BUILDING FOR TOMORROW ›

Financial Report for the
Quarter Ended June 30, 2014

CAPSTONE
INFRASTRUCTURE

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Earnings Measures ($000s)	Three months ended Jun 30, 2014	Jun 30, 2013	Six months ended Jun 30, 2014	Jun 30, 2013
Revenue	106,413	93,539	220,810	187,794
Net income	8,414	14,636	27,871	30,534
Basic earnings per share	0.012	0.119	0.151	0.264

Cash Flow Measures ($000s)	Three months ended Jun 30, 2014	Jun 30, 2013	Six months ended Jun 30, 2014	Jun 30, 2013
Cash flows from operating activities	33,461	31,571	77,904	62,200
Adjusted EBITDA [1]	39,492	31,834	81,183	64,176
Adjusted funds from operations ("AFFO") [1]	12,030	9,014	31,916	22,657
Payout ratio [1]	60.2%	63.3%	45.3%	50.3%

[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)	Jun 30, 2014	Dec 31, 2013
Long-term debt – power [1]	391,051	346,244
Long-term debt – utilities – water [1]	344,783	313,816
Long-term debt – corporate	83,856	81,694
Common shares	396,677	330,560
Class B exchangeable units	13,810	11,568
Preferred shares	57,180	45,930
Debt to capitalization	63.7%	65.7%

[1] Capstone's proportionate share based on ownership interest.

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	93,335,731
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	$4.54	$3.97	$4.25	337,000
Preferred shares	$19.35	$17.10	$19.06	3,294
2016 - Convertible debentures	$104.51	$101.01	$103.00	179
2017 - Convertible debentures	$105.00	$101.01	$104.00	435

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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"), 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 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 present the second-quarter report on Capstone Infrastructure's results, recent activities and outlook.

During this quarter, Capstone continued to realize the benefits of our high-quality, diversified operations, which contributed to the corporation's stability and strong overall business performance. The careful planning and execution of the strategy we outlined in 2010, to establish a mix of operations that provide consistent cash flow, is evident in the results of the three-month period ended June 30, 2014. We steadily increased financial performance, invested in growth and met the expected milestones for our development projects.

Financial highlights

Revenue in the second quarter of 2014 was 13.8% higher than during the corresponding quarter last year. This was due in part to the additional capacity we gained with the acquisition of Renewable Energy Developers Inc. (ReD) in October 2013, resulting in 96.9 GWh of total wind power production this quarter, compared with 56.2 GWh in the second quarter last year. Beneficial currency exchange rates and a regulated rate increase combined to lift the contribution from Bristol Water. An annual increase in contracted power rates, and mitigation of the gas contract improved Cardinal's contribution.

Total expenses rose 3.8% compared with the second quarter of 2013, reflecting higher operating costs at Bristol Water and our expanded wind power operations. The higher costs were offset in the quarter by lower M&A costs associated with last year's ReD acquisition.

Adjusted EBITDA increased by 24.1% in the second quarter of this year over last year, a result of the growth in our operating wind power portfolio, lower operating expenses at Cardinal, and higher revenue combined with beneficial foreign currency exchange rates at Bristol Water. Adjusted Funds from Operations (AFFO) were 35.2% higher in the quarter, as a result of the growth in Adjusted EBITDA, among other factors.

Our quarterly payout ratio, which is based on AFFO, was 60% compared with 63% in the same quarter of 2013. Our long-term target is to achieve an average payout ratio of between 70% and 80%.

We ended the quarter in a strong financial position, with a debt to capitalization ratio of 63.7%, and unrestricted cash and equivalents of $68.6 million, of which $41.9 million is available for general corporate purposes. As has been our practice, the company's outstanding debt is predominantly fixed rate or linked to inflation, and largely secured at the asset level, structured as non-recourse to Capstone.

Priorities for 2014

As we look to the second half of 2014, we remain focused on ensuring our existing portfolio is operated to the highest standards and we maximize its cash flow potential. We will also continue the progress we have made this year at our wind development projects. With several important corporate initiatives behind us - Cardinal recontracting, ReD integration and the revised Bristol Water business plan submission - we can now put our focus on growth, which we plan to achieve in distinct, yet complementary, ways.

There is considerable internal momentum with active engagement in four specific organic growth initiatives, none of require any external equity. These include completing Bristol Water's $550 million capital expenditure program for the current AMP5 regulatory period, which ends in March 2015. By June 30, 2014, cumulative expenditures under AMP5 stood at $482 million. These capital outlays improve and expand Bristol Water's network of reservoirs, treatment facilities, water mains and pipes. With a utility, a dollar of capital expenditure - a key driver of rate base - is given a premium value by the market, often at 20%, which greatly increases the equity value of the business over time.

The next stage in value enhancement at Bristol Water involves completing the UK Water Services Regulation Authority (Ofwat) Price Review 14 (PR14) process. This review determines the pricing Bristol Water is permitted to apply to customers' charges starting in April 2015, and also approves our capital plan, potentially similar in size to the current $550 million program, during the five-year AMP6 period. We worked closely with the Bristol Water management team to submit our latest PR14 business plan on June 27, 2014. Ofwat has provided initial feedback on Bristol Water's submission and will issue a draft determination in late August, with its final decision on the AMP6 plan to be announced in December.

The second deployment of capital is $30 million toward major maintenance, life extension and retrofitting at Cardinal Power. This expenditure will prepare the plant to operate as a dispatchable facility under our recently signed 20-year non-utility generator contract with the Ontario Power Authority. Design and engineering for this project has already begun, with work set to conclude in the spring of 2015.

Third, we are well on our way to the $200 million completion of three near-term wind projects. This spring, we secured a combined $81.9 million in project-level financing for the Skyway 8 and Saint-Philémon wind farms, and the five turbines at our 10 MW Skyway 8 project were commissioned on August 1, 2014. Saint-Philémon construction is tracking well to budget and timing and commissioning is expected to occur in early 2015. Construction on the 25-MW Goulais wind project began in June and we expect to secure around $75 million in financing for the project soon, with a commissioning date expected in mid-2015.

The fourth component of our organic growth pipeline is the $250 million development of the Ontario and Saskatchewan wind projects now moving through the permitting stage. The eventual commissioning of these projects is more likely with the recently elected majority government in Ontario.

In sum, these projects could total more than $1 billion in investment from now until 2019, of which Capstone's proportional share would be more than $500 million. These internal drivers, along with the ongoing stewardship of our operating assets, form a central part of Capstone's plan to mitigate higher payout ratios resulting from lower cash flows from Cardinal, bringing our payout ratio closer to our targeted range by 2017.

Parallel to our organic growth initiatives, we continue to pursue and evaluate external growth opportunities in core infrastructure categories. Our aim is to extend our track record of making strategic acquisitions that increase our cash flow, diversify our portfolio and create future opportunities for expansion.

Despite a highly competitive market for quality assets, we have had productive interactions with a range of companies on possible partnerships and acquisitions. The process of assessing which opportunities hold the best potential outcomes for Capstone is thorough and detailed, though we are optimistic about executing in this area during the second half of 2014.

Outlook[1]

The first half of 2014 was an active period in which Capstone secured a new 20-year agreement for the Cardinal facility, dedicated considerable management effort toward completing the revised PR14 submission for Bristol Water, and made significant headway on our near-term wind projects.

The remainder of this year will see a continuation of the momentum we gained in the first two quarters. We anticipate annual Adjusted EBITDA will be $150 million to $160 million, in line with the revised forecast we announced last quarter. Factors expected to contribute to this result are continued stable performance from our power assets, some growth from our utilities businesses and revenue contributions from the operating wind facilities we acquired from ReD - including contributions from the newly-commissioned Skyway 8.

We remain confident in our ability to execute our strategic plan, create value for shareholders and build out a portfolio of long life, perpetual businesses that generate attractive returns well into the future.

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

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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 and six months ended June 30, 2014 with the comparative prior periods and the Corporation's financial position as at June 30, 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 and six months ended June 30, 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 August 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
Quarter ended June 30, 2014	0.1615	0.1596	1.8355	1.8261

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 ("OPA") 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 $30,000 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 Canada Incorporated, a corn refining facility adjacent to Cardinal, to renew its energy savings agreement (“ESA”) for a term of 20 years. This agreement includes O&M services 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.

Financing Changes - Skyway 8, Corporate facility expansion and Saint-Philémon

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 an interest rate of 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.

On May 13, 2014 Capstone and its existing lenders increased the capacity of its corporate credit facility by $40,000 to increase the total facility to $90,000. The corporate credit facility has an initial term of three years, maturing in November 2016; upon maturity, the credit facility may be renewed annually by an additional year. The increased capacity will enhance the Corporation's financial flexibility and may be used to fund Cardinal's planned upgrades and major maintenance.

On May 16, 2014 Capstone, through its indirect partially-owned subsidiary Parc Éolien Saint-Philémon, entered into a credit agreement that provided $60,535 of financing for the construction of the Saint-Philémon wind project. The construction term of the facility matures no later than September 30, 2015 and bears an interest rate of 5.49%. Upon maturity, the facility will convert to a term facility which has a term of 19 ½ years, bears interest at a fixed, annual rate of 5.49% and is fully amortizing over its remaining term.

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 is 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		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
EBITDA	45,696	46,248	104,020	93,246
Foreign exchange (gain) loss	2,920	28	1,769	(721)
Other (gains) and losses, net	1,176	(7,181)	755	(9,717)
Equity accounted (income) loss	1,913	1,690	666	1,105
Distributions from equity accounted investments	4,127	3,104	5,352	3,104
Net pension interest income	(593)	(422)	(1,231)	(811)
Non-controlling interest ("NCI") portion of Adjusted EBITDA	(15,747)	(11,633)	(30,148)	(22,030)
Adjusted EBITDA	39,492	31,834	81,183	64,176
Cash flow from operating activities	33,461	31,571	77,904	62,200
Cash flow from operating activities from businesses with non-controlling interests	(16,599)	(14,357)	(37,519)	(31,314)
Distributions paid to Capstone from businesses with non-controlling interests	3,012	1,479	5,353	3,088
Distributions from equity accounted investments	4,127	3,104	5,352	3,104
Foreign exchange on loans receivable from Värmevärden	—	4	32	30
Chapais loans receivable principal repayments	301	270	594	533
Power maintenance capital expenditures	(517)	(743)	(689)	(1,146)
Power and corporate scheduled principal repayments	(5,546)	(4,759)	(8,880)	(7,447)
Power and corporate working capital changes	(5,271)	(6,617)	(8,355)	(4,515)
Dividends on redeemable preferred shares	(938)	(938)	(1,876)	(1,876)
AFFO	12,030	9,014	31,916	22,657

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both higher than in 2013 for the second quarter and year-to-date.

Capstone's Adjusted EBITDA performance reflected the following:

- Increased results from the power segment following the acquisition of Renewable Energy Developers Inc. ("ReD") on October 1, 2013, as well as improved results from Cardinal because of lower fuel and transportation costs, in addition to an 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 as a result of ReD, reflecting staffing and integration-related costs, partially offset by lower corporate project development costs because of diligence costs for ReD in 2013.

In addition, Capstone's AFFO was affected by:

- Lower corporate taxes paid in 2014 because 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 related to the projects acquired from ReD.

	Three months ended		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Revenue	106,413	93,539	220,810	187,794
Expenses	(56,272)	(54,193)	(116,776)	(106,813)
Interest income	971	1,017	1,945	2,121
Distributions from equity accounted investments	4,127	3,104	5,352	3,104
Less: non-controlling interest (“NCI”)	(15,747)	(11,633)	(30,148)	(22,030)
Adjusted EBITDA	39,492	31,834	81,183	64,176
Adjusted EBITDA of consolidated businesses with NCI	(15,757)	(11,619)	(30,172)	(21,999)
Distributions from businesses with NCI	3,012	1,479	5,353	3,088
Principal from loans receivable	301	270	594	533
Interest paid	(7,642)	(6,158)	(12,529)	(10,861)
Dividends paid on Capstone’s preferred shares	(938)	(938)	(1,876)	(1,876)
Income taxes (paid) recovery	(375)	(352)	(1,068)	(1,811)
Maintenance capital expenditures	(517)	(743)	(689)	(1,146)
Scheduled repayment of debt principal	(5,546)	(4,759)	(8,880)	(7,447)
AFFO	12,030	9,014	31,916	22,657
AFFO per share	0.125	0.119	0.331	0.298
Payout ratio	60.2%	63.3%	45.3%	50.3%
Dividends declared per share	0.075	0.075	0.150	0.150

Revenue for the quarter was $12,874, or 13.8%, higher in 2014 and $33,016, or 17.6%, higher year-to-date. The increases were mainly due to higher revenue of $12,075 and $24,209 at Bristol Water for the quarter and year-to-date, respectively. Higher revenue at Bristol Water was primarily due to favourable foreign currency translation, higher regulated water tariffs and higher water consumption. Power segment revenue increased by $799 and $8,807 for the quarter and year-to-date, respectively, primarily attributable to the Corporation's larger portfolio of operating wind power facilities.

Expenses for the quarter were $2,079, or 3.8%, higher in 2014 and $9,963, or 9.3%, higher year-to-date.

- **Operating expenses** increased by $1,826 during the quarter and $7,340, year-to-date, primarily because of foreign exchange translation for Bristol Water. In addition, wind power expenses increased by $1,177 and $2,690 for the quarter and year-to-date, respectively, reflecting the ReD assets. This was partially offset in the quarter by $4,761 and $6,878 year-to-date due to lower operating expenses at Cardinal as a result of the production decrease and lower gas transportation costs.
- **Administrative expenses** for the quarter were $1,296 higher in 2014 and $3,471 higher year-to-date, primarily reflecting an accrual reversal in the first quarter of 2013, as well as higher compensation expenses since the acquisition of ReD. Professional fees also increased to integrate ReD.
- **Project development costs** for the quarter were $1,043 lower in 2014 and $848 lower year-to-date primarily due to higher than normal diligence costs for the acquisition of ReD in 2013.

Distributions from equity accounted investments for the quarter were $1,023, or 33.0%, higher in 2014 and $2,248, or 72.4%, higher year-to-date, primarily due to distributions from the Glen Dhu wind facility ("Glen Dhu"). Värmevärden's dividends were similar to 2013.

Dividends from businesses with non-controlling interests for the quarter were $1,533, or 103.7%, higher in 2014 and $2,265, or 73.3%, higher year-to-date, primarily due to the addition of the Amherst wind facility ("Amherst"), which generated $734 and $1,009 during the quarter and year-to-date, respectively. In addition, Bristol Water's dividend was higher by $935 and $1,256, for the quarter and year-to-date, respectively, primarily due to a scheduled increase and favourable foreign exchange translation.

Interest paid for the quarter was $1,484, or 24.1%, higher in 2014 and $1,668, or 15.4%, higher year-to-date mainly due to $741 and $1,409, for the quarter and year-to-date, respectively of interest on the ReD wind facilities since acquisition in 2013. In addition, corporate paid $1,000 and $789, more for the quarter and year-to-date, respectively, mainly related to the addition of ReD convertible debentures.

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 June 30, 2014.

Income taxes paid for the quarter were $23, or 7%, higher in 2014 and $743, or 41%, lower year-to-date, 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 higher tax installments on the preferred share dividends in 2014 and higher corporate income taxes.

Maintenance capital expenditures for the quarter were $226, or 30.4%, lower in 2014 and $457, or 39.9%, lower year-to-date, primarily due to Cardinal, which is not incurring material amounts of maintenance capital expenditures because the emphasis has been to reconfigure the facility for cycling. Refer to page 24 of this MD&A in the "Capital Expenditure Program" section for detail.

Scheduled repayment of debt principal for the quarter was $787, or 16.5%, higher in 2014 and $1,433, or 19.2%, higher year-to-date, mainly due to repayments related to the wind power facilities acquired on October 1, 2013 of $772 and $1,441 for the quarter and year-to-date, respectively.

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			Six months ended		
	Jun 30, 2014	Jun 30, 2013	Change	Jun 30, 2014	Jun 30, 2013	Change
Power	24,319	20,320	3,999	56,176	43,682	12,494
Utilities – water	15,121	11,619	3,502	28,543	21,999	6,544
Utilities – district heating	3,751	3,810	(59)	4,512	4,509	3
Corporate	(3,699)	(3,915)	216	(8,048)	(6,014)	(2,034)
Adjusted EBITDA	39,492	31,834	7,658	81,183	64,176	17,007
Power	13,574	10,627	2,947	36,832	26,752	10,080
Utilities – water	2,414	1,479	935	4,344	3,088	1,256
Utilities – district heating	3,751	3,810	(59)	4,512	4,509	3
Corporate	(7,709)	(6,902)	(807)	(13,772)	(11,692)	(2,080)
AFFO	12,030	9,014	3,016	31,916	22,657	9,259

Power

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

Change for the three and six months ended June 30, 2014		
Three months	Six months	Explanations
3,471	8,426	Adjusted EBITDA of operating facilities acquired on October 1, 2013.
1,374	2,748	Lower gas transportation rates for Cardinal in 2014.
527	1,121	Higher revenue at Cardinal as a result of power rate increases.
(530)	(616)	Lower revenue at Whitecourt due to lower power pool prices.
(451)	(545)	Higher CPD project development expenses in 2014.
(345)	515	Net impact on revenue from favourable hydrology and sunlight during the first quarter, offset by unfavourable wind for the second quarter and year-to-date.
(47)	845	Various other changes.
3,999	12,494	Change in Adjusted EBITDA.
(636)	(1,629)	Reversal of Adjusted EBITDA for businesses with significant non-controlling interests.
(1,602)	(2,940)	Additional debt service and maintenance capital expenditures from a larger power portfolio.
598	1,009	Distributions from Amherst.
227	458	Lower maintenance expenditures at power facilities in 2014.
361	688	Various other changes.
2,947	10,080	Change in AFFO.

Utilities – water

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

Change for the three and six months ended June 30, 2014		
Three months	Six months	Explanations
2,024	3,766	Impact of foreign exchange on Adjusted EBITDA.
1,478	2,778	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.
3,502	6,544	Change in Adjusted EBITDA.
201	530	Impact of foreign exchange on AFFO.
734	726	Other business performance variances.
935	1,256	Change in AFFO.

Utilities – district heating

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

Change for the three and six months ended June 30, 2014		
Three months	Six months	Explanations
22	83	Impact of foreign exchange.
(81)	(80)	Other business performance variances.
(59)	3	Change in Adjusted EBITDA and AFFO.

Corporate

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

Change for the three and six months ended June 30, 2014		
Three months	Six months	Explanations
(700)	(1,781)	Higher staff costs related to an accrual reversal in the first quarter of 2013, an increase in number of employees and higher LTIP expense due to new grants and a higher share price in 2014.
(211)	(813)	Higher professional fees in 2014 for the integration of ReD.
1,494	1,393	Higher project development costs in 2013 primarily relating to the acquisition of ReD.
(367)	(833)	Various other changes.
216	(2,034)	Change in Adjusted EBITDA.
(23)	743	Lower taxes paid year-to-date in 2014 primarily related to a one-time final installment for 2012 taxes on the preferred share dividends paid in 2013, partially offset by higher corporate income taxes and higher installments in 2014. Taxes paid were higher in the quarter related to higher installments in 2014.
(1,000)	(789)	Higher interest paid primarily attributable to convertible debt acquired from ReD in 2013.
(807)	(2,080)	Change in AFFO.

Net income

Net income for each business segment was as follows:

	Three months ended		Six months ended	
Net Income	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Power	4,551	14,565	16,973	27,250
Utilities – Water	13,492	9,241	23,392	16,998
Utilities – District Heating	(3,415)	(1,009)	(651)	1,046
Corporate	(6,214)	(8,161)	(11,843)	(14,760)
Total	8,414	14,636	27,871	30,534

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		Six months ended	
($000s)	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Adjusted EBITDA	39,492	31,834	81,183	64,176
Adjustment from distributions from equity accounted investments to equity accounted income	(6,040)	(4,794)	(6,018)	(4,209)
NCI portion of Adjusted EBITDA	15,747	11,633	30,148	22,030
Other gains and (losses), net	(1,176)	7,181	(755)	9,717
Foreign exchange gain (loss)	(2,920)	(28)	(1,769)	721
Interest expense	(13,386)	(11,172)	(27,152)	(22,186)
Net pension interest income	593	422	1,231	811
Depreciation and amortization	(19,999)	(14,807)	(39,019)	(29,466)
Income tax recovery (expense)	(3,897)	(5,633)	(9,978)	(11,060)
Net income	8,414	14,636	27,871	30,534

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 Jun 30, 2014	Gas	Wind(1)	Biomass(1)	Hydro	Solar	Development	Total
Power generated (GWh)	192.8	96.9	46.6	58.0	12.5	n/a	406.8
Capacity factor	60.3%	23.5%	92.5%	74.3%	28.7%	n/a	n.m.f
Availability	98.7%	97.8%	93.3%	99.6%	97.5%	n/a	n.m.f
Revenue	24,156	9,431	3,412	4,724	5,266	—	46,989
Expenses	(16,398)	(2,186)	(2,925)	(872)	(305)	(624)	(23,310)
Interest income	41	34	59	4	5	—	143
Distributions from equity accounted investments	—	1,103	—	—	—	—	1,103
Less: non-controlling interest ("NCI")	—	(606)	—	—	—	—	(606)
Adjusted EBITDA	7,799	7,776	546	3,856	4,966	(624)	24,319
Adjusted EBITDA of consolidated businesses with NCI	—	(636)	—	—	—	—	(636)
Distributions from businesses with NCI	—	598	—	—	—	—	598
Principal from loans receivable	—	—	301	—	—	—	301
Interest paid	—	(2,195)	—	(1,175)	(1,575)	—	(4,945)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	—	(234)	(101)	(182)	—	—	(517)
Scheduled repayment of debt principal	—	(2,231)	—	(1,409)	(1,906)	—	(5,546)
AFFO	7,799	3,078	746	1,090	1,485	(624)	13,574

Three months ended Jun 30, 2013	Gas	Wind	Biomass(1)	Hydro	Solar	Development	Total
Power generated (GWh)	307.9	56.2	47.2	58.4	12.5	n/a	482.2
Capacity factor	96.9%	26.0%	92.6%	74.8%	28.6%	n/a	n.m.f
Availability	98.9%	96.0%	93.1%	99.1%	99.9%	n/a	n.m.f
Revenue	26,692	5,516	4,024	4,673	5,285	—	46,190
Expenses	(21,159)	(811)	(2,855)	(754)	(294)	(173)	(26,046)
Interest income	31	27	92	15	11	—	176
Adjusted EBITDA	5,564	4,732	1,261	3,934	5,002	(173)	20,320
Principal from loans receivable	—	—	270	—	—	—	270
Interest paid	(132)	(1,448)	—	(1,217)	(1,664)	—	(4,461)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(176)	(354)	(134)	(79)	—	—	(743)
Scheduled repayment of debt principal	(250)	(1,376)	—	(1,265)	(1,868)	—	(4,759)
AFFO	5,006	1,554	1,397	1,373	1,470	(173)	10,627

(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.

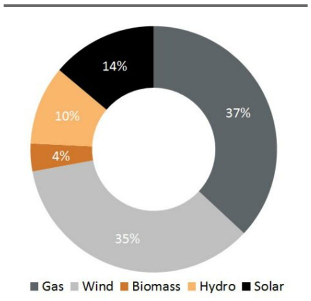
Six months ended Jun 30, 2014	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	520.7	240.7	96.7	88.1	20.2	n/a	966.4
Capacity factor	78.0%	29.1%	96.2%	56.7%	23.3%	n/a	n.m.f
Availability	99.4%	98.0%	96.6%	98.9%	97.5%	n/a	n.m.f
Revenue	58,338	23,591	7,124	7,647	8,501	—	105,201
Expenses	(37,205)	(4,642)	(5,042)	(1,724)	(572)	(883)	(50,068)
Interest income	65	70	126	8	12	—	281
Distributions from equity accounted investments	—	(1,566)	—	—	—	—	(1,566)
Less: non-controlling interest ("NCI")	—	2,328	—	—	—	—	2,328
Adjusted EBITDA	21,198	19,781	2,208	5,931	7,941	(883)	56,176
Adjusted EBITDA of consolidated businesses with NCI	—	(1,629)	—	—	—	—	(1,629)
Distributions from businesses with NCI	—	1,009	—	—	—	—	1,009
Principal from loans receivable	—	—	594	—	—	—	594
Interest paid	—	(4,249)	—	(2,361)	(3,139)	—	(9,749)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	—	(334)	(146)	(209)	—	—	(689)
Scheduled repayment of debt principal	—	(4,339)	—	(2,271)	(2,270)	—	(8,880)
AFFO	21,198	10,239	2,656	1,090	2,532	(883)	36,832

Six months ended Jun 30, 2013	Gas	Wind	Biomass[1]	Hydro	Solar	Development	Total
Power generated (GWh)	655.3	137.0	96.6	85.3	18.6	n/a	992.8
Capacity factor	99.0%	31.9%	96.0%	54.9%	21.2%	n/a	n.m.f
Availability	99.4%	97.4%	96.4%	99.1%	99.7%	n/a	n.m.f
Revenue	59,997	13,450	7,792	7,206	7,949	—	96,394
Expenses	(44,083)	(1,832)	(4,852)	(1,487)	(595)	(338)	(53,187)
Interest income	60	50	315	28	22	—	475
Adjusted EBITDA	15,974	11,668	3,255	5,747	7,376	(338)	43,682
Principal from loans receivable	—	—	533	—	—	—	533
Interest paid	(268)	(2,915)	—	(2,443)	(3,244)	—	(8,870)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(239)	(368)	(182)	(357)	—	—	(1,146)
Scheduled repayment of debt principal	(500)	(2,733)	—	(2,030)	(2,184)	—	(7,447)
AFFO	14,967	5,652	3,606	917	1,948	(338)	26,752

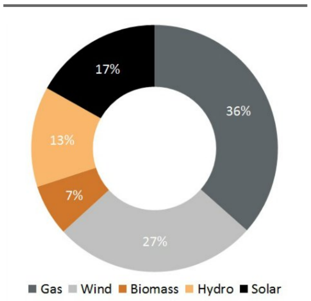
(1) For equity accounted investments, Adjusted EBITDA reflects management fees earned, interest income, as well as distributions paid to Capstone. Principal received on outstanding loans receivable are included in AFFO. The statistics for power generated, capacity factors and availability exclude those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

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

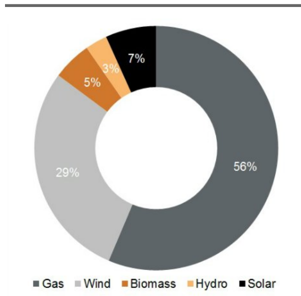
Adjusted EBITDA
YTD 2014



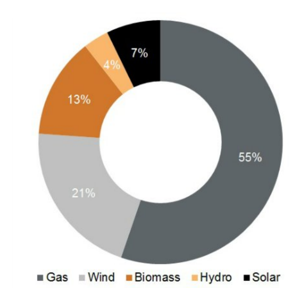
Adjusted EBITDA
YTD 2013



AFFO
YTD 2014



AFFO
YTD 2013



Revenue for the quarter was $799, or 1.7%, higher in 2014 and $8,807, or 9.1%, higher year-to-date. For the second quarter and year-to-date, facilities acquired from ReD contributed $4,489 and $10,678, respectively. In addition, revenue increased by $993 year-to-date, primarily because of higher first quarter production at the Amherstburg Solar Park ("Amherstburg") and the hydro facilities. This was partially offset by lower revenue in the first and second quarters due to lower production at Cardinal and lower average power pool prices at Whitecourt.

Cardinal's revenue for the quarter was $2,536, or 9.5%, lower in 2014, resulting in $1,659, or 2.8%, lower year-to-date revenue. The lower revenue reflects Cardinal's agreement with the OPA to provide additional flexibility to electricity system by reducing off-peak production to help manage Ontario's surplus baseload generation issue. The lower revenues were partially offset by higher contracted power rates based on escalators in the current PPA in 2014 and incremental gas sales due to reduced production.

Expenses for the quarter were $2,736, or 10.5%, lower in 2014 and $3,119, or 5.9%, lower year-to-date, primarily due to lower operating expenses at Cardinal. Cardinal's operating expenses for the quarter were $4,761, or 22.5% lower than in 2013 and $6,878, or 15.6% lower year-to-date, primarily due to less fuel to support lower production, as well as reduced fuel transportation costs. This variance was partially offset by higher operating expenses of $1,177 and $2,690, respectively, related to Capstone's larger operating wind power portfolio.

Interest income for the quarter was $33, or 18.8%, lower in 2014 and $194, or 40.8%, lower year-to-date. In the first quarter of 2013, Chapais made a special interest payment of $125 on Tranche B of the loan receivable.

Distributions from equity accounted investments in 2014 were $1,103 higher during the quarter and $2,328, higher year-to-date, due to funds received from Glen Dhu, which was acquired on October 1, 2013.

Non-controlling interest and distributions from businesses with NCI for the quarter were $598 higher in 2014 and $1,009 higher year-to-date, reflecting the addition of Amherst, which was acquired on October 1, 2013.

Interest paid for the quarter was $484, or 10.8%, higher in 2014 and $879, or 9.9%, higher year-to-date. For the quarter and year-to-date, respectively, interest was $741 and $1,409 higher due to the wind facilities acquired from ReD.

Interest paid by the acquired wind facilities were partially offset by lower interest paid as follow:

- $125 and $262 for the quarter and year-to-date, respectively, lower interest on amortizing debt balances at Erie Shores Wind Farm ("Erie Shores"), the hydro facilities and Amherstburg; and
- $132 and $268 for the quarter and year-to-date, respectively, on the former CPC-Cardinal credit facility since repayment in November 2013.

Maintenance capital expenditures for the quarter were $226, or 30.4%, lower and $457, or 39.9%, lower year-to-date, primarily due to Cardinal. In 2014, Cardinal, is not incurring material amounts of maintenance capital expenditures because the emphasis has been to reconfigure the facility for cycling. Refer to page 24 of this MD&A in the "Capital Expenditure Program" section for detail.

Scheduled repayment of debt principal for the quarter was $787, or 16.5%, higher in 2014 and $1,433, or 19%, higher year-to-date, primarily due to payments for the wind facilities acquired on October 1, 2013. These payments were partially offset by reduction of $250 and $500, during the quarter and year-to-date respectively, 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 all three. Capstone expects all of the near-term projects to be completed consistent with targeted dates and without material cost over-runs. The remaining six development-stage projects are expected to enter commercial operations ("COD") in 2015 or 2016, assuming they receive the relevant 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	COD - August 14, 2014
Saint-Philémon	Q1 2015	51%	12.24 MW	Hydro-Québec	20 years from COD	Under construction
Goulais	First half of 2015	51%	12.75 MW	OPA	20 years from COD	Under construction

Capstone expects to fund these development projects with a combination of equity and project-level debt financing. The projects will get equity contributions from Capstone, funded by existing cash and available credit, and other 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 "Changes in the Business" section of the MD&A for additional information.

Seasonality

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

		Actual	Average long-term production (GWh) [1]				
Type	PPA Expiry	Q2	Q1	Q2	Q3	Q4	Annual
Gas	2034	192.8	341.8	272.6	302.3	334.1	1,250.8
Wind [2]	2020 - 2037	96.9	140.7	90.4	75.4	135.9	442.4
Biomass [2]	2014	46.6	50.2	45.6	50.3	49.3	195.4
Hydro	2017 - 2042	58.0	31.3	57.3	30.4	41.0	160.0
Solar	2031	12.5	6.9	12.9	12.4	5.9	38.1
Total		406.8	570.9	478.8	470.8	566.2	2,086.7

(1) Average long-term production is from March 2005 to June 30, 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 contribution from 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, Capstone expects the Skyway 8 development project 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. Overall, Capstone expects Cardinal's Adjusted EBITDA to be higher in 2014 based on lower gas transportation costs, higher power rates and increased gas mitigation revenue.

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		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Water supplied (megalitres)	20,812	20,695	40,450	39,933
Revenue	59,424	47,349	115,609	91,400
Operating expenses	(29,224)	(24,211)	(58,583)	(47,579)
Interest income	62	114	99	208
Adjusted EBITDA before non-controlling interest	30,262	23,252	57,125	44,029
Less: non-controlling interest ("NCI")	(15,141)	(11,633)	(28,582)	(22,030)
Adjusted EBITDA	15,121	11,619	28,543	21,999
Adjusted EBITDA of consolidated businesses with NCI	(15,121)	(11,619)	(28,543)	(21,999)
Dividends from businesses with NCI	2,414	1,479	4,344	3,088
AFFO	2,414	1,479	4,344	3,088

Revenue was $12,075, or 25.5%, higher for the quarter and $24,209, or 26.5%, higher year-to-date. Excluding foreign currency, revenue was $3,803, or 6.9% higher for the quarter and $8,538, or 8.0% on a year-to-date basis.The balance of the variance was attributable to $3,490 and $7,151 in higher water tariffs for the quarter and year-to-date, respectively, following the annual increase on April 1, 2014. In addition, higher water consumption contributed $313 and $1,387 for the quarter and year-to-date, respectively.

Operating expenses for the quarter were $5,013, or 20.7%, higher than in 2013 and $11,004, or 23.1%, higher year-to-date. Excluding foreign currency, operating expenses were $783, or 2.8%, higher for the quarter and $2,846, or 5.1%, higher year-to-date. 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 $935 higher than in 2013 and $1,256 higher year-to-date, due to a scheduled increase and 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 $550,000, or £301,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at June 30, 2014, cumulative capital expenditures incurred during AMP5 were $482,000, which were in line with the original plan agreed with the Water Services Regulation Authority ("Ofwat"). Bristol Water caught up on the previously identified shortfall in AMP5 by increasing cumulative capital expenditures for regulatory purposes by $38,000 during the quarter ended June 30, 2014. Capstone expects Bristol Water's 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

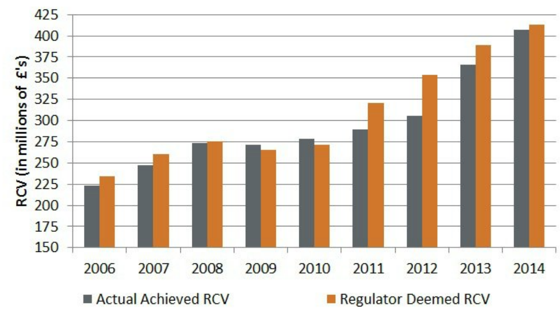
Bristol Water is a regulated business subject to supervision by the industry regulator, Ofwat.

Bristol Water originally submitted its five-year business plan for the 2014 price review ("PR14") to Ofwat in December 2013, and submitted a revised Business Plan in June 2014, as required by Ofwat. Ofwat is scheduled to publish a draft determination at the end of August 2014, to which the Company will have an opportunity to respond before Ofwat issues the final determination in December of 2014.

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.

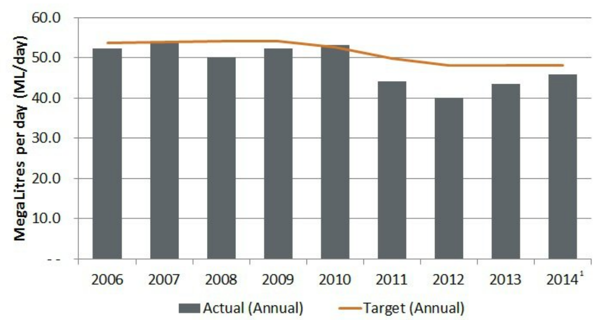
For the six months ended June 30, 2014, Bristol Water achieved leakage levels of 43.5 Ml/d (for the regulatory year ended March 31, 2014 – 43.8 Ml/d) and had a SIM score of 85.4, which ranked fifth overall in the industry (for the regulatory year ended March 31, 2014 – 84.9, which ranked tenth overall in the industry).

Growth in Regulated Capital Value



All data above reflects fiscal years ended March 31.

Water Leakage Versus Target



(1) For the six months ended June 30, 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 inflationary and contractual 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 $128,000 (£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 six months 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		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Heat and steam production (GWh)	204	209	571	641
Equity accounted income (loss)	(1,548)	(1,688)	(733)	(1,103)
Interest income	727	706	1,488	1,405
Dividends	3,024	3,104	3,024	3,104
Adjusted EBITDA and AFFO	3,751	3,810	4,512	4,509

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. Capstone received $1,488 in interest income from Värmevärden during the first six months of 2014, which was $83 higher than 2013, due to favourable foreign exchange translation.

Dividends

Capstone's dividends received from Värmevärden were $80 lower year-to-date than in the first six months of 2013.

Equity accounted income (loss)

Equity accounted losses included in Capstone's net income was $370 lower year-to-date than in the first six 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.

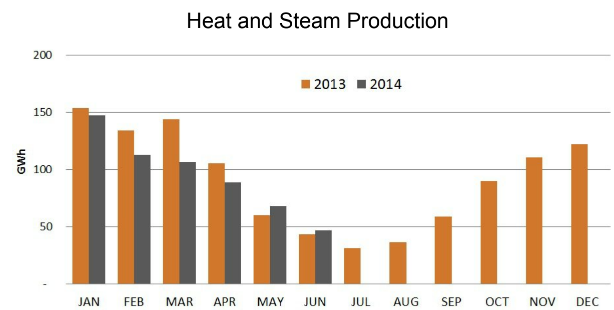
Seasonality

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.

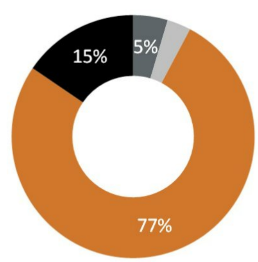
Outlook (1)

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.

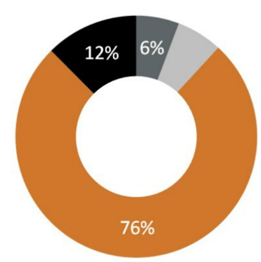
(1) See page 2 for a description of various other material factors or assumptions underlying our outlook.



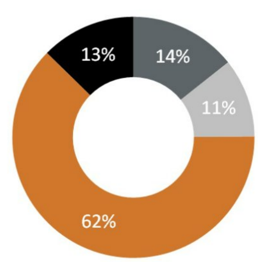
Fuel Mix Breakdown by MWh - YTD 2014



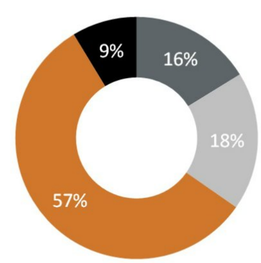
Fuel Mix Breakdown by MWh - YTD 2013



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		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Administrative expenses	(3,822)	(2,526)	(8,160)	(4,689)
Project development costs	84	(1,410)	35	(1,358)
Interest income	39	21	77	33
Adjusted EBITDA	(3,699)	(3,915)	(8,048)	(6,014)
Interest paid	(2,697)	(1,697)	(2,780)	(1,991)
Dividends paid on Capstone's preferred shares	(938)	(938)	(1,876)	(1,876)
Income taxes (paid) recovery	(375)	(352)	(1,068)	(1,811)
AFFO	(7,709)	(6,902)	(13,772)	(11,692)

Administrative expenses

	Three months ended		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Staff costs	2,339	1,639	4,701	2,920
Other administrative expenses	1,483	887	3,459	1,769
	3,822	2,526	8,160	4,689

Staff costs for the quarter were $700, or 42.7%, higher in 2014 and $1,781, or 61.0%, higher year-to-date. In both periods, the increase includes additional costs for new employees who joined Capstone from ReD. In addition, the LTIP expenses were higher due to an increased share price and new grants in 2014. The year-to-date increase also includes the reversal of a $610 accrual in the first quarter of 2013. 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").

Other administrative expenses for the quarter were $596, or 67.2%, higher in 2014 and $1,690, or 95.5%, higher year-to-date. The year-to-date increase primarily reflects additional 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 and year-to-date were lower in 2014 by $1,494 and $1,393 respectively, due to diligence costs for the acquisition of ReD in 2013.

Interest paid for the quarter was $1,000, or 58.9%, higher in 2014 and $789, or 39.6%, higher year-to-date, primarily due to convertible debentures acquired in the ReD acquisition.

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 $23, or 6.5%, higher than in 2013 and $743, or 41.0%, lower year-to-date, 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 and higher corporate income taxes.

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 related to the addition of corporate staff;
- Higher professional fees than in 2013 related to the integration of ReD; and
- Higher interest paid related 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 June 30, 2014, Capstone had a consolidated working capital surplus of $92,027, compared with $37,375 at December 31, 2013. The increase of $54,652 primarily reflects higher cash and restricted cash balances within the power segment and at corporate.

Unrestricted cash and cash equivalents totaled $68,649 on a consolidated basis, with the power segment and corporate contributing $27,978 and $31,124, respectively.

As at June 30, 2014, Capstone's debt to capitalization ratio (refer to page 21) decreased from 65.7% to 63.7% on a fair value basis and increased from 57.3% to 58.8% on a book value basis. On a fair value basis, the decrease was primarily due to a 19.4% appreciation of the share price since December 31, 2013. This was partially offset by a $77,936 increase in outstanding debt. Higher debt includes $44,807 for the power segment, primarily due to new debt for the construction of the development projects, partially offset by amounts attributable to non-controlling interests and scheduled payments. Bristol Water debt also increased by $30,967, mainly the result of appreciation of the UK pound sterling.

As at June 30, 2014, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	Jun 30, 2014	Dec 31, 2013
Power	66,374	31,638
Utilities – water	5,969	933
Corporate	19,684	4,804
Working capital	92,027	37,375

Capstone's working capital increased by $54,652, primarily due to higher power segment and corporate working capital of $34,736 and $14,880, respectively. Power segment working capital increased by $60,310 as a result of new long-term debt proceeds included in restricted cash and earmarked for the construction of Saint-Philémon. In addition, corporate working capital increased primarily as a result of cash accumulating from distributions received from Capstone's operating businesses, which may be used to partially fund the near-term development projects, future acquisitions or other corporate purposes.

On a consolidated basis, current assets increased by $69,452, or 39.6%, since December 31, 2013, primarily related to higher cash and restricted cash balances. Current liabilities increased by $14,800, or 10.7%, since December 31, 2013, primarily because of higher accounts payable related to the near-term development projects.

Cash and cash equivalents

As at	Jun 30, 2014	Dec 31, 2013
Power	27,978	28,991
Utilities – water	9,547	9,130
Corporate	31,124	7,647
Unrestricted cash and cash equivalents	68,649	45,768
Less: cash with access limitations		
Power	(17,155)	(18,096)
Utilities – water	(9,547)	(9,130)
Cash and cash equivalents available to Capstone	41,947	18,542

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The $22,881 increase in cash from December 31, 2013 was primarily attributable to a $23,477 increase at corporate, due to the accumulation of cash distributed from Capstone's businesses in 2014. In addition, unrestricted cash increased by $417 at Bristol Water, partially offset by a decline of $1,013 at the power segment.

For Bristol Water, fluctuations in cash are due to the timing of payments to fund the capital projects. In addition to cash and cash equivalents, Bristol Water had $45,653 of available credit 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, $17,155 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 increased by $49,427 from December 31, 2013 to $78,974 at June 30, 2014, primarily attributable to the addition of $60,310 at Saint-Philémon, restricted for the construction of the project. This was partially offset by the replacement of cash funded reserve accounts with $5,055 of letters of credit for the hydro facilities and $6,243 for Amherst, Glen Dhu and the wind development projects. The remaining difference mainly relates to foreign exchange translation on Bristol Water's restricted cash.

Cash flow

Capstone's unrestricted cash and cash equivalents increased by $22,881 in the first six months of 2014 compared with a decrease of $135 in the same period of 2013. Details of the increase are presented in the consolidated statement of cash flows and are summarized as follows:

Six months ended	Jun 30, 2014	Jun 30, 2013
Operating activities	77,904	62,200
Investing activities	(128,582)	(66,538)
Financing activities (excluding dividends to shareholders)	87,726	16,443
Dividends paid to shareholders	(14,589)	(11,577)
Effect of exchange rate changes on cash and cash equivalents	422	(663)
Change in cash and cash equivalents	22,881	(135)

Cash flow from operating activities generated $15,704 more cash and cash equivalents in the first half of 2014 than during first six months of 2013. Power and utilities segments operating cash flows increased by $6,678 and $11,745 respectively. This was partially offset by a decrease of $2,719 at corporate. Higher cash flows at the power and utilities segments were primarily attributable to higher revenues. The corporate cash flow decrease was attributable to a decrease in current liabilities.

Cash flow used by investing activities was $62,044 higher in first six months of 2014. In 2014, Capstone used $63,065 (2013 - $76,060) of cash for capital asset additions and $22,030 to fund the projects under development, primarily at Bristol Water and the power segment, respectively. In addition, Capstone's restricted cash increased by $60,310 for the construction of Saint-Philémon, partially offset by reductions in restricted cash, of $10,883. The remaining variance primarily relates to a net increase in distributions from equity accounted investments and the reduced use of short-term investments at Bristol Water in 2014.

Cash flow from financing activities was $71,283 higher in first six months of 2014. In 2014, the power segment raised $74,172 for the construction of the Skyway 8 and St. Philémon projects. In addition, Bristol Water drew $27,459 on its existing debt facility to fund the capital expenditure program (2013 - $50,017), partially offset by $668 of scheduled repayments (2013 - $22,413).

Dividends paid to shareholders were $3,012 higher than during first six months of 2014 due to the increase in shares issued to acquire ReD in 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:

	Jun 30, 2014		Dec 31, 2013	
As at	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power (1)	391,051	386,358	346,244	349,807
Utilities – water (1)	344,783	313,277	313,816	288,017
Corporate	83,856	80,305	81,694	80,107
Deferred financing fees	—	(8,278)	—	(7,446)
	819,690	771,662	741,754	710,485
Equity				
Shareholders' equity (2)	467,667	539,264	388,058	529,550
Total capitalization	1,287,357	1,310,926	1,129,812	1,240,035
Debt to capitalization	63.7%	58.9%	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	Jun 30, 2014 Fair Value	Jun 30, 2014 Carrying Value	Dec 31, 2013 Fair Value	Dec 31, 2013 Carrying Value
Project debt						
Wind - Operating [1]	2016 - 2032	4.22 - 6.36%	194,680	185,868	195,345	191,134
Wind - Development [2]	2017 - 2033	5.25 - 5.49%	74,477	74,172	—	—
Hydros	2040 - 2041	4.56 - 7.00%	89,543	93,068	86,020	93,930
Solar	2016	7.32%	84,409	84,409	86,680	86,680
			443,109	437,517	368,045	371,744
Less: non-controlling interest			(52,058)	(51,159)	(21,801)	(21,937)
Capstone share of long-term debt			391,051	386,358	346,244	349,807

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

In 2014, Capstone completed the financing for two of the near-term development projects to be used for the construction of Saint-Philémon and Skyway 8. Refer to the "Changes in the Business" section of the MD&A for additional information. As at June 30, 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, except for limited recourse guarantees provided to the lenders of the Erie Shores project debt ($5,000), Skyway 8 project debt ($5,000), Amherst project debt ($1,000) and Fitzpatrick wind facility ($500).

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 six 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	Jun 30, 2014 Fair Value	Jun 30, 2014 Carrying Value	Dec 31, 2013 Fair Value	Dec 31, 2013 Carrying Value
Bank loans	2015 - 2017	1.30 - 5.73%	118,750	117,965	87,056	87,329
Term loans	2032 - 2041	5.20 – 6.44% [1]	534,311	476,549	505,322	457,786
Debentures	Irredeemable	3.50 – 4.25%	2,494	2,366	2,424	2,275
Cumulative preferred shares	Irredeemable	8.75%	34,011	29,674	32,830	28,644
Consolidated long-term debt			689,566	626,554	627,632	576,034
Less: non-controlling interest			(344,783)	(313,277)	(313,816)	(288,017)
Capstone share of long-term debt			344,783	313,277	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 June 30, 2014, approximately 76% 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 six months of 2014, Bristol Water's debt increased by $50,520, of which $20,556 was due to foreign exchange translation and $27,459 due to the increase in debt, the remaining increase primarily relates to increases in index-linked debt. As at June 30, 2014, $45,653 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 six 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:

			Jun 30, 2014		Dec 31, 2013	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Corporate credit facility	2016	3.01%	11,300	11,300	11,300	11,300
Convertible debentures	2016	6.50%	44,031	41,304	42,963	41,068
Convertible debentures	2017	6.75%	28,525	27,701	27,431	27,739
			83,856	80,305	81,694	80,107

In the first six months of 2014, Capstone and its existing lenders increased the capacity of its corporate credit facility by $40,000 to total $90,000. Refer to the "Changes in the Business" section of the MD&A for additional information.

Covenant compliance

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

Equity

Shareholders' equity comprised:

As at	Jun 30, 2014	Dec 31, 2013
Common shares	712,411	710,662
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
Share capital	811,141	809,392
Other equity items [(1)]	9,284	9,428
Accumulated other comprehensive income (loss)	23,604	17,013
Retained earnings (deficit)	(304,765)	(306,283)
Equity to Capstone shareholders	539,264	529,550
Non-controlling interests	153,378	138,613
Total shareholders' equity	692,642	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:

($000s and 000s of shares)	Shares	Amount
Opening balance	92,854	710,662
Dividend reinvestment plan (DRIP)	482	1,749
Ending balance	93,336	712,411

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

As at		Jun 30, 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	$4.25	93,336	396,677	$3.56	92,854	330,560
Class B units	$4.25	3,249	13,810	$3.56	3,249	11,568
Preferred shares	$19.06	3,000	57,180	$15.31	3,000	45,930
			467,667			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 quarter 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 with Husky Oil Operations Limited ("Husky"). 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.

During the second quarter, Cardinal entered forward sale and purchase gas contracts to manage Cardinal's remaining obligation and expected production requirements, taking into account the planned operating flexibility for the duration of the year, under the existing gas purchase agreement with Husky.

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 Jun 30, 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 $53,375 of capital expenditures during the second quarter of 2014. Year-to-date, Capstone's capital expenditures include $66,030 and $31,494 in addition to capital assets and project under development, respectively.

Below is the breakdown of the investment by operating segment:

	Three months ended		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Power	22,374	1,722	36,648	2,183
Utilities – water	31,001	28,797	60,876	65,360
Corporate	—	9	—	11
	53,375	30,528	97,524	67,554

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 are on track with the AMP5 plan commitment by the end of March 2015.

Capital expenditures for the power segment primarily related to $29,230 of costs to construct Skyway 8 and Saint-Philémon. In addition, Cardinal invested $3,606 to prepare the plant to operate as a cycling facility. In 2013, capital expenditures in the power segment were primarily related to Erie Shores for the installation of WindBOOST and 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 June 30, 2014, the defined benefit retirement plan was in a $52,681 surplus position. During the first six months of 2014, the surplus increased by $6,440, primarily attributable to increases in the fair value of plan assets and foreign exchange. The surplus is subject to a number of critical accounting estimates that 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 and six months ended June 30, 2014 were $1,009 and $2,083, respectively. The expense is incurred entirely at Bristol Water.

The total defined contribution pension expense recorded in the consolidated statement of income for the six months ended June 30, 2014 was $1,073. The expense comprised $982 for Bristol Water and $91 for Cardinal.

Income Taxes

The second quarter current income tax expense of $1,886 represents $1,757 and $129 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	Jun 30, 2014	Dec 31, 2013
Deferred income tax assets	565	494
Deferred income tax liabilities	(194,649)	(182,567)
	(194,084)	(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 $194,649 represent $77,038 ($74,074 at December 31, 2013) for Capstone's Canadian operations and $117,610 ($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 $12,011 during the first six months of 2014, primarily due to differences between accounting and tax depreciation for capital assets. The deferred tax expense of $8,092 on the consolidated statement of income differs from the increase in the net deferred income tax liability because of 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 June 30, 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, foreign exchange rates and gas commodity prices. The fair value of these contracts, as reported in Capstone's interim consolidated statements of financial position, were:

As at	Jun 30, 2014	Dec 31, 2013
Derivative contract assets	2,331	1,328
Derivative contract liabilities	(13,679)	(13,840)
Net derivative contract liabilities	(11,348)	(12,512)

The net derivative contract liabilities were $1,164 lower than at December 31, 2013, primarily due to the second quarter purchase of foreign currency options which increased derivative contract assets. Capstone acquired these options primarily to hedge future foreign dividend expectations and purchase commitments of the power segment. In addition, the year-to-date gain of $264, shown below, contributed and reflects the change in the fair value of the underlying instruments.

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

	Three months ended		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Interest rate swap contracts	(855)	4,105	(2,857)	5,173
Foreign currency contracts	276	(494)	(486)	(473)
Gas swap contracts	196	—	196	—
Forward gas sale and purchase contracts	109	—	109	—
Gas purchase agreement	180	—	180	—
Embedded derivative	(1,073)	3,620	2,905	5,088
Gains (losses) on derivatives in net income	(1,167)	7,231	47	9,788
Interest rate swap contracts in OCI	256	586	217	599
Gains (losses) on derivatives in comprehensive income	(911)	7,817	264	10,387

The gain on derivatives for the first six months of 2014 was primarily attributable to the the gains on the various gas contracts, including the gas swap, forward sale and purchases and the purchase agreement, as well as underlying embedded derivative. These gains were partially offset by losses on interest rate and foreign currency contracts.

On June 4, 2014, Capstone changed the accounting treatment for the long-term gas purchase agreement. Formerly, the agreement was able to use accrual accounting, but a change to manage the remaining term of the agreement requires fair value accounting, as a financial instrument. The change reflects Cardinal's intent to monetize the gas purchases in excess of expected production requirements. The excess volume is minimal compared with production requirements, but any excess taints the ability to use accrual accounting for these contracts under IFRS. This change was required to manage obligations under the gas purchase agreement upon expiry of fuel transportation agreement in November of 2014.

The gain on the various gas contracts relate to the fair value as at June 30, 2014 for each financial instrument.

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

Year-to-date, 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 reduction 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.

FOREIGN EXCHANGE

The foreign exchange losses for 2014 and 2013 were primarily due to unrealized translation of Capstone's SEK - denominated shareholder loan receivable with Värmevärden. Capstone's foreign exchange loss was $2,892 higher for the second quarter of 2014, and $2,490, higher year-to-date. The losses reflect depreciation of the Swedish krona against the Canadian dollar, thereby decreasing 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.

Management regularly monitors and assesses its risk exposures to achieving its strategic objectives. In 2014, with the renewal of Cardinal's Power Purchase Agreement ("PPA"), Capstone's exposure to PPA renewal risk declined materially.

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	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	106,413	114,397	110,291	91,418	93,539	94,255	94,654	84,951
Net income (loss) [1 and 3]	2,097	14,437	10,441	8,887	10,015	12,019	12,909	5,836
Adjusted EBITDA	39,492	41,691	37,992	26,253	31,834	32,342	31,074	24,542
AFFO	12,030	19,886	13,930	3,346	9,014	13,644	13,560	3,381
Common dividends [2]	7,244	7,220	7,208	5,720	5,709	5,696	5,579	5,655
Preferred dividends	938	938	938	938	938	938	938	938
Earnings Per Share – Basic	0.012	0.140	0.099	0.104	0.119	0.145	0.147	0.065
Earnings Per Share – Diluted	0.012	0.132	0.096	0.102	0.117	0.141	0.143	0.065
AFFO per share	0.125	0.207	0.145	0.044	0.119	0.180	0.179	0.045
Dividends declared per common share	0.075	0.075	0.075	0.075	0.075	0.075	0.075	0.075

(1) Net income (loss) attributable to the shareholders of Capstone, 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	Jun 30, 2014	Dec 31, 2013
Current assets			
Cash and cash equivalents		68,649	45,768
Restricted cash		78,974	29,547
Accounts receivable		82,516	89,139
Other assets		11,709	9,640
Current portion of loans receivable	6	1,377	1,310
Current portion of derivative contract assets	7	1,656	25
		244,881	175,429
Non-current assets			
Loans receivable	6	37,575	39,578
Derivative contract assets	7	675	1,303
Equity accounted investments	8	32,293	39,051
Capital assets	9	1,414,544	1,356,682
Projects under development	10	53,168	21,674
Intangible assets	11	348,408	345,272
Retirement benefit surplus	12	52,681	46,241
Deferred income tax assets		565	494
Total assets		2,184,790	2,025,724
Current liabilities			
Accounts payable and other liabilities		122,344	116,852
Current portion of derivative contract liabilities	7	4,919	2,219
Current portion of finance lease obligations		650	609
Current portion of long-term debt	13	24,941	18,374
		152,854	138,054
Long-term liabilities			
Derivative contract liabilities	7	8,760	11,621
Electricity supply and gas purchase contracts		826	1,634
Deferred income tax liabilities		194,649	182,567
Deferred revenue		18,379	15,589
Finance lease obligations		3,386	3,761
Long-term debt	13	1,109,414	1,001,042
Liability for asset retirement obligation		3,880	3,293
Total liabilities		1,492,148	1,357,561
Equity attributable to shareholders’ of Capstone		539,264	529,550
Non-controlling interest		153,378	138,613
Total liabilities and equity		2,184,790	2,025,724
Commitments and contingencies	20		

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

		Equity attributable to shareholders of Capstone					
	Notes	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)		—	—	(1,237)	4,452	3,561	6,776
Net income for the period		—	—	—	22,034	8,500	30,534
Dividends declared to common shareholders of Capstone	14b	1,703	—	—	(11,405)	—	(9,702)
Dividends declared to preferred shareholders of Capstone (5)	14b	—	—	—	(1,963)	—	(1,963)
Dividends declared by Bristol Water		—	—	—	—	(3,015)	(3,015)
Balance, June 30, 2013		732,907	9,284	(2,046)	(307,713)	100,656	533,088

		Equity attributable to shareholders of Capstone					
	Notes	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)		—	—	6,591	1,264	6,138	13,993
Net income for the period		—	—	—	16,534	11,337	27,871
Release of share option reserve		—	(144)	—	144	—	—
Dividends declared to common shareholders of Capstone	14a&b	1,749	—	—	(14,464)	—	(12,715)
Dividends declared to preferred shareholders of Capstone (5)	14b	—	—	—	(1,960)	—	(1,960)
Dividends declared to NCI		—	—	—	—	(5,128)	(5,128)
Contributions from NCI		—	—	—	—	2,418	2,418
Balance, June 30, 2014		811,141	9,284	23,604	(304,765)	153,378	692,642

(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 $84 of deferred income taxes (2013 - $87).

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Jun 30, 2014	Three months ended Jun 30, 2013	Six months ended Jun 30, 2014	Six months ended Jun 30, 2013
Revenue		106,413	93,539	220,810	187,794
Operating expenses	17	(51,910)	(50,084)	(107,768)	(100,428)
Administrative expenses	17	(3,822)	(2,526)	(8,160)	(4,689)
Project development costs	17	(540)	(1,583)	(848)	(1,696)
Equity accounted income (loss)	8	(1,913)	(1,690)	(666)	(1,105)
Interest income		971	1,017	1,945	2,121
Net pension interest income		593	422	1,231	811
Other gains and (losses), net		(1,176)	7,181	(755)	9,717
Foreign exchange gain (loss)		(2,920)	(28)	(1,769)	721
Earnings before interest expense, taxes, depreciation and amortization		45,696	46,248	104,020	93,246
Interest expense		(13,386)	(11,172)	(27,152)	(22,186)
Depreciation of capital assets	9	(17,180)	(12,183)	(32,408)	(24,091)
Amortization of intangible assets		(2,819)	(2,624)	(6,611)	(5,375)
Income before income taxes		12,311	20,269	37,849	41,594
Income tax recovery (expense)					
Current		(1,371)	(686)	(1,886)	232
Deferred		(2,526)	(4,947)	(8,092)	(11,292)
Total income tax recovery (expense)		(3,897)	(5,633)	(9,978)	(11,060)
Net income		8,414	14,636	27,871	30,534
Net income attributable to:					
Shareholders of Capstone		2,097	10,015	16,534	22,034
Non-controlling interest		6,317	4,621	11,337	8,500
		8,414	14,636	27,871	30,534
Earnings per share	15				
Basic		0.012	0.119	0.151	0.264
Diluted		0.012	0.117	0.150	0.257

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Jun 30, 2014	Three months ended Jun 30, 2013	Six months ended Jun 30, 2014	Six months ended Jun 30, 2013
Cumulative differences on translation of foreign operations		(3,285)	10,012	12,030	(2,676)
Other comprehensive income on equity accounted investments	8	(623)	(51)	(607)	292
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2014 - ($47) and ($59), respectively; 2013 - ($158) and ($126), respectively)		90	444	42	256
Total of items that may subsequently be reclassified to net income		(3,818)	10,405	11,465	(2,128)
Actuarial gains recognized in respect of retirement benefit obligations (net of tax in 2014 - ($161) and ($633), respectively; 2013 - $1,108 and ($2,659), respectively) - will not be reclassified to net income		638	(3,708)	2,528	8,904
Other comprehensive income (loss)		(3,180)	6,697	13,993	6,776
Net income		8,414	14,636	27,871	30,534
Total comprehensive income		5,234	21,333	41,864	37,310
Comprehensive income attributable to:					
Shareholders of Capstone		(114)	14,418	24,389	25,249
Non-controlling interest		5,348	6,915	17,475	12,061
		5,234	21,333	41,864	37,310

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended	Notes	Jun 30, 2014	Jun 30, 2013
Operating activities:			
Net income		27,871	30,534
Deferred income tax expense (recovery)		8,092	11,292
Depreciation and amortization		39,019	29,466
Other gains and losses (net)		755	(9,717)
Amortization of deferred financing costs and non-cash financing costs		3,991	4,471
Equity accounted (income) loss	8	666	1,105
Unrealized foreign exchange (gain) loss on loan receivable	6	1,343	(751)
Change in non-cash working capital	19	(3,833)	(4,200)
Total cash flows from operating activities		77,904	62,200
Investing activities:			
Distribution paid by equity accounted investment	8	5,485	3,127
Receipt of loans receivable		594	533
Investment in capital assets and computer software	9	(63,065)	(76,060)
Change in restricted cash and short term deposits		(49,080)	6,758
Investment in projects under development	10	(22,030)	—
Purchase of foreign currency contracts		(486)	(896)
Total cash flows used in investing activities		(128,582)	(66,538)
Financing activities:			
Proceeds from long-term debt		101,631	50,017
Contributions from NCI		2,418	—
Dividends paid to common and preferred shareholders		(14,589)	(11,577)
Repayment of long-term debt and finance lease obligations		(8,975)	(29,859)
Dividends paid to non-controlling interests		(5,128)	(3,015)
Transaction costs on debt issuance		(2,220)	(700)
Total cash flows from (used in) financing activities		73,137	4,866
Effect of exchange rate changes on cash and cash equivalents		422	(663)
Increase (decrease) in cash and cash equivalents		22,881	(135)
Cash and cash equivalents, beginning of year		45,768	49,599
Cash and cash equivalents, end of period		68,649	49,464
Supplemental information:			
Interest paid		35,429	20,105
Taxes paid (recovery)		1,571	2,202

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 August 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 six 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 standards 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	Jun 30, 2014	Dec 31, 2013
Värmevärden	36,315	37,658
Chapais	2,548	3,141
Macquarie Long Term Care L.P. ("MLTCLP")	89	89
	38,952	40,888
Less: current portion	(1,377)	(1,310)
Total long-term loans receivable	37,575	39,578

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

Six months ended	Jun 30, 2014		Jun 30, 2013	
	SEK	$	SEK	$
Opening balance	227,541	37,658	227,541	34,768
Unrealized foreign exchange gain (loss)	—	(1,343)	—	751
Ending balance	227,541	36,315	227,541	35,519

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 June 30, 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	Jun 30, 2014	Dec 31, 2013
Derivative contract assets:					
Foreign currency contracts	—	864	—	864	450
Gas swap contracts	—	196	—	196	—
Forward gas sale contract	—	204	—	204	—
Gas purchase agreement	—	—	180	180	—
Embedded derivative asset	—	—	887	887	878
Less: Current portion	—	(589)	(1,067)	(1,656)	(25)
	—	675	—	675	1,303
Derivative contract liabilities:					
Interest rate swap contracts	—	9,024	—	9,024	6,166
Interest rate swap contracts for hedging	—	1,956	—	1,956	2,174
Forward gas purchase contract	—	94	—	94	—
Embedded derivative liability	—	—	2,605	2,605	5,500
Less: Current portion	—	(2,314)	(2,605)	(4,919)	(2,219)
	—	8,760	—	8,760	11,621

In June 2014, Capstone transferred the Cardinal gas purchase agreement into the financial instrument hierarchy. Refer to note 7(d) for detail.

Financial instruments that are not recorded at fair value on the statement of financial position 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	4,160	4,036
Long-term debt	1,216,531	1,134,355

(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.
Gas swap, forward gas sale and purchase contracts	• Fair value of the gas swap, forward gas sale and purchase contracts fluctuate with changes in the market price of gas. • A discounted cash flow analysis based on a forward gas prices curve was used to determine their fair value.
Embedded derivative	• The determination of the fair value of the Corporation's embedded derivatives requires the use of option pricing models involving significant judgment based on management's estimates and assumptions.
Gas purchase agreement	• The gas purchase contract's fair value primarily fluctuates with changes in market gas prices and DCR price. • A discounted cash flow analysis based on a forward gas prices curve was used to determine their fair value.

The Corporation, 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 for the Corporation's embedded derivatives and gas purchase agreement, their fair values are classified as Level 3 financial instruments.

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

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

	Fair value at Jun 30, 2014	Unobservable inputs	Estimated input	Relationship of input to fair value
Embedded derivative - Asset	887	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.
Embedded derivative - Liability	(2,605)	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $771.
Gas purchase agreement	180	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $nil
	(1,538)			

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, level 3 derivatives
Opening balance, December 31, 2013	(4,622)
Day-one gain from transfer of gas purchase agreement included in other gains and (losses) in net income	2,986
Change in value of gas purchase agreement included in other gains and (losses) in net income	(2,807)
Change in value of embedded derivative included in other gains and (losses) in net income	2,905
Closing balance, June 30, 2014	(1,538)

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

8. EQUITY ACCOUNTED INVESTMENTS

As at	Ownership %	Jun 30, 2014 Carrying value	Dec 31, 2013 Carrying value
Värmevärden	33.3%	7,512	12,009
Glen Dhu (1)	49.0%	24,094	26,323
Others (2)	31.3 - 50.0%	687	719
		32,293	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 June 30 were as follows:

Three months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distribution	Ending balance
June 30, 2014	39,089	(1,913)	(623)	(4,260)	32,293
June 30, 2013	17,918	(1,690)	(51)	(3,207)	12,970

Six months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distribution	Ending balance
June 30, 2014	39,051	(666)	(607)	(5,485)	32,293
June 30, 2013	16,990	(1,105)	292	(3,207)	12,970

9. CAPITAL ASSETS

As at January 1, 2014	1,356,682
Additions	66,030
Disposals	(710)
Transfers	(3,922)
Depreciation	(32,408)
Foreign exchange	28,872
As at June 30, 2014	1,414,544

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

	Six months ended	
	Jun 30, 2014	Jun 30, 2013
Additions	66,030	67,554
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	(3,695)	9,049
Net foreign exchange difference	730	(543)
Cash additions	63,065	76,060

10. PROJECTS UNDER DEVELOPMENT

As at January 1, 2014	21,674
Capitalized costs during the period (1)	31,494
As at June 30, 2014	53,168

(1) Includes $358 of capitalized borrowing costs during the construction of Saint-Philémon and Skyway 8.

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:

	Six months ended	
	Jun 30, 2014	**Jun 30, 2013**
Additions	31,494	—
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	(9,464)	—
Cash additions	22,030	—

11. INTANGIBLES

As at January 1, 2014	345,272
Transfers	3,922
Amortization	(7,419)
Foreign exchange	6,633
As at June 30, 2014	348,408

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 June 30, 2014 was $551 (June 30, 2013 - $375). The expense is composed of $506 for Bristol Water and $45 for Cardinal.

Defined Benefit Plan

The retirement benefit surplus on the consolidated statements of financial position at June 30, 2014 was $52,681 (December 31, 2013 - $46,241).

Employer contributions paid in the three months ended June 30, 2014 to the defined benefit plan were $1,009 (June 30, 2013 - $794). The contributions were entirely incurred at Bristol Water.

13. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Jun 30, 2014	Dec 31, 2013
Project debt		
Wind - Operating [(1)]	185,868	191,134
Wind - Development [(2)]	74,172	—
Hydros	93,068	93,930
Solar	84,409	86,680
Power	437,517	371,744
Bank loans	117,965	87,329
Term loans	476,549	457,786
Debentures	2,366	2,275
Irredeemable cumulative preferred shares	29,674	28,644
Utilities – water	626,554	576,034
Corporate credit facility	11,300	11,300
Convertible debentures - 2016	41,304	41,068
Convertible debentures - 2017	27,701	27,739
Corporate	80,305	80,107
	1,144,376	1,027,885
Less: deferred financing costs	(10,021)	(8,469)
Long-term debt	1,134,355	1,019,416
Less: current portion	(24,941)	(18,374)
	1,109,414	1,001,042

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

(B) Financing Changes - Skyway 8, Corporate facility expansion and Saint-Philémon

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 an interest rate of 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.

On May 13, 2014 Capstone and its existing lenders increased the capacity of its corporate credit facility by $40,000 to increase the total facility to $90,000. The corporate credit facility has an initial term of three years, maturing in November 2016; upon maturity, the credit facility may be renewed annually by an additional year. The increased capacity will enhance the Corporation's financial flexibility and may be used to fund Cardinal's planned upgrades and major maintenance.

On May 16, 2014 Capstone, through its indirect partially-owned subsidiary Parc Éolien Saint-Philémon, entered into a credit agreement that provided $60,535 of financing for the construction of the Saint-Philémon wind project. The construction term of the facility matures no later than September 30, 2015 and bears an interest rate of 5.49%. Upon maturity, the facility will convert to a term facility which has a term of 19 ½ years, bears interest at a fixed, annual rate of 5.49% and is fully amortizing over its remaining term.

(C) Long-term Debt Covenants

For the three and six months ended and as at June 30, 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	Jun 30, 2014	Dec 31, 2013
Common shares	712,411	710,662
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	811,141	809,392

(A) Common Shares

	Three months ended Jun 30, 2014		Six months ended Jun 30, 2014	
($000s and 000s shares)	Shares	Carrying Value	Shares	Carrying Value
Opening balance	93,017	711,212	92,854	710,662
Dividend reinvestment plan	319	1,199	482	1,749
Ending balance	93,336	712,411	93,336	712,411

(B) Dividends Declared

	Three months ended		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Common shares	7,000	5,465	13,976	10,917
Class B exchangeable units	244	244	488	488
	7,244	5,709	14,464	11,405
Preferred shares (includes $42 and $84 of deferred income taxes, for the quarter and year to date respectively)	980	953	1,960	1,963

15. EARNINGS PER SHARE ("EPS")

	Three months ended		Six months ended	
	Jun 30, 2014	Jun 30, 2013	Jun 30, 2014	Jun 30, 2013
Net income	8,414	14,636	27,871	30,534
Non-controlling interest	(6,317)	(4,621)	(11,337)	(8,500)
Dividends declared on preferred shares	(980)	(953)	(1,960)	(1,963)
Net income available to common shareholders	1,117	9,062	14,574	20,071
Weighted average number of common shares (including Class B exchangeable units) outstanding	96,480	76,059	96,346	75,960
Basic EPS	0.012	0.119	0.151	0.264
Basic net income	1,117	9,062	14,574	20,071
Effect of dilutive securities:				
2016 convertible debentures	—	514	—	1,028
2017 convertible debentures	—	—	685	—
Diluted Net income	1,117	9,576	15,259	21,099
Basic weighted-average number of shares outstanding	96,480	76,059	96,346	75,960
Effect of dilutive securities:				
2016 convertible debentures (1)	—	6,107	—	6,107
2017 convertible debentures (2)	—	—	5,486	—
Diluted weighted average number of common shares (including Class B exchangeable units) outstanding (3)	96,480	82,166	101,832	82,067
Diluted EPS	0.012	0.117	0.150	0.257

(1) 2016 convertible debentures were dilutive for the quarter and year to date ended June 30, 2013.
(2) 2017 convertible debentures were assumed on October 1, 2013 and were dilutive for the year to date ended June 30, 2014.
(3) Share options and warrants were anti-dilutive for the quarter ended June 30, 2014.

16. SHARE-BASED COMPENSATION

(A) Deferred Share Units ("DSU")

Capstone granted 23,078 DSUs during the first six months of 2014. The five-day volume weighted average price ("VWAP") per DSU granted on January 2, 2014 was 3.55 dollars and 4.07 dollars on April 1, 2014 . As at June 30, 2014, the $324 carrying value of the DSUs was based on a market price of 4.25 dollars.

(B) Long-term Incentive Plan

Capstone granted 355,001 Restricted Stock Units ("RSU") and 171,240 Performance Share Units ("PSU") during the first six 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 June 30, 2014, the carrying value of the RSUs was $1,770 and $1,003 for the PSUs based on a market price of 4.25 dollars.

17. EXPENSES – ANALYSIS BY NATURE

	Three months ended Jun 30, 2014				Three months ended Jun 30, 2013			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	14,692	—	—	14,692	19,799	—	—	19,799
Raw materials, chemicals and supplies	20,140	—	—	20,140	16,958	—	—	16,958
Wages and benefits	9,476	2,339	205	12,020	8,327	1,639	125	10,091
Maintenance	1,886	—	—	1,886	1,114	—	—	1,114
Manager fees	372	—	—	372	379	—	—	379
Insurance	565	37	—	602	487	29	—	516
Professional fees for legal, audit, tax and other advisory	863	696	287	1,846	1,132	239	1,423	2,794
Leases	462	153	—	615	360	96	—	456
Property taxes	323	—	—	323	266	—	—	266
Bad debts	1,777	—	—	1,777	1	—	—	1
Other	1,354	597	48	1,999	1,261	523	35	1,819
Total	51,910	3,822	540	56,272	50,084	2,526	1,583	54,193

	Six months ended Jun 30, 2014				Six months ended Jun 30, 2013			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	34,204	—	—	34,204	41,305	—	—	41,305
Raw materials, chemicals and supplies	42,611	—	—	42,611	33,942	—	—	33,942
Wages and benefits	16,182	4,701	390	21,273	15,533	2,920	258	18,711
Maintenance	3,165	—	—	3,165	1,736	—	—	1,736
Manager fees	761	—	—	761	763	—	—	763
Insurance	1,154	82	—	1,236	977	56	—	1,033
Professional fees for legal, audit, tax and other advisory	1,786	1,850	312	3,948	1,583	564	1,383	3,530
Leases	952	257	—	1,209	701	183	—	884
Property taxes	683	—	—	683	557	—	—	557
Bad debts	3,124	—	—	3,124	1,379	—	—	1,379
Other	3,146	1,270	146	4,562	1,952	966	55	2,973
Total	107,768	8,160	848	116,776	100,428	4,689	1,696	106,813

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 Jun 30, 2014					Three months ended Jun 30, 2013				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	46,989	59,424	—	—	106,413	46,190	47,349	—	—	93,539
Depreciation of capital assets	(10,101)	(7,071)	—	(8)	(17,180)	(6,411)	(5,694)	—	(78)	(12,183)
Amortization of intangible assets	(1,837)	(886)	—	(96)	(2,819)	(2,002)	(605)	—	(17)	(2,624)
Interest income	143	62	727	39	971	175	114	706	22	1,017
Interest expense	(5,847)	(6,148)	—	(1,391)	(13,386)	(4,665)	(5,178)	—	(1,329)	(11,172)
Income tax recovery (expense)	330	(3,659)	—	(568)	(3,897)	(2,762)	(2,953)	1	81	(5,633)
Net income (loss)	4,551	13,492	(3,415)	(6,214)	8,414	14,565	9,241	(1,009)	(8,161)	14,636
Cash flow from operations	2,807	18,903	6,022	5,729	33,461	19,307	14,357	1,332	(3,425)	31,571
Additions to capital assets	1,070	31,001	—	—	32,071	1,722	28,797	—	9	30,528

	Six months ended Jun 30, 2014					Six months ended Jun 30, 2013				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	105,201	115,609	—	—	220,810	96,394	91,400	—	—	187,794
Depreciation of capital assets	(18,218)	(14,138)	—	(52)	(32,408)	(12,805)	(11,120)	—	(166)	(24,091)
Amortization of intangible assets	(4,755)	(1,856)	—	—	(6,611)	(3,994)	(1,345)	—	(36)	(5,375)
Interest income	281	99	1,488	77	1,945	475	208	1,405	33	2,121
Interest expense	(11,638)	(12,515)	—	(2,999)	(27,152)	(9,266)	(10,243)	—	(2,677)	(22,186)
Income tax recovery (expense)	(3,084)	(6,294)	—	(600)	(9,978)	(6,016)	(5,148)	—	104	(11,060)
Net income (loss)	16,973	23,392	(651)	(11,843)	27,871	27,250	16,998	1,046	(14,760)	30,534
Cash flow from operations	46,935	39,823	4,568	(13,422)	77,904	40,257	31,314	1,332	(10,703)	62,200
Additions to capital assets	5,154	60,876	—	—	66,030	2,183	65,360	—	11	67,554

	As at Jun 30, 2014					As at Dec 31, 2013				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	866,436	1,209,403	47,423	61,528	2,184,790	814,198	1,114,532	49,983	47,011	2,025,724
Total liabilities	381,276	846,918	4,637	259,317	1,492,148	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:

	Six months ended	
	Jun 30, 2014	Jun 30, 2013
Accounts receivable	6,149	(7,091)
Other assets	(15)	(1,998)
Accounts payable and other liabilities	(9,967)	4,889
	(3,833)	(4,200)

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.

During the second quarter, Cardinal entered forward sale and purchase gas contracts to manage Cardinal's remaining obligation and expected production requirements, taking into account the planned operating flexibility for the duration of the year, under the existing gas purchase agreement with Husky.

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	2026 - 2029	n/a	n/a	12
	NS	2006 - 2012	49% - 100%	74	NSPI	2020 - 2037	n/a	n/a	2
Development	ON	2014 - 2016E	50% - 100%	57	OPA	2034 - 2036	n/a	n/a	n/a
	PQ	2015E	51%	12	Hydro Quebec	2035	n/a	n/a	n/a
	SK	2016E	100%	10	SaskPower	2036	n/a	n/a	n/a
Biomass (2)									
Whitecourt	AB	1994	100%	32.8	TransAlta	2014	Millar Western	2016	39
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 with an expiry of December 31, 2034.

(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 264 million litres	Mix of commercial and residential customers.	6,671 kilometres	1.2 million	Ofwat	556

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