CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended March 31, 2017

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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 investors. Before making an investment in Capstone Infrastructure Corporation (the "Corporation"), an investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation's securities (controlling shareholder, dividends on common shares and preferred shares are not guaranteed; and volatile market price for the Corporation's securities); 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); and risks related to the Corporation's power infrastructure facilities (market price for electricity; power purchase agreements; completion of the Corporation's wind development projects; operational performance; contract performance and reliance on suppliers; land tenure and related rights; environmental; and regulatory environment).

For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 24, 2017, as supplemented by disclosure of risk factors contained in any subsequent annual information form, material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim management's discussion and analysis and information circulars filed by the Corporation with the securities commissions or similar authorities in Canada (which are available under the Corporation's SEDAR profile at www.sedar.com).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated operating results and cash flows for the three months ended March 31, 2017 with the comparative prior periods and the Corporation's financial position as at March 31, 2016 and December 31, 2016.

This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at, and for the three months ended March 31, 2017, and the financial statements and MD&A for the year ended December 31, 2016. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 24, 2017 and its Annual Report for the year ended December 31, 2016. 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.

This MD&A is dated May 11, 2017, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

Discontinued Operations and Assets Held for Sale

On March 3, 2017, Capstone sold its interest in Värmevärden, resulting in the *utilities - district heating* segment being presented as a discontinued operation in the statements of income for the three months ended March 31, 2017 and March 31, 2016. Capstone's consolidated statement of financial position as at March 31, 2017 does not include balances related to Värmevärden. As at December 31, 2016, Capstone accounted for its investment in Värmevärden as assets held for sale ("AHFS") on the consolidated statement of financial position within the current assets and liabilities.

On December 15, 2016, Capstone sold its 50% interest in Bristol Water, resulting in the *utilities - water* segment being presented as a discontinued operation in the statements of income for the three months ended March 31, 2016. Capstone's consolidated statements of financial position as at March 31, 2017 and December 31, 2016 do not contain balances related to Bristol Water.

Foreign Currency Translation and Presentation

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

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the year ended	**Average**	**Spot**	**Average**	**Spot**
Year ended December 31, 2016 (1)	0.1550	0.1478	1.8014	1.6597
Quarter ended March 31, 2017 (2)	0.1484	0.1491	N/A	N/A

(1) Bristol Water's spot rate and average rate were as at and for the period ended December 15, 2016, the date of sale.
(2) The spot rate and average rate were as at and for the period ended March 31, 2017. Refer to page 4 of "Changes in the Business" in this MD&A for details on the sale of Värmevärden.

Results of Operations

The results of operations in this MD&A are discussed using GAAP performance measures such as revenue and expenses, and Earnings before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA"), an additional GAAP performance measure, which is not defined by IFRS. These performance measures are in place of the non-GAAP performance measures Adjusted EBITDA and AFFO discussed in the Annual Report for the year ended December 31, 2016. The Corporation believes that the GAAP and additional GAAP performance measures are more useful for Capstone's current stakeholders, including the common and preferred shareholders.

ADDITIONAL GAAP PERFORMANCE MEASURES DEFINITIONS

While the accompanying consolidated financial statements have been prepared in accordance with IFRS, this MD&A also contains a performance measure not defined by IFRS. The additional GAAP performance measure does not have any standardized meaning prescribed by IFRS and is, therefore, unlikely to be comparable to similar measures presented by other issuers. The Corporation believes that this indicator is useful since it provides additional information about the Corporation's earnings performance and facilitates comparison of results over different periods. The additional GAAP measure used in this MD&A is defined below.

EBITDA

EBITDA is an additional GAAP financial measure defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest ("NCI"), impairment charges, and interest income. EBITDA represents Capstone's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

CHANGES IN THE BUSINESS

In the first quarter of 2017, Capstone was successful in its application to Alberta's Bioenergy Producer Program (“BPP”) at Whitecourt and continues discussions with BC Hydro for a new Electricity Purchase Agreement ("EPA") for the Sechelt Creek facility. In addition, the Settlers Landing development project reached commercial operations on April 5, 2017 and Capstone took the final steps to sell its interest in Värmevärden, refocusing the business as a North American independent power producer.

Whitecourt Bioenergy Producer Program

On February 8, 2017, Whitecourt, Capstone’s biomass facility, was notified that the Government of Alberta approved its application to the BPP. Whitecourt expects to receive grant funding of up to $4,800 for contributing to Alberta’s bioenergy production capacity over two program periods, the second of which ends September 30, 2017. As at March 31, 2017, Capstone produced enough eligible power to receive $3,700 of revenue for the first program period.

Sechelt Creek Facility Extension and shíshálh Nation Facility Agreement

On February 28, 2017, Capstone’s EPA for the Sechelt Creek facility with BC Hydro was extended from its original expiry on an interim basis. The interim arrangement includes a price per megawatt hour that is lower than in 2016. Any new or amended EPA is also expected to provide a lower price for electricity supplied than was paid under the expiring contract. In addition, on March 1, 2017, Capstone signed a facility agreement with the shíshálh Nation, which will result in minority equity ownership by the shíshálh Nation and profit sharing for the project.

Project Development

As at March 31, 2017, Capstone's development pipeline included the rights to net 14 MW (gross 18 MW) summarized as follows:

Project	Expected COD	Expected Ownership Interest	Net Capacity	Counterparty	PPA Term	Status
Settlers Landing [(1)]	2017	50%	4.0 MW	Independent Electricity System Operator ("IESO")	20 years	Commenced commercial operations on April 5, 2017
Riverhurst [(2)]	2020	100%	10.0 MW	SaskPower	20 years	Pending construction

(1) Capstone expects to share control of this project.
(2) Capstone executed the previously awarded PPA and interconnection agreement with the Saskatchewan Power Corporation ("SaskPower") on March 22, 2017.

Sale of Värmevärden

On March 3, 2017, Capstone and its co-shareholder Macquarie European Infrastructure Fund 2 (“MEIF 2”) sold 100% of Värmevärden. Capstone received proceeds of $142,198, net of transaction costs of $2,378, for its 33.3% indirect interest in Värmevärden and the related outstanding loans receivable. The net proceeds exceeded the carrying value of $14,111 by $128,087, which is recorded as a gain on sale in the consolidated statements of income, net of foreign exchange translation.

On March 31, 2017, Irving Infrastructure Corp. ("Irving") converted its 552,700 SEK tranche of the promissory note into 76,876 Class A shares of the Corporation, with a carrying value of $86,332, and the $10,370 Canadian denominated tranche of the promissory note was repaid. As a result, no promissory note payable to Irving remains. Capstone then distributed $131,968 to Irving as a return of capital, which included a $45,636 reduction to retained earnings and $86,332 to the Class A shares. The impact of these transactions did not change the carrying value of the Class A shares

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

SUBSEQUENT EVENTS

Key Management and Board of Directors Changes

On April 1, 2017, Andrew Kennedy was appointed as Chief Financial Officer of Capstone and as a member of the board of directors. Michael Smerdon, Capstone's outgoing Chief Financial Officer, remains on Capstone's board of directors. Mr. Smerdon assumed the position of Chief Executive Officer of iCON Infrastructure Canada Inc. ("iCON Canada"), a subsidiary of iCON Infrastructure LLP and related party to Capstone.

On May 10, 2017, Paul Smith was appointed as a member of Capstone's board of directors. Mr. Smith, who was previously the non-executive chairman of Capstone Power Corp. ("CPC") , brings a breadth of operations experience to the board.

RESULTS OF OPERATIONS

Overview

Capstone's EBITDA and net income were both higher than in the first quarter of 2016. Higher EBITDA from Capstone's continuing operations reflect:

- Higher power segment results, primarily because of the new wind facilities added since January 1, 2016, consisting of Ganaraska and Grey Highlands ZEP ("GHG"), Grey Highlands Clean and Snowy Ridge, as well as contributions from Whitecourt relating to the new government grant and an increase in the fair value of the embedded derivative, which generally increases as forecasted Alberta power pool prices fall; and
- Lower corporate expenses, relating to costs associated with the 2016 acquisition of Capstone by iCON Infrastructure Partners III, LP ("iCON III'), including professional fees and staff separation costs.

	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change
Revenue	43,133	34,175	8,958
Expenses	(14,773)	(20,039)	5,266
Other income and expenses	769	(5,297)	6,066
EBITDA	29,129	8,839	20,290
Interest expense	(8,644)	(8,947)	303
Depreciation and amortization	(15,369)	(12,131)	(3,238)
Income tax recovery (expense)	(18,699)	1,313	(20,012)
Net income (loss) from continuing operations	(13,583)	(10,926)	(2,657)
Net income from discontinued operations	129,317	13,386	115,931
Net income	115,734	2,460	113,274

The remaining material changes in net income were:

- Higher income tax expense, primarily attributable to the sale of Värmevärden in 2017. This includes current taxes payable from the gain and the release of the deferred income tax asset for Capstone's tax basis in Värmevärden.
- Higher net income from discontinued operations, primarily reflecting the 2017 gain on sale of Värmevärden, partially offset by contributions from Bristol Water in 2016.

Seasonality

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

Results by Segment

Capstone's MD&A discusses the results of the power segment in Canada, as well as corporate activities. The power segment facilities produce electricity from gas cogeneration, wind, biomass, hydro and solar resources, and are located in Ontario, Nova Scotia, Alberta, British Columbia and Québec. The segment also includes power development activities.

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

Both of the utilities segments are presented as discontinued operations resulting from Capstone's sale of these investments.

Revenue

Capstone's revenue is mainly driven by the generation and sale of electricity through long-term power contracts.

Revenue	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change
Wind	26,664	20,371	6,293
Gas	4,781	4,825	(44)
Hydro (1)	3,862	4,871	(1,009)
Solar	2,738	2,916	(178)
Biomass	5,088	1,192	3,896
Total Revenue	43,133	34,175	8,958

(1) The current Sechelt EPA was set to expire on February 28, 2017 and was extended from its original expiry on an interim basis. Capstone continues discussions for a new EPA with BC Hydro.

Power generated (GWh)	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change
Wind (1)	236.2	184.6	51.6
Gas	—	1.2	(1.2)
Hydro	38.0	46.6	(8.6)
Solar	6.5	6.9	(0.4)
Biomass	49.4	50.0	(0.6)
Total Power	330.1	289.3	40.8

(1) Production reflects 100% ownership but excludes Capstone's equity investments (Glen Dhu and Fitzpatrick wind facilities).

Capstone's power segment earns revenue from:

- The wind facilities, which are located in Ontario, Nova Scotia and Québec, by producing and selling electricity in accordance with their power purchase agreements ("PPA") with government agencies or regulated credit-worthy counterparties. On a megawatt ("MW") weighted-average-basis, the wind facilities have 15 years remaining on the current PPAs, with the earliest expiry in 2020.

- Cardinal, a gas co-generation facility, from fixed payments for providing capacity and availability to the IESO with a 2034 power contract expiry. In addition, Cardinal earns a portion of its revenue from steam sales to Ingredion Canada Incorporated ("Ingredion") and by supplying electricity to the Ontario grid when it is profitable to do so.
- The Ontario solar facility, and hydro facilities located in Ontario and British Columbia, by generating electricity under long-term PPAs. On a MW weighted-average-basis, the hydro facilities have 19 years remaining on the current PPAs, excluding the Sechelt Creek facility PPA, which was extended on an interim basis. Capstone continues discussions for a new Sechelt Creek facility PPA with BC Hydro. The Amherstburg solar park PPA expires in 2031.
- Whitecourt, a biomass facility, by selling electricity at market rates to the Alberta Power Pool. This is supplemented by a revenue sharing agreement with its fuel supplier, Millar Western. In addition, Whitecourt earns a portion of its revenue from government grants and the sale of renewable energy credits.

The following table shows the significant changes in revenue from 2016:

Three months	Explanations
6,775	Higher revenue from the new wind facilities, consisting of GHG, Grey Highlands Clean and Snowy Ridge, which reached COD during 2016.
3,700	Higher revenue at Whitecourt attributable to the BPP.
(1,018)	Lower revenue from the operating wind facilities (excluding new facilities) due to decreased production, reflecting lower wind resource.
(1,009)	Lower revenue from the hydro facilities due to decreased production, reflecting lower hydrology resources, and lower rates.
510	Various other changes.
8,958	Change in revenue.

Expenses

Expenses consist of expenditures within the power segment relating to operating expenses and costs to develop new projects, as well as corporate business development and administrative expenses.

Expenses	Three months ended		
	Mar 31, 2017	Mar 31, 2016	Change
Wind	(4,327)	(3,189)	(1,138)
Gas	(2,573)	(2,496)	(77)
Hydro	(909)	(929)	20
Solar	(225)	(298)	73
Biomass	(2,650)	(2,481)	(169)
Power operating expenses	(10,684)	(9,393)	(1,291)
Power	(640)	(1,280)	640
Corporate	(175)	(4,044)	3,869
Project development costs	(815)	(5,324)	4,509
Administrative expenses	(3,274)	(5,322)	2,048
Total Expenses	(14,773)	(20,039)	5,266

Expenses for the operation and maintenance ("O&M") of the power facilities mainly consist of wages and benefits and payments to third party providers. The hydro facilities are operated and maintained under an O&M agreement. Capstone's wind facilities are operated by Capstone's workforce and maintained under service agreements, typically with the original equipment manufacturers, except for the Erie Shores wind facility, which has an internalized service function. In addition, Cardinal, Whitecourt and Amherstburg rely on the internal capabilities and experience of Capstone's workforce. The remaining costs include fuel, transportation, insurance, utilities, land leases, raw materials, chemicals, supplies and property taxes.

Project development costs consist of professional fees and directly attributable staff costs to pursue greenfield projects, as well as costs to explore and execute corporate transactions. Administrative expenses comprise of staff costs, professional fees for legal, audit and tax, as well as certain office administration and premises costs.

The following table shows the significant changes in expenses from 2016:

Three months	Explanations
3,922	Lower professional fees within corporate project development costs attributable to the iCON III acquisition in 2016.
1,504	Lower staff costs within administrative expenses related to the iCON III acquisition in 2016, including long-term incentive plan payments and employee separation costs.
(160)	Various other changes.
5,266	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

The 2017 consolidated statement of financial position excludes balances relating to Capstone's 33.3% interest in Värmevärden as a result of the sale on March 3, 2017 and the remaining tranches of the Irving promissory note payable were converted or repaid on March 31, 2017. These transactions have improved Capstone's net current liabilities to $10,221 compared with $55,627 as at December 31, 2016.

As at March 31, 2017, Capstone and its subsidiaries have complied with all debt covenants.

Liquidity

Working capital

As at	Mar 31, 2017	Dec 31, 2016
Power	(25,483)	26,092
Corporate	15,262	(81,719)
Net current assets (liabilities)	(10,221)	(55,627)
Corporate - promissory note payable [1]	—	96,702
Working capital	(10,221)	41,075

(1) In 2016, the promissory note was held by Irving, the owner of the Corporation's Class A shares, and was classified as current due to the demand feature of the note. The promissory note was converted or repaid on March 31, 2017.

Capstone's working capital was $51,296 lower than December 31, 2016, due to a reduction of $51,575 for the power segment, offset by a $279 increase at corporate. The power segment reduction reflects an increase of $40,520 in the current portion of long-term debt, as well as lower cash of $20,500 because of the distribution of Cardinal's OEFC proceeds to corporate.

The increase in the current portion of long-term debt is attributable to:

- $38,290 of debt maturing in February 2018 at SkyGen and Skyway 8; and
- $12,525 increase in upcoming payments for the CPC credit facility.

The current portion of the CPC credit facility of $29,200 primarily relies on forecasts of Capstone's excess cash derived from the power facilities as defined in the credit agreement. This is because repayments of the CPC credit facility primarily rely on the same underlying future cash flows. This means, Capstone does not expect the working capital deficit to present a liquidity concern, as repayments fluctuate with future cash flows and cash flows are expected to exceed the next mandatory minimum payment in April 2018.

These increases were partially offset by scheduled repayments of $10,295. Furthermore, lower power development accruals also increased working capital, as the projects progressed.

The corporate working capital increase primarily reflects $20,500 received from the Cardinal OEFC proceeds, partially offset by the sale of $13,197 of current assets attributable to Värmevärden and an increase in current taxes payable on the sale.

Cash and cash equivalents

As at	Mar 31, 2017	Dec 31, 2016
Power	35,486	56,000
Corporate	22,725	6,246
Unrestricted cash and cash equivalents	58,211	62,246

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The unrestricted cash and cash equivalents decrease of $4,035 consists of a $20,514 decrease at the power segment, partially offset by an increase of $16,479 at corporate. The decrease in the power segment was predominantly due to the $20,500 distribution of Cardinal's OEFC proceeds to corporate. The related increase at corporate from the distribution was partially offset by cash payments to settle year-end liabilities.

Cash at the power segment of $35,486 is only periodically accessible by corporate through distributions. The power segment's cash and cash equivalents are accessible through distributions under the terms of the CPC credit facility, which allows for distributions, subject to certain conditions. In turn, CPC receives distributions from its subsidiary power assets, which are subject to the terms of their project-specific credit agreements.

Restricted cash

Restricted cash increased by $2,033 primarily because of higher reserve requirements at the hydro power facilities in accordance with the terms of the debt agreement.

Cash flow

Capstone’s consolidated cash and cash equivalents decreased by $4,035 in 2017 compared with a decrease of $5,514 in 2016. The components of the decrease, as presented in the consolidated statement of cash flows, from both continuing and discontinued operations, are summarized as follows:

For the year ended	Mar 31, 2017	Mar 31, 2016
Operating activities	18,893	8,409
Investing activities	(11,712)	(49,236)
Financing activities (excluding dividends to shareholders)	(10,603)	38,500
Dividends paid to shareholders	(613)	(936)
Exchange difference on translation of discontinued operations	—	(2,251)
Change in cash and cash equivalents	(4,035)	(5,514)

Cash flow from operating activities were $10,484 higher in 2017 and $18,804 higher, excluding discontinued operations. The increase from continuing operations consists of $17,199 of higher power segment cash flows and $1,605 of higher corporate cash flows. The increase in power segment cash flows primarily reflects higher revenue from the new wind facilities, consisting of GHG, Grey Highlands Clean and Snowy Ridge, which reached COD during 2016. Cash flows from corporate increased in 2017 primarily due to non-recurring costs associated with the iCON III acquisition in 2016.

Cash flows from discontinued operations decreased primarily due to the sale of Bristol Water in December 2016.

Cash flow used in investing activities were $37,524 lower in 2017 and $26,893 lower, excluding discontinued operations. In 2017, cash used by the continuing operations primarily included power segment funding of $9,545 (2016 - $28,990) for the construction of projects under development and $1,261 (2016 - $3,956) to fund capital asset additions. Restricted cash also increased by $2,033 in 2017 (2016- $6,736) primarily because of higher reserve requirements at the hydro power facilities in accordance with the terms of the debt agreement.

Cash flows used in discontinued operations in 2016 consist of $10,631 used to fund capital asset additions at Bristol Water.

Cash flow used in financing activities were $49,103 higher in 2017 and $191,301 higher, excluding discontinued operations. In 2017, cash used in the continuing operations were higher primarily due to an $131,968 return of capital to Irving. In addition, there were lower proceeds from debt draws of $101,439 due to debt raised for Cardinal and Grey Highlands Clean in 2016 and a $10,370 repayment of the Irving promissory note. These increases were partially offset by lower debt payments of $50,958, primarily due to the repayment of the corporate credit facility in 2016.

Cash flows from discontinued operations in 2017 consist of $142,198 of proceeds received on the sale of Värmevärden.

Dividends paid to shareholders were $323 lower in 2017 because of lower fixed dividend rates for the preferred shares which took effect on July 31, 2016.

Long-term Debt

Capstone's long-term debt continuity for the period ended was:

	Dec 31, 2016	Additions	Repayments & Redemptions	Other	Mar 31, 2017
Long-term debt (1), (2)	782,220	10,200	(19,592)	—	772,828
Deferred financing fees	(16,229)	—	—	75	(16,154)
	765,991	10,200	(19,592)	75	756,674
Less: current portion of long-term debt	(62,169)	—	10,295	(50,815)	(102,689)
	703,822	10,200	(9,297)	(50,740)	653,985

(1) Repayments & redemptions of $19,592 reflect scheduled repayments and the additions of $10,200 were to construct the Settlers Landing wind development project.
(2) As at March 31, 2017, Capstone's power facilities have used $46,820 of credit capacity to support letters of credit.

As at March 31, 2017, Capstone's long-term debt consisted of $77,000 for the CPC credit facility and $695,828 of project debt within the power segment. The current portion of long-term debt was $102,689, consisting of scheduled debt amortization, including payments for the CPC credit facility of $29,200, and upcoming maturities for SkyGen and Skyway 8 of $20,066 and $18,224, respectively. Capstone expects to repay the scheduled amortization from income generated by the power assets and is evaluating options to refinance the project debt maturing in February 2018 for the SkyGen and Skyway 8 wind facilities.

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

Equity

Shareholders' equity comprised:

As at	Mar 31, 2017	Dec 31, 2016
Common shares [(1)]	40,433	40,433
Preferred shares [(2)]	72,020	72,020
Share capital	112,453	112,453
Retained earnings	71,469	2,800
Equity attributable to Capstone shareholders	183,922	115,253
Non-controlling interests	61,144	61,417
Total shareholders' equity	245,066	176,670

(1) Refer to page 4 of "Changes in the Business" in this MD&A for details on the sale of Värmevärden.
(2) Capstone has 3,000 publicly listed Series A preferred shares on the Toronto Stock Exchange.

Promissory Note Payable

On April 29, 2016, Capstone issued a $316,225 demand interest-free promissory note to Irving, the owner of the Corporation's Class A shares, as part of the iCON III acquisition. On issuance, the promissory note consisted of three tranches: £106,000, 712,700 SEK, and $10,370 which were classified as a current liability and were due on demand. On September 2, 2016, 160,000 SEK or $24,992 was repaid and on December 15, 2016, the £106,000 tranche was converted into Class A shares of the Corporation. On March 31, 2017, Irving converted the remaining SEK tranche of the promissory note into Class A shares of the Corporation and the Canadian denominated tranche of the promissory note was repaid. As a result, no promissory note payable to Irving remains.

Contractual Obligations

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

- Long-term debt, financial instruments and operating leases;
- Purchase obligations, including capital expenditure commitments, operations and management agreements; and
- Other commitments, including management services agreements, wood waste agreements and guarantees.

There have been no significant changes to the specified contractual obligations that are outside the ordinary course of business. In addition, Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

Capstone's significant equity accounted investments were:

Name of entity	Principal place of business and country of incorporation	Ownership at Mar 31, 2017	Ownership at Dec 31, 2016	Principal activity
Värmevärden AB ("Värmevärden") [(1)]	Sweden	—%	33.3%	District heating
Glen Dhu Wind Energy Limited Partnership ("Glen Dhu")	Canada	49%	49%	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	50%	50%	Power generation

(1) Refer to page 4 of "Changes in the Business" in this MD&A for details on the sale of Värmevärden.

Capital Asset Expenditure Program

Capstone incurred $10,314 of capital asset expenditures during 2017, which included $8,997 of additions to projects under development and $1,317 of additions to capital assets. Capstone's capital expenditures were:

	Three months ended	
	Mar 31, 2017	Mar 31, 2016
Power	10,314	35,547
Utilities – water	—	12,652
	10,314	48,199

Capital expenditures primarily reflect costs to develop and construct the wind development projects. In 2017, $9,434 was capitalized primarily for the Settlers Landing wind facility versus $35,547 related to developing and constructing the Ganaraska, Grey Highlands ZEP and Grey Highlands Clean development projects in 2016.

Income Taxes

The first quarter current income tax expense of $2,552 is mainly because of the taxable capital gain earned on the sale of Värmevärden.

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

Capstone's total deferred income tax assets were fully realized on the sale of Värmevärden (December 31, 2016 - $14,750). Deferred income tax liabilities primarily relate to the differences between the amortization of intangible and capital assets for tax and accounting purposes. In 2017, Capstone's net deferred income tax liability increased by $15,919 primarily due to the derecognition of the deferred income tax asset in the cost base of the Värmevärden investment, which was sold during the quarter.

DERIVATIVE FINANCIAL INSTRUMENTS

To manage the certain financial risks inherent in the business, Capstone enters into derivative contracts primarily to mitigate the economic impact of the fluctuations in interest rates and foreign exchange rates. The fair values of these contracts, as well as the Whitecourt embedded derivative included in the consolidated statement of financial position, were:

As at	Mar 31, 2017	Dec 31, 2016
Derivative contract assets	16,311	18,526
Derivative contract liabilities	(3,504)	(3,572)
Net derivative contract assets (liabilities)	12,807	14,954

Net derivative contract assets decreased by $2,147 from December 31, 2016, primarily due to contractual settlement payments of $1,935 received from Millar Western.

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

	Three months ended	
	Mar 31, 2017	Mar 31, 2016
Whitecourt embedded derivative	2,191	(1,280)
Interest rate swap contracts	(2,403)	(4,627)
Foreign currency option contracts	—	86
Losses on derivatives in net income from continuing operations	(212)	(5,821)
Interest rate swap contracts in other comprehensive income from discontinued operations	—	(1,557)
Losses on derivatives in total comprehensive income	(212)	(7,378)

The loss on derivatives was primarily attributable to increases in liabilities related to the interest rate swap contracts, mainly because of lower long-term interest rates since December 31, 2016. This was partially offset by increases in the Whitecourt embedded derivative, attributable to lower estimated forward Alberta power pool prices since December 31, 2016.

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 preferred dividends.

For a comprehensive description of risks, please refer to the disclosure in the Corporation's Annual Report for the year ended December 31, 2016 and the "Risk Factors" section of the Annual Information Form dated March 24, 2017 as supplemented by risk factors contained in any material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim MD&A and information circulars filed by the Corporation with securities commissions or similar authorities in Canada, which are available on the SEDAR website at www.sedar.com.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone monitors developments with respect to environmental, health and safety regulation. Refer to the Corporation's prior environmental, health and safety regulation disclosure in its Annual Report for the year ended December 31, 2016 and the "Environmental, Health and Safety Matters" section of the Corporation's Annual Information Form dated March 24, 2017, 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.

	2017	2016				2015		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue (1)	**43,133**	40,128	66,145	32,492	34,175	32,794	27,063	29,349
EBITDA (1)	**29,129**	36,622	54,608	8,180	8,839	16,867	14,737	5,956
Net income (loss) (2), (3), (4)	**114,936**	18,407	(9,488)	(18,170)	(4,507)	8,885	301	(9,273)
Preferred dividends	**613**	613	938	938	938	938	938	938

(1) Comparative figures for revenue and EBITDA have been adjusted to remove amounts from discontinued operations.
(2) Net income (loss) attributable to the common shareholders of Capstone, which excludes non-controlling interests.
(3) Results include continuing operations and discontinued operations for all periods.
(4) Net income includes a gain on sale of Värmevärden of $128,087 in Q1 2017 and a loss on sale of Bristol Water of $2,803 in Q4 2016.

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, 2016 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, 2016. Refer to note 2 of the interim consolidated financial statements for discussion of the implementation of the upcoming material changes to standards, which include IFRS 15, "Revenue from Contracts with Customers", IFRS 9, "Financial Instruments" and IFRS 16, "Leases". Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had an impact in 2017.

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, 2016 for greater details of the areas of significance and the related critical estimates and judgments.

On January 1, 2017, Capstone adjusted the remaining useful life of a few of the wind facilities to better reflect their estimated future economic benefit. The changes in estimated useful lives are accounted for prospectively.

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 and intangible assets.	• Future cash flows and discount rate.
Deferred income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	• Forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales.
Accounting for investments in non-wholly owned subsidiaries	• Determine how relevant activities are directed (either through voting rights or contracts); • Determine if Capstone has substantive or protective rights; and • Determine Capstone's ability to influence returns.

Management's estimates 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, 2016, no material changes have occurred in Capstone's policies and procedures and other processes that comprise its internal controls over financial reporting and disclosure controls and procedures.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Mar 31, 2017	Dec 31, 2016
Current assets			
Cash and cash equivalents		58,211	62,246
Restricted cash		29,766	27,733
Accounts receivable		25,227	23,064
Other assets		3,800	3,145
Assets held for sale	4b(ii)	—	13,445
		117,004	129,633
Non-current assets			
Derivative contract assets	5	16,311	18,526
Equity accounted investments	6	22,135	22,464
Capital assets	7	772,340	787,271
Projects under development	8	31,264	22,267
Intangible assets	9	151,099	153,493
Deferred income tax assets		—	14,750
Total assets		1,110,153	1,148,404
Current liabilities			
Accounts payable and other liabilities		23,758	25,383
Promissory note payable	5 & 11b	—	96,702
Current portion of derivative contract liabilities	5	778	758
Current portion of long-term debt	10	102,689	62,169
Liabilities held for sale	4b(ii)	—	248
		127,225	185,260
Long-term liabilities			
Derivative contract liabilities	5	2,726	2,814
Deferred income tax liabilities		73,842	72,673
Long-term debt	10	653,985	703,822
Liability for asset retirement obligation		7,309	7,165
Total liabilities		865,087	971,734
Equity attributable to shareholders' of Capstone		183,922	115,253
Non-controlling interest		61,144	61,417
Total liabilities and shareholders' equity		1,110,153	1,148,404
Commitments and contingencies	15		

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone: Share Capital (2)	Other Equity Items (3)	AOCI (4)	Retained Earnings (Deficit)	NCI (5)	Total Equity
Balance, December 31, 2015 (1)		814,719	9,284	51,151	(366,579)	273,505	782,080
Other comprehensive income (loss)		—	—	(25,302)	(10,641)	(29,501)	(65,444)
Net income for the period		—	—	—	(4,507)	6,967	2,460
Dividends declared to common shareholders of Capstone	11	617	—	—	—	—	617
Dividends declared to preferred shareholders of Capstone (6)	11	—	—	—	(967)	—	(967)
Dividends declared to NCI		—	—	—	—	(1,060)	(1,060)
Convertible debenture advances, net (7)		—	—	—	—	3,077	3,077
Balance, March 31, 2016		815,336	9,284	25,849	(382,694)	252,988	720,763

	Notes	Equity attributable to shareholders of Capstone: Share Capital (2)	Retained Earnings	NCI (5)	Total Equity
Balance, December 31, 2016		112,453	2,800	61,417	176,670
Net income for the period		—	114,936	798	115,734
Conversion of promissory note (8)	4b(ii)	86,332	—	—	86,332
Return of capital (8)	4b(ii)	(86,332)	(45,636)	—	(131,968)
Dividends declared to preferred shareholders of Capstone (6)	11	—	(631)	—	(631)
Dividends declared to NCI		—	—	(653)	(653)
Convertible debenture advances, net (7)		—	—	(418)	(418)
Balance, March 31, 2017		112,453	71,469	61,144	245,066

(1) The equity balance as at December 31, 2015 has been revised to reflect historical adjustments to non-controlling interests associated with Bristol Water, resulting in an increase to non-controlling interests of $11,960 and a corresponding decrease to opening retained earnings (deficit).
(2) After April 29, 2016, share capital consists of Class A shares and preferred shares. Just prior to April 29, 2016, share capital was comprised of common shares, preferred shares and Class B exchangeable units (refer to note 4a).
(3) Other equity items include the equity portion of Capstone's 2016 convertible debentures, which was redeemed on April 29, 2016.
(4) Accumulated other comprehensive income (loss) ("AOCI").
(5) Non-controlling interest ("NCI").
(6) Dividends declared to preferred shareholders of Capstone include deferred income taxes of $18 (2016 - $31).
(7) Capital contributions, net of repayments are with One West Holdings Ltd. ("Concord"), the agreed future 50% partner on the GHG, Snowy Ridge and Settlers Landing projects.
(8) Refer to note 4b(ii) for changes related to the sale of Värmevärden.

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Notes	Three months ended Mar 31, 2017	Mar 31, 2016
Revenue		43,133	34,175
Operating expenses	12	(10,684)	(9,393)
Administrative expenses	12	(3,274)	(5,322)
Project development costs	12	(815)	(5,324)
Equity accounted income (loss)	6	798	592
Interest income		141	77
Other gains and (losses), net	13	(170)	(5,966)
Earnings before interest expense, taxes, depreciation and amortization		29,129	8,839
Interest expense		(8,644)	(8,947)
Depreciation of capital assets	7	(12,975)	(9,757)
Amortization of intangible assets	9	(2,394)	(2,374)
Earnings before income taxes		5,116	(12,239)
Income tax recovery (expense)			
Current		(2,552)	(6)
Deferred		(16,147)	1,319
Total income tax recovery (expense)		(18,699)	1,313
Net income (loss) from continuing operations		(13,583)	(10,926)
Net income (loss) from discontinued operations, net of tax	4b	129,317	13,386
Net income (loss)		115,734	2,460
Net income (loss) attributable to:			
Shareholders of Capstone		114,936	(4,507)
Non-controlling interest		798	6,967
		115,734	2,460

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Mar 31, 2017	Mar 31, 2016
Other comprehensive income (loss) from discontinued operations, net of tax	4b(i)	—	(65,444)
Net income (loss) from discontinued operations, net of tax	4b	129,317	13,386
Total comprehensive income (loss) from discontinued operations, net of tax		129,317	(52,058)
Total comprehensive income (loss) from continuing operations		(13,583)	(10,926)
Total comprehensive income (loss)		115,734	(62,984)
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		114,936	(40,450)
Non-controlling interest		798	(22,534)
		115,734	(62,984)

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended	Notes	Mar 31, 2017	Mar 31, 2016
Operating activities:			
Net income (loss) from continuing operations		(13,583)	(10,926)
Deferred income tax expense (recovery)		16,147	(1,319)
Depreciation and amortization		15,369	12,131
Non-cash other gains and losses (net)		2,106	7,830
Amortization of deferred financing costs and non-cash financing costs		166	936
Equity accounted income	6	(798)	(592)
Change in non-cash working capital		(1,886)	(9,343)
Cash flows from (used in) continuing operations		17,521	(1,283)
Cash flows from discontinued operations	4b	1,372	9,692
Total cash flows from operating activities		18,893	8,409
Investing activities:			
Investment in projects under development	8	(9,545)	(28,990)
Decrease (increase) in restricted cash		(2,033)	(6,736)
Investment in capital assets	7	(1,261)	(3,956)
Distributions from equity accounted investments	6	1,127	1,077
Cash flows used in continuing operations		(11,712)	(38,605)
Cash flows used in discontinued operations	4b	—	(10,631)
Total cash flows used in investing activities		(11,712)	(49,236)
Financing activities:			
Return of capital to Irving	4b	(131,968)	—
Repayment of long-term debt		(19,592)	(70,550)
Repayment of promissory note	4b	(10,370)	—
Dividends paid to non-controlling interests		(653)	(1,060)
Dividends paid to common and preferred shareholders		(613)	(936)
Convertible debenture advances, net		(418)	3,077
Proceeds from issuance of long-term debt		10,200	111,639
Transaction costs on debt issuance		—	(4,606)
Cash flows from (used in) continuing operations		(153,414)	37,564
Cash flows from discontinued operations	4b	142,198	—
Total cash flows from (used in) financing activities		(11,216)	37,564
Exchange difference on translation of discontinued operations		—	(2,251)
Increase in cash and cash equivalents		(4,035)	(5,514)
Cash and cash equivalents, beginning of year		62,246	74,392
Cash and cash equivalents, end of year		58,211	68,878
Supplemental information:			
Interest paid (Bristol Water in 2016 - $11,056)		8,401	18,371
Taxes paid (Bristol Water in 2016 - nil)		562	375

See accompanying notes to these consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone is incorporated in British Columbia and domiciled in Canada and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") have refocused their mission to provide investors with an attractive total return from responsibly managed long-term investments in power generation in North America. The Corporation's strategy is to develop, acquire and manage a portfolio of high quality power facilities that operate in a contractually-defined environment and generate stable cash flow. As at March 31, 2017, Capstone owns, operates and develops thermal and renewable power generation facilities in Canada with a total installed net capacity of 505 megawatts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to Capstone's accounting policies during the first three months of 2017.

On January 1, 2017, Capstone adjusted the remaining useful life of a few of the wind facilities to better reflect their estimated future economic benefit. The changes in estimated useful lives are accounted for prospectively and are expected to result in an additional depreciation expense of $3,700 in the statement of comprehensive income each year beginning in 2017.

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, 2016. In accordance with IAS 34, 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 2016 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on May 11, 2017.

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

Discontinued Operations and Assets Held for Sale

On March 3, 2017, Capstone sold its interest in Värmevärden, resulting in the *utilities - district heating* segment being presented as a discontinued operation in the statements of income for the three months ended March 31, 2017 and March 31, 2016. Capstone's consolidated statement of financial position as at March 31, 2017 does not include balances related to Värmevärden. As at December 31, 2016, Capstone accounted for its investment in Värmevärden as assets held for sale ("AHFS") on the consolidated statement of financial position within the current assets and liabilities.

On December 15, 2016, Capstone sold its 50% interest in Bristol Water, resulting in the *utilities - water* segment being presented as a discontinued operation in the statements of income for the three months ended March 31, 2016. Capstone's consolidated statements of financial position as at March 31, 2017 and December 31, 2016 do not contain balances related to Bristol Water.

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, 2016.

Capstone is assessing the material standards described in the annual financial statements, which include:

Title of the New IFRS	Status of Capstone's adoption
IFRS 15, Revenue from Contracts with Customers Effective: Jan 1, 2018	Capstone has developed a project plan for the implementation of IFRS 15. Capstone has reviewed its revenue streams and underlying contracts with customers to determine the impact that the adoption of IFRS 15 will have on its financial statements. Capstone expects to adopt IFRS 15 on January 1, 2018 using a modified retrospective approach. Preliminary analysis indicates that there will be no recognition or measurement impact subsequent to adoption. Capstone continues to evaluate the impact that the adoption will have on disclosure in the consolidated financial statements.
IFRS 9, Financial Instruments Effective: Jan 1, 2018	Capstone has reviewed its financial instruments to determine the impact that the adoption of IFRS 9 will have on its financial statements. Capstone does not anticipate that there will be any changes to the classification or the carrying values of the Company's financial instruments as a result of the adoption. Capstone does not currently apply hedge accounting to its risk management contracts and does not intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. Capstone continues to evaluate the impact that the adoption will have on disclosure in the consolidated financial statements.
IFRS 16, Leases Effective: Jan 1, 2019	Capstone considers the adoption of IFRS 16 a significant initiative. Currently, Capstone is developing a project plan to assess the impact that the adoption of IFRS 16 will have on its consolidated financial statements by cataloging and reviewing all existing leases.

Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had an impact in 2017.

3. SEASONALITY

The seasonality of wind speed and air 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.

4. ACQUISITIONS, DISPOSALS AND DISCONTINUED OPERATIONS

(A) Acquisition of Capstone by iCON III

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

(B) Discontinued Operations

Capstone's consolidated statements of income and cash flows for the three months ended March 31, 2017 and 2016 include results for the discontinued operations of Bristol Water and Värmevärden as follows:

For the three months ended	Notes	Mar 31, 2017	Mar 31, 2016
Net income (loss) from discontinued operations, net of tax:			
Bristol Water	4b(i)	—	13,505
Värmevärden	4b(ii)	129,317	(119)
		129,317	13,386

For the three months ended	Mar 31, 2017	Mar 31, 2016
Operating cash flows provided by discontinued operations:		
Bristol Water	—	(1,639)
Värmevärden	1,372	11,331
	1,372	9,692
Investing cash flows used by discontinued operations:		
Bristol Water	—	(10,631)
	—	(10,631)
Financing cash flows provided by discontinued operations:		
Värmevärden [(1)]	142,198	—
	142,198	—

(1) Financing cash flows provided by discontinued operations include net proceeds on sale of $142,198. Refer to note 4b(ii).

(i) Sale of Bristol Water to iCON III

On December 15, 2016, Capstone sold its 50% ownership interest in Bristol Water to iCON III Bristol Limited, a subsidiary of Capstone's ultimate parent, iCON III. As part of the sale, Irving converted its £106,000 tranche of the promissory note into 123,905 Class A shares of the Corporation, which reduced the promissory note payable to Irving by $194,531. In return, Capstone received a promissory note receivable of £115,690 or $192,011 from iCON III Bristol Limited and then distributed the promissory note receivable to Irving as a $192,011 return of capital. This resulted in a $2,520 increase in Capstone's Class A shares and a loss of $2,803 in the year ended December 31, 2016.

The results of Bristol Water, the *utilities - water* segment, are presented as a discontinued operation in the prior period.

Financial information relating to the discontinued operations for the three months ended March 31, 2016 is set out below.

Net income and comprehensive loss from discontinued operations

Net income and comprehensive loss from Bristol Water's discontinued operations for the three months ended March 31, 2016 was:

For the three months ended	Mar 31, 2016
Revenue	54,294
Operating expenses	(24,033)
Other expenses	(15,682)
Earnings before income taxes	14,579
Income tax recovery (expense)	(1,074)
Net income from discontinued operations, net of tax	13,505
Other comprehensive loss from discontinued operations, net of tax	(65,444)
Total comprehensive loss from discontinued operations, net of tax	(51,939)

(ii) Sale of Värmevärden

On March 3, 2017 Capstone and its co-shareholder Macquarie European Infrastructure Fund 2 (“MEIF 2”) sold 100% of Värmevärden. Capstone received proceeds of $142,198, net of transaction costs, for its 33.3% indirect interest in Värmevärden and the related outstanding loans receivable.

On March 31, 2017, Irving converted its 552,700 SEK tranche of the promissory note into 76,876 Class A shares of the Corporation, with a carrying value of $86,332, and the $10,370 Canadian denominated tranche of the promissory note was repaid. As a result, no promissory note payable to Irving remains. Capstone then distributed $131,968 to Irving as a return of capital, which included a $45,636 reduction to retained earnings and $86,332 to the Class A shares. The impact of these transactions did not change the carrying value of the Class A shares.

As at March 3, 2017	$
Net proceeds on sale (1)	142,198
Carrying value of assets held for sale (2)	(14,111)
Gain on sale of Värmevärden	128,087

(1) Proceeds are net of transaction costs of $2,378.
(2) Värmevärden had $3,025 working capital and $11,086 loans receivable on March 3, 2017.

The results of the *utilities - district heating* segment, including the gain on sale, are presented as a discontinued operation.

Financial information relating to the three months ended March 31, 2017 and March 31, 2016 is set out below.

Net income from discontinued operations

The net income from Värmevärden's discontinued operations for the three months ended March 31, 2017 and 2016 was:

For the three months ended	Mar 31, 2017	Mar 31, 2016
Administrative expenses	(238)	—
Gain on sale (1)	128,087	—
Other income (loss)	1,468	(119)
Net income (loss) from discontinued operations, net of tax	129,317	(119)

(1) Gain on sale is net of foreign exchange impact of $119.

5. FINANCIAL INSTRUMENTS

(A) Classification by Level

The following table summarizes the Corporation's financial instruments that have been recorded at fair value:

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Mar 31, 2017	Dec 31, 2016
Derivative contract assets:					
Whitecourt embedded derivative [1]	—	—	13,933	13,933	13,674
Interest rate swap contracts	—	2,378	—	2,378	4,852
	—	2,378	13,933	16,311	18,526
Promissory note payable [2]	—	—	—	—	96,702
Derivative contract liabilities:					
Interest rate swap contracts	—	3,504	—	3,504	3,572
Less: current portion	—	(778)	—	(778)	(758)
	—	2,726	—	2,726	2,814

(1) Whitecourt's embedded derivative consists of a $18,435 fair value asset, offset by the $4,502 amortized contra-asset, set up on inception (2016 - $18,265 fair value asset, offset by the $4,591 of contra-asset).

(2) Capstone's promissory note payable to Irving was converted or repaid on March 31, 2017. As a result, no balance remains. Refer to note 4b(ii) for details.

Financial instruments not recorded at fair value

Accounts receivable, loans receivable, accounts payable and long-term debt are reported at carrying value on the statement of financial position. The fair values of these items approximate their carrying values with the exception of long-term debt, which has a fair value of $789,201 compared to a carrying value of $756,674.

(B) Fair Value Determination

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

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 its fair value.
Whitecourt embedded derivative	• The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including estimates on the forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales.

The Corporation, with the assistance of third-party experts, determines the fair value 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.

6. EQUITY ACCOUNTED INVESTMENTS

As at	Ownership %	Mar 31, 2017 Carrying Value	Dec 31, 2016 Carrying Value
Glen Dhu	49.0%	21,637	21,946
Fitzpatrick	50.0%	498	518
		22,135	22,464

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

Three months ended	Opening Balance	Equity Accounted Income	Distributions Received	Ending Balance
March 31, 2017	22,464	798	(1,127)	22,135
March 31, 2016	23,392	592	(1,077)	22,907

7. CAPITAL ASSETS

As at January 1, 2017	787,271
Additions	1,317
Disposals	(3,273)
Depreciation	(12,975)
As at March 31, 2017	772,340

The reconciliation of capital asset additions to a cash basis included in the consolidated statement of cash flows was:

	Three months ended	
	Mar 31, 2017	Mar 31, 2016
Additions	1,317	13,509
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	(56)	2,458
Net foreign exchange difference	—	(1,380)
Cash additions attributable to Bristol Water [1]	—	(10,631)
Cash additions	1,261	3,956

(1) Bristol Water was sold on December 15, 2016 (refer to note 4b(i)).

8. PROJECTS UNDER DEVELOPMENT ("PUD")

As at January 1, 2017	22,267
Capitalized costs during the period [1]	8,997
As at March 31, 2017	31,264

(1) Includes $117 of capitalized borrowing costs during the construction of the Settlers Landing wind development project using the interest rate of the long-term debt (2016 - $272 during the construction of GHG).

The reconciliation of additions to PUD to a cash basis included in consolidated statement of cash flow was:

	Three months ended	
	Mar 31, 2017	Mar 31, 2016
Additions	8,997	34,690
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	548	(5,700)
Cash additions	9,545	28,990

9. INTANGIBLE ASSETS

As at January 1, 2017	153,493
Amortization	(2,394)
As at March 31, 2017	151,099

10. LONG-TERM DEBT

As at	Mar 31, 2017	Dec 31, 2016
CPC credit facility	77,000	85,000
Project Debt		
Wind - Operating [1]	445,196	453,050
Wind - Development [2]	17,900	7,700
Hydros	79,697	81,851
Solar	86,266	87,062
Gas	66,769	67,557
Power [3]	772,828	782,220
Less: deferred financing costs	(16,154)	(16,229)
Long-term debt	756,674	765,991
Less: current portion	(102,689)	(62,169)
	653,985	703,822

(1) Wind - Operating project debt consists of Erie Shores, Amherst, SkyGen, Skyway8, Glace Bay, Saint-Philémon, Goulais, GHG, Grey Highlands Clean and Snowy Ridge.
(2) Wind - Development project debt consists of the Settlers Landing construction facility.
(3) The power segment has a cumulative $46,820 utilized on its letter of credit facilities.

11. SHAREHOLDERS' EQUITY AND PROMISSORY NOTE PAYABLE

(A) Equity

The share capital of the Corporation was:

As at	Mar 31, 2017	Dec 31, 2016
Common shares [(1)]	40,433	40,433
Preferred shares	72,020	72,020
	112,453	112,453

(1) On March 31, 2017, Irving converted the remaining SEK tranche of the promissory note payable into 76,876 newly issued Class A shares, which increased share capital by $86,332. Additionally, Capstone distributed $86,332 to Irving as a return of capital which impacted share capital. The transaction did not change the value of Capstone's Class A shares. Refer to note 4b(ii) for details.

Capstone maintains its preferred shares which declared dividends during the quarter as follows:

	Three months ended	
	Mar 31, 2017	Mar 31, 2016
Preferred shares declared [(1)]	631	967

(1) Includes $18 of deferred income taxes (2016 - $31).

(B) Promissory Note Payable

On April 29, 2016, as part of the iCON III acquisition described in note 4a, Capstone issued a demand interest-free promissory note to Irving for $316,225 in exchange for common share capital, which was reduced to $96,702 as at December 31, 2016. On March 31, 2017, Irving converted its remaining 552,700 SEK tranche of the promissory note into 76,876 Class A shares of Capstone at fair value using the foreign exchange rate as at April 29, 2016 and the $10,370 Canadian denominated tranche of the promissory note was repaid using proceeds from the sale of Värmevärden. Refer to note 4b(ii) for details.

12. EXPENSES BY NATURE

	Three months ended Mar 31, 2017				Three months ended Mar 31, 2016			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Wages and benefits [(1)]	2,334	2,424	210	4,968	2,093	3,959	1,027	7,079
Maintenance	2,060	—	—	2,060	1,777	—	—	1,777
Professional fees [(1), (2)]	1,021	263	453	1,737	489	338	3,822	4,649
Fuel and transportation	1,228	—	—	1,228	978	—	—	978
Leases	750	118	—	868	556	115	—	671
Insurance	634	31	—	665	615	39	—	654
Utilities	580	—	—	580	608	—	—	608
Property taxes	448	—	—	448	466	—	—	466
Power facility administration	424	—	—	424	314	—	—	314
Manager fees	334	—	—	334	443	—	—	443
Raw materials, chemicals and supplies [(1)]	318	—	—	318	318	—	—	318
Other	553	438	152	1,143	736	871	475	2,082
Total	10,684	3,274	815	14,773	9,393	5,322	5,324	20,039

(1) Certain comparative figures for the period ended March 31, 2016 have been adjusted for discontinued operations (refer to note 4b).
(2) Professional fees include legal, audit, tax and other advisory services.

13. OTHER GAINS AND LOSSES

	Three months ended	
	Mar 31, 2017	Mar 31, 2016
Unrealized gains (losses) on derivative financial instruments	(212)	(5,821)
Losses on disposal of capital assets	—	(186)
Other [(1)]	42	41
Other gains and (losses), net	(170)	(5,966)

(1) Certain comparative figures for the periods ended March 31, 2016 have been adjusted for discontinued operations (refer to note 4b).

14. SEGMENTED INFORMATION

Management historically organized the Corporation's business into three reportable segments in order to assess performance and allocate capital. As at March 31, 2017, two of these segments are discontinued operations for which performance will not be evaluated going forward. Cash generating units within each reportable segment have similar economic characteristics based on the nature of the products or services they provide, the customers they serve, the method of distributing those products or services and the prevailing regulatory environment.

Management evaluates the performance of these segments primarily on revenue, expenses and EBITDA. In 2017, the information disclosed for each reportable segment was updated to be consistent with the measures reviewed by management to assess performance and allocate capital.

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
Discontinued operations (refer to note 4b)	
Utilities – water The regulated water services business (Bristol Water), in which the Corporation held a 50% indirect interest until December 15, 2016.	United Kingdom
Utilities – district heating ("DH") The district heating business (Värmevärden), in which the Corporation held a 33.3% indirect interest until March 3, 2017.	Sweden

	Three months ended Mar 31, 2017					
	Continuing Operations			Discontinued Operations		
	Power	Corporate	Total	Water	DH	Total
Revenue (1)	43,133	—	43,133	—	—	—
Expenses	(11,408)	(3,365)	(14,773)	—	—	—
EBITDA	32,463	(3,334)	29,129	—	—	—
Interest expense	(8,644)	—	(8,644)	—	—	—
Income tax recovery (expense)	(2,144)	(16,555)	(18,699)	—	—	—
Net income (loss)	6,324	(19,907)	(13,583)	—	129,317	129,317
Additions to capital assets	1,317	—	1,317	—	—	—
Additions to PUD	8,997	—	8,997	—	—	—

(1) For the quarter ended March 31, 2017, Whitecourt produced enough eligible power to receive $3,700 of grant funding, which was included in power revenue.

	Three months ended Mar 31, 2016					
	Continuing Operations			Discontinued Operations		
	Power	Corporate	Total	Water	DH	Total
Revenue	34,175	—	34,175	—	—	—
Expenses	(10,745)	(9,294)	(20,039)	—	—	—
EBITDA	18,024	(9,185)	8,839	—	—	—
Interest expense	(6,543)	(2,404)	(8,947)	—	—	—
Income tax recovery (expense)	1,156	157	1,313	—	—	—
Net income (loss)	522	(11,448)	(10,926)	13,505	(119)	13,386
Additions to capital assets	857	—	857	12,652	—	12,652
Additions to PUD	34,690	—	34,690	—	—	—

Certain comparative figures for the period ended March 31, 2016 have been adjusted to conform with the presentation in the current year.

15. 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, 2016.

Generally, there have been no significant changes to the specified contractual obligations that are outside the ordinary course of business.

CONTACT INFORMATION

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

Contacts:

Andrew Kennedy
Chief Financial Officer
Tel: 416-649-1300
Email: akennedy@capstoneinfra.com