



CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended June 30, 2020

TABLE OF CONTENTS

Legal Notice	2	Notes to Unaudited Consolidated Financial Statements	15
Management's Discussion and Analysis	3	Contact Information	20
Interim Unaudited Consolidated Financial Statements	11		

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 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, 2019 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 or solar development projects achieving commercial operation; that the Corporation's power facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no further 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 facilities; that there will be no material changes in environmental regulations for the power 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 Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing wind facilities are exercised; market prices for electricity in Ontario and the amount of hours that the Cardinal Facility is dispatched; and the price that the Whitecourt Biomass Facility will receive for its electricity production considering the market price for electricity in Alberta, and the Whitecourt Biomass Facility's agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by the facility.

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; volatile market price for the Corporation's securities (including related to global health emergencies such as the COVID-19 coronavirus pandemic)); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; 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 facilities (power purchase agreements; operational performance; market price for electricity; contract performance and reliance on suppliers (including potential delays related to the COVID-19 coronavirus pandemic); completion of the Corporation's wind and solar development projects (including potential delays related to the COVID-19 coronavirus pandemic); 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 23, 2020, 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 and six months ended June 30, 2020 with the comparative prior period and the Corporation's financial position as at June 30, 2019 and December 31, 2019.

This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at, and for the three and six months ended June 30, 2020, and the financial statements and MD&A for the year ended December 31, 2019. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 23, 2020 and its MD&A and audited annual financial statements for the year ended December 31, 2019. 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 August 6, 2020, 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.

ADDITIONAL PERFORMANCE MEASURES DEFINITIONS

While the accompanying consolidated financial statements have been prepared in accordance with IFRS, this MD&A also contains EBITDA, a performance measure not defined by IFRS. EBITDA is an additional performance measure and does not have a 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. EBITDA is defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest ("NCI"), interest income, and other gains and losses (net). 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 age, technology, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

CHANGES IN THE BUSINESS

In 2020, despite the global impact of the coronavirus, Capstone continues to execute on its strategic objectives, moving to self performance of operations and maintenance at our facilities with Senvion wind turbines, refinancing our existing projects to create liquidity, progressing on the near-term recontracting of the hydro facilities and advancing our development projects, including securing financing.

COVID-19 Impact

In 2020, an outbreak of a novel strain of coronavirus, responsible for a communicable disease called "COVID-19", was declared a pandemic by the World Health Organization and has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally, resulting in an economic slowdown. At the time of this report, the duration and impacts of COVID-19 are unknown, as this is a rapidly evolving global concern.

Capstone's businesses have been deemed essential services and as such continue to operate. To this end, Capstone's priority is to protect the health and safety of its employees, as well as the communities that it operates in. While it is not currently possible to estimate the length and severity of these developments, the Corporation's existing operations have not been materially impacted as the facilities are operating under long-term revenue contracts and have experienced continued demand. Capstone continues to maintain sufficient liquidity and will continue to monitor and respond to disruptions to global credit markets and supply chains, which may impact its businesses.

Senvion Facilities' Operations

Until February 2020, Senvion provided the operations and maintenance services and warranty obligations for Capstone's Grey Highlands Clean Energy Development LP ("Grey Highlands Clean"), Grey Highlands ZEP and Ganaraska ("GHG"), Snowy Ridge, and Settlers Landing wind facilities (the "Senvion Projects"). In the six months ended June 30, 2020, Capstone transitioned its Senvion Projects to being serviced by Capstone's internalized service function without interruption.

Grey Highlands Clean Wind Facility Refinancing

On June 17, 2020, the Grey Highlands Clean term loan was refinanced with its existing lenders, increasing its term loan by \$22,638 to \$66,096 and extending the term by 4 years to June 17, 2024, while locking in lower long-term interest rates through an interest rate swap. The new project debt fully amortizes over the remainder of the facility's power purchase agreement, which expires in 2036 and the effective fixed interest rate for the duration of the term loan is 2.85%.

Hydro Facilities' Recontracting

During 2020, Capstone entered into extensions of the power purchase agreement ("PPA") with BC Hydro for the 3MW Hluey Lake hydro facility, which now expires in October 2020, subject to BCUC approval. Negotiations for a renewal beyond the current contract term are ongoing.

In February 2020, Capstone entered into an amendment to the Sechelt Creek hydro facility Electricity Purchase Agreement ("EPA") with BC Hydro. BCUC approval was obtained for the EPA, which expires in October 2022.

Changes to the Board of Directors

On June 26, 2020, Michael Smerdon resigned from the Board of Directors. Capstone's Board of Directors now consists of 7 directors.

Project Development

Capstone continues to pursue projects at all stages of development and is actively progressing a number of projects. As at June 30, 2020, Capstone's development pipeline included the rights to 190MW gross across the projects, including:

- the Claresholm solar project ("Claresholm"), a 132MW facility located in Alberta, which is being developed with its partner, Obton A/S ("Obton");
- the Buffalo Atlee wind projects 1, 2 and 3, in aggregate 48MW of facilities located in Alberta (collectively the "Buffalo Atlee" wind development projects), which are being developed with its partner, Sawridge First Nation ("Sawridge"); and
- the Riverhurst wind project ("Riverhurst"), a 10MW facility located in Saskatchewan.

SUBSEQUENT EVENTS

Claresholm Financing

On July 9, 2020, Claresholm entered into a credit agreement providing up to \$115,000 of non-recourse debt for the construction of the solar facility. The construction term matures no later than December 31, 2021 and upon achieving commercial operations, the debt converts to a term loan, amortizing over twenty years.

The debt is to be funded up to \$60,000 from bank lenders at a floating interest rate and up to \$55,000 from long-term fixed rate lenders with the debts maturing on the fifth and twelfth anniversaries, respectively. To mitigate the interest rate risk from the bank lenders, Claresholm has swap contracts to convert the floating interest rate obligations to a fixed rate.

RESULTS OF OPERATIONS

Overview

In 2020, Capstone's EBITDA and net income were lower in both the second quarter and for the year-to-date period. Lower year-to-date EBITDA primarily reflects:

- Lower revenue from the operating wind facilities, primarily due to poor weather conditions, as well as Whitecourt, primarily due to lower average realized prices; and
- Higher expenses due to higher project development costs associated with early stage and business development.

	Three months ended			Six months ended		
	Jun 30, 2020	Jun 30, 2019	Change	Jun 30, 2020	Jun 30, 2019	Change
Revenue	45,581	45,729	(148)	93,802	96,207	(2,405)
Expenses	(15,161)	(12,879)	(2,282)	(30,119)	(26,651)	(3,468)
Other income and expenses	(3,635)	(5,005)	1,370	(11,492)	(10,914)	(578)
EBITDA	26,785	27,845	(1,060)	52,191	58,642	(6,451)
Interest expense	(8,678)	(9,422)	744	(17,883)	(18,911)	1,028
Depreciation and amortization	(20,404)	(20,268)	(136)	(40,798)	(40,260)	(538)
Income tax recovery (expense)	595	4,007	(3,412)	2,525	3,795	(1,270)
Net income (loss)	(1,702)	2,162	(3,864)	(3,965)	3,266	(7,231)

The remaining material change in net income was:

- Lower income tax recovery in 2020, largely because of a shift in deferred taxes, resulting from a lower decline in future tax rates, versus 2019.

Seasonality

Overall, the results for Capstone's power segment fluctuate during the year because of seasonal factors that affect the production of each facility. These factors include environmental factors such as water flows, solar irradiation, 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 Canadian power segment in Canada, as well as corporate activities. The power segment consists of operating and development activities. The operating facilities produce electricity from natural gas, wind, biomass, hydro and solar resources, and are located in Ontario, Nova Scotia, Alberta, British Columbia and Québec.

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.

Revenue

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

Revenue	Three months ended			Six months ended		
	Jun 30, 2020	Jun 30, 2019	Change	Jun 30, 2020	Jun 30, 2019	Change
Wind	28,202	27,877	325	60,612	62,875	(2,263)
Gas	5,423	5,126	297	10,749	10,868	(119)
Hydro	4,949	4,442	507	8,133	7,348	785
Solar	5,446	4,589	857	8,109	7,180	929
Biomass ⁽¹⁾	1,561	3,695	(2,134)	6,199	7,936	(1,737)
Total Revenue	45,581	45,729	(148)	93,802	96,207	(2,405)

(1) Biomass revenue includes \$808 of grant funding eligibility for Whitecourt, for the year to date (2019 - \$692 and \$1,233 for the quarter and year to date, respectively).

Power generated (GWh)	Three months ended			Six months ended		
	Jun 30, 2020	Jun 30, 2019	Change	Jun 30, 2020	Jun 30, 2019	Change
Wind	249.3	242.4	6.9	539.8	559.3	(19.5)
Gas	6.6	—	6.6	11.7	5.8	5.9
Hydro	61.7	56.2	5.5	95.9	87.2	8.7
Solar	13.0	10.9	2.1	19.3	17.1	2.2
Biomass	44.4	45.7	(1.3)	94.1	97.0	(2.9)
Total Power	375.0	355.2	19.8	760.8	766.4	(5.6)

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 PPAs with government agencies or regulated credit-worthy counterparties. On a megawatt ("MW") weighted-average-basis, the wind facilities have 11 years remaining on the current PPAs, with the earliest expiry in October 2020.
- Cardinal, a natural gas peaking facility located in Ontario, from fixed payments for providing capacity and availability to the IESO with a 2034 power contract expiry and by supplying electricity to the Ontario grid when it is profitable to do so. In addition, Cardinal receives a fixed amount (subject to escalation) to provide operational and maintenance services to Ingredion's 15MW facility.
- Amherstburg Solar Park, a solar facility located in Ontario, and the four hydro facilities located in Ontario and British Columbia, by generating and selling electricity under long-term PPAs. On a MW weighted-average-basis, the hydro facilities have 11 years remaining on the current PPAs, with the earliest expiry in October 2020. The Amherstburg Solar Park PPA expires in 2031.
- Whitecourt, a biomass facility located in Alberta, by selling electricity at market rates to the Alberta Power Pool. Whitecourt also earns a portion of its revenue from government grants and the sale of renewable energy credits. These are supplemented by a revenue sharing agreement with Whitecourt's fuel supplier, Millar Western, where contractual settlements are included in other gains and losses in the consolidated statement of income.

The following table shows the significant changes in revenue from 2019:

Three months	Six months	Explanations
325	(2,263)	Lower year-to-date revenue from the operating wind facilities due to lower production in the first quarter, reflecting relative weather conditions.
(1,182)	(963)	Lower revenue from Whitecourt due to lower Alberta Power Pool prices.
(692)	(425)	Lower revenue from Whitecourt due to lower BPP funding due to program ending in March 2020.
857	929	Higher revenue from Amherstburg due to higher solar resource, primarily during the quarter.
406	718	Higher revenue from the Hydro facilities due to increased production, reflecting better resource conditions.
138	(401)	Various other changes.
(148)	(2,405)	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			Six months ended		
	Jun 30, 2020	Jun 30, 2019	Change	Jun 30, 2020	Jun 30, 2019	Change
Wind	(4,990)	(4,678)	(312)	(10,960)	(9,911)	(1,049)
Gas	(2,487)	(2,553)	66	(5,171)	(5,653)	482
Hydro	(1,053)	(835)	(218)	(1,971)	(1,829)	(142)
Solar	(175)	(179)	4	(355)	(350)	(5)
Biomass	(2,806)	(2,743)	(63)	(5,412)	(5,253)	(159)
Power operating expenses	(11,511)	(10,988)	(523)	(23,869)	(22,996)	(873)
Project development costs	(2,021)	(395)	(1,626)	(3,026)	(610)	(2,416)
Administrative expenses	(1,629)	(1,496)	(133)	(3,224)	(3,045)	(179)
Total Expenses	(15,161)	(12,879)	(2,282)	(30,119)	(26,651)	(3,468)

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 staff and maintained under service agreements, typically with the original equipment manufacturers, except for the Erie Shores wind facilities and the Servion Projects, which have internalized service functions. In addition, Cardinal, Whitecourt and Amherstburg rely on the internal capabilities and experience of Capstone's staff. The remaining significant costs include fuel, transportation, insurance, utilities, land leases, raw materials, chemicals, supplies and property taxes.

Project development costs consist of professional fees and other costs to pursue greenfield opportunities, as well as costs to explore and execute transactions. Administrative expenses are comprised 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 2019:

Three months	Six months	Explanations
(1,626)	(2,416)	Higher project development costs due to costs associated with early stage and business development in 2020.
(656)	(1,052)	Various other changes.
(2,282)	(3,468)	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at June 30, 2020, Capstone's working capital was \$81,477, compared with \$53,124 as at December 31, 2019. The increase was primarily due to restricted cash on hand for the construction of the Claresholm solar project. Capstone has adequate financial flexibility, including \$60,660 of cash and credit facility capacity of \$75,339 available, further positioning the Corporation for growth.

Capstone and its subsidiaries continue to comply with all debt covenants.

Liquidity

Working capital

As at	Jun 30, 2020	Dec 31, 2019
Power	78,436	49,468
Corporate	3,041	3,656
Working capital (equals current assets, less current liabilities)	81,477	53,124

Capstone's working capital was \$28,353 higher than December 31, 2019 because of a \$28,968 increase from power, partially offset by a \$615 decrease at corporate. The power increase primarily reflects higher restricted cash of \$39,817 primarily due to partner contributions for Claresholm which were restricted for use prior to the financing being in place. This was partially offset by lower cash of \$7,512, as Capstone funded its portion of Claresholm, partially offset by proceeds from refinancing Grey Highlands Clean and the drawing of \$5,000 on the CPC revolving credit facility.

Cash and cash equivalents

As at	Jun 30, 2020	Dec 31, 2019
Power	56,859	64,371
Corporate	3,801	4,885
Unrestricted cash and cash equivalents	60,660	69,256

These funds are available for operating activities, capital expenditures and future acquisitions. The \$8,596 decrease consists of decreases of \$7,512 at power and \$1,084 at corporate. Lower cash at power reflects Capstone's portion of the Claresholm funding, partially offset by proceeds from refinancing Grey Highlands Clean and accumulation of asset distributions. The decrease at corporate reflects the settlement of year-end liabilities. In addition to these funds, the CPC revolving credit facility has an available capacity of \$75,339 as at June 30, 2020.

Cash at the power segment is comprised of \$16,454 at CPC and \$40,405 at the projects, which 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.

Cash flow

Capstone's consolidated cash and cash equivalents decreased by \$8,596 in 2020 compared with a decrease of \$20,366 in 2019. The components of the change in cash, as presented in the consolidated statement of cash flows, are summarized as follows:

Six months ended	Jun 30, 2020	Jun 30, 2019
Operating activities	48,410	55,123
Investing activities	(71,301)	(21,585)
Financing activities (excluding dividends to shareholders)	15,521	(52,678)
Dividends paid to shareholders	(1,226)	(1,226)
Change in cash and cash equivalents	(8,596)	(20,366)

Cash flow from operating activities was \$6,713 lower in 2020. The decrease consists of \$6,672 of lower power segment cash flows due to lower revenue in 2020 and \$41 of lower corporate cash flows.

Cash flow used in investing activities was \$49,716 higher in 2020 driven by an increase of \$39,350 due to changes in restricted cash and \$25,356 for projects under development, both relating primarily to Claresholm, partially offset by \$14,990 for capital assets additions in 2019 for the purchase of Watford.

Cash flow from financing activities was \$68,199 higher in 2020, primarily due to \$50,896 higher proceeds from long-term debt reflecting \$66,096 of proceeds from the Grey Highlands Clean refinancing and the drawing of \$5,000 on the CPC revolving credit facility, whereas 2019 included \$20,200 from the Cardinal refinancing. In addition, there were \$16,480 higher cash contributions from partners in 2020, for Claresholm.

Long-term Debt

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

	Dec 31, 2019	Additions	Repayments	Other	Jun 30, 2020
Long-term debt ^{(1), (2), (3) and (4)}	699,296	71,096	(67,278)	—	703,114
Deferred financing fees	(12,283)	(1,705)	—	1,518	(12,470)
	687,013	69,391	(67,278)	1,518	690,644
Less: current portion of long-term debt	(45,293)	—	—	(445)	(45,738)
	641,720	69,391	(67,278)	1,073	644,906

(1) The power segment has a cumulative \$54,877 utilized on its letter of credit facilities.

(2) On February 25, 2020, the CPC revolving credit facility was extended to December 15, 2023.

(3) Additions of \$71,096 consists of a \$66,096 refinancing of the Grey Highlands Clean term loan and \$5,000 drawn on the CPC revolving credit facility.

(4) Repayments of \$67,278 include a \$43,458 repayment on refinancing the Grey Highlands Clean term loan, as well as scheduled repayments.

As at June 30, 2020, Capstone's long-term debt consisted of \$5,000 for the corporate revolving credit facility and \$698,114 of project debt. The current portion of long-term debt was \$45,738, consisting of scheduled debt amortization. Capstone expects to repay the scheduled amortization from income generated by the power assets.

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 certain limited recourse guarantees provided to the lenders of the various facilities.

Equity

Shareholders' equity comprised:

As at	Jun 30, 2020	Dec 31, 2019
Common shares	62,270	62,270
Preferred shares ⁽¹⁾	72,020	72,020
Share capital	134,290	134,290
Accumulated other comprehensive income (loss)	(260)	—
Retained earnings	64,217	71,113
Equity attributable to Capstone shareholders	198,247	205,403
Non-controlling interests ⁽²⁾	84,388	59,247
Total shareholders' equity	282,635	264,650

(1) Capstone has 3,000 publicly listed Series A preferred shares on the Toronto Stock Exchange.

(2) Increase mainly consists of contributions from partners of \$26,188, primarily for Claresholm.

Projects Under Development ("PUD")

PUD primarily includes costs to develop the Claresholm solar project and Riverhurst and Buffalo Atlee wind projects.

	2020
As at January 1	16,803
Capitalized costs during the period	31,592
As at June 30	48,395

Contractual Obligations

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

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

In 2020, Claresholm and Riverhurst executed material project contracts for the construction of the facilities with aggregate commitments of \$163,253 and \$26,480, respectively. There have been no other 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. Due to the nature of their operations, the facilities are not expected to incur material contingent liabilities upon the retirement of assets.

Income Taxes

The deferred income tax recovery primarily relates to a statutory tax rate decrease in Nova Scotia which was substantively enacted effective April 1, 2020. The current tax expense primarily relates to current tax on income from operations.

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 legally enforceable right of offset within the same tax jurisdictions.

Capstone's deferred income tax assets primarily relate to unused tax losses carried forward. Capstone's deferred income tax liabilities primarily relate to the differences between the amortization of intangible and capital assets for tax and accounting purposes.

DERIVATIVE FINANCIAL INSTRUMENTS

To manage certain financial risks inherent in the business, Capstone enters into derivative contracts primarily to mitigate the economic impact of the fluctuations in interest 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	Jun 30, 2020	Dec 31, 2019
Derivative contract assets	9,887	6,459
Derivative contract liabilities	(18,131)	(5,773)
Net derivative contract assets (liabilities)	(8,244)	686

Net derivative contract assets decreased by \$8,930 from December 31, 2019, primarily due to losses of \$7,406, and contractual settlement payments of \$1,524 paid by Millar Western.

Fair value changes of derivatives in the consolidated statements of income and comprehensive income comprised:

	Three months ended		Six months ended	
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Jun 30, 2019
Interest rate swap contracts	(1,351)	(4,585)	(14,215)	(10,725)
Whitecourt embedded derivative	2,924	(1,044)	7,491	(1,188)
Foreign currency contracts	(682)	—	(682)	—
Gain (losses) on derivatives	891	(5,629)	(7,406)	(11,913)

The loss on derivatives were primarily attributable to losses from the interest rate swap contracts, primarily because of lower long-term interest rates since December 31, 2019. This was partially offset by the increase in the Whitecourt embedded derivative asset primarily due to lower estimated forward Alberta Power Pool prices since December 31, 2019.

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 MD&A for the year ended December 31, 2019 and the "Risk Factors" section of the Annual Information Form dated March 23, 2020 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. In addition, refer to the "Changes in the Business" section for a description of the impact of COVID-19 to Capstone.

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 MD&A for the year ended December 31, 2019 and the "Environmental, Health and Safety Matters" section of the Corporation's Annual Information Form dated March 23, 2020, which are available on the SEDAR website at www.sedar.com. The outbreak of COVID-19, which was declared a pandemic by the World Health Organization, poses risks to its employees, contractors, suppliers, and other partners. The Corporation's priority is to protect the health and safety of our employees and the communities that it operates in.

SUMMARY OF QUARTERLY RESULTS

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

	2020		2019			2018		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	45,581	48,221	51,424	37,707	45,729	50,478	49,991	39,951
EBITDA	26,785	25,406	36,346	26,060	27,845	30,797	29,018	31,262
Net income (loss) ⁽¹⁾	(2,631)	(3,036)	3,496	(3,920)	2,064	77	(668)	272
Preferred dividends	613	613	613	613	613	613	613	613

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

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Policies

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2019 consolidated financial statements included in the Annual Report, except as disclosed in note 2 to the June 30, 2020 consolidated interim financial statements.

Changes in Accounting Standards

The International Accounting Standards Board ("IASB") issued narrow-scope amendments to IFRS 3, particularly the definition of a business. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and are to be applied prospectively. Capstone will apply the updated IFRS 3 to applicable transactions.

Future Changes in Accounting Standards

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, 2019.

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, 2019 for greater details 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 ⁽¹⁾
Capital assets, projects under development and intangible assets:	
<ul style="list-style-type: none"> • Purchase price allocations. • Depreciation on capital assets. • Amortization on intangible assets. • Asset retirement obligations. • Impairment assessments of capital assets, projects under development and intangible assets. 	<ul style="list-style-type: none"> • Initial fair value of net assets. • Estimated useful lives and residual value. • Estimated useful lives. • Expected settlement date, amount and discount rate. • Future cash flows and discount rate.
Deferred income taxes	<ul style="list-style-type: none"> • Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	<ul style="list-style-type: none"> • Forward Alberta Power Pool prices, volatility, credit spreads, cost and inflation escalators, fuel supply volumes, electricity sales, carbon pricing and EPC generation.
Accounting for investments in non-wholly owned subsidiaries	<ul style="list-style-type: none"> • 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.

(1) The COVID-19 outbreak (refer to the "Changes in the Business" section of this MD&A) has not changed Capstone's method of calculation for its critical estimates and judgments to date, although underlying market assumptions have fluctuated significantly for its financial instruments.

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, 2019, 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	Jun 30, 2020	Dec 31, 2019
Current assets			
Cash and cash equivalents		60,660	69,256
Restricted cash		64,394	24,577
Accounts receivable		29,638	23,837
Other assets		4,326	4,391
Current portion of derivative contract assets	5	33	1,398
		159,051	123,459
Non-current assets			
Loans receivable		855	702
Derivative contract assets	5	9,854	5,061
Capital assets		791,879	815,955
Projects under development	6	48,395	16,803
Intangible assets		137,915	143,553
Deferred income tax assets		118	112
Total assets		1,148,067	1,105,645
Current liabilities			
Accounts payable and other liabilities		28,017	24,005
Current portion of derivative contract liabilities	5	2,747	—
Current portion of lease liabilities		1,072	1,037
Current portion of long-term debt	7	45,738	45,293
		77,574	70,335
Long-term liabilities			
Derivative contract liabilities	5	15,384	5,773
Deferred income tax liabilities		82,449	85,878
Lease liabilities		35,124	27,440
Long-term debt	7	644,906	641,720
Liability for asset retirement obligation		9,995	9,849
Total liabilities		865,432	840,995
Equity attributable to shareholders' of Capstone		198,247	205,403
Non-controlling interest		84,388	59,247
Total liabilities and shareholders' equity		1,148,067	1,105,645
Commitments and contingencies	13		
Subsequent events	14		

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone			NCI ⁽¹⁾	Total Equity
		Share Capital	AOCI ⁽⁵⁾	Retained Earnings		
Balance, December 31, 2018		134,290	—	71,842	50,086	256,218
Other comprehensive income (loss)		—	—	—	—	—
Net income for the period		—	—	2,141	1,125	3,266
Dividends declared to preferred shareholders of Capstone ⁽²⁾	8	—	—	(1,261)	—	(1,261)
Dividends declared to NCI		—	—	—	(2,262)	(2,262)
Convertible debenture repayments ⁽³⁾		—	—	—	(1,358)	(1,358)
Balance, June 30, 2019		<u>134,290</u>	<u>—</u>	<u>72,722</u>	<u>47,591</u>	<u>254,603</u>

	Notes	Equity attributable to shareholders of Capstone			NCI ⁽¹⁾	Total Equity
		Share Capital	AOCI ⁽⁵⁾	Retained Earnings		
Balance, December 31, 2019		134,290	—	71,113	59,247	264,650
Other comprehensive income (loss)		—	(260)	—	(249)	(509)
Net income (loss) for the period		—	—	(5,667)	1,702	(3,965)
Dividends declared to preferred shareholders of Capstone ⁽²⁾	8	—	—	(1,229)	—	(1,229)
Dividends declared to NCI		—	—	—	(880)	(880)
Convertible debenture repayments ⁽³⁾		—	—	—	(1,620)	(1,620)
Contributions from NCI ⁽⁴⁾		—	—	—	26,188	26,188
Balance, June 30, 2020		<u>134,290</u>	<u>(260)</u>	<u>64,217</u>	<u>84,388</u>	<u>282,635</u>

(1) Non-controlling interest ("NCI").

(2) Dividends declared to preferred shareholders of Capstone include current and deferred income tax expense of \$3 (2019 - \$36).

(3) Repayments are to the holder of the convertible debenture related to the GHG Wind Development LP, SR Wind Development LP and SLS Wind Development LP wind facilities. The convertible debenture provides the holder the option to convert its debt into a 50% equity interest in these projects.

(4) Includes contributions from Obton to Claresholm and from Sawridge First Nation to Buffalo Atlee (refer to note 4).

(5) Accumulated other comprehensive income (loss) ("AOCI").

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

	Notes	Three months ended		Six months ended	
		Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Jun 30, 2019
Revenue	9	45,581	45,729	93,802	96,207
Operating expenses	10	(11,511)	(10,988)	(23,869)	(22,996)
Administrative expenses	10	(1,629)	(1,496)	(3,224)	(3,045)
Project development costs	10	(2,021)	(395)	(3,026)	(610)
Interest income		184	712	624	1,173
Other gains and (losses), net	11	(3,680)	(5,717)	(11,977)	(12,087)
Foreign exchange gain (loss)		(139)	—	(139)	—
Earnings before interest expense, taxes, depreciation and amortization		26,785	27,845	52,191	58,642
Interest expense		(8,678)	(9,422)	(17,883)	(18,911)
Depreciation of capital assets		(17,589)	(17,440)	(35,161)	(34,631)
Amortization of intangible assets		(2,815)	(2,828)	(5,637)	(5,629)
Earnings (loss) before income taxes		(2,297)	(1,845)	(6,490)	(529)
Income tax recovery (expense)					
Current		(27)	(364)	(250)	(688)
Deferred		622	4,371	2,775	4,483
Total income tax recovery (expense)		595	4,007	2,525	3,795
Net income (loss)		(1,702)	2,162	(3,965)	3,266
Attributable to:					
Shareholders of Capstone		(2,631)	2,064	(5,667)	2,141
Non-controlling interest		929	98	1,702	1,125
		(1,702)	2,162	(3,965)	3,266

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended		Six months ended	
		Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Jun 30, 2019
Gains (losses) on financial instruments designated as cash flow hedges (net of tax of \$173)		(509)	—	(509)	—
Other comprehensive income (loss)		(509)	—	(509)	—
Net income		(1,702)	2,162	(3,965)	3,266
Total comprehensive income		(2,211)	2,162	(4,474)	3,266
Comprehensive income attributable to:					
Shareholders of Capstone		(2,891)	2,064	(5,927)	2,141
Non-controlling interest		680	98	1,453	1,125
		(2,211)	2,162	(4,474)	3,266

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Six months ended	Notes	Jun 30, 2020	Jun 30, 2019
Operating activities:			
Net income (loss)		(3,965)	3,266
Deferred income tax recovery		(2,775)	(4,483)
Depreciation and amortization		40,798	40,260
Non-cash other gains and losses (net)		8,742	12,494
Amortization of deferred financing costs and non-cash financing costs		1,277	1,315
Foreign exchange loss		139	—
Change in non-cash working capital		4,194	2,271
Total cash flows from operating activities		48,410	55,123
Investing activities:			
Decrease (increase) in restricted cash		(39,956)	(606)
Investment in projects under development		(26,250)	(894)
Investment in capital assets		(5,095)	(20,085)
Total cash flows used in investing activities		(71,301)	(21,585)
Financing activities:			
Proceeds from issuance of long-term debt	7	66,096	20,200
Contributions from NCI		16,480	—
Proceeds from draw on CPC credit facility	7	5,000	—
Repayment of long-term debt		(67,278)	(67,727)
Convertible debenture repayments		(1,620)	(1,358)
Transaction costs on long-term debt		(1,505)	(1,058)
Dividends paid to preferred shareholders		(1,226)	(1,226)
Dividends paid to non-controlling interests		(880)	(2,262)
Lease principal payments		(772)	(473)
Total cash flows from (used in) financing activities		14,295	(53,904)
Increase (decrease) in cash and cash equivalents		(8,596)	(20,366)
Cash and cash equivalents, beginning of year		69,256	76,341
Cash and cash equivalents, end of period		60,660	55,975
Supplemental information:			
Interest paid		16,555	17,466
Taxes paid		740	923

See accompanying notes to these consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone is incorporated and domiciled in Canada and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. All of Capstone's Class A common shares are owned by 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"), who is the ultimate parent. Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") mission is to power society, protect the environment, contribute to communities, and create value for its shareholders. As at June 30, 2020, Capstone owns and operates an approximate net installed capacity of 541 megawatts across 24 facilities in Canada, including wind, hydro, solar, biomass, and natural gas power plants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Changes in Accounting Policies

There have been no material changes to Capstone's accounting policies during the first six months of 2020, except for changes relating to the addition of foreign currency hedging and those noted in the "Changes in Accounting Standards" section below.

Derivative Financial Instruments

As of June 30, 2020, the Corporation's derivatives also include foreign currency contracts. Changes in the fair values of derivative financial instruments are reported in the consolidated statement of income, except for cash flow hedges that meet the conditions for hedge accounting. Capstone designates its foreign currency contracts as hedges of foreign exchange risk associated with the cash flows of highly probable forecast capital expenditure transactions. The portion of the gain or loss on the hedging instruments that are determined to be an effective hedge are recognized directly in other comprehensive income, and the ineffective portion in the consolidated statement of income. Gains or losses recognized in other comprehensive income are subsequently recognized in the statement of income in the same period in which the hedged underlying transaction or firm commitment is recognized in the statement of income.

In order to qualify for hedge accounting, the Corporation is required to document in advance the relationship between the item being hedged and the hedging instrument. The Corporation is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at the end of each reporting period to ensure that the hedge remains highly effective.

Comprehensive Income

Other comprehensive income ("OCI") represents changes in shareholders' equity during a period arising from transactions and other events, including the effective portion of the change in fair value of designated cash flow hedges less any amounts reclassified to interest and other expenses, net, in the period the underlying hedged item is also recorded in interest expense, net. Accumulated other comprehensive income ("AOCI") is included as a component in the consolidated statement of shareholders' equity.

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, 2019. 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 2019 annual consolidated financial statements.

In 2020, an outbreak of a novel strain of coronavirus, responsible for a communicable disease called "COVID-19", was declared a pandemic by the World Health Organization and has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally, resulting in an economic slowdown. At the time of this report, the duration and impacts of COVID-19 are unknown, as this is a rapidly evolving global concern. The COVID-19 outbreak has not changed Capstone's method of calculation for its critical estimates and judgments to date, although underlying market assumptions have fluctuated significantly for its financial instruments.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on August 6, 2020. All amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

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.

Changes in Accounting Standards

The International Accounting Standards Board ("IASB") issued narrow-scope amendments to IFRS 3, particularly the definition of a business. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and are to be applied prospectively. Capstone will apply the updated IFRS 3 to applicable transactions.

Future Changes in Accounting Standards

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, 2019. Capstone continues to monitor changes to IFRS, applicable IASB changes to standards, new interpretations and annual improvements.

3. SEASONALITY

The seasonality of environmental factors such as water flows, solar irradiation, wind speeds and air density, ambient temperature and humidity, which affect the amount of electricity generated, may result in fluctuations in power segment revenue and net income during the period.

4. ACQUISITIONS

(A) Watford Wind Facility

On February 1, 2019, Capstone acquired the Watford assets from Zephyr Farms Limited for \$13,960, paid for from existing liquidity. The 10MW wind facility operates in the municipality of Brooke-Alvinston in Ontario under a power purchase agreement ("PPA") that expires in 2032.

(B) Claresholm Solar Project ("Claresholm")

On November 19, 2019, Capstone acquired a 51% interest in the 132MW Claresholm solar project, through a series of transactions. The remaining 49% interest is indirectly held by Denmark-based Obton A/S ("Obton"). The project was acquired for \$15,951, which includes \$4,820 of acquired cash, the reimbursement of certain pre-construction expenses, transaction costs, and consideration that becomes payable over time and is recorded in accounts payable and other liabilities due to the expected timing of payment.

The project has secured regulatory approvals from the Alberta Utilities Commission and executed a 74MW power purchase agreement with TC Energy Corporation.

In 2020, Claresholm executed material project contracts for the construction of the facility with an aggregate commitment of \$163,253. These and additional capital expenditures are expected to be funded by a combination of project financing (see note 14 Subsequent Events) and equity contributions from the partners, of which \$78,911 has been funded to date. As at June 30, 2020, \$9,555 was receivable from Obton and included in accounts receivable in the statement of financial position. Capstone's equity contributions are expected to be funded from existing liquidity and the available capacity in the CPC revolving credit facility.

The accounting for Claresholm is treated as an asset acquisition in compliance with IFRS 3 and Capstone consolidates Claresholm as defined in IFRS 10, with Obton's interest treated as NCI.

5. FINANCIAL INSTRUMENTS

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	Jun 30, 2020	Dec 31, 2019
Derivative contract assets:					
Whitecourt embedded derivative ⁽¹⁾	—	—	9,380	9,380	3,414
Interest rate swap contracts	—	507	—	507	3,045
Less: current portion	—	(33)	—	(33)	(1,398)
	—	474	9,380	9,854	5,061
Derivative contract liabilities:					
Interest rate swap contracts	—	17,449	—	17,449	5,773
Foreign currency contracts ⁽²⁾	—	682	—	682	—
Less: current portion	—	(2,747)	—	(2,747)	—
	—	15,384	—	15,384	5,773

(1) Whitecourt's embedded derivative consists of a \$12,735 fair value asset, offset by a \$3,355 amortized contra-asset, set up on inception (2019 - \$6,945 fair value asset, offset by the \$3,531 of contra-asset).

(2) Foreign currency contracts relate to USD purchases for the construction of Claresholm.

Financial instruments not recorded at fair value

Accounts 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 \$758,266 compared to a carrying value of \$690,644.

Fair value determination

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

Whitecourt embedded derivative	<ul style="list-style-type: none"> 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, fuel supply volumes, electricity sales, carbon pricing and Emission Performance Credits ("EPC") generation.
Interest rate swap	<ul style="list-style-type: none"> The interest rate swap contract's fair value fluctuates with changes in market interest rates. A discounted cash flow valuation based on a forward interest rate curve was used to determine their fair value.
Foreign currency contracts	<ul style="list-style-type: none"> Fair value of foreign currency contracts fluctuate with changes in the US dollar to the Canadian dollar. A discounted cash flow valuation based on a forward USD/CAD exchange rate curve was used to determine their fair value.

Capstone, 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.

6. PROJECTS UNDER DEVELOPMENT ("PUD")

	2020
As at January 1	16,803
Capitalized costs during the period	31,592
As at June 30⁽¹⁾	<u>48,395</u>

(1) The balance contains amounts for the Claresholm solar project, and the Buffalo Atlee and Riverhurst wind projects, as well as other early stage projects.

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

	Six months ended	
	Jun 30, 2020	Jun 30, 2019
Additions	31,592	830
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(5,341)	64
Cash additions	<u>26,251</u>	<u>894</u>

7. LONG-TERM DEBT

As at	Jun 30, 2020	Dec 31, 2019
CPC credit facility ⁽¹⁾	5,000	—
Project debt		
Wind - Operating ^{(2), (3)}	484,679	479,784
Solar	67,359	70,441
Hydro	70,767	71,895
Gas	75,309	77,176
Power⁽⁴⁾	<u>703,114</u>	<u>699,296</u>
Less: deferred financing costs	(12,470)	(12,283)
Long-term debt	<u>690,644</u>	<u>687,013</u>
Less: current portion	(45,738)	(45,293)
	<u>644,906</u>	<u>641,720</u>

(1) On February 25, 2020, the CPC revolving credit facility was extended to December 15, 2023.

(2) Wind - Operating project debt consists of Amherst, Erie Shores, GHG, Glace Bay, Glen Dhu, Goulais, Grey Highlands Clean, Saint-Philémon, Settlers Landing, SkyGen, Skyway8, and Snowy Ridge.

(3) On June 17, 2020, the Grey Highlands Clean term loan was refinanced with its existing lenders, increasing its term loan by \$22,638 to \$66,096 and extending the term by 4 years to June 17, 2024. Capstone exited the previous swap contracts and entered into new swap contracts to convert the full term loan's floating interest rate obligations to a fixed rate. The proceeds were used to repay the outstanding principal, swap break fees and closing costs. The new project debt fully amortizes over the remainder of the facility's power purchase agreement, which expires in 2036 and the effective fixed interest rate for the duration of the term loan is 2.85%. In accordance with IFRS 9, the refinancing of the existing term loan was recognized as a debt extinguishment, as the instruments are substantially different. This resulted in the capitalization of \$1,595 of related transaction costs on the full term loan. The previously capitalized transaction costs of \$489 were derecognized and the costs associated with exiting the previous swap contract of \$4,759 were recorded in other gains and losses.

(4) The power segment has a cumulative \$54,877 utilized on its letter of credit facilities.

8. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Jun 30, 2020	Dec 31, 2019
Common shares	62,270	62,270
Preferred shares	72,020	72,020
	<u>134,290</u>	<u>134,290</u>

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

	Three months ended		Six months ended	
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Jun 30, 2019
Preferred shares declared ⁽¹⁾	608	630	1,229	1,261

(1) Includes current and deferred income tax expense of \$8 and \$3 for the quarter and year to date, respectively (2019 - \$18 and \$36 for the quarter and year to date, respectively).

9. REVENUE BY NATURE

Capstone's power segment revenue is generated through long-term power contracts which vary in nature as disaggregated below. The corporate activities do not generate revenue.

	Three months ended		Six months ended	
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Jun 30, 2019
Wind	28,202	27,877	60,612	62,875
Gas ⁽¹⁾	5,423	5,126	10,749	10,868
Hydro	4,949	4,442	8,133	7,348
Solar	5,446	4,589	8,109	7,180
Biomass ⁽²⁾	1,561	3,695	6,199	7,936
Total	45,581	45,729	93,802	96,207

(1) Gas revenue at Cardinal consists of fixed payments for providing capacity and availability based on its PPA and other contracts; the remaining revenue is variable based on production.

(2) Biomass revenue includes \$808 of grant funding eligibility for Whitecourt, for the year to date (2019 - \$692 and \$1,233 for the quarter and year to date, respectively).

10. EXPENSES BY NATURE

	Three months ended Jun 30, 2020				Three months ended Jun 30, 2019			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	3,954	—	—	3,954	4,297	—	—	4,297
Wages and benefits	2,587	1,250	—	3,837	2,476	1,161	—	3,637
Professional fees ⁽²⁾	431	77	1,922	2,430	238	52	326	616
Property expenses ⁽¹⁾	1,613	132	32	1,777	1,717	55	24	1,796
Fuel and transportation	1,238	—	—	1,238	940	—	—	940
Power facility administration	650	—	—	650	559	—	—	559
Insurance	620	12	—	632	543	29	—	572
Other	418	158	67	643	218	199	45	462
Total	11,511	1,629	2,021	15,161	10,988	1,496	395	12,879

	Six months ended Jun 30, 2020				Six months ended Jun 30, 2019			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	8,077	—	—	8,077	8,419	—	—	8,419
Wages and benefits	5,489	2,493	—	7,982	5,071	2,299	—	7,370
Property expenses ⁽¹⁾	3,496	265	71	3,832	3,590	254	53	3,897
Professional fees ⁽²⁾	790	122	2,733	3,645	547	52	428	1,027
Fuel and transportation	2,528	—	—	2,528	2,383	—	—	2,383
Power facility administration	1,360	—	—	1,360	1,168	—	—	1,168
Insurance	1,240	38	—	1,278	1,100	59	—	1,159
Other	889	306	222	1,417	718	381	129	1,228
Total	23,869	3,224	3,026	30,119	22,996	3,045	610	26,651

(1) Property expenses include leases, utilities, and property taxes.

(2) Professional fees include legal, audit, tax and other advisory services.

11. OTHER GAINS AND LOSSES

	Three months ended		Six months ended	
	Jun 30, 2020	Jun 30, 2019	Jun 30, 2020	Jun 30, 2019
Unrealized gains and (losses) on derivative financial instruments ⁽¹⁾	1,573	(5,629)	(6,724)	(11,913)
Realized losses on derivative financial instruments ⁽²⁾	(5,248)	—	(5,248)	—
Losses on disposal of capital assets	(5)	(88)	(5)	(174)
Other gains and (losses), net	(3,680)	(5,717)	(11,977)	(12,087)

- (1) Unrealized losses on derivative financial instruments were primarily attributable to losses on interest rate swap contracts due to lower long-term interest rates partially offset by the Whitecourt embedded derivative, primarily due to lower estimated forward Alberta power pool prices since December 31, 2019.
- (2) Relates to Grey Highlands Clean refinancing. Refer to note 7 Long-Term Debt in the notes to the financial statements.

12. SEGMENTED INFORMATION

The Corporation's business has one reportable segment containing the power operations, in order to assess performance and allocate capital, as well as the remaining corporate activities. The power operations and corporate activities are all located in Canada. Management evaluates performance primarily on revenue, expenses and EBITDA. Cash generating units within the power 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.

	Three months ended Jun 30, 2020			Three months ended Jun 30, 2019		
	Power	Corporate	Total	Power	Corporate	Total
Revenue ⁽¹⁾	45,581	—	45,581	45,729	—	45,729
Expenses	(12,529)	(2,632)	(15,161)	(11,235)	(1,644)	(12,879)
EBITDA	29,341	(2,556)	26,785	29,023	(1,178)	27,845
Interest expense	(8,678)	—	(8,678)	(9,422)	—	(9,422)
Income tax recovery (expense)	(829)	1,424	595	3,758	249	4,007
Net income (loss)	(491)	(1,211)	(1,702)	3,163	(1,001)	2,162
Additions to capital assets, net	10,002	—	10,002	3,510	—	3,510
Additions to PUD	17,608	—	17,608	338	—	338

	Six months ended Jun 30, 2020			Six months ended Jun 30, 2019		
	Power	Corporate	Total	Power	Corporate	Total
Revenue (1)	93,802	—	93,802	96,207	—	96,207
Expenses	(25,225)	(4,894)	(30,119)	(23,474)	(3,177)	(26,651)
EBITDA	56,862	(4,671)	52,191	61,100	(2,458)	58,642
Interest expense	(17,883)	—	(17,883)	(18,911)	—	(18,911)
Income tax recovery (expense)	531	1,994	2,525	3,181	614	3,795
Net income (loss)	(1,130)	(2,835)	(3,965)	5,267	(2,001)	3,266
Additions to capital assets, net	11,129	—	11,129	18,116	—	18,116
Additions to PUD	31,592	—	31,592	830	—	830

- (1) Biomass revenue includes \$808 of grant funding eligibility for Whitecourt, for the year to date (2019 - \$692 and \$1,233 for the quarter and year to date, respectively).

13. 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, 2019. In 2020, Claresholm and Riverhurst executed material project contracts for the construction of the facilities with aggregate commitments of \$163,253 and \$26,480, respectively. There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business.

14. SUBSEQUENT EVENTS

Claresholm Financing

On July 9, 2020, Claresholm entered into a credit agreement providing up to \$115,000 of non-recourse debt for the construction of the solar facility, with a first draw expected in the third quarter. The construction term matures no later than December 31, 2021 and upon achieving commercial operations, the debt converts to a term loan, amortizing over twenty years.

The debt is to be funded up to \$60,000 from bank lenders at a floating interest rate and up to \$55,000 from long-term fixed rate lenders with the debts maturing on the fifth and twelfth anniversaries, respectively. To mitigate the interest rate risk from the bank lenders, Claresholm has swap contracts to convert the floating interest rate obligations to a fixed rate.

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