricing Bristol Water is permitted to apply to customers' charges in the five-year AMP6 period commencing in April 2015.

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

For the regulatory year ended March 31, 2014, Bristol Water achieved leakage levels of 43.8* Ml/d (for the regulatory year ended March 31, 2013 – 42 Ml/d) and had a SIM score of 84.9* which ranked tenth overall in the industry (for the regulatory year ended March 31, 2013 – 86, which ranked fourth overall in the industry).

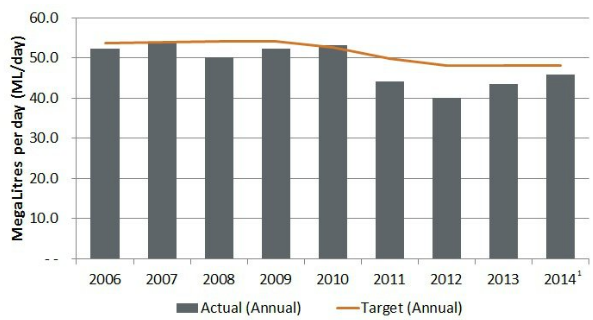
* Subject to regulatory audit.

Growth in Regulated Capital Value



All data above reflects fiscal years ended March 31.

Water Leakage Versus Target



(1) For the three months ended March 31, 2014.

Outlook (2)

In 2014, Bristol Water is expected to continue its strong operational performance and generate cash flows sufficient to sustain its dividend and reinvestment in the capital expenditure program. In 2014, Capstone expects Bristol Water's financial results to reflect:

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

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

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

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

(2) See page 2 for a description of various other material factors or assumptions underlying our outlook.

Infrastructure - Utilities

District Heating

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

Värmevärden's overall financial performance in the first quarter of 2014 was above 2013 primarily due to more moderate weather conditions allowing the use of more cost effective fuel sources in the production of heat.

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

	Three months ended	
	Mar 31, 2014	**Mar 31, 2013**
Heat and steam production (GWh)	367	432
Equity accounted income (loss)	815	585
Interest income	761	699
Dividends	—	—
Adjusted EBITDA and AFFO	761	699

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. Capstone received $761 in interest income from Värmevärden during the first three months of 2014, which was $62 higher than 2013, due to favourable foreign exchange translation.

Dividends

Capstone did not receive a dividend from Värmevärden in the first quarter of either 2014 or 2013.

Equity accounted income (loss)

Equity accounted income included in Capstone's net income was $230 higher than in the first three months of 2013, primarily due to lower operating expenses at Värmevärden attributed to moderate weather conditions in 2014, which allows for the use of less expensive fuels in the production of heat.

Seasonality

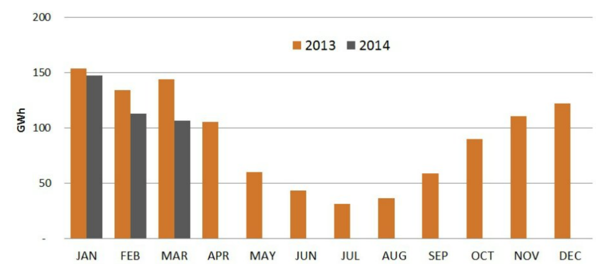
Heat production is typically highest during the first quarter, which represents the coldest months of the year. The first and fourth quarters combined have historically accounted for approximately 65% of Värmevärden's annual revenue.

Outlook (1)

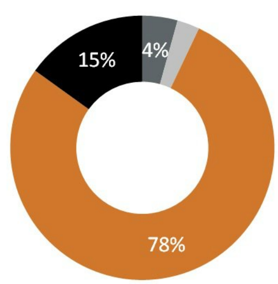
Interest income from the shareholder loan is expected to be consistent with 2013 while dividends are expected to be higher in 2014, resulting in higher Adjusted EBITDA from the district heating segment compared with 2013.

(1) See page 2 for a description of various other material factors or assumptions underlying our outlook.

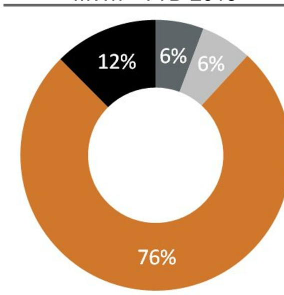
Heat and Steam Production



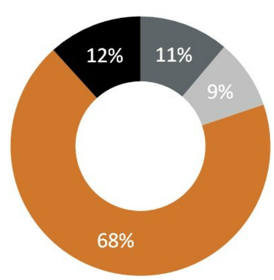
Fuel Mix Breakdown by MWh - YTD 2014



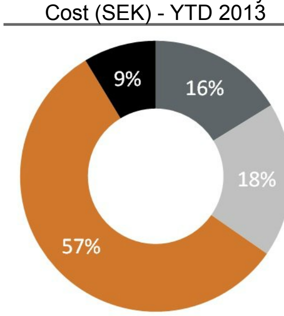
Fuel Mix Breakdown by MWh - YTD 2013



Fuel Mix Breakdown by Cost (SEK) - YTD 2014



Fuel Mix Breakdown by Cost (SEK) - YTD 2013



Electricity Fossil Fuel Bio and Waste Fuel Industrial Heat

Corporate

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

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Administrative expenses	(4,338)	(2,163)
Project development costs	(49)	52
Interest income	38	11
Adjusted EBITDA	(4,349)	(2,100)
Interest paid	(83)	(294)
Dividends paid on Capstone's preferred shares	(938)	(938)
Income taxes (paid) recovery	(693)	(1,459)
AFFO	(6,063)	(4,791)

Administrative expenses

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Staff costs	2,363	1,281
Other administrative expenses	1,975	882
	4,338	2,163

Staff costs for the quarter were $1,082, or 84.5%, higher than in 2013, primarily because the expense in the first quarter of 2013 was reduced by $610 due to the reversal of an accrual. The accrual partly related to a voluntary decision by the CEO to take 2012 short-term incentive plan ("STIP") payment as a grant under the long-term incentive plan ("LTIP"). In addition, higher staff costs also contributed to the variance. Staff costs were higher due to LTIP grants in January 2014 and as a result of new employees joining Capstone from ReD.

Other administrative expenses for the quarter were $1,093, or 123.9%, higher than in 2013, reflecting higher professional fees for the integration of ReD. Other administrative expenses include audit fees, tax compliance and advisory, investor relations costs, office administration and premises costs, as well as professional fees other than for business development.

Project development costs for the quarter were $101 higher than in 2013, primarily due to a $250 recovery in 2013 against the estimated amount accrued in 2012.

Interest income for the quarter was $27, or 245%, higher than in 2013, primarily due to higher average cash balances in 2014.

Interest paid for the quarter was $211, or 71.8%, lower than in 2013, primarily due to settlement of an interest rate swap contract in November 2013.

Preferred share dividends paid and taxes paid

Dividends paid on Capstone's preferred shares relate to a quarterly fixed-rate payment equivalent to 5.0% per year. Taxes paid relate to the preferred share dividends and are available to offset future tax of the Corporation. Taxes paid for the quarter were $766, or 53%, lower primarily due to a $1,100 one-time payment made in the first quarter of 2013 for taxes on the 2012 preferred share dividends, partially offset by higher installments in 2014.

Outlook [1]

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

- Lower corporate project development expenses than in 2013 when transaction costs related to the ReD acquisition were incurred;
- Higher staffing costs due to growth in the size of the corporate team;
- Higher professional fees than in 2013 due to the integration of ReD; and
- Higher interest paid due to assumption of additional convertible debentures and refinancing of the credit facility previously in the power segment.

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

(1) See page 2 for a description of various other material factors or assumptions underlying our outlook.

FINANCIAL POSITION REVIEW

Overview

As at March 31, 2014, Capstone had a consolidated working capital surplus of $40,060 compared with $37,375 at December 31, 2013. The increase of $2,685 primarily reflected higher cash balances at the operating segments and corporate, partially offset by higher power segment accounts payable as a result of development activities. Consolidated working capital includes increases to the surpluses at the utilities - water segment and corporate, partially offset by a $3,474 decrease in the power segment's surplus attributable to development activity.

Unrestricted cash and cash equivalents totaled $67,310 on a consolidated basis with the power segment and corporate contributing $38,482 and $14,266, respectively.

As at March 31, 2014, Capstone's debt to capitalization ratio (refer to page 21) decreased from 65.7% to 63.6% on a fair value basis and decreased from 57.3% to 57.1% on a book value basis. On a fair value basis, the change was primarily due to a 12.9% increase in the share price since December 31, 2013. As at March 31, 2014, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	Mar 31, 2014	Dec 31, 2013
Power	28,164	31,638
Utilities – water	6,436	933
Corporate	5,460	4,804
Working capital	40,060	37,375

Capstone's working capital increased by $2,685, primarily due to higher utilities - water segment and corporate working capital of $5,503 and $656, respectively. The utilities - water segment increased primarily due to draws of $5,432 on the existing credit facility to fund capital expenditures. This was partially offset by a $3,474 decrease in working capital for the power segment, primarily to fund development activities.

Cash and cash equivalents

As at	Mar 31, 2014	Dec 31, 2013
Power	38,482	28,991
Utilities – water	14,562	9,130
Corporate	14,266	7,647
Unrestricted cash and cash equivalents	67,310	45,768
Less: cash with access limitations		
Power	(18,439)	(18,096)
Utilities – water	(14,562)	(9,130)
Cash and cash equivalents available to Capstone	34,309	18,542

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The $21,542 increase in cash from December 31, 2013 was primarily attributable to a $9,491 increase in unrestricted cash at the power segment, due to $9,039 of higher cash at Cardinal resulting from the collection of receivables. In addition, unrestricted cash increased by $6,619 at corporate and $5,432 at Bristol Water.

For Bristol Water, fluctuations are due to the timing of payments to fund the capital projects. In addition to cash and cash equivalents Bristol Water has $57,133 of credit availability to fund the longer term cash requirements of the capital projects.

Cash and cash equivalents available to Capstone are funds available for general purposes, including payment of dividends to shareholders. For the power segment, $18,439 is only periodically accessible to Capstone through distributions under the terms of the credit agreements. Power facilities subject to this restriction are the hydro facilities, Erie Shores, Amherstburg and ReD's operating wind facilities, including Glace Bay, the Sky Gen facilities, and Amherst.

Restricted cash

Restricted cash decreased by $10,837 from December 31, 2013 to $18,710 at March 31, 2014, primarily due to the replacement of cash funded reserve accounts with $5,055 of letters of credit for the hydro facilities and $6,243 for the ReD wind facilities. The remaining difference mainly relates to foreign exchange translation on Bristol Water's restricted cash.

Cash flow

Capstone's cash and cash equivalents increased by $21,542 in the first three months of 2014 compared with a decrease of $6,321 in the same period of 2013. Details of the increase are presented in the consolidated statement of cash flows and are summarized as follows:

Three months ended	Mar 31, 2014	Mar 31, 2013
Operating activities	44,443	30,629
Investing activities	(26,698)	(27,600)
Financing activities (excluding dividends to shareholders)	10,872	(2,733)
Dividends paid to shareholders	(7,608)	(5,568)
Effect of exchange rate changes on cash and cash equivalents	533	(1,049)
Change in cash and cash equivalents	21,542	(6,321)

Cash flow from operating activities generated $13,814 more cash and cash equivalents than during the first quarter of 2013. Operating cash flows increased by $23,178 and $3,963 at the power and utilities - water segments, respectively. This was partially offset by a decrease of $11,873 at corporate and $1,454 at Värmevärden. Higher cash flows at the power and utilities - water segments were primarily attributable to higher revenues.The corporate cash flow decrease was attributable to changes in current liabilities.

Cash flow used by investing activities was $902 lower in the first quarter of 2014. In 2014, cash of $32,504 (2013 - $34,407) was used to fund capital asset acquisitions, primarily at Bristol Water. In addition, $6,594 of cash was used primarily for construction of projects under development in the power segment. These uses of cash were partially offset by an $11,278 transfer of restricted cash to unrestricted cash for corporate and the power segment.

Cash flow from financing activities was $13,605 higher in the first quarter of 2014 due to Bristol Water drawing debt of $16,431 from an existing facility in 2014 to fund the capital expenditure program versus a draw of $1,563, in 2013.

Dividends paid to shareholders were $2,040 higher in the first three months of 2014 than in the prior year primarily due to the increase in shares issued to acquire ReD on October 1, 2013.

Capital Structure

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

	Mar 31, 2014		Dec 31, 2013	
As at	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power (1)	347,861	346,365	346,244	349,807
Utilities – water (1)	337,338	310,130	313,816	288,017
Corporate	82,902	80,075	81,694	80,107
Deferred financing fees	—	(8,170)	—	(7,446)
	768,101	728,400	741,754	710,485
Equity				
Shareholders' equity (2)	439,429	546,403	388,058	529,550
Total capitalization	1,207,530	1,274,803	1,129,812	1,240,035
Debt to capitalization	63.6%	57.1%	65.7%	57.3%

(1) Only Capstone's proportionate interest in the consolidated long-term debt has been included in the calculation.

(2) The carrying value of shareholders' equity does not include the amount attributed to the non-controlling interest.

Power

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

As at	Maturity	Interest Rate	Mar 31, 2014 Fair Value	Mar 31, 2014 Carrying Value	Dec 31, 2013 Fair Value	Dec 31, 2013 Carrying Value
Erie Shores project debt	2016 & 2026	5.28 – 6.15%	96,647	90,717	96,613	92,156
Glace Bay project debt	2019 - 2032	4.72 - 6.36%	17,145	17,022	17,104	17,243
Sky Gen project debt	2016 - 2017	4.22 - 6.22%	36,849	36,637	37,137	36,965
Amherst project debt	2032	6.20%	45,306	44,324	44,491	44,770
Amherstburg project debt	2016	7.32%	86,316	86,316	86,680	86,680
Hydro facilities senior secured bonds	2040	4.56%	68,838	72,826	67,559	73,688
Hydro facilities subordinated secured bonds	2041	7.00%	18,960	20,242	18,461	20,242
			370,061	368,084	368,045	371,744
Less: non-controlling interest			(22,200)	(21,719)	(21,801)	(21,937)
Capstone share of long-term debt			347,861	346,365	346,244	349,807

As at March 31, 2014, approximately 97% of the power segment's long-term debt was scheduled to amortize over the lives of the facilities' respective PPAs. All of the power segment's project debt is non-recourse to Capstone.

Covenant compliance

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

During the first three months of 2014, Capstone's power segment complied with all covenants and expects to continue to comply for the remainder of 2014.

Utilities – Water

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

As at	Maturity	Interest Rate	Mar 31, 2014 Fair Value	Mar 31, 2014 Carrying Value	Dec 31, 2013 Fair Value	Dec 31, 2013 Carrying Value
Bank loans	2015 - 2017	1.30 - 5.73%	107,817	107,947	87,056	87,329
Term loans	2032 - 2041	5.46 – 6.74%(1)	530,780	479,980	505,322	457,786
Debentures	Irredeemable	3.50 – 4.25%	2,444	2,384	2,424	2,275
Cumulative preferred shares	Irredeemable	8.75%	33,635	29,949	32,830	28,644
Consolidated long-term debt			674,676	620,260	627,632	576,034
Less: non-controlling interest			(337,338)	(310,130)	(313,816)	(288,017)
Capstone share of long-term debt			337,338	310,130	313,816	288,017

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

As at March 31, 2014, approximately 77.5% of the utilities – water segment's long-term debt had maturities of greater than 10 years. The utilities – water segment has no debt maturing in the next fiscal year.

Long-term debt for the utilities – water segment is used to fund the ongoing capital expenditures to expand Bristol Water's network. In the first three months of 2014, Bristol Water's debt increased by $44,226, of which $26,148 was due to foreign exchange translation and $16,588 due to increase in debt. As at March 31, 2014, $57,133 of undrawn credit capacity remained available to fund future capital expenditures.

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

Covenant compliance

The principal debt agreements require Bristol Water to comply with covenants relating to the minimum levels of interest coverage and maximum net debt in relation to regulatory capital value.

During the first three months of 2014, Bristol Water complied with all its covenants and expects to comply for the remainder of 2014.

Corporate

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

			Mar 31, 2014		Dec 31, 2013	
As at	**Maturity**	**Interest Rate**	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Corporate credit facility	2016	4.25%	11,300	11,300	11,300	11,300
Convertible debentures	2016	6.50%	43,831	41,178	42,963	41,068
Convertible debentures	2017	6.75%	27,771	27,597	27,431	27,739
			82,902	80,075	81,694	80,107

Covenant compliance

During the first three months of 2014, Capstone complied with all covenants and expects to comply for the remainder of 2014.

Equity

Shareholders' equity comprised:

As at	Mar 31, 2014	Dec 31, 2013
Common shares	711,212	710,662
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
Share capital	809,942	809,392
Other equity items (1)	9,284	9,428
Accumulated other comprehensive income (loss)	26,134	17,013
Retained earnings (deficit)	(298,957)	(306,283)
Equity to Capstone shareholders	546,403	529,550
Non-controlling interests	148,515	138,613
Total shareholders' equity	694,918	668,163

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

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

	Three months ended Mar 31, 2014	
($000s and 000s of shares)	**Shares**	**Amount**
Opening balance	92,854	710,662
Shares issued	14	—
Dividend reinvestment plan (DRIP)	149	550
Ending balance	93,017	711,212

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

As at	Mar 31, 2014			Dec 31, 2013		
($000s, except per share amounts)	**Market price per share**	**Outstanding amount**	**Fair Value**	**Market price per share**	**Outstanding amount**	**Fair Value**
Common shares	$4.02	93,017	373,926	$3.56	92,854	330,560
Class B units	$4.02	3,249	13,063	$3.56	3,249	11,568
Preferred shares	$17.48	3,000	52,440	$15.31	3,000	45,930
			439,429			388,058

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

Contractual Obligations

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

- leases, including finance and operating leases;
- purchase obligations, including capital expenditure commitments, natural gas purchase contracts, operations and management agreements; and
- Other commitments, including management services agreements, wood waste agreements, electricity savings agreements and guarantees.

During the first three months of 2014, Cardinal entered several material contracts, including its new agreement with the OPA, arrangements with Ingredion, as well as amendments to the gas purchase agreement. The changes to Cardinal's agreements, as well as Capstone's other material contractual obligations are further disclosed in the annual MD&A for the year ended December 31, 2013, or the Annual Information Form dated March 26, 2014. Generally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business. Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

Capstone's equity accounted investments are summarized as follows:

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

(1) Värmevärden is further detailed in the results of operations on page 18 of this MD&A.
(2) Under the limited partnership agreement, Capstone has the option to acquire an additional 1% interest from November 2017 to November 2018 at a price based on a predetermined calculation.
(3) MLTCLP had no significant activity.
(4) No income has been recorded on the investment since its acquisition. Capstone does not expect to earn any future equity accounted income from this investment.

Capital Expenditure Program

Capstone incurred $44,149 in capital expenditures during the first quarter of 2014. Capstone's capital expenditures include $33,959 and $10,190 in additions to capital assets and project under development, respectively. Below is the breakdown of the investment by operating segment:

	Three months ended Mar 31, 2014	Three months ended Mar 31, 2013
Power	14,274	461
Utilities – water	29,875	36,563
Corporate	—	2
	44,149	37,026

Capital expenditures for the utilities – water segment included both growth and maintenance initiatives as planned under Bristol Water's regulatory capital expenditure program for AMP5. Overall, Bristol Water's expenditures to date are behind the five-year plan but are expected to catch up before the end of AMP5 in March 2015.

The power segment's capital expenditures in 2014 primarily related to $9,351 to develop and construct Skyway 8 and Saint-Philémon. In addition, Cardinal invested $3,314 to extend the facility life to meet the requirements of the new contract and refurbish the existing plant to a cycling facility. In 2013, capital expenditures in the power segment primarily related to the hydro facilities as they completed scheduled outages.

Retirement Benefit Plans

Bristol Water has a defined benefit retirement plan for current and former employees. The defined benefit retirement plan is closed to new employees, who are allowed to join the defined contribution plan.

As at March 31, 2014, the defined benefit retirement plan was in a $51,545 surplus position. During the first three months of 2014, the surplus increased by $5,304, primarily due to increases in the fair value of plan assets and foreign exchange. The surplus is subject to a number of critical accounting estimates which can materially impact the balances. The fair values included in the surplus are calculated with the assistance of an actuary and assumptions used are considered to be reasonable by management.

Bristol Water's employer contributions to the defined benefit plan for the three months ended March 31, 2014 were $1,073 . The expense is incurred entirely at Bristol Water.

The total defined contribution pension expense recorded in the consolidated statement of income for the three months ended March 31, 2014 was $522. The expense comprised $476 for Bristol Water and $46 for Cardinal.

Income Taxes

The first quarter current income tax expense of $515 represents $279 and $236 for Bristol Water and Capstone's Canadian operations, respectively.

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

As at	Mar 31, 2014	Dec 31, 2013
Deferred income tax assets	942	494
Deferred income tax liabilities	(193,703)	(182,567)
	(192,761)	(182,073)

Capstone's total deferred income tax assets are attributable to its Canadian operations and relate to income tax loss carry forwards.

Deferred income tax liabilities of $193,703 represent $77,401 ($74,074 at December 31, 2013) for Capstone's Canadian operations and $116,302 ($108,493 at December 31, 2013) for Bristol Water. Deferred income tax liabilities primarily relate to differences between the accounting and tax amortization of intangible and capital assets.

Capstone's net deferred income tax liability increased by $10,688 during the first three months of 2014, primarily due to differences between accounting and tax depreciation for capital assets. The deferred tax expense of $5,566 on the consolidated statement of income differs from the increase in the net deferred income tax liability due to amounts recorded in other comprehensive income, primarily related to temporary differences in Bristol Water's retirement benefit surplus.

Bristol Water's net deferred income tax liabilities as at March 31, 2014 were calculated using a tax rate of 20%. On July 2, 2013, UK legislation was substantively enacted reducing the UK corporate rate from 23% to 21% effective April 1, 2014 and to 20% effective April 1, 2015 when the timing differences are expected to reverse.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

As at	Mar 31, 2014	Dec 31, 2013
Derivative contract assets	3,038	1,328
Derivative contract liabilities	(13,619)	(13,840)
Net derivative contract liabilities	(10,581)	(12,512)

The net derivative contract liabilities were $1,931 lower than at December 31, 2013, primarily due to a $1,534 change in the fair value of the underlying instruments, partially offset by the purchase of $397 of foreign currency option contracts to buy 15,850 euros. Capstone plans to use the euros to buy turbines for the power development projects.

The gains (losses) on derivatives in the interim consolidated statements of income and comprehensive income comprised:

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Interest rate swap contracts	(2,002)	1,068
Foreign currency option contracts	(404)	21
Embedded derivative	3,978	1,468
Gains (losses) on derivatives in net income	1,572	2,557
Interest rate swap contracts in OCI	(38)	(189)
Gains (losses) on derivatives in comprehensive income	1,534	2,368

The loss on derivatives for the first three months of 2014 was primarily attributable to the losses on the interest rate and foreign currency option contracts, partially offset by gains on the embedded derivative.

The loss on interest rate swap contracts was due to the interest rate swap on the Amherstburg debt. The fair value decreased due to a decrease in long-term interest rates.The loss on foreign currency contracts was primarily due to the depreciation of the UK pound sterling, Swedish krona and euro forward-looking rates relative to the fixed Canadian dollar conversion rates and the passage of time.

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

FOREIGN EXCHANGE

The foreign exchange gains for 2014 and 2013 were primarily due to unrealized translation of Capstone's SEK - denominated shareholder loan receivable with Värmevärden. Capstone's foreign exchange gain of $1,151 for the first quarter of 2014 was $402, or 54%, higher than in 2013. The gain reflects the appreciation of the Swedish krona against the Canadian dollar thereby increasing the carrying value of the loan in Canadian dollars.

RISKS AND UNCERTAINTIES

Capstone is subject to a variety of risks and uncertainties. These risks and uncertainties could impact future operating results and financial condition, which could adversely affect Capstone's ability to pay dividends to shareholders and/or the price of Capstone's securities. For a comprehensive description of these risks, please refer to the disclosure in the Corporation's Annual Report for the year ended December 31, 2013 and the "Risk Factors" section of the Annual Information Form dated March 26, 2014 as supplemented by risk factors contained in any 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 securities commissions or similar authorities in Canada, which are available on the SEDAR website at www.sedar.com.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone monitors developments with respect to environmental, health and safety regulation. Please refer to the Corporation's prior environmental, health and safety regulation disclosure in its Annual Report for the year ended December 31, 2013 and "Environmental, Health and Safety Matters" section of the Corporation's Annual Information Form dated March 26, 2014, which are available on the SEDAR website at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

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

($000s, except for per share amounts)	2014	2013				2012		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	114,397	110,291	91,418	93,539	94,255	94,654	84,951	85,849
Net income (loss) (1 and 3)	14,437	10,441	8,887	10,015	12,019	12,909	5,836	(4,184)
Adjusted EBITDA	41,691	37,992	26,253	31,834	32,342	31,074	24,542	27,516
AFFO	19,886	13,930	3,346	9,014	13,644	13,560	3,381	3,707
Common dividends (2)	7,220	7,208	5,720	5,709	5,696	5,579	5,655	10,231
Preferred dividends	938	938	938	938	938	938	938	938
Earnings Per Share – Basic	0.140	0.099	0.104	0.119	0.145	0.147	0.065	(0.068)
Earnings Per Share – Diluted	0.132	0.096	0.102	0.117	0.141	0.143	0.065	(0.068)
AFFO per share	0.207	0.145	0.044	0.119	0.180	0.179	0.045	0.049
Dividends declared per common share	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.135

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

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

(3) Net income (loss) and earnings (loss) per share have been restated for changes required by IFRS to implement IAS - 19 Employee Benefits. Refer to note 2 (Summary of Significant Accounting Policies) in the most recent annual financial statements for the year ended December 31, 2013 for greater detail of this change.

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2013 consolidated financial statements included in the Annual Report.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any significant accounting changes that impact the Corporation since the standards described in the most recent annual financial statements for the year ended December 31, 2013. Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had a material impact in 2014.

Accounting Estimates

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

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

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

Area of Significance	Critical Estimates and Judgments
Capital assets, projects under development and intangible assets:	
• Purchase price allocations	• Initial fair value of net assets.
• Depreciation on capital assets	• Estimated useful lives and residual value.
• Amortization on intangible assets	• Estimated useful lives.
• Asset retirement obligations	• Expected settlement date, amount and discount rate.
• Impairment assessments of capital assets, projects under development, intangibles and goodwill	• Future cash flows and discount rate.
Retirement benefits	• Future cash flows and discount rate.
Deferred income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	• Interest rate, natural gas price, and direct consumer rate.
Accounts receivable	• Probability of failing to recover amounts when they fall into arrears.
Accounting for investments in non-wholly owned subsidiaries	• Determine how relevant activities are directed (either through voting rights or contracts); • Determine if Capstone has substantive or protective rights; and • Determine Capstone's ability to influence returns.

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

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Since December 31, 2013, no material changes have occurred in Capstone's policies and procedures and other processes that comprise its internal control over financial reporting and disclosure controls and procedures.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Mar 31, 2014	Dec 31, 2013
Current assets			
Cash and cash equivalents		67,310	45,768
Restricted cash		18,710	29,547
Accounts receivable		81,443	89,139
Other assets		6,925	9,640
Current portion of loans receivable	6	1,343	1,310
Current portion of derivative contract assets	7	191	25
		175,922	175,429
Non-current assets			
Loans receivable	6	40,436	39,578
Derivative contract assets	7	2,847	1,303
Equity accounted investments	8	39,089	39,051
Capital assets	9	1,407,270	1,356,682
Projects under development	10	31,864	21,674
Intangible assets	11	353,101	345,272
Retirement benefit surplus	12	51,545	46,241
Deferred income tax assets		942	494
Total assets		2,103,016	2,025,724
Current liabilities			
Accounts payable and other liabilities		114,249	116,852
Current portion of derivative contract liabilities	7	2,237	2,219
Current portion of finance lease obligations		700	609
Current portion of long-term debt	13	18,676	18,374
		135,862	138,054
Long-term liabilities			
Derivative contract liabilities	7	11,382	11,621
Electricity supply and gas purchase contracts		1,232	1,634
Deferred income tax liabilities		193,703	182,567
Deferred revenue		17,468	15,589
Finance lease obligations		3,961	3,761
Long-term debt	13	1,041,573	1,001,042
Liability for asset retirement obligation		2,917	3,293
Total liabilities		1,408,098	1,357,561
Equity attributable to shareholders' of Capstone		546,403	529,550
Non-controlling interest		148,515	138,613
Total liabilities and equity		2,103,016	2,025,724
Commitments and contingencies	20		
Subsequent events	21		

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital [1]	Other Equity Items [2]	AOCI [3]	Retained Earnings	NCI [4]	Total Equity
Balance, December 31, 2012		731,204	9,284	(809)	(320,831)	91,610	510,458
Other comprehensive income (loss)		—	—	(7,494)	6,306	1,267	79
Net income for the period		—	—	—	12,019	3,879	15,898
Dividends declared to common shareholders of Capstone	14b	1,046	—	—	(5,696)	—	(4,650)
Dividends declared to preferred shareholders of Capstone [5]	14b	—	—	—	(1,010)	—	(1,010)
Dividends declared by Bristol Water		—	—	—	—	(1,609)	(1,609)
Balance, March 31, 2013		732,250	9,284	(8,303)	(309,212)	95,147	519,166

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital [1]	Other Equity Items [2]	AOCI [3]	Retained Earnings	NCI [4]	Total Equity
Balance, December 31, 2013		809,392	9,428	17,013	(306,283)	138,613	668,163
Other comprehensive income (loss)		—	—	9,121	945	7,107	17,173
Net income for the period		—	—	—	14,437	5,020	19,457
Release of share option reserve		—	(144)	—	144	—	—
Dividends declared to common shareholders of Capstone	14a&b	550	—	—	(7,220)	—	(6,670)
Dividends declared to preferred shareholders of Capstone [5]	14b	—	—	—	(980)	—	(980)
Dividends declared to NCI		—	—	—	—	(2,225)	(2,225)
Balance, March 31, 2014		809,942	9,284	26,134	(298,957)	148,515	694,918

(1) Share capital includes common and preferred shares and class B exchangeable units.
(2) Other equity items include the equity portion of convertible debentures, as well as, the warrant and share option reserves.
(3) Accumulated other comprehensive income (loss) (“AOCI”).
(4) Non-controlling interest (“NCI”).
(5) Dividends declared to preferred shareholders of Capstone include $42 of deferred income taxes (2013 - $72).

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Mar 31, 2014	Mar 31, 2013
Revenue		114,397	94,255
Operating expenses	17	(55,858)	(50,344)
Administrative expenses	17	(4,338)	(2,163)
Project development costs	17	(308)	(113)
Equity accounted income (loss)	8	1,247	585
Interest income		974	1,104
Net pension interest income		638	389
Other gains and (losses), net		421	2,536
Foreign exchange gain (loss)		1,151	749
Earnings before interest expense, taxes, depreciation and amortization		58,324	46,998
Interest expense		(13,766)	(11,014)
Depreciation of capital assets	9	(15,228)	(11,908)
Amortization of intangible assets		(3,792)	(2,751)
Income before income taxes		25,538	21,325
Income tax recovery (expense)			
Current		(515)	918
Deferred		(5,566)	(6,345)
Total income tax recovery (expense)		(6,081)	(5,427)
Net income		19,457	15,898
Net income attributable to:			
Shareholders of Capstone		14,437	12,019
Non-controlling interest		5,020	3,879
		19,457	15,898
Earnings per share	15		
Basic		0.140	0.145
Diluted		0.132	0.141

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Mar 31, 2014	Mar 31, 2013
Cumulative differences on translation of foreign operations		15,315	(12,688)
Other comprehensive income on equity accounted investments	8	16	343
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2014 - ($12); 2013 - $32)		(48)	(188)
Total of items that may be reclassified subsequently to net income		15,283	(12,533)
Actuarial gains recognized in respect of retirement benefit obligations (net of tax in 2014 - ($472); 2013 - ($3,767)) - will not be reclassified to net income		1,890	12,612
Other comprehensive income (loss)		17,173	79
Net income		19,457	15,898
Total comprehensive income		36,630	15,977
Comprehensive income attributable to:			
Shareholders of Capstone		24,503	10,831
Non-controlling interest		12,127	5,146
		36,630	15,977

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended	Notes	Mar 31, 2014	Mar 31, 2013
Operating activities:			
Net income		19,457	15,898
Deferred income tax expense (recovery)		5,566	6,345
Depreciation and amortization		19,020	14,659
Other gains and losses (net)		(421)	(2,536)
Amortization of deferred financing costs and non-cash financing costs		1,331	2,316
Equity accounted (income) loss	8	(1,247)	(585)
Unrealized foreign exchange (gain) loss on loan receivable	6	(1,184)	(775)
Change in non-cash working capital	19	1,921	(4,693)
Total cash flows from operating activities		44,443	30,629
Investing activities:			
Change in restricted cash and short term deposits		11,278	6,544
Distribution paid by equity accounted investment	8	1,225	—
Receipt of loans receivable		293	263
Investment in capital assets and computer software	9	(32,504)	(34,407)
Investment in projects under development	10	(6,594)	—
Purchase of foreign currency contracts		(396)	—
Total cash flows used in investing activities		(26,698)	(27,600)
Financing activities:			
Proceeds from long-term debt		16,431	1,563
Dividends paid to common and preferred shareholders		(7,608)	(5,568)
Repayment of long-term debt and finance lease obligations		(3,334)	(2,687)
Dividends paid to non-controlling interests		(2,225)	(1,609)
Total cash flows from (used in) financing activities		3,264	(8,301)
Effect of exchange rate changes on cash and cash equivalents		533	(1,049)
Increase (decrease) in cash and cash equivalents		21,542	(6,321)
Cash and cash equivalents, beginning of year		45,768	49,599
Cash and cash equivalents, end of period		67,310	43,278
Supplemental information:			
Interest paid		14,819	12,819
Taxes paid (recovery)		693	1,615

See accompanying notes to these interim consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone Infrastructure Corporation is incorporated and domiciled in Canada and principally located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. The mission of Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") is to provide investors with an attractive total return from responsibly managed long-term investments in core infrastructure in Canada and internationally. Capstone currently has investments in utilities businesses in Europe and owns, operates and develops thermal and renewable power generation facilities in Canada with a total installed net capacity of 439 megawatts.

2. BASIS OF PREPARATION

Statement of Compliance

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34") on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2013. Certain information and footnote disclosures included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB") have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited 2013 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on May 12, 2014.

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

3. SEASONALITY

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to Capstone's accounting policies during the first three months of 2014.

Basis of Measurement

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

Future Accounting Changes

The IASB has not issued any significant new accounting standards that impact the Corporation since the standards described in the most recent annual financial statements for the year ended December 31, 2013.

The Corporation must complete its assessment of the new and amended standard with an effective implementation date on January 1, 2015 as described in the most recent annual financial statements.Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements , none of which had a material impact in 2014.

5. ACQUISITIONS

Acquisition of Renewable Energy Developers

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

The acquisition was accounted for using the acquisition method of accounting, which requires that Capstone recognize the identifiable assets acquired and liabilities assumed at their fair values on the date of acquisition. As at October 1, 2013, the non-controlling interest was calculated on the fair value of the net identifiable assets. The allocation of the purchase price is preliminary and may be revised up to 12 months after the acquisition date.

6. LOANS RECEIVABLE

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

As at	Mar 31, 2014	Dec 31, 2013
Värmevärden	38,842	37,658
Chapais	2,848	3,141
Macquarie Long Term Care L.P. ("MLTCLP")	89	89
	41,779	40,888
Less: current portion	(1,343)	(1,310)
Total long-term loans receivable	40,436	39,578

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

Three months ended	Mar 31, 2014		Mar 31, 2013	
	SEK	$	SEK	$
Opening balance	227,541	37,658	227,541	34,768
Unrealized foreign exchange gain (loss)	—	1,184	—	775
Ending balance	227,541	38,842	227,541	35,543

7. FINANCIAL INSTRUMENTS

(A) Classification by Level

The following table illustrates the classification of the Corporation's financial instruments that have been recorded at fair value as at March 31, 2014, within the fair value hierarchy:

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Mar 31, 2014	Dec 31, 2013
Derivative contract assets:					
Foreign currency contracts	—	443	—	443	450
Embedded derivative asset	—	—	2,595	2,595	878
Less: Current portion	—	(191)	—	(191)	(25)
	—	252	2,595	2,847	1,303
Derivative contract liabilities:					
Interest rate swap contracts	—	8,168	—	8,168	6,166
Interest rate swap contracts for hedging	—	2,212	—	2,212	2,174
Embedded derivative liability	—	—	3,239	3,239	5,500
Less: Current portion	—	(2,237)	—	(2,237)	(2,219)
	—	8,143	3,239	11,382	11,621

No financial instruments were transferred between levels during the period.

Financial instruments that are not recorded at fair value on the balance sheet are cash and cash equivalents, accounts receivable, loans receivable, accounts payable, finance lease obligations and long-term debt. The fair values of these items approximate their carrying values, except for finance lease obligations and long-term debt, which are summarized in the following table:

	Fair value	Carrying value
Finance lease obligations	4,630	4,661
Long-term debt	1,127,639	1,060,249

(B) Fair Value Determination

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

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

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

(C) Significant Assumptions

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

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

Embedded derivative	Fair value at Mar 31, 2014	Fair value at Unobservable inputs	Fair value at Estimated input	Fair value at Relationship of input to fair value
Asset	2,595	Natural gas price	Empress gas and Dawn gas spot and forward prices. Empress spot price of 4.612 dollars and Dawn spot price of 5.687 dollars.	10% increase in gas price results in an increase in fair value of $1,203.
		DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $169.
Liability	(3,239)	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $771.
	(644)			

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

(D) Fair Value Continuity

	Net, embedded derivative
Opening balance, December 31, 2013	(4,622)
Other gains and (losses), net included in net income	3,978
Closing balance, March 31, 2014	(644)

8. EQUITY ACCOUNTED INVESTMENTS

As at	Ownership %	Mar 31, 2014 Carrying value	Dec 31, 2013 Carrying value
Värmevärden	33.3%	12,840	12,009
Glen Dhu [(1)]	49.0%	25,542	26,323
Others [(2)]	31.3 - 50.0%	707	719
		39,089	39,051

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

See note 6 for detail on loans receivable with Värmevärden, Chapais and MLTCLP.

The change in the Corporation’s total equity accounted investments for the periods ended March 31 were as follows:

Three months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distribution	Ending balance
March 31, 2014	39,051	1,247	16	(1,225)	39,089
March 31, 2013	16,990	585	343	—	17,918

9. CAPITAL ASSETS

As at January 1, 2014	1,356,682
Additions	33,959
Disposals	(1,272)
Transfers	(3,590)
Depreciation	(15,228)
Foreign exchange	36,719
As at March 31, 2014	1,407,270

The reconciliation of capital asset additions on an accrual basis to additions on a cash basis on the consolidated statement of cash flow was:

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Additions	33,959	37,026
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	(2,404)	(1,196)
Net foreign exchange difference	949	(1,423)
Cash additions	32,504	34,407

10. PROJECTS UNDER DEVELOPMENT

As at January 1, 2014	21,674
Capitalized costs during the period	10,190
As at March 31, 2014	31,864

The reconciliation of additions to projects under development on an accrual basis to additions on a cash basis on the consolidated statement of cash flow was:

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Additions	10,190	—
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	(3,596)	—
Cash additions	6,594	—

11. INTANGIBLES

As at January 1, 2014	345,272
Additions	—
Transfers	3,590
Amortization	(4,194)
Foreign exchange	8,433
As at March 31, 2014	353,101

12. RETIREMENT BENEFIT PLANS

Employees of the Corporation's operating businesses participate in various retirement benefit plans as follows.

Defined Contribution Plan

The total expense recorded in the consolidated statement of income for the three months ended March 31, 2014 was $521 (March 31, 2013 - $317). The expense is composed of $476 for Bristol Water and $45 for Cardinal.

Defined Benefit Plan

The retirement benefit surplus on the consolidated statements of financial position at March 31, 2014 was $51,545 (December 31, 2013 - $46,241).

Employer contributions paid in the three months ended March 31, 2014 to the defined benefit plan were $1,073 (March 31, 2013 - $797). The contributions were entirely incurred at Bristol Water.

13. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Mar 31, 2014	Dec 31, 2013
Erie Shores project debt	90,717	92,156
Glace Bay project debt	17,022	17,243
Sky Gen project debt	36,637	36,965
Amherst project debt	44,324	44,770
Amherstburg project debt	86,316	86,680
Hydro facilities senior secured and subordinated bonds	93,068	93,930
Power	368,084	371,744
Bank loans	107,947	87,329
Term loans	479,980	457,786
Debentures	2,384	2,275
Irredeemable cumulative preferred shares	29,949	28,644
Utilities – water	620,260	576,034
Corporate credit facility	11,300	11,300
Convertible debentures - 2016	41,178	41,068
Convertible debentures - 2017	27,597	27,739
Corporate	80,075	80,107
	1,068,419	1,027,885
Less: deferred financing costs	(8,170)	(8,469)
Long-term debt	1,060,249	1,019,416
Less: current portion	(18,676)	(18,374)
	1,041,573	1,001,042

(B) Long-term Debt Covenants

For the three months ended and as at March 31, 2014, the Corporation and its subsidiaries complied with all financial and non-financial debt covenants.

14. SHAREHOLDERS' EQUITY

The share capital of the Corporation was as follows:

As at	Mar 31, 2014	Dec 31, 2013
Common shares	711,212	710,662
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	809,942	809,392

(A) Common Shares

	Three months ended Mar 31, 2014	
($000s and 000s shares)	Shares	Carrying Value
Opening balance	92,854	710,662
Common shares issued	14	—
Dividend reinvestment plan	149	550
Ending balance	93,017	711,212

(B) Dividends Declared

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Common shares	6,976	5,452
Class B exchangeable units	244	244
	7,220	5,696
Preferred shares (includes $42 and $72 of deferred income taxes, respectively)	980	1,010

15. EARNINGS PER SHARE ("EPS")

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Net income	19,457	15,898
Non-controlling interest	(5,020)	(3,879)
Dividends declared on preferred shares	(980)	(1,010)
Net income available to common shareholders	13,457	11,009
Weighted average number of common shares (including Class B exchangeable units) outstanding	96,212	75,860
Basic EPS	0.140	0.145
Basic net income	13,457	11,009
Effect of dilutive securities:		
2016 convertible debentures	514	514
2017 convertible debentures	431	—
Diluted Net income	14,402	11,523
Basic weighted-average number of shares outstanding	96,212	75,860
Effect of dilutive securities:		
2016 convertible debentures (1)	6,107	6,107
2017 convertible debentures (2)	6,900	—
Diluted weighted average number of common shares (including Class B exchangeable units) outstanding (3)	109,219	81,967
Diluted EPS	0.132	0.141

(1) 2016 convertible debentures were dilutive for the quarter ended March 31, 2014 and March 31, 2013.
(2) 2017 convertible debentures were assumed on October 1, 2013 and were dilutive for the quarter ended March 31, 2014.
(3) Share options and warrants were anti-dilutive for the quarter ended March 31, 2014.

16. SHARE-BASED COMPENSATION

(A) Deferred Share Units ("DSU")

Capstone granted 12,333 DSUs during the first three months of 2014. The five-day volume weighted average price ("VWAP") per DSU granted on January 2, 2014 was 3.55 dollars. As at March 31, 2014, the $257 carrying value of the DSUs was based on a market price of 4.02 dollars.

(B) Long-term Incentive Plan

Capstone granted 355,001 Restricted Stock Units ("RSU") and 171,240 Performance Share Units ("PSU") during the first three months of 2014. The five-day VWAP per RSU and PSU granted on January 2, 2014 was 3.55 dollars and 4.07 dollars per RSU granted on March 31, 2014. As at March 31, 2014, the carrying value of the RSUs was $1,389 and $809 for the PSUs based on a market price of 4.02 dollars.

17. EXPENSES – ANALYSIS BY NATURE

	Three months ended Mar 31, 2014				Three months ended Mar 31, 2013			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	19,512	—	—	19,512	21,506	—	—	21,506
Raw materials, chemicals and supplies	22,471	—	—	22,471	16,734	—	—	16,734
Wages and benefits	6,707	2,363	185	9,255	7,206	1,281	133	8,620
Maintenance	1,279	—	—	1,279	622	—	—	622
Manager fees	389	—	—	389	384	—	—	384
Insurance	589	45	—	634	490	27	—	517
Professional fees for legal, audit, tax and other advisory	923	1,154	25	2,102	451	325	(40)	736
Leases	490	104	—	594	341	87	—	428
Property taxes	360	—	—	360	291	—	—	291
Bad debts	1,346	—	—	1,346	1,379	—	—	1,379
Other	1,792	672	98	2,562	940	443	20	1,403
Total	55,858	4,338	308	60,504	50,344	2,163	113	52,620

18. SEGMENTED INFORMATION

The Corporation has three reportable segments based on how management has organized the business to assess performance and for operating and capital allocation. Each reportable segment has similar economic characteristics based on the nature of the products or services, type of customers, method of distributing their products or services and regulatory environment. Management evaluates the performance of these segments primarily on revenue and cash flows from operations.

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

	Three months ended Mar 31, 2014					Three months ended Mar 31, 2013				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	58,212	56,185	—	—	114,397	50,204	44,051	—	—	94,255
Depreciation of capital assets	(8,117)	(7,067)	—	(44)	(15,228)	(6,394)	(5,426)	—	(88)	(11,908)
Amortization of intangible assets	(2,918)	(970)	—	96	(3,792)	(1,992)	(740)	—	(19)	(2,751)
Interest income	138	37	761	38	974	300	94	699	11	1,104
Interest expense	(5,791)	(6,367)	—	(1,608)	(13,766)	(4,601)	(5,065)	—	(1,348)	(11,014)
Income tax recovery (expense)	(3,414)	(2,635)	—	(32)	(6,081)	(3,254)	(2,195)	(1)	23	(5,427)
Net income (loss)	12,422	9,900	2,764	(5,629)	19,457	12,685	7,757	2,055	(6,599)	15,898
Cash flow from operations	44,128	20,920	(1,454)	(19,151)	44,443	20,950	16,957	—	(7,278)	30,629
Additions to capital assets	4,084	29,875	—	—	33,959	461	36,563	—	2	37,026

	As at Mar 31, 2014					As at Dec 31, 2013				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	807,379	1,193,858	52,761	49,018	2,103,016	814,198	1,114,532	49,983	47,011	2,025,724
Total liabilities	307,360	837,482	68	263,188	1,408,098	459,443	781,357	1,489	115,272	1,357,561

19. NON-CASH WORKING CAPITAL

The change in non-cash working capital comprised the following:

	Three months ended	
	Mar 31, 2014	Mar 31, 2013
Accounts receivable	13,257	(727)
Other assets	(1,856)	(2)
Accounts payable and other liabilities	(9,480)	(3,964)
	1,921	(4,693)

20. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various material contracts and commitments as disclosed in the annual consolidated financial statements for the year ended December 31, 2013. Generally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business.

During the first quarter of 2014, Cardinal entered into the following new agreements, a new power purchase agreement with the OPA, a binding term sheet for an Energy Savings Agreement with Ingredion, as well as amending the existing gas purchase agreement with Husky Oil Operations Limited. Details of these changes are further disclosed in the the Annual Information Form dated March 26, 2014.

21. SUBSEQUENT EVENTS

Skyway 8 Financing

On April 17, 2014 Capstone, through its wholly owned subsidiary Sky Generation LP ("SkyGen"), entered into a credit agreement that will provide $21,375 of financing for the construction of the Skyway 8 wind project. The construction term of the facility matures no later than February 28, 2015, and bears interest at 5.25%. Upon maturity, the debt converts to a term facility which has a term of three years and bears interest at a variable rate based on 1.05% over the lender’s posted three-year commercial mortgage rate and fully amortizes over 20 years.

PORTFOLIO

UTILITIES

Utilities

REGULATED WATER UTILITY
UK • Bristol Water

DISTRICT HEATING
SE • Värmevärden

POWER INFRASTRUCTURE

Operating

WIND
ON • Erie Shores
• Three other facilities
NS • Glace Bay
• Amherst
• Glen Dhu
• Four other facilities

BIOMASS
AB • Whitecourt
QC • Chapais

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

GAS COGENERATION
ON • Cardinal

SOLAR
ON • Amherstburg

Development projects

WIND
ON • Skyway 8
• Goulais
• Five other projects
PQ • St. Philemon
SK • Riverhurst

POWER

Type of Facility	Province	Year Built	Ownership Interest	Total Net Capacity (MW)	PPA Counterparty	PPA Expiry	Fuel Supply Counterparty	Fuel Supply Expiry	Employees
Gas Cogeneration									
Cardinal	ON	1994	100%	156	OPA	2014 (1)	Husky	2015	18
Wind									
Operating	ON	2002 - 2009	100%	121	OPA	2021 - 2032	n/a	n/a	10
	NS	2006 - 2012	49% - 100%	74	NSPI	2021 - 2037	n/a	n/a	2
Development	ON	2015 - 2016E	50% - 100%	57	OPA	2034	n/a	n/a	n/a
	PQ	2014E	51%	12	Hydro Quebec	2034	n/a	n/a	n/a
	SK	2016E	100%	10	SaskPower	2035	n/a	n/a	n/a
Biomass (1)									
Whitecourt	AB	1994	100%	32.8	TransAlta	2014	Millar Western	2016	34
Hydro									
Sechelt and Hluey Lakes	BC	1997 and 2000	100%	19	BC Hydro	2017 and 2020	n/a	n/a	n/a
Wawatay and Dryden	ON	1992 and 1986	100%	17	OEFC	2020 and 2042	n/a	n/a	n/a
Solar									
Amherstburg	ON	2011	100%	20	OPA	2031	n/a	n/a	n/a

(1) On March 26, 2014, Capstone announced the signing of a new 20-year non-utility generator contract with the Ontario Power Authority effective January 1, 2015.

(2) Biomass includes Capstone's 31.3% equity accounted interest in Chapais.

UTILITIES

Business	Ownership Interest	Capacity	Counterparties	Length of Network	Approximate Population Served	Regulated	Employees
Värmevärden	33.3%	Heat production capacity of 639 MWth	Mix of industrial and retail customers.	317 kilometres	163,000	No	93
Bristol Water	50%	Average daily supply of 266 million litres	Mix of commercial and residential customers.	6,671 kilometres	1.2 million	Ofwat	547

CONTACT INFORMATION

Address:
155 Wellington Street West, Suite 2930
Toronto, ON M5V 3H1
www.capstoneinfrastructure.com
Email: info@capstoneinfra.com

Contacts:

Michael Smerdon
Executive Vice President and Chief Financial Officer
Tel: 416-649-1331
Email: msmerdon@capstoneinfra.com

Sarah Borg-Olivier
Senior Vice President, Communications
Tel: 416-649-1325
Email: sborgolivier@capstoneinfra.com