CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended March 31, 2020

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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 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 months ended March 31, 2020 with the comparative prior period and the Corporation's financial position as at March 31, 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 months ended March 31, 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 May 13, 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 at our facilities with Senvion wind turbines, progressing on the near-term recontracting of the hydro facilities and advancing our development projects.

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, Grey Highlands ZEP and Ganaraska ("GHG"), Snowy Ridge, and Settlers Landing wind facilities. In the quarter ended March 31, 2020, Capstone transitioned its facilities with Senvion turbines to being serviced by a combination of a third party provider and Capstone's internalized service function without interruption.

Hydro Facilities' Recontracting

During the quarter, Capstone entered into an extension of the power purchase agreement ("PPA") for the 3MW Hluey Lake hydro facility, which now expires in July 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.

Project Development

Capstone continues to pursue projects at all stages of development and is actively progressing a number of projects. As at March 31, 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;
- 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.

RESULTS OF OPERATIONS

Overview

In 2020, Capstone's EBITDA and net income were both lower in the first quarter compared with the same period in 2019. Lower EBITDA primarily reflects:

- Lower revenue from the operating wind facilities, primarily due to poor weather conditions, and lower revenue from Cardinal due to fewer market runs in 2020; and
- Higher net unrealized losses on interest rate swaps in 2020 due to lower long-term interest rates partially offset by an increase in the fair value of the Whitecourt embedded derivative.

	Three months ended		
	Mar 31, 2020	Mar 31, 2019	Change
Revenue	48,221	50,478	(2,257)
Expenses	(14,958)	(13,772)	(1,186)
Other income and expenses	(7,857)	(5,909)	(1,948)
EBITDA	25,406	30,797	(5,391)
Interest expense	(9,205)	(9,489)	284
Depreciation and amortization	(20,394)	(19,992)	(402)
Income tax recovery (expense)	1,930	(212)	2,142
Net income (loss)	(2,263)	1,104	(3,367)

The remaining material change in net income was:

- Lower income tax as 2020 was a recovery, largely because of a shift in deferred taxes, resulting from declining future tax rates, versus an expense in 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		
	Mar 31, 2020	Mar 31, 2019	Change
Wind	32,410	34,998	(2,588)
Gas	5,326	5,742	(416)
Hydro	3,184	2,906	278
Solar	2,663	2,591	72
Biomass (1)	4,638	4,241	397
Total Revenue	48,221	50,478	(2,257)

(1) Biomass revenue includes $808 of grant funding eligibility for Whitecourt (2019 - $541).

Power generated (GWh)	Three months ended		
	Mar 31, 2020	Mar 31, 2019	Change
Wind	290.5	313.7	(23.2)
Gas	5.2	5.8	(0.6)
Hydro	34.3	31.0	3.3
Solar	6.3	6.2	0.1
Biomass	49.7	51.3	(1.6)
Total Power	386.0	408.0	(22.0)

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 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 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	Explanations
(2,587)	Lower revenue from the operating wind facilities due to lower production, reflecting relative weather conditions.
(459)	Lower revenue from Cardinal due to fewer market runs in 2020.
278	Higher revenue from the Hydro facilities due to increased production, reflecting higher hydrological resources.
511	Various other changes.
(2,257)	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, 2020	Mar 31, 2019	Change
Wind	(5,970)	(5,233)	(737)
Gas	(2,684)	(3,100)	416
Hydro	(918)	(994)	76
Solar	(180)	(171)	(9)
Biomass	(2,606)	(2,510)	(96)
Power operating expenses	(12,358)	(12,008)	(350)
Project development costs	(1,005)	(215)	(790)
Administrative expenses	(1,595)	(1,549)	(46)
Total Expenses	(14,958)	(13,772)	(1,186)

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, Grey Highlands Clean, GHG, Snowy Ridge, and Settlers Landing wind facilities, which have an internalized service function. Capstone's facilities with Senvion wind turbines were serviced under an O&M agreement until February 2020, and subsequently serviced by a combination of a third party provider and Capstone's internalized service function. 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	Explanations
(790)	Higher project development costs due to costs associated with early stage and business development in 2020.
(121)	Higher operating expenses at Watford due to the acquisition on February 1, 2019.
376	Lower operating expenses at Cardinal due to fewer runs in 2020.
(651)	Various other changes.
(1,186)	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at March 31, 2020, Capstone's working capital was $49,344, compared with $53,124 as at December 31, 2019. The decrease was primarily due to fluctuations in the net current derivative asset balances. Capstone has adequate financial flexibility, including $72,361 of cash and credit facility available capacity of $72,336, further positioning the Corporation for growth.

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

Liquidity

Working capital

As at	Mar 31, 2020	Dec 31, 2019
Power	45,997	49,468
Corporate	3,347	3,656
Working capital (equals current assets, less current liabilities)	49,344	53,124

Capstone's working capital was $3,780 lower than December 31, 2019 due to decreases of $3,471 and $309 in power and corporate, respectively. The power segment decrease primarily reflects lower accounts receivable of $4,242 due to timing of revenue receipts and decreases in net current derivative contract assets of $2,929, partially offset by a $3,966 increase in cash.

Cash and cash equivalents

As at	Mar 31, 2020	Dec 31, 2019
Power	68,337	64,371
Corporate	4,024	4,885
Unrestricted cash and cash equivalents	72,361	69,256

These funds are available for operating activities, capital expenditures and future acquisitions. The $3,105 increase consists of an increase of $3,966 at power, offset by a decrease of $861 at corporate. Higher cash at the power segment reflects 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 $72,336 as at March 31, 2020.

Cash at the power segment is comprised of $21,500 at CPC and $46,837 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 increased by $3,105 in 2020 compared with a decrease of $3,889 in 2019. The components of the change in cash, as presented in the consolidated statement of cash flows, are summarized as follows:

Three months ended	Mar 31, 2020	Mar 31, 2019
Operating activities	30,184	27,051
Investing activities	(16,709)	(17,100)
Financing activities (excluding dividends to shareholders)	(9,757)	(13,227)
Dividends paid to shareholders	(613)	(613)
Change in cash and cash equivalents	3,105	(3,889)

Cash flow from operating activities was $3,133 higher in 2020. The increase consists of $2,707 of higher power segment cash flows and $426 of higher corporate cash flows. The increases are primarily attributable to changes in working capital.

Cash flow used in investing activities was $391 lower in 2020 due to $13,212 lower cash used for funding capital assets additions, as 2019 included the purchase of Watford, and $570 lower due to changes in restricted cash. This was partially offset by $13,391 higher cash used for investments in projects under development, primarily for Claresholm.

Cash flow used in financing activities was $3,470 lower in 2020, primarily due to $4,200 cash contributions from partners, partially offset by $1,125 of higher scheduled debt repayments.

Long-term Debt

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

	Dec 31, 2019	Additions	Repayments	Other	Mar 31, 2020
Long-term debt (1) and (2)	699,296	—	(12,315)	—	686,981
Deferred financing fees	(12,283)	(110)	—	561	(11,832)
	687,013	(110)	(12,315)	561	675,149
Less: current portion of long-term debt	(45,293)	—	—	(24)	(45,317)
	641,720	(110)	(12,315)	537	629,832

(1) The power segment has a cumulative $62,473 utilized on its letter of credit facilities.
(2) On February 25, 2020, the CPC credit facility was amended and the maturity date was extended to December 15, 2023.

As at March 31, 2020, Capstone's long-term debt consisted entirely of project debt. The current portion of long-term debt was $45,317, 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	Mar 31, 2020	Dec 31, 2019
Common shares	62,270	62,270
Preferred shares (1)	72,020	72,020
Share capital	134,290	134,290
Retained earnings	67,469	71,113
Equity attributable to Capstone shareholders	201,759	205,403
Non-controlling interests	62,992	59,247
Total shareholders' equity	264,751	264,650

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

Projects Under Development ("PUD")

In the three months ended March 31, 2020, Capstone capitalized $13,984 of costs in PUD related to the development of the Claresholm, Buffalo Atlee and Riverhurst projects.

	2020
As at January 1	16,803
Capitalized costs during the period	13,984
As at March 31	30,787

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 executed material project contracts for the construction of the facility with an aggregate commitment of $71,146. 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 and will be in effect in the second quarter of 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	Mar 31, 2020	Dec 31, 2019
Derivative contract assets	7,994	6,459
Derivative contract liabilities	(15,592)	(5,773)
Net derivative contract assets (liabilities)	(7,598)	686

Net derivative contract assets decreased by $8,284 from December 31, 2019, primarily due to losses of $8,297, and contractual settlement payments of $13 paid to Millar Western.

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

	Three months ended	
	Mar 31, 2020	Mar 31, 2019
Interest rate swap contracts	(12,864)	(6,140)
Whitecourt embedded derivative	4,567	(144)
Gain (losses) on derivatives	(8,297)	(6,284)

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 recent 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	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**48,221**	51,424	37,707	45,729	50,478	49,991	39,951	44,817
EBITDA	**25,406**	36,346	26,060	27,845	30,797	29,018	31,262	31,061
Net income (loss) [(1)]	**(3,036)**	3,496	(3,920)	2,064	77	(668)	272	1,386
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 Standards

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.

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 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, 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:	
• 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, fuel supply volumes, electricity sales, carbon pricing and EPC generation.
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.

(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	Mar 31, 2020	Dec 31, 2019
Current assets			
Cash and cash equivalents		72,361	69,256
Restricted cash		24,108	24,577
Accounts receivable		19,606	23,837
Other assets		3,741	4,391
Current portion of derivative contract assets	5	—	1,398
		119,816	123,459
Non-current assets			
Loans receivable		750	702
Derivative contract assets	5	7,994	5,061
Capital assets		799,539	815,955
Projects under development	6	30,787	16,803
Intangible assets		140,731	143,553
Deferred income tax assets		112	112
Total assets		1,099,729	1,105,645
Current liabilities			
Accounts payable and other liabilities		22,567	24,005
Current portion of derivative contract liabilities	5	1,531	—
Current portion of lease liabilities		1,057	1,037
Current portion of long-term debt	7	45,317	45,293
		70,472	70,335
Long-term liabilities			
Derivative contract liabilities	5	14,061	5,773
Deferred income tax liabilities		83,474	85,878
Lease liabilities		27,165	27,440
Long-term debt	7	629,832	641,720
Liability for asset retirement obligation		9,974	9,849
Total liabilities		834,978	840,995
Equity attributable to shareholders' of Capstone		201,759	205,403
Non-controlling interest		62,992	59,247
Total liabilities and shareholders' equity		1,099,729	1,105,645
Commitments and contingencies	13		

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone: Share Capital	Equity attributable to shareholders of Capstone: Retained Earnings	NCI [1]	Total Equity
Balance, December 31, 2018		134,290	71,842	50,086	256,218
Net income for the period		—	77	1,027	1,104
Dividends declared to preferred shareholders of Capstone [2]	8	—	(631)	—	(631)
Dividends declared to NCI		—	—	(1,217)	(1,217)
Convertible debenture repayments [3]		—	—	(583)	(583)
Balance, March 31, 2019		134,290	71,288	49,313	254,891

	Notes	Equity attributable to shareholders of Capstone: Share Capital	Equity attributable to shareholders of Capstone: Retained Earnings	NCI [1]	Total Equity
Balance, December 31, 2019		134,290	71,113	59,247	264,650
Net income (loss) for the period		—	(3,036)	773	(2,263)
Dividends declared to preferred shareholders of Capstone [2]	8	—	(608)	—	(608)
Dividends declared to NCI		—	—	(276)	(276)
Convertible debenture repayments [3]		—	—	(1,000)	(1,000)
Contributions from NCI [4]		—	—	4,248	4,248
Balance, March 31, 2020		134,290	67,469	62,992	264,751

(1) Non-controlling interest ("NCI").
(2) Dividends declared to preferred shareholders of Capstone include current and deferred income tax recovery of $5 (2019 - expense of $18).
(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 Sawridge First Nation to Buffalo Atlee and from Obton to Claresholm (refer to note 4).

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Notes	Three months ended Mar 31, 2020	Three months ended Mar 31, 2019
Revenue	9	48,221	50,478
Operating expenses	10	(12,358)	(12,008)
Administrative expenses	10	(1,595)	(1,549)
Project development costs	10	(1,005)	(215)
Interest income		440	461
Other gains and (losses), net	11	(8,297)	(6,370)
Earnings before interest expense, taxes, depreciation and amortization		25,406	30,797
Interest expense		(9,205)	(9,489)
Depreciation of capital assets		(17,572)	(17,191)
Amortization of intangible assets		(2,822)	(2,801)
Earnings (loss) before income taxes		(4,193)	1,316
Income tax recovery (expense)			
Current		(223)	(324)
Deferred		2,153	112
Total income tax recovery (expense)		1,930	(212)
Net income (loss) and total comprehensive income (loss)		(2,263)	1,104
Attributable to:			
Shareholders of Capstone		(3,036)	77
Non-controlling interest		773	1,027
		(2,263)	1,104

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended	Notes	Mar 31, 2020	Mar 31, 2019
Operating activities:			
Net income (loss)		(2,263)	1,104
Deferred income tax recovery		(2,153)	(112)
Depreciation and amortization		20,394	19,992
Non-cash other gains and losses (net)		8,284	6,347
Amortization of deferred financing costs and non-cash financing costs		686	641
Change in non-cash working capital		5,236	(921)
Total cash flows from operating activities		30,184	27,051
Investing activities:			
Investment in projects under development		(13,819)	(428)
Investment in capital assets		(3,359)	(16,571)
Decrease (increase) in restricted cash		469	(101)
Total cash flows used in investing activities		(16,709)	(17,100)
Financing activities:			
Repayment of long-term debt		(12,315)	(11,190)
Convertible debenture repayments		(1,000)	(583)
Dividends paid to preferred shareholders		(613)	(613)
Dividends paid to non-controlling interests		(276)	(1,217)
Lease principal payments		(256)	(237)
Transaction costs on long-term debt		(110)	—
Partner contribution		4,200	—
Total cash flows used in financing activities		(10,370)	(13,840)
Increase (decrease) in cash and cash equivalents		3,105	(3,889)
Cash and cash equivalents, beginning of year		69,256	76,341
Cash and cash equivalents, end of period		72,361	72,452
Supplemental information:			
Interest paid		8,337	8,742
Taxes paid		245	677

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 March 31, 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

There have been no material changes to Capstone's accounting policies during the first three months of 2020, except as noted in the following section "Changes in Accounting Standards".

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 May 13, 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 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, 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

On November 19, 2019, Capstone acquired a 51% interest in the 132MW Claresholm solar development 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 $71,146. Additional capital expenditures are expected to be funded by a combination of project financing and equity contributions from the partners. Capstone's equity contributions are expected to be funded from existing liquidity and the available capacity in the CPC revolving credit facility. Construction is scheduled to begin in spring 2020.

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	Mar 31, 2020	Dec 31, 2019
Derivative contract assets:					
Whitecourt embedded derivative [1]	—	—	7,994	7,994	3,414
Interest rate swap contracts	—	—	—	—	3,045
Less: current portion	—	—	—	—	(1,398)
	—	—	7,994	7,994	5,061
Derivative contract liabilities:					
Whitecourt embedded derivative [1]	—	—	—	—	—
Interest rate swap contracts	—	15,592	—	15,592	5,773
Less: current portion	—	(1,531)	—	(1,531)	—
	—	14,061	—	14,061	5,773

(1) Whitecourt's embedded derivative consists of a $11,437 fair value liability and $3,443 amortized contra-asset, set up on inception (2019 - $6,945 fair value asset, offset by the $3,531 of contra-asset).

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 $736,992 compared to a carrying value of $675,149.

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 valuation based on a forward interest rate curve was used to determine their 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, fuel supply volumes, electricity sales, carbon pricing and Emission Performance Credits ("EPC") generation.

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	13,984
As at March 31 [1]	30,787

(1) As at March 31, 2020, the balance contains amounts for the Claresholm solar, Buffalo Atlee and Riverhurst wind development projects.

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

	Three months ended	
	Mar 31, 2020	Mar 31, 2019
Additions	13,984	492
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(165)	(64)
Cash additions	13,819	428

7. LONG-TERM DEBT

As at	Mar 31, 2020	Dec 31, 2019
CPC credit facilities [1]	—	—
Project debt		
Wind - Operating [2]	469,471	479,784
Solar	69,549	70,441
Hydro	71,717	71,895
Gas	76,244	77,176
Power [3]	686,981	699,296
Less: deferred financing costs	(11,832)	(12,283)
Long-term debt	675,149	687,013
Less: current portion	(45,317)	(45,293)
	629,832	641,720

(1) On February 25, 2020, the CPC credit facility was amended and the maturity date 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) The power segment has a cumulative $62,473 utilized on its letter of credit facilities.

8. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Mar 31, 2020	Dec 31, 2019
Common shares	62,270	62,270
Preferred shares	72,020	72,020
	134,290	134,290

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

	Three months ended	
	Mar 31, 2020	Mar 31, 2019
Preferred shares declared [1]	608	631

(1) Includes current and deferred income tax recovery of $5 (2019 - expense of $18).

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	
	Mar 31, 2020	Mar 31, 2019
Wind	32,410	34,998
Gas [1]	5,326	5,742
Hydro	3,184	2,906
Solar	2,663	2,591
Biomass [2]	4,638	4,241
Total	48,221	50,478

(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 (2019 - $541).

10. EXPENSES BY NATURE

	Three months ended Mar 31, 2020				Three months ended March 31, 2019			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	4,123	—	—	4,123	4,106	—	—	4,106
Wages and benefits	2,902	1,243	—	4,145	2,595	1,138	—	3,733
Property expenses (1)	1,883	133	39	2,055	1,873	44	29	1,946
Fuel and transportation	1,290	—	—	1,290	1,443	—	—	1,443
Professional fees (2)	359	45	587	991	309	—	102	411
Power facility administration	710	—	—	710	625	—	—	625
Insurance	620	26	—	646	557	30	—	587
Other	471	148	379	998	500	337	84	921
Total	12,358	1,595	1,005	14,958	12,008	1,549	215	13,772

(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	
	Mar 31, 2020	Mar 31, 2019
Unrealized gains and (losses) on derivative financial instruments (1)	(8,297)	(6,284)
Losses on disposal of capital assets	—	(86)
Other gains and (losses), net	(8,297)	(6,370)

(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.

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 Mar 31, 2020			Three months ended March 31, 2019		
	Power	Corporate	Total	Power	Corporate	Total
Revenue (1)	48,221	—	48,221	50,478	—	50,478
Expenses	(12,696)	(2,262)	(14,958)	(12,239)	(1,533)	(13,772)
EBITDA	27,521	(2,115)	25,406	32,077	(1,280)	30,797
Interest expense	(9,205)	—	(9,205)	(9,489)	—	(9,489)
Income tax recovery (expense)	1,360	570	1,930	(577)	365	(212)
Net income (loss)	(639)	(1,624)	(2,263)	2,104	(1,000)	1,104
Additions to capital assets, net	1,127	—	1,127	14,605	—	14,605
Additions to PUD	13,984	—	13,984	492	—	492

(1) Biomass revenue includes $808 of grant funding eligibility for Whitecourt (2019 - $541).

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 executed material project contracts for the construction of the facility with an aggregate commitment of $71,146. There have been no other 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