

The following table lists the significant associates of the Corporation, which are accounted for on an equity accounting basis:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31,		Principal activity
		2013	2012	
Sefyr Värme AB and Värmevärden AB (Värmevärden)	Sweden	33.3%	33.3%	District heating
Glen Dhu Wind Energy Limited Partnership ("Glen Dhu")	Canada	49%	Nil	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	50%	Nil	Power generation
Macquarie Long Term Care LP ("MLTCLP")	Canada	45%	45%	Holding company
SPWC Development LP ("SPWC")	Canada	50%	Nil	Development
Chapais Électrique Limitée ("Chapais")	Canada	31.3%	31.3%	Power generation

The consolidated financial statements include the Corporation's initial investment adjusted by its share of net income (loss) and other comprehensive income (loss) and reduced by any dividends paid to the Corporation. The Corporation assesses at each year end whether there is any objective evidence that its interests in associates are impaired. If impaired, the carrying value of the Corporation's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the consolidated statement of income (loss).

The Corporation's share of losses of an equity accounted investment that exceed its interest and net investment in the associate are not accounted for unless the Corporation has incurred contractual obligations or has made payments on behalf of the associate.

Any surplus of the investment cost over the Corporation's share in the fair value of the identifiable assets, liabilities and contingent liabilities of the equity investment on the date of acquisition is accounted for as goodwill and included in the book value of the investment accounted for using the equity method.

## Business Combinations

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the acquired business. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3R, Business Combinations ("IFRS 3R") are recognized at their fair value at the acquisition date.

Goodwill is recognized to the extent the fair value of consideration paid exceeds the fair value of the net carrying amounts of the identifiable assets acquired and the liabilities assumed, measured in accordance with IFRS on the acquisition date.

The Corporation recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

## Foreign Currency Translation

### Functional and presentation currency

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

As at and for the year ended	Swedish Krona (SEK)		UK Pound Sterling (£)	
	Average	Spot	Average	Spot
Dec 31, 2012	0.1476	0.1528	1.5840	1.6178
<b>Dec 31, 2013</b>	<b>0.1581</b>	<b>0.1655</b>	<b>1.6113</b>	<b>1.7627</b>

The financial statements of entities that have a functional currency different from that of the Corporation are translated into Canadian dollars as follows: assets and liabilities – at closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of income in "foreign exchange gain (loss)".