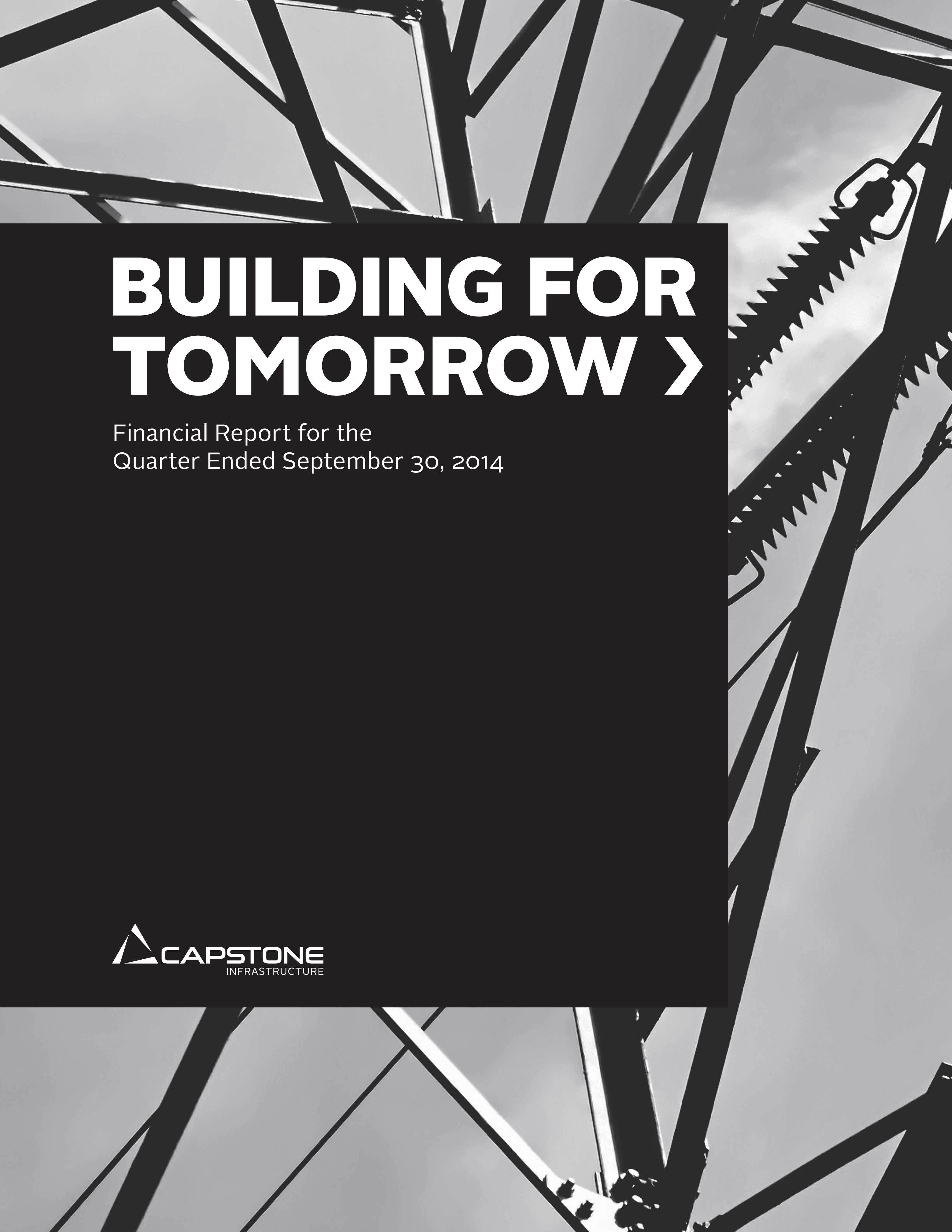

BUILDING FOR TOMORROW ›

Financial Report for the
Quarter Ended September 30, 2014

CAPSTONE
INFRASTRUCTURE

FINANCIAL HIGHLIGHTS

PERFORMANCE MEASURES

Earnings Measures ($000s)	Three months ended Sep 30, 2014	Three months ended Sep 30, 2013	Nine months ended Sep 30, 2014	Nine months ended Sep 30, 2013
Revenue	104,085	91,418	324,895	279,212
Net income	6,836	20,666	34,707	51,200
Basic earnings per share	(0.005)	0.104	0.146	0.368

Cash Flow Measures ($000s)	Three months ended Sep 30, 2014	Three months ended Sep 30, 2013	Nine months ended Sep 30, 2014	Nine months ended Sep 30, 2013
Cash flows from operating activities	19,225	32,858	97,129	95,058
Adjusted EBITDA [1]	32,159	26,253	113,342	90,429
Adjusted funds from operations (“AFFO”) [1]	5,418	3,346	37,426	26,006
Payout ratio [1]	133.9%	171.0%	58.0%	65.9%

[1] These performance measures are not defined by International Financial Reporting Standards (“IFRS”). Please see page 6 and 7 for a definition of each measure.

Capital Structure – At Fair Value ($000s)	Sep 30, 2014	Dec 31, 2013
Long-term debt – power [1]	430,121	346,244
Long-term debt – utilities – water [1]	353,136	313,816
Long-term debt – corporate	103,875	81,694
Common shares	387,804	330,560
Class B exchangeable units	13,485	11,568
Preferred shares	59,490	45,930
Debt to capitalization	65.8%	65.7%

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

INVESTOR INFORMATION

Quick Facts	
Common shares outstanding	93,446,640
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	$4.00	$4.15	405,000
Preferred shares	$19.90	$18.50	$19.83	2,094
2016 - Convertible debentures	$104.00	$101.40	$102.92	272
2017 - Convertible debentures	$105.90	$103.51	$104.19	197

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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", “Results of Operations” and "Financial Position Review" concerning the guidance provided on the Corporation. These statements and financial outlook are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and financial outlook and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements and financial outlook within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation (“MD&A”) for the year ended December 31, 2013 under the heading “Results of Operations”, as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com).

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

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

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

MESSAGE TO SHAREHOLDERS

I am pleased to report on Capstone Infrastructure's 2014 third quarter results, recent activities and outlook. Overall, the company achieved solid business performance in the quarter, reflecting the soundness of Capstone's diversified infrastructure assets and the responsible management of our portfolio.

Financial highlights

Revenue rose 13.9% in the third quarter compared to 2013, and was 16.4% higher year to date. The gains were primarily the result of higher revenue at Bristol Water from increased regulated tariffs, greater water consumption and the positive impact of currency exchange. Capstone's power segment contributed positively, with a growing portfolio of operating wind assets acquired from Renewable Energy Developers (ReD) in 2013, and the start of commercial operations at Skyway 8. These increases were partially offset by lower revenue from reduced production at the Cardinal plant and our hydro facilities, as well as lower average Alberta power pool prices at Whitecourt.

Total expenses were 5.9% higher than the same period last year, and increased by 8.2% in the first nine months of 2014. Higher operating costs at Bristol Water primarily related to foreign currency exchange appreciation contributed to the increase, as did our expanded wind power operations. Those higher costs were mitigated in the quarter by lower operating expenses at Cardinal resulting from reduced production and gas transportation costs.

Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA) increased by 22.5% in the third quarter, and 25.3% year to date, compared to 2013. These figures reflect the larger wind power portfolio, and a scheduled increase in contracted power rates at Cardinal. The favourable revenue factors cited above also lifted the contribution from Bristol Water. A higher headcount following the ReD acquisition affected Adjusted EBITDA, as well.

Adjusted Funds from Operations (AFFO) rose 61.9% in the quarter, and 43.9% year to date, due to higher Adjusted EBITDA, offset by higher debt and interest payments arising from the expanded wind portfolio and ReD convertible debt.

Our quarterly payout ratio, which is based on AFFO, was 133.9% in the quarter and 58.0% year to date, compared with 171.0% and 65.9%, respectively, for the same periods last year. These ratios are typical for Capstone's third quarter, which is traditionally our weakest because of seasonality factors in the power segment. 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 65.8%, and unrestricted cash and equivalents of $58.9 million, of which $36.6 million is available for general corporate purposes.

Areas of focus

Capstone's management team advanced specific priorities in the third quarter: stewardship of our assets, developing wind projects, preparing for the next regulatory period at Bristol Water, and potential growth areas.

In addition to rigorous regular and preventive maintenance of our power and utilities assets, a $30 million refurbishment and life-extension project at the Cardinal gas plant is now underway. This investment is necessary to prepare for operation as a cycling facility under a new 20-year contract with the Ontario Power Authority. The project will culminate with a one-month scheduled outage in the spring of 2015.

Work continued on building out Capstone's near-term wind projects. The 10-megawatt (MW) Skyway 8 wind facility entered commercial operation on August 14, on schedule and under budget, which makes the economics of the project even more favourable for Capstone. We closed approximately $76 million in project-level financing for the 25-MW Goulais wind farm on September 30, and turbine foundations have been poured on the site. Construction on the 24-MW Saint-Philémon facility is nearing completion, with an expected commissioning date in early 2015.

We have six other wind developments in Ontario and Saskatchewan, which are steadily progressing through the permitting and approvals process. These projects are expected to be commissioned in succession between 2015 and 2016, contingent on the regulatory approval process, ultimately bringing the potential for an additional 70 MW net of operating capacity to our power portfolio.

Significant attention was dedicated to the Price Review 2014 (PR14) process with Bristol Water, in which the UK Water Services Regulation Authority (Ofwat) will approve the price, capital investment and service package for the 2015 to 2020 period (AMP6). During the quarter, we prepared our response to Ofwat's August 29 draft determination.

Because there remains a considerable gap between Ofwat’s formula for AMP6 and Bristol Water’s business plan, Ofwat has agreed to further engage with Bristol Water in advance of the final determination on December 12.

In our previous quarterly report, we noted the intense competition for infrastructure asset acquisitions. However, we are pressing ahead, and were highly engaged in the third quarter in sourcing external growth opportunities, particularly in public-private partnerships (P3s). We invested the time and effort to understand the current state of the P3 market and to build relationships with the major companies active in the space. We are continuing our work to identify suitable investments in this area.

Outlook[1]
As we look toward the end of 2014, we reiterate our expectation of annual Adjusted EBITDA for the year of $150 million to $160 million. Capstone is uniquely positioned with a solid portfolio of quality assets, a proven ability to execute development of new projects, and a steadfast commitment to creating value for shareholders by delivering attractive total returns.

Thank you for your continued 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 nine months ended September 30, 2014 with the comparative prior periods and the Corporation's financial position as at September 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 nine months ended September 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 November 11, 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
Quarter ended September 30, 2014	0.1567	0.1553	1.8173	1.8178

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 profitable to do so. The new Contract provides Cardinal with a fixed monthly payment, escalating annually according to a pre-defined formula, intended to cover Cardinal's fixed operating costs and return on capital. 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.

Partial Sale of Interest in Goulais Wind Farm

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

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

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

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, which is non-recourse to Capstone, except for a $5,000 parent guarantee. 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 facility that has a term of three years bearing a fixed annual interest rate which will be determined based on 1.05% over the lender’s posted three-year commercial mortgage rate and fully amortizes over 20 years. Interest during construction was capitalized to projects under development and ceased upon achieving COD.

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 by Capstone annually for an additional year. On, November 10, 2014, Capstone extended the maturity to November 2017. The increased capacity enhances the Corporation's financial flexibility and may be used to fund Cardinal's planned upgrades and major maintenance or other corporate purposes.

On May 16, 2014 Capstone, through its indirect partially-owned subsidiary Parc Éolien Saint-Philémon LP, entered into a credit agreement that provided $60,535 of cash on closing 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 loan with a term of 19 ½ years bearing a fixed, annual interest rate of 5.49% and is fully amortizing over its remaining term. Interest during construction will be capitalized to projects under development. The loan is non-recourse to Capstone.

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

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. Operating expenses are adjusted to actual costs by transferring the portion of Cardinal gas payments required by IFRS to be included in other gains and losses. 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:	Adding:	Deducting items for corporate and businesses without significant non-controlling interests:
• Adjusted EBITDA generated from businesses with significant non-controlling interests	• Distributions received from businesses with significant non-controlling interests • Scheduled repayments of principal on loans receivable from equity accounted investments	• Interest paid • Income taxes paid • Dividends paid on the preferred shares included in shareholders' equity • Maintenance capital expenditure payments • Scheduled repayments of principal on debt

Payout Ratio

Payout ratio 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		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
EBITDA	43,912	37,843	147,932	131,089
Foreign exchange (gain) loss	1,210	(994)	2,979	(1,715)
Other (gains) and losses, net (1)	1,974	466	2,729	(9,251)
Equity accounted (income) loss	1,974	2,078	2,640	3,183
Distributions from equity accounted investments	—	—	5,352	3,104
Net pension interest income	(598)	(491)	(1,829)	(1,302)
Non-controlling interest ("NCI") portion of Adjusted EBITDA	(16,313)	(12,649)	(46,461)	(34,679)
Adjusted EBITDA	32,159	26,253	113,342	90,429
Cash flow from operating activities	19,225	32,858	97,129	95,058
Cash flow from operating activities of businesses with NCI	(19,395)	(23,068)	(56,914)	(54,382)
Distributions paid to Capstone from businesses with NCI	1,982	1,687	7,335	4,775
Distributions from equity accounted investments	—	—	5,352	3,104
Foreign exchange on loans receivable from Värmevärden	626	(16)	658	14
Chapais loans receivable principal repayments	309	278	903	811
Power maintenance capital expenditures	(1,390)	(2,358)	(2,079)	(3,504)
Power and corporate scheduled principal repayments	(3,938)	(3,899)	(12,818)	(11,344)
Power and corporate working capital changes	8,937	(1,198)	673	(5,713)
Dividends on redeemable preferred shares	(938)	(938)	(2,813)	(2,813)
AFFO	5,418	3,346	37,426	26,006

(1) Other gains and (losses), net are adjusted by $2,024 so operating expenses reflect the actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.

RESULTS OF OPERATIONS

Overview

Capstone's Adjusted EBITDA and AFFO were both higher for the third quarter and year to date in 2014.

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

In addition, Capstone's AFFO was affected by:
- Higher debt interest and principal payments for power businesses added from the ReD acquisition, partially offset in the year-to-date period by higher distributions from the Amherst wind facility.

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Revenue	104,085	91,418	324,895	279,212
Expenses [(1)]	(56,626)	(53,469)	(173,402)	(160,282)
Interest income	1,013	953	2,958	3,074
Distributions from equity accounted investments	—	—	5,352	3,104
Less: non-controlling interest ("NCI")	(16,313)	(12,649)	(46,461)	(34,679)
Adjusted EBITDA	32,159	26,253	113,342	90,429
Adjusted EBITDA of consolidated businesses with NCI	(16,321)	(12,630)	(46,492)	(34,629)
Distributions from businesses with NCI	1,982	1,687	7,335	4,775
Principal from loans receivable	309	278	903	811
Interest paid	(4,993)	(4,675)	(17,432)	(15,536)
Dividends paid on Capstone's preferred shares	(938)	(938)	(2,813)	(2,813)
Income taxes (paid) recovery	(1,452)	(372)	(2,520)	(2,183)
Maintenance capital expenditures	(1,390)	(2,358)	(2,079)	(3,504)
Scheduled repayment of debt principal	(3,938)	(3,899)	(12,818)	(11,344)
AFFO	5,418	3,346	37,426	26,006
AFFO per share	0.056	0.044	0.388	0.342
Payout ratio	133.9%	171.0%	58.0%	65.9%
Dividends declared per share	0.075	0.075	0.225	0.225

(1) 2014 Operating expenses are adjusted by $2,024 to actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.

Revenue for the quarter was $12,667, or 13.9%, higher in 2014 and $45,683, or 16.4%, higher year to date. The increase was mainly due to $10,240 and $34,449 at Bristol Water for the quarter and year to date, respectively. Higher revenue at Bristol Water was primarily related to favourable foreign currency translation, higher regulated water tariffs and higher water consumption. Power segment revenue increased by $2,427 and $11,234 for the quarter and year to date, respectively, primarily attributable to the Corporation's growing portfolio of operating wind power facilities.

Expenses for the quarter were $3,157, or 5.9%, higher in 2014 and $13,120, or 8.2%, higher year to date.
- **Operating expenses** increased by $262 during the quarter and $7,444, year to date, excluding the $2,024 transfer from other gains and losses. The increase was primarily due to foreign exchange appreciation for Bristol Water. In addition, wind power expenses increased by $1,262 and $3,958 for the quarter and year to date, respectively, reflecting the larger portfolio of wind power facilities. This was partially offset by $3,185 in the quarter and $10,063 year to date of lower operating expenses at Cardinal because of lower production and gas transportation costs.
- **Administrative expenses** for the quarter were $1,345 higher in 2014 and $4,808 higher year to date, primarily reflecting higher compensation expenses and integration costs attributable to the acquisition of ReD.
- **Project development costs** for the quarter were $474 lower in 2014 and $1,156 lower year to date. The year-to-date variance was primarily attributable to $2,818 of diligence costs for the acquisition of ReD in 2013, partially offset by $1,662 costs to advance the near-term wind development projects in 2014.

Distributions from equity accounted investments were $2,248, or 72.4%, higher year to date versus 2013, 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 $295, or 17.5%, higher in 2014 and $2,560, or 53.6%, higher year to date. The increase was primarily due to Bristol Water's dividend, which was $198 higher for the quarter and $1,454 higher year to date, respectively, reflecting an expected increase in the second quarter and favourable foreign exchange translation. In addition, the Amherst wind facility, ("Amherst"), which was acquired on October 1, 2013, contributed $52 and $971 during the quarter and year to date, respectively.

Interest paid for the quarter was $318, or 6.8%, higher in 2014 and $1,896, or 12.2%, higher year to date, mainly due to interest related to wind power facilities acquired on October 1, 2013 of $780 and $2,279, for the quarter and year to date, respectively.

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 was attributable to amortization of financing costs and accrued interest to September 30, 2014.

Income taxes paid for the quarter were $1,080, or 290%, higher in 2014 and $337, or 15.4%, higher year to date. Higher taxes paid for the quarter reflect a $823 payment for corporate minimum taxes, which is refundable against taxes in future periods. On a year-to-date basis, this was offset by a $813 lower taxes on preferred dividends paid in 2014.

Maintenance capital expenditures for the quarter were $968, or 41.1%, lower in 2014 and $1,425, or 40.7%, lower year to date, primarily related to Cardinal, which incurred lower maintenance capital expenditures because the facility is being reconfigured to operate as a cycling plant. Refer to page 24 of this MD&A in the "Capital Expenditure Program" section for more detail.

Scheduled repayment of debt principal for the quarter was $39, or 1.0%, higher in 2014 and $1,474, or 13.0%, higher year to date, mainly due to repayments related to the wind power facilities acquired on October 1, 2013 of $579 and $2,020 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 interests, 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 [(2)]	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.

(2) The power segment includes several wind development projects in addition to the operating businesses disclosed above.

Non-GAAP performance measures

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

	Three months ended			Nine months ended		
	Sep 30, 2014	Sep 30, 2013	Change	Sep 30, 2014	Sep 30, 2013	Change
Power	19,669	16,846	2,823	75,837	60,527	15,310
Utilities – water	15,608	12,630	2,978	44,151	34,629	9,522
Utilities – district heating	714	722	(8)	5,226	5,231	(5)
Corporate	(3,832)	(3,945)	113	(11,872)	(9,958)	(1,914)
Adjusted EBITDA	32,159	26,253	5,906	113,342	90,429	22,913
Power	9,247	6,502	2,745	46,162	33,255	12,907
Utilities – water	1,885	1,687	198	6,229	4,775	1,454
Utilities – district heating	714	722	(8)	5,226	5,231	(5)
Corporate	(6,428)	(5,565)	(863)	(20,191)	(17,255)	(2,936)
AFFO	5,418	3,346	2,072	37,426	26,006	11,420

Power

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

Change for the three and nine months ended September 30, 2014		
Three months	Nine months	Explanations
2,648	11,246	Adjusted EBITDA of operating facilities acquired on October 1, 2013.
500	1,620	Higher revenue as a result of annual increase in power rates for Cardinal.
—	1,075	Higher gas mitigation revenue as a result of surplus gas due to lower production.
(959)	(1,671)	Higher project development costs to advance near-term wind development projects.
(1,443)	(1,268)	Lower revenue due to unfavourable hydrology in the third quarter.
776	1,063	Higher revenue from favourable wind and solar resources.
(131)	(797)	Lower revenue at Whitecourt due to lower production and lower power pool prices.
—	2,949	Lower operating expenses for decrease in Cardinal gas transportation rates effective July 1, 2013.
1,432	1,093	Various other changes.
2,823	15,310	Change in Adjusted EBITDA.
(713)	(2,341)	Reversal of Adjusted EBITDA for power facilities with significant non-controlling interests.
1,384	1,726	Lower Cardinal maintenance capital expenditures primarily due to turbine combustion inspection in 2013.
820	1,588	Lower Cardinal debt service costs following refinancing of the CPC-Cardinal facility as a corporate facility in 2013.
97	1,106	Higher distributions for Amherst and Saint-Philémon since acquisition on October 1, 2013.
(1,302)	(4,153)	Increase in interest, principal payments and maintenance capital expenditures for operating facilities acquired on October 1, 2013.
(364)	(329)	Various other changes.
2,745	12,907	Change in AFFO.

Utilities – water

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

Change for the three and nine months ended September 30, 2014		
Three months	Nine months	Explanations
1,614	5,336	Impact of foreign exchange on Adjusted EBITDA.
1,364	4,186	Business performance increase due to annual increase in regulated water tariffs offset by higher repairs and maintenance expenses.
2,978	9,522	Change in Adjusted EBITDA.
215	727	Impact of foreign exchange on AFFO.
(17)	727	Lower dividends received in the quarter and higher year to date.
198	1,454	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 nine months ended September 30, 2014		
Three months	**Nine months**	**Explanations**
—	31	Impact of foreign exchange.
(8)	(36)	Lower interest received in the quarter and lower distributions received year to date.
(8)	(5)	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 nine months ended September 30, 2014		
Three months	**Nine months**	**Explanations**
(582)	(2,118)	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.
(398)	(622)	Higher professional fees in 2014 for the integration of ReD.
1,343	2,613	Higher project development costs in 2013 and higher staff costs in 2014 attributed to the acquisition of ReD.
(250)	(1,787)	Various other changes.
113	(1,914)	Change in Adjusted EBITDA.
(1,080)	(337)	Higher taxes paid in the third quarter of 2014 for corporate minimum taxes, which are refundable against future taxes. Year to date, this was partially offset by lower taxes on preferred share dividends in 2014.
—	(918)	Higher interest paid due to assumption of ReD convertible debt.
104	233	Other
(863)	(2,936)	Change in AFFO.

Net income

Net income for each business segment was as follows:

	Three months ended		Nine months ended	
Net Income	**Sep 30, 2014**	**Sep 30, 2013**	**Sep 30, 2014**	**Sep 30, 2013**
Power	2,866	3,733	19,839	30,983
Utilities – Water	12,645	23,559	36,037	40,557
Utilities – District Heating	(1,997)	(363)	(2,648)	683
Corporate	(6,678)	(6,263)	(18,521)	(21,023)
Total	6,836	20,666	34,707	51,200

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

	Three months ended		Nine months ended	
($000s)	**Sep 30, 2014**	**Sep 30, 2013**	**Sep 30, 2014**	**Sep 30, 2013**
Adjusted EBITDA	32,159	26,253	113,342	90,429
Adjustment from distributions from equity accounted investments to equity accounted income	(1,974)	(2,078)	(7,992)	(6,287)
NCI portion of Adjusted EBITDA	16,313	12,649	46,461	34,679
Other gains and (losses), net (1)	(1,974)	(466)	(2,729)	9,251
Foreign exchange gain (loss)	(1,210)	994	(2,979)	1,715
Interest expense	(13,761)	(11,427)	(40,913)	(33,613)
Net pension interest income	598	491	1,829	1,302
Depreciation and amortization	(20,143)	(15,252)	(59,162)	(44,718)
Income tax recovery (expense)	(3,172)	9,502	(13,150)	(1,558)
Net income	6,836	20,666	34,707	51,200

(1) Other gains and (losses), net are adjusted by $2,024 so operating expenses reflect the actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.

Infrastructure - Power

Capstone's power facilities produce electricity from gas cogeneration, 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 Sep 30, 2014	Gas	Wind[(1)]	Biomass[(1)]	Hydro	Solar	Development [(2)]	Total
Power generated (GWh)	184.2	77.5	50.7	24.0	12.6	n/a	349.0
Capacity factor	59.5%	14.2%	99.9%	30.4%	28.5%	n/a	n.m.f
Availability	96.9%	95.0%	100.0%	97.4%	100.0%	n/a	n.m.f
Revenue	23,469	8,194	3,896	2,074	5,296	—	42,929
Expenses [(3)]	(15,898)	(2,163)	(2,365)	(864)	(281)	(1,219)	(22,790)
Interest income	100	47	51	7	9	—	214
Distributions from equity accounted investments	—	—	—	—	—	—	—
Less: non-controlling interest ("NCI")	—	(794)	—	—	—	110	(684)
Adjusted EBITDA	7,671	5,284	1,582	1,217	5,024	(1,109)	19,669
Adjusted EBITDA of consolidated businesses with NCI	—	(828)	—	—	—	115	(713)
Distributions from businesses with NCI	—	52	—	—	—	45	97
Principal from loans receivable	—	—	309	—	—	—	309
Interest paid	—	(2,070)	—	(1,160)	(1,557)	—	(4,787)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	—	(614)	(64)	(712)	—	—	(1,390)
Scheduled repayment of debt principal	—	(2,061)	—	(286)	(1,591)	—	(3,938)
AFFO	7,671	(237)	1,827	(941)	1,876	(949)	9,247

Three months ended Sep 30, 2013	Gas	Wind	Biomass[(1)]	Hydro	Solar	Development [(2)]	Total
Power generated (GWh)	292.2	30.5	52.0	41.7	12.2	n/a	428.6
Capacity factor	93.9%	13.9%	97.4%	52.8%	27.5%	n/a	n.m.f
Availability	95.1%	95.3%	97.7%	98.5%	99.9%	n/a	n.m.f
Revenue	25,099	2,994	4,026	3,230	5,153	—	40,502
Expenses	(19,083)	(1,021)	(2,154)	(966)	(329)	(257)	(23,810)
Interest income	22	25	83	14	10	—	154
Adjusted EBITDA	6,038	1,998	1,955	2,278	4,834	(257)	16,846
Principal from loans receivable	—	—	278	—	—	—	278
Interest paid	(70)	(1,427)	—	(1,203)	(1,665)	—	(4,365)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(1,487)	(486)	(293)	(92)	—	—	(2,358)
Scheduled repayment of debt principal	(750)	(1,397)	—	(200)	(1,552)	—	(3,899)
AFFO	3,731	(1,312)	1,940	783	1,617	(257)	6,502

(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.
(2) Development includes costs for Capstone's power development team, and development project costs, which are expensed during construction.
(3) 2014 Operating expenses are adjusted by $2,024 to actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.

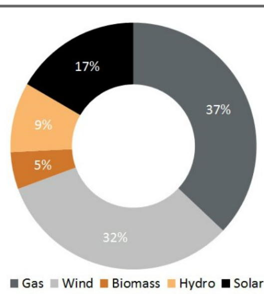
Nine months ended Sep 30, 2014	Gas	Wind[1]	Biomass[1]	Hydro	Solar	Development [2]	Total
Power generated (GWh)	704.9	318.6	147.3	111.9	32.8	n/a	1,315.5
Capacity factor	71.8%	20.5%	97.4%	47.8%	25.0%	n/a	n.m.f
Availability	98.5%	97.4%	97.7%	98.4%	98.3%	n/a	n.m.f
Revenue	81,807	31,785	11,020	9,721	13,797	—	148,130
Expenses [3]	(53,103)	(6,648)	(7,407)	(2,588)	(853)	(2,266)	(72,865)
Interest income	165	116	177	15	21	—	494
Distributions from equity accounted investments	—	2,328	—	—	—	—	2,328
Less: non-controlling interest ("NCI")	—	(2,366)	—	—	—	116	(2,250)
Adjusted EBITDA	28,869	25,215	3,790	7,148	12,965	(2,150)	75,837
Adjusted EBITDA of consolidated businesses with NCI	—	(2,462)	—	—	—	121	(2,341)
Distributions from businesses with NCI	—	971	—	—	—	135	1,106
Principal from loans receivable	—	—	903	—	—	—	903
Interest paid	—	(6,229)	—	(3,521)	(4,696)	—	(14,446)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	—	(948)	(210)	(921)	—	—	(2,079)
Scheduled repayment of debt principal	—	(6,400)	—	(2,557)	(3,861)	—	(12,818)
AFFO	28,869	10,147	4,483	149	4,408	(1,894)	46,162

Nine months ended Sep 30, 2013	Gas	Wind	Biomass[1]	Hydro	Solar	Development [2]	Total
Power generated (GWh)	947.6	167.5	148.6	126.1	30.7	n/a	1,420.5
Capacity factor	97.2%	25.8%	96.4%	53.8%	23.3%	n/a	n.m.f
Availability	97.9%	96.7%	96.8%	98.9%	99.8%	n/a	n.m.f
Revenue	85,096	16,444	11,818	10,436	13,102	—	136,896
Expenses	(63,166)	(2,853)	(7,007)	(2,453)	(924)	(595)	(76,998)
Interest income	82	75	399	42	31	—	629
Adjusted EBITDA	22,012	13,666	5,210	8,025	12,209	(595)	60,527
Principal from loans receivable	—	—	811	—	—	—	811
Interest paid	(338)	(4,342)	—	(3,646)	(4,909)	—	(13,235)
Income taxes (paid) recovery	—	—	—	—	—	—	—
Maintenance capital expenditures	(1,726)	(854)	(475)	(449)	—	—	(3,504)
Scheduled repayment of debt principal	(1,250)	(4,129)	—	(2,229)	(3,736)	—	(11,344)
AFFO	18,698	4,341	5,546	1,701	3,564	(595)	33,255

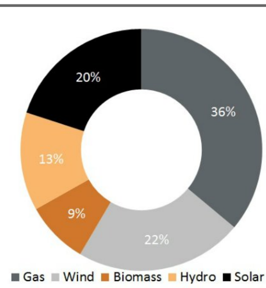
(1) For equity accounted investments, Adjusted EBITDA reflects management fees earned, interest income, as well as distributions paid to Capstone. Principal received on outstanding loans receivable are included in AFFO. The statistics for power generated, capacity factors and availability exclude those of Capstone's equity accounted investments.
(2) Development includes costs for Capstone's power development team, and development project costs, which are expensed during construction.
(3) 2014 Operating expenses are adjusted by $2,024 to actual costs by transferring the portion of Cardinal gas payments included in other gains and losses as required by IFRS.

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

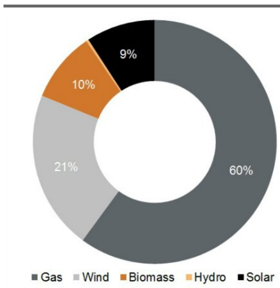
Adjusted EBITDA
YTD 2014



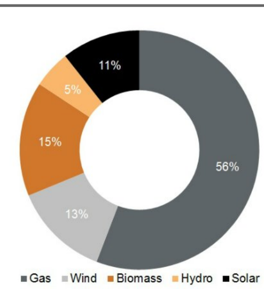
Adjusted EBITDA
YTD 2013



AFFO
YTD 2014



AFFO
YTD 2013



Revenue for the quarter was $2,427, or 6.0%, higher in 2014 and $11,234, or 8.2%, higher year to date. For the third quarter and year to date, facilities acquired from ReD contributed $4,562 and $14,974, respectively. In addition, revenue increased by $143 for the quarter and $695 year to date, due to higher production at Amherstburg Solar Park ("Amherstburg"). These increases were partially offset by lower revenue of $2,916 for the quarter and $4,802 year to date primarily because of lower production at Cardinal and the hydro facilities, as well as lower average power pool prices at Whitecourt.

Cardinal's revenue for the quarter was $1,630, or 6.5%, lower in 2014, resulting in $3,289, or 3.9%, 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 $1,020, or 4.3%, lower in 2014 and $4,133, or 5.4%, lower year to date, primarily due to lower Cardinal fuel costs of $3,307 and $6,945 for the quarter and year to date, respectively, because of lower production. In addition, Cardinal's fuel transportation costs were $2,949 lower year to date. This variance was partially offset by higher operating expenses related to Capstone's larger wind portfolio and higher development expenses, primarily to advance the near-term projects. The operating costs were higher by $1,262 for the quarter and $3,958, year to date and development costs were $962 and $1,671, higher, respectively.

Interest income for the quarter was $60, or 39.0%, higher in 2014 and $135, or 21.5%, 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 $2,328 higher year to date due to funds received from Glen Dhu, which was acquired on October 1, 2013.

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

Distributions from businesses with NCI for the quarter were $52 higher in 2014 and $971 higher year to date, attributable to Amherst since its acquisition on October 1, 2013.

Interest paid for the quarter was $422, or 9.7%, higher in 2014 and $1,211, or 9.1%, higher year to date. For the quarter and year to date, respectively, interest was $780 and $2,279 higher due to the larger wind portfolio since October 1, 2013. This was partially offset by lower interest paid of:
- $288 and $730 for the quarter and year to date, respectively, on amortizing debt balances at Erie Shores Wind Farm ("Erie Shores"), the hydro facilities and Amherstburg; and
- $70 and $338 for the quarter and year to date, respectively, paid on the former CPC-Cardinal credit facility in 2013.

Maintenance capital expenditures for the quarter were $968, or 41.1%, lower and $1,425, or 40.7%, lower year to date, primarily due to Cardinal, which has not incurred significant maintenance capital expenditures as efforts have shifted to reconfiguring the facility as a cycling plant. Lower maintenance capital expenditures of $1,487 and $1,726 for the quarter and year to date, respectively at Cardinal were partially offset by $620 and $472, respectively for repairs to the penstocks at the Dryden and Hluey Lakes hydro facilities, which Capstone has submitted an insurance claim for. 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 $39, or 1.0%, higher and $1,474, or 13%, higher year to date, primarily due to payments for the wind facilities acquired on October 1, 2013. These payments were partially offset by $750 and $1,250, during the quarter and year to date respectively, made on the former CPC-Cardinal credit facility in 2013.

Project development

Capstone's development pipeline currently includes the rights to net 69 MW across eight wind development projects, excluding the recently constructed Skyway 8 wind facility. Six 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. Two projects are characterized as near term, with ongoing construction. 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 achieve their commercial operation dates ("COD") between 2015 to 2016, assuming they receive the relevant regulatory approvals and permits required to proceed.

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

Project	Expected COD	Ownership Interest	Net Capacity	Counterparty	PPA Expiry	Status
Skyway 8	Complete	100%	9.48 MW	OPA	August 14, 2034	COD - August 14, 2014
Saint-Philémon	Q4 2014 or Q1 2015	51%	12.24 MW	Hydro-Québec	20 years from COD	Under construction
Goulais	Q2 2015	51%	12.75 MW	OPA	20 years from COD	Under construction

Capstone has funded these development projects with a combination of equity and project-level debt financing. The projects have been equity funded by Capstone, through a combination of existing cash, available credit and other equity partners, including First Nations and municipalities. The project debt financing for each near-term project has been arranged, and is non-recourse to Capstone. 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	Q3	Q1	Q2	Q3	Q4	Annual
Gas (2)	2034	184.2	341.8	272.6	290.5	334.1	1,239.0
Wind (3)	2020 - 2037	77.5	140.7	90.4	74.4	135.9	441.4
Biomass (3)	2014	50.7	50.2	45.6	50.4	49.3	195.5
Hydro	2017 - 2042	24.0	31.3	57.3	29.8	41.0	159.4
Solar	2031	12.6	6.9	12.9	12.4	5.9	38.1
Total		349.0	570.9	478.8	457.5	566.2	2,073.4

(1) Average long-term production is from March 2005 to September 30, 2014, except for Erie Shores, which is from June 2006; Amherstburg, which is from July 2011; the wind facilities acquired by Capstone on October 1, 2013, which is from January 2013; and Skyway 8, which is from August 14, 2014.

(2) Production was lower due to Cardinal's agreement with the OPA to provide additional flexibility to the electricity system by reducing off-peak production to help manage Ontario's surplus baseload generation issue.

(3) The average long-term production excludes Capstone's equity investments (Chapais biomass facility, and the Glen Dhu and Fitzpatrick wind facilities).

Outlook (4)

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's Skyway 8 development project will contribute since reaching COD on August 14, 2014.

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.

(4) 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		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Water supplied (megalitres)	21,745	21,820	62,195	61,753
Revenue	61,156	50,916	176,765	142,316
Operating expenses	(29,935)	(25,668)	(88,518)	(73,246)
Interest income	16	31	115	238
Adjusted EBITDA before non-controlling interest	31,237	25,279	88,362	69,308
Less: non-controlling interest ("NCI")	(15,629)	(12,649)	(44,211)	(34,679)
Adjusted EBITDA	15,608	12,630	44,151	34,629
Adjusted EBITDA of consolidated businesses with NCI	(15,608)	(12,630)	(44,151)	(34,629)
Dividends from businesses with NCI	1,885	1,687	6,229	4,775
AFFO	1,885	1,687	6,229	4,775

Revenue was $10,240, or 20.1%, higher for the quarter and $34,449, or 24.2%, higher year to date. Excluding foreign currency, revenue was $3,738, or 6.9% higher for the quarter and $12,511, or 7.6% higher on a year-to-date basis.The majority of the variance, or $3,586 and $10,537 for the quarter and year to date respectively, was attributable to the annual increase in water tariffs that became effective on April 1, 2014. In addition, higher water consumption contributed to an increase in revenue of $152 and $1,974, for the quarter and year to date, respectively.

Operating expenses for the quarter were $4,267, or 16.6%, higher than in 2013 and $15,272, or 20.9%, higher year to date. Excluding foreign currency, operating expenses were $992, or 3.9%, higher for the quarter and $3,981, or 4.7%, higher year to date. This balance was mostly due to higher repairs and maintenance activities, plus costs for the revised 2014 price review submission.

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 $198 higher than in 2013 due to the effect of foreign currency translation and $1,454 higher year to date, because of an expected increase in the second quarter of $723 and the effect of foreign currency translation of $731.

Capital expenditures

The approved and planned capital expenditures for the current asset management plan ("AMP5") period, which concludes in March 2015, are approximately $547,000, or £301,000 (base price of £261,000 adjusted for inflation for new regulatory fiscal year). As at September 30, 2014, cumulative capital expenditures incurred during AMP5 were $507,000, which is ahead of the original plan agreed with the Water Services Regulation Authority (“Ofwat”) by $9,000. Bristol Water's capital expenditures for regulatory purposes were approximately $29,000 during the quarter and approximately $90,000 for the year-to-date period ended September 30, 2014. Capstone expects Bristol Water's cumulative capital expenditures over AMP5 to comply with the regulator-approved amount.

Seasonality

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

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 and responded to Ofwat's draft determination in October of 2014. The response submitted on October 3, 2014 was based on feedback from Ofwat's August 29 draft determination, as well as independent reviews commissioned by Bristol Water. A final determination will be issued by Ofwat in December 2014.

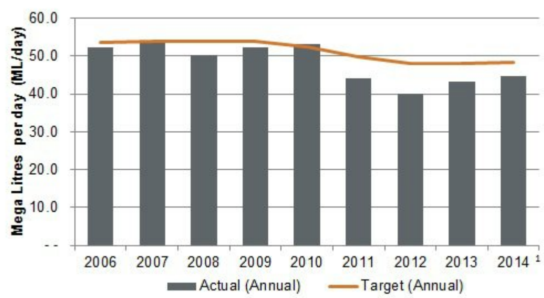
Management continues to focus on achieving regulatory output targets, including leakage of less than 50 million litres of water per day ("Ml/d") in 2014/2015, and is striving for a top quartile ranking in Ofwat's Service Incentive Mechanism ("SIM") customer service measure. Strong performance on the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

For the nine months ended September 30, 2014, Bristol Water achieved leakage levels of 44.7 Ml/d (for the regulatory year ended March 31, 2014 – 43.7 Ml/d). For the regulatory year ended March 31, 2014, Bristol Water had a SIM score of 85.4, which ranked fifth overall out of eighteen in the industry.

Growth in Regulated Capital Value

All data above reflects fiscal years ended March 31.

Water Leakage Versus Target



(1) For the nine months ended September 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 nine 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		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Heat and steam production (GWh)	126	127	698	768
Equity accounted income (loss)	(1,725)	(2,078)	(2,458)	(3,181)
Interest income	714	722	2,202	2,127
Dividends	—	—	3,024	3,104
Adjusted EBITDA and AFFO	714	722	5,226	5,231

Interest income

Interest is earned on the outstanding balance of the shareholder loan receivable from Värmevärden. Capstone received $2,202 in interest income from Värmevärden during the first nine months of 2014, which was $75 higher than 2013, due to favourable foreign exchange translation.

Dividends

For the quarters ended September, 30, 2014 and 2013, no dividends were received or expected. Year-to-date dividends received from Värmevärden were consistent with 2013.

Equity accounted income (loss)

Equity accounted losses included in Capstone's net income were $723 lower year to date than in the first nine months of 2013, primarily due to lower operating expenses as the result of more moderate weather conditions in 2014, which allows for the use of less expensive fuels in the production of heat.

Seasonality

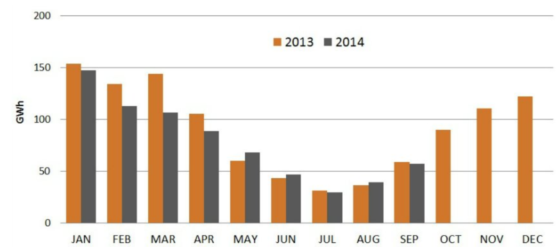
Heat production is typically highest during the first quarter, which represents the coldest months of the year. The first and fourth quarters combined have historically accounted for approximately 65% of Värmevärden's annual revenue.

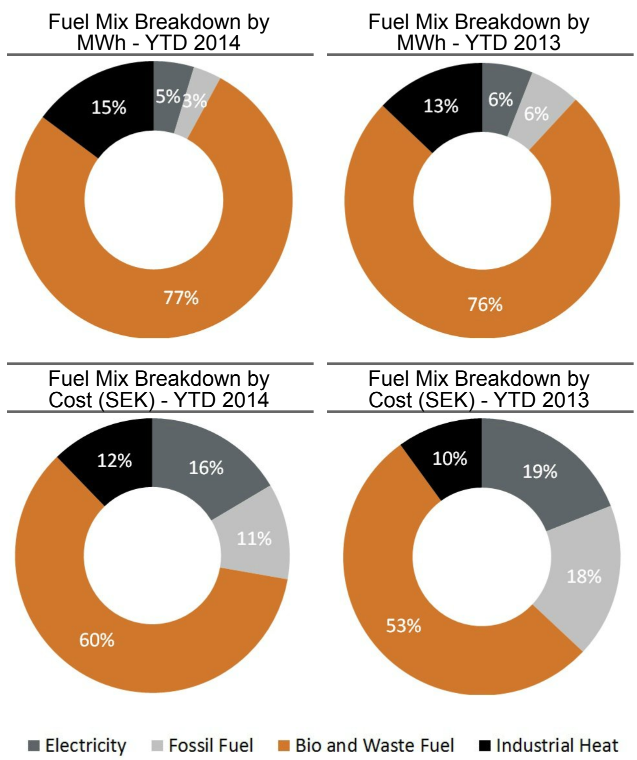
Outlook (1)

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

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

Heat and Steam Production





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		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Administrative expenses	(3,856)	(2,511)	(12,008)	(7,200)
Project development costs	(45)	(1,480)	(11)	(2,838)
Interest income	69	46	147	80
Adjusted EBITDA	(3,832)	(3,945)	(11,872)	(9,958)
Interest paid	(206)	(310)	(2,986)	(2,301)
Dividends paid on Capstone's preferred shares	(938)	(938)	(2,813)	(2,813)
Income taxes (paid) recovery	(1,452)	(372)	(2,520)	(2,183)
AFFO	(6,428)	(5,565)	(20,191)	(17,255)

Administrative expenses

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Staff costs	2,450	1,652	7,151	4,572
Other administrative expenses	1,406	859	4,857	2,628
	3,856	2,511	12,008	7,200

Staff costs for the quarter were $798, or 48.3%, higher in 2014 and $2,579, or 56.4%, higher year to date. Both increases reflect costs for new employees who joined Capstone since October 1, 2013. In addition, long-term incentive plan ("LTIP") expenses were higher due to a higher share price and new grants in 2014. The year-to-date increase also includes a $610 accrual reversal in the first quarter of 2013 partly related to a voluntary decision by the CEO to take 2012 short-term incentive plan ("STIP") payment as a grant under the LTIP.

Other administrative expenses for the quarter were $547, or 63.7%, higher in 2014 and $2,229, or 84.8%, 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 $1,435 and $2,827 respectively, primarily reflecting diligence costs in 2013 for the ReD acquisition.

Interest paid for the quarter was $104, or 33.5%, lower in 2014 and $685, or 29.8%, higher year to date. The year-to-date increase reflects the June semi-annual interest on convertible debentures assumed 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 $1,080, or 290.3%, higher than in 2013 and $337, or 15.4%, higher year to date. Higher taxes paid for the quarter reflect a $823 payment related to corporate minimum taxes, which is refundable against taxes payable in future periods. This was partially offset in the year-to-date period by $813 lower taxes on preferred dividends paid in 2014.

Outlook (1)

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

- Lower corporate project development costs 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 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 September 30, 2014, Capstone had a consolidated working capital surplus of $40,315, compared with $37,375 at December 31, 2013. The increase of $2,940 primarily reflects higher restricted and unrestricted cash balances within the power segment and at corporate, largely offset by increases in the current portion of long-term debt at Bristol Water and corporate.

Unrestricted cash and cash equivalents totaled $58,892 on a consolidated basis, with the power segment and corporate contributing $25,981 and $26,223, respectively.

As at September 30, 2014, Capstone's debt to capitalization ratio (refer to page 21) increased slightly from 65.7% to 65.8% on a fair value basis and from 57.3% to 61.2% on a book value basis. On a fair value basis, the increase was primarily due to an increase of $145,378 in outstanding debt offset by a 16.6% appreciation of the share price from December 31, 2013 to September 30, 2014. The increase in debt includes $83,877 for the power segment, attributable 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 $39,320, the result of draws from existing credit facilities to fund its capital expenditure program as well as the appreciation of the UK pound sterling.

During the first nine months of 2014, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	Sep 30, 2014	Dec 31, 2013
Power	55,628	31,638
Utilities – water	(24,275)	933
Corporate	8,962	4,804
Working capital	40,315	37,375

Capstone's working capital increased by $2,940, primarily due to higher power segment and corporate working capital of $23,990 and $4,158, respectively, partially offset by a reduction of $25,208 at Bristol Water.

Power segment working capital primarily increased because of $72,715 from new long-term debt proceeds included in restricted cash and earmarked for the construction of Saint-Philémon and Goulais. This was partially offset by $38,709 of higher accounts payable related to the near-term development projects. The remainder of the power segment variance primarily relates to the replacement of cash funded reserves with letters of credit. Corporate working capital increased primarily as a result of cash accumulating from distributions received from Capstone's business units, partially offset by $11,300 on the corporate facility that was classified as current in advance of its repayment in October 2014. Bristol Water working capital was in a deficit primarily because $32,721 of long-term debt maturing in August 2015 became current during the quarter.

On a consolidated basis, current assets increased by $88,116, or 50.2%, since December 31, 2013, primarily related to higher cash and restricted cash balances. Current liabilities increased by $85,176, or 61.7%, since December 31, 2013, primarily because of higher accounts payable related to the near-term development projects and increases in the current portion of long-term debt at corporate and Bristol Water.

Cash and cash equivalents

As at	Sep 30, 2014	Dec 31, 2013
Power	25,981	28,991
Utilities – water	6,688	9,130
Corporate	26,223	7,647
Unrestricted cash and cash equivalents	58,892	45,768
Less: cash with access limitations		
Power	(15,622)	(18,096)
Utilities – water	(6,688)	(9,130)
Cash and cash equivalents available to corporate	36,582	18,542

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The $13,124 increase in cash from December 31, 2013 was primarily attributable to a $18,576 increase at corporate, resulting from the accumulation of cash distributed from Capstone's business units in 2014. This was partially offset by declines of $2,442 and $3,010 at Bristol Water and the power segment respectively.

For Bristol Water, fluctuations in cash are primarily related to the timing of payments to fund the capital projects. In addition to cash and cash equivalents, Bristol Water also had $36,356 of available credit to fund the longer-term cash requirements of the capital projects as at September 30, 2014.

Cash and cash equivalents available to corporate are funds available for general purposes, including payment of dividends to shareholders. For the power segment, $15,622 is only periodically accessible to Capstone through distributions under the terms of credit agreements. Power facilities subject to this restriction are the hydro facilities, Erie Shores, Amherstburg, Glace Bay, SkyGen, Skyway 8 and Amherst.

Restricted cash

Restricted cash increased by $62,297 from December 31, 2013 to $91,844 at September 30, 2014, primarily due to the addition of $72,715 restricted for the construction of Goulais and Saint-Philémon, reduced by payments released to vendors during 2014. These were partially offset by the replacement of cash funded reserve accounts with $5,055 of letters of credit for the hydro facilities and $6,243 for Amherst, Glen Dhu and the wind development projects. The remaining difference mainly relates to foreign exchange translation on Bristol Water's restricted cash.

Cash flow

Capstone's unrestricted cash and cash equivalents increased by $13,124 in the first nine months of 2014 compared with a decrease of $8,211 in the same period of 2013. Details of the increase are as follows:

Nine months ended	Sep 30, 2014	Sep 30, 2013
Operating activities	97,129	95,058
Investing activities	(262,196)	(105,916)
Financing activities (excluding dividends to shareholders)	200,105	20,730
Dividends paid to shareholders	(22,305)	(17,645)
Effect of exchange rate changes on cash and cash equivalents	391	(438)
Change in cash and cash equivalents	13,124	(8,211)

Cash flow from operating activities generated $2,071 more cash and cash equivalents in the first nine months of 2014 than during first nine months of 2013. Power and utilities segments operating cash flows increased by $28,020 and $5,905 respectively. This was partially offset by a decrease of $31,854 at corporate. Higher cash flows for the power and utilities segments were primarily attributable to higher revenues. The corporate cash flow decrease was attributable to a decrease in current liabilities, as well as higher corporate expenses.

Cash flow used by investing activities was $156,280 higher in the first nine months of 2014. In 2014, Capstone used $98,761 (2013 - $105,288) of cash for capital asset additions primarily for Bristol Water and $95,427 to fund the projects under development for the power segment. In addition, Capstone's restricted cash increased by $72,715 for debt proceeds received for the construction of the wind development projects, partially offset by a $10,418 restricted cash reduction and an $11,500 increase in loans receivable for the Goulais project. 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 $179,375 higher in the first nine months of 2014. In 2014, the power segment raised $155,272 of debt for the wind development projects and received $13,918 from non-controlling interests on these projects. In addition, $20,000 was drawn on the corporate credit facility and Bristol Water drew $36,522 on its existing debt facility to fund the capital expenditure program (2013 - $63,288). This was partially offset by $14,834 of scheduled debt repayments (2013 - $37,147).

Dividends paid to shareholders were $4,660 higher than during first nine months of 2014 due to the issuance of new shares on October 1, 2013 to acquire ReD.

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:

	Sep 30, 2014		Dec 31, 2013	
As at	Fair Value	Carrying Value	Fair Value	Carrying Value
Long-term debt				
Power (1)	430,121	424,436	346,244	349,807
Utilities – water (1)	353,136	316,945	313,816	288,017
Corporate	103,875	100,420	81,694	80,107
Deferred financing fees	—	(9,416)	—	(7,446)
	887,132	832,385	741,754	710,485
Equity				
Shareholders' equity (2)	460,779	527,352	388,058	529,550
Total capitalization	1,347,911	1,359,737	1,129,812	1,240,035
Debt to capitalization	65.8%	61.2%	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:

			Sep 30, 2014		Dec 31, 2013	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Project debt						
Wind - Operating (1)	2016 - 2032	4.22 - 6.36%	210,460	201,695	195,345	191,134
Wind - Development (2)	2033 - 2034	5.16 - 5.49%	137,666	136,908	—	—
Hydros	2040 - 2041	4.56 - 7.00%	88,734	91,372	86,020	93,930
Solar	2016	7.32%	82,819	82,819	86,680	86,680
			519,679	512,794	368,045	371,744
Less: non-controlling interest			(89,558)	(88,358)	(21,801)	(21,937)
Capstone share of long-term debt			430,121	424,436	346,244	349,807

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

In 2014, Capstone completed the financing for all three of the near-term development projects to be used for the construction of Saint-Philémon, Skyway 8 and Goulais. Refer to the "Changes in the Business" section of the MD&A for additional information. As at September 30, 2014, approximately 97% of the power segment's long-term debt was scheduled to amortize over the term 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 various wind projects ($11,500).

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 nine months of 2014, Capstone's power segment complied with all covenants and expects to continue to remain in compliance.

Utilities – Water

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

			Sep 30, 2014		Dec 31, 2013	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Bank loans	2015 - 2017	1.27 - 5.73%	126,196	126,570	87,056	87,329
Term loans	2032 - 2041	5.30 – 6.44%(1)	544,100	475,420	505,322	457,786
Debentures	Irredeemable	3.50 – 4.25%	2,574	2,361	2,424	2,275
Cumulative preferred shares	Irredeemable	8.75%	33,402	29,539	32,830	28,644
Consolidated long-term debt			706,272	633,890	627,632	576,034
Less: non-controlling interest			(353,136)	(316,945)	(313,816)	(288,017)
Capstone share of long-term debt			353,136	316,945	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 September 30, 2014, approximately 78% of the utilities – water segment's long-term debt had a maturity date greater than 10 years. The utilities – water segment only has $32,721 of 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 nine months of 2014, the carrying value of Bristol Water's debt increased by $57,856, of which $17,711 was due to foreign exchange translation and $36,522 due to the increase in debt; the remaining increase primarily relates to increases in index-linked debt. As at September 30, 2014, $36,356 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 nine months of 2014, Bristol Water complied with all its covenants and expects to remain in compliance.

Corporate

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

			Sep 30, 2014		Dec 31, 2013	
As at	Maturity	Interest Rate	Fair Value	Carrying Value	Fair Value	Carrying Value
Corporate credit facility	2016	3.01%	31,300	31,300	11,300	11,300
Convertible debentures	2016	6.50%	43,998	41,430	42,963	41,068
Convertible debentures	2017	6.75%	28,577	27,690	27,431	27,739
			103,875	100,420	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 nine months of 2014, Capstone complied with all covenants and expects to remain in compliance.

Equity

Shareholders' equity comprised:

As at	Sep 30, 2014	Dec 31, 2013
Common shares	712,923	710,662
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
Share capital	811,653	809,392
Other equity items (1)	9,284	9,428
Accumulated other comprehensive income (loss)	22,138	17,013
Retained earnings (deficit)	(315,723)	(306,283)
Equity attributable to Capstone shareholders	527,352	529,550
Non-controlling interests	180,265	138,613
Total shareholders' equity	707,617	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 year-to-date increase in common shares outstanding was as follows:

(000s of shares and $000s)	Shares	Amount
Opening balance	92,854	710,662
Shares issued	14	39
Dividend reinvestment plan (DRIP)	579	2,222
Ending balance	93,447	712,923

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

As at		Sep 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	$4.15	93,447	387,804	$3.56	92,854	330,560
Class B units	$4.15	3,249	13,485	$3.56	3,249	11,568
Preferred shares	$19.83	3,000	59,490	$15.31	3,000	45,930
			460,779			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 into several material contracts: a 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 Sep 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

Year to date, Capstone's $235,159 of capital expenditures include $101,947 of capital asset additions and $133,212 of additions to projects under development.

Below is the breakdown of the investment by operating segment:

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Power	108,690	2,444	145,338	4,627
Utilities – water	28,945	34,504	89,821	99,864
Corporate	—	—	—	11
	137,635	36,948	235,159	104,502

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 $102,274 and $133,212 of costs to construct Skyway 8, Saint-Philémon and Goulais for the quarter and year to date, respectively (including interest of $806 for the quarter and $1,164 year to date capitalized during construction). In addition, Cardinal invested $4,550 for the quarter and $8,156 year to date to prepare the plant to operate as a cycling facility. The remaining difference for both periods primarily relates to repairs at Erie Shores and the hydro facilities. In 2013, capital expenditures in the power segment were primarily related to Erie Shores for the installation of WindBOOST as well as the completion of scheduled outages at Cardinal and the hydro facilities.

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 September 30, 2014, the defined benefit retirement plan was in a $61,229 surplus position. During the first nine months of 2014, the surplus increased by $14,988, 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 nine months ended September 30, 2014 were $1,152 and $3,235, respectively. The expense was incurred entirely at Bristol Water.

The total defined contribution pension expense recorded in the consolidated statement of income for the nine months ended September 30, 2014 was $1,630. The expense comprised $1,491 for Bristol Water and $139 for Cardinal.

Income Taxes

The third quarter current income tax expense of $3,224 represents $2,982 and $242 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	Sep 30, 2014	Dec 31, 2013
Deferred income tax assets	—	494
Deferred income tax liabilities	(193,965)	(182,567)
	(193,965)	(182,073)

Deferred income tax liabilities of $193,965 represent $73,155 ($74,074 at December 31, 2013) for Capstone's Canadian operations and $120,810 ($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 $11,892 during the first nine months of 2014, primarily due to differences between accounting and tax depreciation for capital assets. This was partially offset by the recognition of tax loss carry forwards for Capstone's Canadian operations. The deferred tax expense of $9,926 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 September 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

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. These contracts are 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. The fair value of these contracts, as reported in Capstone's interim consolidated statements of financial position, were:

As at	Sep 30, 2014	Dec 31, 2013
Derivative contract assets	1,888	1,328
Derivative contract liabilities	(14,287)	(13,840)
Net derivative contract liabilities	(12,399)	(12,512)

The net derivative contract liabilities were $113 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 loss of $934, 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		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Interest rate swap contracts	(286)	844	(3,144)	6,017
Foreign currency contracts	440	(563)	(192)	(1,037)
Gas swap contracts	(72)	—	123	—
Forward gas sale and purchase contracts	(527)	—	(418)	—
Gas purchase agreement	(531)	—	(351)	—
Embedded derivative	(110)	394	2,795	5,482
Gains (losses) on derivatives in net income	(1,086)	675	(1,187)	10,462
Interest rate swap contracts in OCI	35	(54)	253	545
Gains (losses) on derivatives in comprehensive income	(1,051)	621	(934)	11,007

The loss on derivatives for the first nine months of 2014 was primarily attributable to the the loss on interest rate contracts, partially offset by gains on the embedded derivative. In addition, losses in the quarter on the various gas contracts, including the gas swap, forward sale and purchases and the purchase agreement contributed to the year-to-date loss.

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 because of a reduction in long-term interest rates.

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

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

FOREIGN EXCHANGE

Capstone's year to date foreign exchange losses of $2,979 for 2014 and $1,715 gains for 2013 are primarily due to unrealized translation of Capstone's SEK - denominated shareholder loan receivable with Värmevärden. Capstone's foreign exchange was $2,204 lower for the quarter than 2013, and $4,694 lower year to date. The losses primarily 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.

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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	104,085	106,413	114,397	110,291	91,418	93,539	94,255	94,654
Net income (loss) (1 and 3)	532	2,097	14,437	10,441	8,887	10,015	12,019	12,909
Adjusted EBITDA	32,159	39,492	41,691	37,992	26,253	31,834	32,342	31,074
AFFO	5,418	12,030	19,886	13,930	3,346	9,014	13,644	13,560
Common dividends (2)	7,252	7,244	7,220	7,208	5,720	5,709	5,696	5,579
Preferred dividends	938	938	938	938	938	938	938	938
Earnings Per Share – Basic	(0.005)	0.012	0.140	0.099	0.104	0.119	0.145	0.147
Earnings Per Share – Diluted	(0.005)	0.012	0.132	0.096	0.102	0.117	0.141	0.143
AFFO per share	0.056	0.125	0.207	0.145	0.044	0.119	0.180	0.179
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	Sep 30, 2014	Dec 31, 2013
Current assets			
Cash and cash equivalents		58,892	45,768
Restricted cash		91,844	29,547
Accounts receivable		97,979	89,139
Other assets		12,297	9,640
Current portion of loans receivable	6	1,412	1,310
Current portion of derivative contract assets	7	1,121	25
		263,545	175,429
Non-current assets			
Loans receivable	6	47,752	39,578
Derivative contract assets	7	767	1,303
Equity accounted investments	8	29,883	39,051
Capital assets	9	1,443,782	1,356,682
Projects under development	10	137,044	21,674
Intangible assets	11	346,169	345,272
Retirement benefit surplus	12	61,229	46,241
Deferred income tax assets		—	494
Total assets		2,330,171	2,025,724
Current liabilities			
Accounts payable and other liabilities		149,286	116,852
Current portion of derivative contract liabilities	7	5,275	2,219
Current portion of finance lease obligations		625	609
Current portion of long-term debt	13	68,044	18,374
		223,230	138,054
Long-term liabilities			
Derivative contract liabilities	7	9,012	11,621
Electricity supply and gas purchase contracts		415	1,634
Deferred income tax liabilities		193,965	182,567
Deferred revenue		20,214	15,589
Finance lease obligations		3,399	3,761
Long-term debt	13	1,167,901	1,001,042
Liability for asset retirement obligation		4,418	3,293
Total liabilities		1,622,554	1,357,561
Equity attributable to shareholders' of Capstone		527,352	529,550
Non-controlling interest		180,265	138,613
Total liabilities and equity		2,330,171	2,025,724
Commitments and contingencies	20		

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone: Share Capital (1)	Other Equity Items (2)	AOCI (3)	Retained Earnings	NCI (4)	Total Equity
Balance, December 31, 2012		731,204	9,284	(809)	(320,831)	91,610	510,458
Other comprehensive income (loss)		—	—	6,389	3,696	7,626	17,711
Net income for the period		—	—	—	30,921	20,279	51,200
Dividends declared to common shareholders of Capstone	14b	2,290	—	—	(17,125)	—	(14,835)
Dividends declared to preferred shareholders of Capstone (5)	14b	—	—	—	(2,943)	—	(2,943)
Dividends declared by Bristol Water		—	—	—	—	(4,702)	(4,702)
Balance, September 30, 2013		733,494	9,284	5,580	(306,282)	114,813	556,889

	Notes	Equity attributable to shareholders of Capstone: Share Capital (1)	Other Equity Items (2)	AOCI (3)	Retained Earnings	NCI (4)	Total Equity
Balance, December 31, 2013		809,392	9,428	17,013	(306,283)	138,613	668,163
Other comprehensive income (loss)		—	—	5,125	4,370	8,525	18,020
Net income for the period		—	—	—	17,066	17,641	34,707
Shares issued		39	—	—	—	—	39
Release of share option reserve		—	(144)	—	144	—	—
Dividends declared to common shareholders of Capstone	14a&b	2,222	—	—	(21,715)	—	(19,493)
Dividends declared to preferred shareholders of Capstone (5)	14b	—	—	—	(2,940)	—	(2,940)
Dividends declared to NCI		—	—	—	—	(7,012)	(7,012)
Disposal of partial interest in Chi-Wiikwedong LP	5b	—	—	—	(6,365)	7,894	1,529
Contributions from NCI (6)		—	—	—	—	14,604	14,604
Balance, September 30, 2014		811,653	9,284	22,138	(315,723)	180,265	707,617

(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 $130 of deferred income taxes (2013 - $130).
(6) Contributions from NCI relates to $11,500 for Chi-Wiikwedong LP and $3,104 for Saint-Philémon (including $686 release of deferred income taxes).

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

($000s, except per share amounts)	Notes	Three months ended Sep 30, 2014	Three months ended Sep 30, 2013	Nine months ended Sep 30, 2014	Nine months ended Sep 30, 2013
Revenue		104,085	91,418	324,895	279,212
Operating expenses	17	(49,483)	(49,221)	(157,093)	(149,649)
Administrative expenses	17	(3,856)	(2,511)	(12,008)	(7,200)
Project development costs	17	(1,263)	(1,737)	(2,277)	(3,433)
Equity accounted income (loss)	8	(1,974)	(2,078)	(2,640)	(3,183)
Interest income		1,013	953	2,958	3,074
Net pension interest income		598	491	1,829	1,302
Other gains and (losses), net		(3,998)	(466)	(4,753)	9,251
Foreign exchange gain (loss)		(1,210)	994	(2,979)	1,715
Earnings before interest expense, taxes, depreciation and amortization		43,912	37,843	147,932	131,089
Interest expense		(13,761)	(11,427)	(40,913)	(33,613)
Depreciation of capital assets	9	(17,516)	(12,521)	(49,924)	(36,612)
Amortization of intangible assets		(2,627)	(2,731)	(9,238)	(8,106)
Income before income taxes		10,008	11,164	47,857	52,758
Income tax recovery (expense)					
Current		(1,338)	(492)	(3,224)	(260)
Deferred		(1,834)	9,994	(9,926)	(1,298)
Total income tax recovery (expense)		(3,172)	9,502	(13,150)	(1,558)
Net income		6,836	20,666	34,707	51,200
Net income attributable to:					
Shareholders of Capstone		532	8,887	17,066	30,921
Non-controlling interest		6,304	11,779	17,641	20,279
		6,836	20,666	34,707	51,200
Earnings per share	15				
Basic		(0.005)	0.104	0.146	0.368
Diluted		(0.005)	0.102	0.146	0.359

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Sep 30, 2014	Three months ended Sep 30, 2013	Nine months ended Sep 30, 2014	Nine months ended Sep 30, 2013
Cumulative differences on translation of foreign operations		(1,675)	12,175	10,355	9,499
Other comprehensive income on equity accounted investments	8	(436)	408	(1,043)	700
Gains (losses) on financial instruments designated as cash flow hedges (net of tax in 2014 - ($5) and ($65), respectively; 2013 - ($82) and ($208), respectively)		(74)	(136)	(32)	120
Total of items that may subsequently be reclassified to net income		(2,185)	12,447	9,280	10,319
Actuarial gains recognized in respect of retirement benefit obligations (net of tax in 2014 - ($1,552) and ($2,185), respectively; 2013 - $2,200 and ($459), respectively) - will not be reclassified to net income		6,212	(1,512)	8,740	7,392
Other comprehensive income (loss)		4,027	10,935	18,020	17,711
Net income		6,836	20,666	34,707	51,200
Total comprehensive income		10,863	31,601	52,727	68,911
Comprehensive income attributable to:					
Shareholders of Capstone		2,172	15,757	26,561	41,006
Non-controlling interest		8,691	15,844	26,166	27,905
		10,863	31,601	52,727	68,911

See accompanying notes to these interim consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended	Notes	Sep 30, 2014	Sep 30, 2013
Operating activities:			
Net income		34,707	51,200
Deferred income tax expense		9,926	1,298
Depreciation and amortization		59,162	44,718
Other gains and losses (net)		2,729	(9,251)
Amortization of deferred financing costs and non-cash financing costs		5,627	6,663
Equity accounted (income) loss	8	2,640	3,183
Unrealized foreign exchange (gain) loss on loan receivable	6	2,321	(1,729)
Change in non-cash working capital	19	(19,983)	(1,024)
Total cash flows from operating activities		97,129	95,058
Investing activities:			
Distributions received from equity accounted investments	8	5,485	3,127
Decrease in loan receivable		903	811
Increase in loan receivable	5b and 6	(11,500)	—
Investment in capital assets and intangibles	9	(98,761)	(105,288)
Investment in projects under development	10	(95,427)	—
Change in restricted cash and short term deposits		(61,996)	(3,670)
Purchase of foreign currency contracts		(900)	(896)
Total cash flows used in investing activities		(262,196)	(105,916)
Financing activities:			
Proceeds from long-term debt		211,794	63,288
Contributions from NCI		13,918	—
Dividends paid to common and preferred shareholders		(22,305)	(17,645)
Repayment of long-term debt and finance lease obligations		(14,834)	(37,147)
Dividends paid to non-controlling interests		(7,012)	(4,702)
Transaction costs on debt issuance		(3,761)	(709)
Total cash flows from (used in) financing activities		177,800	3,085
Effect of exchange rate changes on cash and cash equivalents		391	(438)
Increase (decrease) in cash and cash equivalents		13,124	(8,211)
Cash and cash equivalents, beginning of year		45,768	49,599
Cash and cash equivalents, end of period		58,892	41,388
Supplemental information:			
Interest paid		30,994	33,210
Taxes paid (recovery)		3,068	2,579

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 449 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 November 11, 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 nine 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 AND DISPOSALS

(A) Acquisition of Renewable Energy Developers

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

(B) Partial Sale of Interest in Goulais Wind Farm

On August 14, 2014, Capstone sold a 49% interest in Chi-Wiikwedong LP, which holds the Goulais development project, to a subsidiary of Batchewana First Nation of Ojibways ("BFN"). As part of the sale, Capstone funded an $11,500 loan to BFN which was then used by BFN to contribute its share of equity to the construction of the project.

Following this sale, Capstone retained a 51% interest in Chi-Wiikwedong LP and continues to consolidate based on retention of control. Under IFRS the sale has been treated as an equity transaction resulting in the transfer of a portion of Capstone's retained earnings to non-controlling interests as follows:

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

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

6. LOANS RECEIVABLE

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

As at	Sep 30, 2014	Dec 31, 2013
Värmevärden	35,337	37,658
BFN	11,500	—
Chapais	2,238	3,141
Macquarie Long Term Care L.P. ("MLTCLP")	89	89
	49,164	40,888
Less: current portion	(1,412)	(1,310)
Total long-term loans receivable	47,752	39,578

On September 26, 2014, Capstone issued an $11,500 promissory note to a subsidiary of the BFN to fund their equity commitment to Chi-Wiikwedong LP. The promissory note will be repaid over the 20-year term with fixed payments commence on the commercial operation date bearing a fixed annual interest rate of 9%. Refer to note 5(b) for detail.

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

Nine months ended	Sep 30, 2014		Sep 30, 2013	
	SEK	$	SEK	$
Opening balance	227,541	37,658	227,541	34,768
Unrealized foreign exchange gain (loss)	—	(2,321)	—	1,729
Ending balance	227,541	35,337	227,541	36,497

7. FINANCIAL INSTRUMENTS

(A) Classification by Level

The following table summarizes the Corporation's financial instruments that have been recorded at fair value as at September 30, 2014:

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Sep 30, 2014	Dec 31, 2013
Derivative contract assets:					
Foreign currency contracts	—	1,304	—	1,304	450
Gas swap contracts	—	123	—	123	—
Forward gas sale contract	—	322	—	322	—
Embedded derivative asset	—	—	139	139	878
Less: Current portion	—	(982)	(139)	(1,121)	(25)
	—	767	—	767	1,303
Derivative contract liabilities:					
Interest rate swap contracts	—	9,309	—	9,309	6,166
Interest rate swap contracts for hedging	—	1,921	—	1,921	2,174
Forward gas purchase contract	—	740	—	740	—
Gas purchase agreement	—	—	351	351	—
Embedded derivative liability	—	—	1,966	1,966	5,500
Less: Current portion	—	(3,309)	(1,966)	(5,275)	(2,219)
	—	8,661	351	9,012	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	4,190	4,024
Long-term debt	1,329,826	1,235,945

(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 contract's 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 determined by 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 determined by 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 Sep 30, 2014	Unobservable inputs	Estimated input	Relationship of input to fair value
Embedded derivative - Asset	139	Natural gas price	Empress gas and Dawn gas spot and forward prices. Empress spot price of 4.822 dollars and Dawn spot price of 4.632 dollars.	10% increase in gas price results in an increase in fair value of $148
		DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $20.
Embedded derivative - Liability	(1,966)	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $487.
Gas purchase agreement	(351)	DCR price	OEFC rate of 7.7539 dollars.	1% increase in DCR results in a decrease in fair value of $nil
	(2,178)			

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	(3,337)
Change in value of embedded derivative included in other gains and (losses) in net income	2,795
Closing balance, September 30, 2014	(2,178)

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 %	Sep 30, 2014 Carrying value	Dec 31, 2013 Carrying value
Värmevärden	33.3%	5,353	12,009
Glen Dhu (1)	49.0%	23,862	26,323
Others (2)	31.3 - 50.0%	668	719
		29,883	39,051

(1) Under the limited partnership agreement, Capstone has the option to acquire an additional 1% interest in Glen Dhu from November 2017 to November 2018 at a price based on a predetermined calculation.
(2) Others are Capstone's investment in Fitzpatrick, 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 September 30 were as follows:

Three months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distribution	Ending balance
September 30, 2014	32,293	(1,974)	(436)	—	29,883
September 30, 2013	12,970	(2,078)	408	—	11,300

Nine months ended	Opening balance	Equity accounted income (loss)	Equity share of OCI	Distribution	Ending balance
September 30, 2014	39,051	(2,640)	(1,043)	(5,485)	29,883
September 30, 2013	16,990	(3,183)	700	(3,207)	11,300

9. CAPITAL ASSETS

As at January 1, 2014	1,356,682
Additions	101,947
Disposals	(2,050)
Transfers (1)	12,240
Depreciation	(49,924)
Foreign exchange	24,887
As at September 30, 2014	1,443,782

(1) Includes transfers of $17,244 for Skyway 8 at the commercial operation date ("COD") from projects under development, less $5,004 of transfered to intangibles from Bristol Water. Refer to note 10 and 11, respectively.

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

	Nine months ended	
	Sep 30, 2014	Sep 30, 2013
Additions	101,947	104,502
Adjustment for change in capital amounts included in accounts payable and accrued liabilities	(3,816)	56
Net foreign exchange difference	630	730
Cash additions	98,761	105,288

10. PROJECTS UNDER DEVELOPMENT

As at January 1, 2014	21,674
Capitalized costs during the period (1)	133,212
Transferred to capital assets (2) (refer to note 9)	(17,244)
Transferred to intangibles (2) (refer to note 11)	(598)
As at September 30, 2014	137,044

(1) Includes $1,164 of capitalized borrowing costs during the construction of Saint-Philémon.
(2) Amounts were transfered on COD of Skyway 8.

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

	Nine months ended	
	Sep 30, 2014	**Sep 30, 2013**
Additions	133,212	—
Adjustment for change in PUD included in accounts payable and accrued liabilities	(37,785)	—
Cash additions	95,427	—

11. INTANGIBLES

As at January 1, 2014	345,272
Transfers (1)	5,602
Amortization	(10,457)
Disposals	(5)
Foreign exchange	5,757
As at September 30, 2014	346,169

(1) Includes transfers of $598 for Skyway 8 from projects under development, plus $5,004 transfered from capital assets for Bristol Water. Refer to notes 10 and 9, respectively.

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 September 30, 2014 was $558 (September 30, 2013 - $402). The expense is composed of $510 for Bristol Water and $48 for Cardinal.

Defined Benefit Plan

The retirement benefit surplus on the consolidated statements of financial position at September 30, 2014 was $61,229 (December 31, 2013 - $46,241).

Employer contributions paid in the three months ended September 30, 2014 to the defined benefit plan were $1,152 (September 30, 2013 - $809). The contributions were entirely incurred at Bristol Water.

13. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Sep 30, 2014	Dec 31, 2013
Project debt		
Wind - Operating (1)	201,695	191,134
Wind - Development (2)	136,908	—
Hydros	91,372	93,930
Solar	82,819	86,680
Power	512,794	371,744
Bank loans	126,570	87,329
Term loans	475,420	457,786
Debentures	2,361	2,275
Irredeemable cumulative preferred shares	29,539	28,644
Utilities – water	633,890	576,034
Corporate credit facility	31,300	11,300
Convertible debentures - 2016	41,430	41,068
Convertible debentures - 2017	27,690	27,739
Corporate	100,420	80,107
	1,247,104	1,027,885
Less: deferred financing costs	(11,159)	(8,469)
Long-term debt	1,235,945	1,019,416
Less: current portion	(68,044)	(18,374)
	1,167,901	1,001,042

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

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

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, which is non-recourse to Capstone, except for a $5,000 parent guarantee. 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 facility that has a term of three years bearing a fixed annual interest rate, which will be determined based on 1.05% over the lender's posted three-year commercial mortgage rate and fully amortizes over 20 years. Interest during construction was capitalized to projects under development and ceased upon achieving COD.

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 by Capstone annually for an additional year. On, November 10, 2014, Capstone extended the maturity to November 2017. The increased capacity enhances the Corporation's financial flexibility and may be used to fund Cardinal's planned upgrades and major maintenance or other corporate purposes.

On May 16, 2014 Capstone, through its indirect partially-owned subsidiary Parc Éolien Saint-Philémon LP, entered into a credit agreement that provided $60,535 of cash on closing 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 loan with a term of 19 ½ years bearing a fixed, annual interest rate of 5.49% and is fully amortizing over its remaining term. Interest during construction will be capitalized to projects under development. The loan is non-recourse to Capstone.

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

(C) Long-term Debt Covenants

For the three and nine months ended and as at September 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	Sep 30, 2014	Dec 31, 2013
Common shares	712,923	710,662
Class B exchangeable units	26,710	26,710
Preferred shares	72,020	72,020
	811,653	809,392

(A) Common Shares

	Three months ended Sep 30, 2014		Nine months ended Sep 30, 2014	
($000s and 000s shares)	Shares	Carrying Value	Shares	Carrying Value
Opening balance	93,336	712,411	92,854	710,662
Common shares issued	—	39	14	39
Dividend reinvestment plan	111	473	579	2,222
Ending balance	93,447	712,923	93,447	712,923

(B) Dividends Declared

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Common shares	7,008	5,476	20,984	16,394
Class B exchangeable units	244	244	731	731
	7,252	5,720	21,715	17,125
Preferred shares (1)	980	980	2,940	2,943

(1) Includes $42 and $130 of deferred income taxes, for the quarter and year to date respectively (2013 - $42 and $130 respectively).

15. EARNINGS PER SHARE ("EPS")

	Three months ended		Nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Net income	6,836	20,666	34,707	51,200
Non-controlling interest	(6,304)	(11,779)	(17,641)	(20,279)
Dividends declared on preferred shares	(980)	(980)	(2,940)	(2,943)
Net income available to common shareholders	(448)	7,907	14,126	27,978
Weighted average number of common shares (including Class B exchangeable units) outstanding	96,659	76,217	96,452	76,047
Basic EPS	(0.005)	0.104	0.146	0.368
Basic net income	(448)	7,907	14,126	27,978
Effect of dilutive securities:				
2016 convertible debentures	—	514	—	1,542
2017 convertible debentures	—	—	—	—
Diluted Net income	(448)	8,421	14,126	29,520
Basic weighted-average number of shares outstanding	96,659	76,217	96,452	76,047
Effect of dilutive securities:				
2016 convertible debentures (1)	—	6,107	—	6,107
2017 convertible debentures (2)	—	—	—	—
Diluted weighted average number of common shares (including Class B exchangeable units) outstanding (3)	96,659	82,324	96,452	82,154
Diluted EPS	(0.005)	0.102	0.146	0.359

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

16. SHARE-BASED COMPENSATION

(A) Deferred Share Units (“DSU”)

Capstone granted 33,199 DSUs during the first nine 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 September 30, 2014, the $364 carrying value of the DSUs was based on a market price of 4.15 dollars.

(B) Long-term Incentive Plan

Capstone granted 355,001 Restricted Stock Units (“RSU”) and 171,240 Performance Share Units (“PSU”) during the first nine 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 September 30, 2014, the carrying value of the RSUs was $2,084 and $1,164 for the PSUs based on a market price of 4.15 dollars.

As at September 30, 2014, Capstone also has an accrued liability of $381 for the long-term incentive plan for Capstone's power development projects from which future RSUs will be granted.

17. EXPENSES – ANALYSIS BY NATURE

	Three months ended Sep 30, 2014				Three months ended Sep 30, 2013			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	12,257	—	—	12,257	17,500	—	—	17,500
Raw materials, chemicals and supplies	23,912	—	—	23,912	18,915	—	—	18,915
Wages and benefits	5,178	2,450	590	8,218	5,476	1,652	227	7,355
Maintenance	1,539	—	—	1,539	970	—	—	970
Manager fees	659	—	—	659	384	—	—	384
Insurance	420	38	—	458	486	42	—	528
Professional fees for legal, audit, tax and other advisory	1,473	666	381	2,520	941	222	1,455	2,618
Leases	389	111	—	500	327	108	—	435
Property taxes	356	—	—	356	356	—	—	356
Bad debts	1,762	—	—	1,762	2,863	—	—	2,863
Other	1,538	591	292	2,421	1,003	487	55	1,545
Total	49,483	3,856	1,263	54,602	49,221	2,511	1,737	53,469

	Nine months ended Sep 30, 2014				Nine months ended Sep 30, 2013			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Fuel	46,461	—	—	46,461	58,805	—	—	58,805
Raw materials, chemicals and supplies	66,523	—	—	66,523	52,857	—	—	52,857
Wages and benefits	21,257	7,151	980	29,388	21,009	4,572	485	26,066
Maintenance	4,704	—	—	4,704	2,706	—	—	2,706
Manager fees	1,813	—	—	1,813	1,147	—	—	1,147
Insurance	1,181	120	—	1,301	1,463	98	—	1,561
Professional fees for legal, audit, tax and other advisory	3,204	2,516	859	6,579	2,524	786	2,838	6,148
Leases	1,341	368	—	1,709	1,028	291	—	1,319
Property taxes	1,038	—	—	1,038	913	—	—	913
Bad debts	4,886	—	—	4,886	4,244	—	—	4,244
Other	4,685	1,853	438	6,976	2,953	1,453	110	4,516
Total	157,093	12,008	2,277	171,378	149,649	7,200	3,433	160,282

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 Sep 30, 2014					Three months ended Sep 30, 2013				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	42,929	61,156	—	—	104,085	40,502	50,916	—	—	91,418
Depreciation of capital assets	(9,279)	(8,014)	—	(223)	(17,516)	(6,492)	(5,928)	—	(101)	(12,521)
Amortization of intangible assets	(1,687)	(940)	—	—	(2,627)	(2,015)	(691)	—	(25)	(2,731)
Interest income	214	16	714	69	1,013	154	31	722	46	953
Interest expense	(5,625)	(6,460)	—	(1,676)	(13,761)	(4,622)	(5,501)	—	(1,304)	(11,427)
Income tax recovery (expense)	1,008	(3,406)	—	(774)	(3,172)	109	9,880	—	(487)	9,502
Net income (loss)	2,866	12,645	(1,997)	(6,678)	6,836	3,733	23,559	(363)	(6,263)	20,666
Cash flow from operations	33,231	21,842	(4,640)	(31,208)	19,225	11,889	23,068	(26)	(2,073)	32,858
Additions to capital assets	6,972	28,945	—	—	35,917	2,444	34,504	—	—	36,948
Additions to PUD	101,718	—	—	—	101,718	—	—	—	—	—

	Nine months ended Sep 30, 2014					Nine months ended Sep 30, 2013				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Revenue	148,130	176,765	—	—	324,895	136,896	142,316	—	—	279,212
Depreciation of capital assets	(27,497)	(22,152)	—	(275)	(49,924)	(19,297)	(17,048)	—	(267)	(36,612)
Amortization of intangible assets	(6,442)	(2,796)	—	—	(9,238)	(6,009)	(2,036)	—	(61)	(8,106)
Interest income	494	115	2,202	147	2,958	629	238	2,127	80	3,074
Interest expense	(17,263)	(18,975)	—	(4,675)	(40,913)	(13,888)	(15,744)	—	(3,981)	(33,613)
Income tax recovery (expense)	(2,076)	(9,700)	—	(1,374)	(13,150)	(5,907)	4,732	—	(383)	(1,558)
Net income (loss)	19,839	36,037	(2,648)	(18,521)	34,707	30,983	40,557	683	(21,023)	51,200
Cash flow from operations	80,166	61,665	(72)	(44,630)	97,129	52,146	54,382	1,306	(12,776)	95,058
Additions to capital assets	12,126	89,821	—	—	101,947	4,627	99,864	—	11	104,502
Additions to PUD	133,212	—	—	—	133,212	—	—	—	—	—

	As at Sep 30, 2014					As at Dec 31, 2013				
		Utilities					Utilities			
	Power	Water	DH	Corporate	Total	Power	Water	DH	Corporate	Total
Total assets	983,671	1,234,611	40,351	71,538	2,330,171	814,198	1,114,532	49,983	47,011	2,025,724
Total liabilities	484,724	858,782	18	279,030	1,622,554	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:

	Nine months ended	
	Sep 30, 2014	Sep 30, 2013
Accounts receivable	(3,379)	(1,639)
Other assets	(9,900)	(3,171)
Accounts payable and other liabilities	(6,704)	3,786
	(19,983)	(1,024)

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 obligations 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
• Skyway 8
• 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 • Goulais
• Five other projects
PQ • Saint-Philémon
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 (1)	ON	1994	100%	156	OPA	2034	Husky	2015	18
Wind									
Operating	ON	2002 - 2014	100%	131	OPA	2026 - 2034	n/a	n/a	13
	NS	2006 - 2012	49% - 100%	74	NSPI	2021 - 2037	n/a	n/a	2
Development	ON	2015-2016E	50% - 51%	47	OPA	2035-2036	n/a	n/a	n/a
	PQ	2014-2015E	51%	12	Hydro Quebec	2035	n/a	n/a	n/a
	SK	2016E	100%	10	SaskPower	2035	n/a	n/a	n/a
Biomass									
Whitecourt (2)	AB	1994	100%	32.8	TransAlta	2014	Millar Western	2016	35
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	2042 and 2020	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) Whitecourt total net capacity 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	512

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