2023 Annual Report

Management's Discussion Analysis & Financial Statements

CAPSTONE INFRASTRUCTURE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	As at and for the year ended December 31,		
	2023	2022	2021
Revenue	239,015	255,022	222,567
EBITDA	110,066	186,125	156,678
Net income (loss) (1)	(29,744)	25,108	9,110
Preferred dividends	2,776	2,776	2,533
Total assets	1,648,829	1,550,435	1,369,491
Total long-term liabilities	1,062,172	977,502	857,100

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

INSIDE THIS SECTION

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, 2023 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, inflation, 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 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; market prices for electricity in Ontario and the amount of hours that the Cardinal Facility is dispatched; the price that the Claresholm Solar Facility, the Kneehill Solar Facility, or the Whitecourt Biomass Facility will receive for its electricity production considering the market price for electricity in Alberta; and the price that the Whitecourt Biomass Facility will receive for its electricity production considering 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); 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; foreign exchange fluctuations; reliance on key personnel); and risks related to the Corporation’s power facilities (completion of the Corporation’s development projects; power purchase agreements; operational performance; market price for electricity; contract performance and reliance on suppliers;land tenure and related rights; global conflicts; environmental; insurance coverage; climate change; cybersecurity and reliance on information technology; regulatory environment; environmental attributes; US jurisdiction; US tax incentives and availability of tax equity financing).

For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation’s Annual Information Form dated March 21, 2023, 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.

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated financial position, operating results and cash flows as at and for the years ended December 31, 2023 and 2022.

This MD&A should be read in conjunction with the accompanying audited consolidated financial statements of the Corporation and notes thereto as at and for the years ended December 31, 2023 and 2022. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2022, quarterly financial reports and other public filings of the Corporation 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 March 6, 2024, 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 as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

SUPPLEMENTAL GAAP PERFORMANCE MEASURES DEFINITIONS

This MD&A also contains EBITDA, a performance measure not defined by IFRS Accounting Standards. EBITDA is a supplemental GAAP performance measure and does not have a standardized meaning prescribed by IFRS Accounting Standards and may not 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"), equity accounted investments, interest income, other gains and losses (net), and foreign exchange gains and losses. 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 2023, Capstone continued to execute on its strategic objectives by achieving commercial operation ("COD") at each of Michichi and Kneehill, advancing its development projects, contracting projects, and successfully managing financing activities providing funding for continued growth. Capstone also opened an office in Calgary to support the company's growing fleet of renewable energy facilities and development activities in Western Canada.

Project Development Activities

Capstone continues to pursue projects at various stages of development, and to build a development pipeline across several jurisdictions. The following table lists the significant development projects:

Name of project	Status	Gross MW	Jurisdiction	Technology
Michichi (1)	COD March 3, 2023	25	Alberta	Solar
Kneehill (2)	COD March 28, 2023	25	Alberta	Solar
MW added to operating portfolio		**50**		
Buffalo Atlee (1), (2)	In Construction	61	Alberta	Wind
Wild Rose 2 (3)	Development	192	Alberta	Wind
Early-stage development projects	Development	>1,350	Canada	Wind/Solar/Storage
MW capacity in Canada		**>1,600**		
Early-stage development projects	Development	>1,100	United States	Wind/Solar/Storage
MW capacity in the United States ("US")		**>1,100**		

(1) Electricity and associated emissions offset credits generated are sold under the terms of power purchase agreements ("PPA") expiring in 2038 and 2039, respectively. The PPAs include an embedded derivative where the market price is swapped for a fixed price. Refer to "Accounting policies, estimates, and internal controls" in this MD&A.
(2) Electricity is sold at market rates to the Alberta Power Pool and associated emissions offset credits generated are sold to third parties.
(3) The Alberta Utilities Commission ("AUC") held a hearing with respect to amendments to the Wild Rose 2 project's existing approval. An AUC decision on these matters is expected later this year.

Capstone expects to fund these projects from a combination of sources including equity from existing corporate liquidity, government funding, and third party project financing.

Sechelt Creek Facility EPA

On October 30, 2022, Capstone entered into an extension to the Sechelt Creek hydro facility Electricity Purchase Agreement ("EPA") with BC Hydro until January 31, 2023. Following this, on February 1, 2023, Capstone entered into a new 20 year EPA for the Sechelt Creek facility with BC Hydro. Subsequent to year-end, British Columbia Utilities Commission ("BCUC") approval was obtained for the EPA on February 27, 2024.

Alberta Reviews Electricity Sector Regulations

On August 3, 2023, the Government of Alberta enacted the Generation Approvals Pause Regulation (the “Regulation”) under the AUC, which expired on February 29, 2024. Concurrently in August 2023, the Government of Alberta directed the AUC to conduct a broad inquiry into the development of electricity generation in Alberta. On February 28, 2024, the Government of Alberta announced that it will be issuing new policy guidance and regulatory changes in the coming months which will apply prospectively to renewable energy projects. Capstone continues to monitor the impact of the announcement and any potential impacts to our Alberta projects.

Buffalo Atlee PPA

On August 4, 2023, two of the Buffalo Atlee projects entered an agreement for the offtake of 26 MW of electricity and the associated emissions offset credits over 15 years.

Changes to Board of Directors

Director Richard Knowles sadly passed away on August 22, 2023. Mr. Knowles faithfully served the Corporation and was a valued member of the board of directors since June 2013. On September 25, 2023, Donn Hanbidge was appointed to the board of Capstone. On November 9, 2023, Janet Woodruff resigned from the board of Capstone.

Financing Activities

During the year, Capstone has executed several project and corporate financings, and secured additional shareholder funding to support ongoing growth.

Project financings

On January 27, 2023, Buffalo Atlee entered into a credit agreement which provided $50,000 of variable rate debt for the construction of the wind facilities. On September 18, 2023, an additional tranche of $19,811 of variable rate debt was added.

On March 17, 2023, the SkyGen and Skyway 8 term loans were extended with existing lenders, and now mature on March 23, 2025 and March 17, 2025, respectively.

On October 31, 2023, the Michichi and Kneehill construction credit facilities converted to term loans, which provided variable rate debt amortizing over 19 years and maturing in December 2027.

On November 17, 2023, Grey Highlands Clean and SWNS entered into a co-borrowing and amending agreement with existing lenders providing $135,177 of project debt at a variable interest rate, and maturing in 2036.

For all variable rate project financings, Capstone entered swap contracts to convert the floating interest rate obligations under the various credit agreements to a fixed rate, mitigating interest rate risk on these facilities.

Corporate financings

In 2023, the US LC facility was increased twice resulting in a capacity of $52,904, and now expires on December 23, 2024. In addition, on December 22, 2023, CPC amended its revolver and extended the maturity to March 31, 2025.

Class A shareholder funding

On June 27, 2023, Capstone's Class A common shareholder contributed $70,000 in cash.

RESULTS OF OPERATIONS

Overview

In 2023, Capstone's EBITDA and net income were lower than in 2022. Lower EBITDA reflects:

- Higher unrealized losses on fair value changes on derivative financial instruments;
- Lower revenue due to significantly lower wind and hydro production from less resource, fewer runs at Cardinal, and lower Alberta Power Pool prices, partially offset by the addition of the new solar projects that achieved COD in March 2023; and
- Higher expenses due to investing more in project development costs, adding operating expenses relating to new solar projects achieving COD in March 2023, plus higher fuel costs at Whitecourt. Partially offset by lower operating expense at Cardinal due to fewer runs.

	For the year ended		
	Dec 31, 2023	Dec 31, 2022	Change
Revenue	239,015	255,022	(16,007)
Expenses	(91,455)	(86,891)	(4,564)
Other income (expenses)	(37,494)	17,994	(55,488)
EBITDA	110,066	186,125	(76,059)
Interest expense	(48,752)	(46,261)	(2,491)
Depreciation and amortization	(97,672)	(96,282)	(1,390)
Income tax recovery (expense)	7,166	(12,234)	19,400
Net income (loss)	(29,192)	31,348	(60,540)

The remaining significant changes in net income (loss) were:

- Higher interest expense due to higher interest from higher revolver draws at CPC and the addition of new solar projects; and
- Higher income tax recovery in 2023 is primarily attributable to non-deductible fair value adjustments on financial instruments and the difference in accounting and tax amortization claimed during the year, partially offset by the increase in the tax losses carried forward.

Results by Segment

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

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 generated through long-term power contracts, as well as sales directly into the Alberta Power Pool, and under various contracts for electricity and the associated emissions offset credits, which vary in nature as disaggregated below.

Revenue	For the year ended		
	Dec 31, 2023	Dec 31, 2022	Change
Wind	117,129	131,420	(14,291)
Solar (1)	51,970	41,233	10,737
Biomass (1)	32,879	34,871	(1,992)
Gas	25,881	33,933	(8,052)
Hydro	11,156	13,565	(2,409)
Total Revenue	239,015	255,022	(16,007)

(1) Solar and Biomass include revenue from the generation and sale of electricity at market rates and the sale of emissions offset credits.

Power generated (GWh)	For the year ended		
	Dec 31, 2023	Dec 31, 2022	Change
Wind	995.5	1,143.0	(147.5)
Solar	371.5	287.9	83.6
Biomass	192.7	185.6	7.1
Gas	45.6	90.2	(44.6)
Hydro	132.7	156.6	(23.9)
Total Power	1,738	1,863.3	(125.3)

Capstone's power segment earns revenue from:

- The wind facilities, in Ontario, Nova Scotia, Québec and Saskatchewan, by selling electricity in accordance with their PPAs. On a megawatt ("MW") weighted-average-basis, there are 9 years remaining on the current PPAs.
- The solar facilities consist of:
  - Amherstburg in Ontario, selling its electricity under a long-term PPA expiring in 2031;
  - Various projects in Alberta, which sell electricity and the associated emissions offset credits under various contracts including PPAs, into the Alberta Power Pool, and to third parties. On a MW weighted-average-basis, there are 8 years remaining on the current PPAs, with the earliest expiry in 2029.
- Whitecourt, a biomass facility in Alberta, by selling electricity at market rates to the Alberta Power Pool. Whitecourt also earns a portion of its revenue from the sale of emissions offset credits. These are supplemented or offset by a revenue sharing agreement with one of Whitecourt's fuel suppliers, where contractual settlements are included in other gains and losses in the consolidated statement of income.
- Cardinal, a natural gas peaking facility 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.
- The hydro facilities, in Ontario and British Columbia, by selling electricity under long-term PPAs. On a MW weighted-average-basis, there are 19 years remaining on the current PPAs, with the earliest expiry in 2040.

Historically, Capstone has benefited from offsetting resource patterns across geographically disparate jurisdictions. The 2023 year was a historically low wind and hydro resource year across jurisdictions, which yields the result below.

The following table shows the significant changes in revenue from 2022:

Change	Explanations
12,151	Revenue from adding Michichi and Kneehill which achieved COD in March 2023.
(1,081)	Lower revenue from Amherstburg, due to lower production from resource.
(2,204)	Lower revenue at Whitecourt due to lower price, offset by higher production and higher emissions offset credit sales.
(8,052)	Lower revenue at Cardinal due to fewer market runs.
(16,700)	Lower revenue from the wind and hydro facilities, due to lower resources.
(121)	Various other changes.
(16,007)	Change in revenue.

Seasonality

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

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	For the year ended		
	Dec 31, 2023	Dec 31, 2022	Change
Wind	(26,219)	(26,208)	(11)
Solar	(9,515)	(8,460)	(1,055)
Biomass	(15,177)	(11,707)	(3,470)
Gas	(13,292)	(20,005)	6,713
Hydro	(4,327)	(4,332)	5
Power operating expenses	(68,530)	(70,712)	2,182
Project development costs	(11,594)	(6,709)	(4,885)
Administrative expenses	(11,331)	(9,470)	(1,861)
Total Expenses	(91,455)	(86,891)	(4,564)

Expenses for the operation and maintenance ("O&M") of the power facilities mainly consist of wages and benefits and payments to third party providers. Capstone's wind facilities are operated by Capstone's in-house operations and maintenance teams, except for Glen Dhu, Goulais, SkyGen, Saint-Philémon, Glace Bay, and Riverhurst, which are maintained under service agreements, typically with the original equipment manufacturers. The hydro facilities are operated and maintained under an O&M agreement. In addition, Cardinal, Whitecourt, Claresholm, Amherstburg, Michichi, and Kneehill rely on the internal capabilities and experience of Capstone's staff. Other significant costs include fuel, transportation, insurance, utilities, land leases, raw materials, chemicals, supplies, and property taxes.

Project development costs consist of direct staff costs, 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 2022:

Change	Explanations
(4,885)	Higher project development costs associated with early-stage development in 2023.
(3,470)	Higher expenses at Whitecourt primarily due to fuel & transportation costs.
(1,848)	Operating expenses from adding Michichi and Kneehill which achieved COD in March 2023.
6,713	Lower expenses at Cardinal due to fewer market runs in 2023
(1,074)	Various other changes.
(4,564)	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at December 31, 2023, Capstone's working capital was $13,137, compared with $74,058 as at December 31, 2022. The decrease relates mainly to higher accruals and cash spent to build the development projects.

Capstone has adequate financial flexibility to meet liquidity needs and support further growth, including $63,445 of unrestricted cash and cash equivalents, and credit facility capacity of $123,036 available.

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

Liquidity

Working capital

As at	Dec 31, 2023	Dec 31, 2022
Power	14,857	73,717
Corporate	(1,720)	341
Working capital (equals current assets, less current liabilities)	13,137	74,058

Capstone's working capital was $60,921 lower than December 31, 2022, mainly due to a decrease at the power segment. The power segment decrease was mainly driven by $60,535 lower cash and $5,571 higher accounts payable, both due to more construction and development activities, and an increase of $10,045 in the current net derivative liabilities. These working capital decreases were partially offset by $22,914 from extending the SkyGen and Skyway 8 debt. The decrease in corporate working capital was mainly due to an increase in accounts payable of $1,583 due to timing of expenses and decrease in cash of $917 relating to less distributions from the power segment.

Cash and cash equivalents

As at	Dec 31, 2023	Dec 31, 2022
Power	62,573	123,108
Corporate	872	1,789
Unrestricted cash and cash equivalents	63,445	124,897

These funds are available for operating activities, capital expenditures, and future acquisitions. The $61,452 decrease consists of a decrease of $60,535 at power and a decrease of $917 at corporate, reflecting increased funding for construction and development activities.

Cash at the power segment is comprised of $5,300 at CPC and $57,273 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.

In addition to these funds, CPC has credit facility capacity of $123,036 available as at December 31, 2023.

Cash flow

Capstone’s consolidated cash and cash equivalents decreased by $61,452 in 2023 compared with an increase of $67,521 in 2022. The components of the change in cash, as presented in the consolidated statement of cash flows, are summarized as follows:

For the year ended	Dec 31, 2023	Dec 31, 2022
Operating activities	111,658	117,384
Investing activities	(322,489)	(231,656)
Financing activities (excluding dividends to shareholders)	152,155	184,569
Dividends paid to shareholders	(2,776)	(2,776)
Change in cash and cash equivalents	(61,452)	67,521

Cash flow from operating activities was $5,726 lower in 2023 due to a $4,121 decrease from the power segment and a $1,605 decrease from the corporate segment. The power segment decrease reflects lower revenue and higher expenses from operating assets and the decrease in the corporate segment reflects changes in working capital.

Cash flow used in investing activities was $90,833 higher in 2023, resulting from an increase in projects under development ("PUD") and capital assets. In 2023, $293,469 was used for PUD, mainly to build Buffalo Atlee, Michichi, and Kneehill, and to advance Wild Rose 2. Additionally, $31,787 was used for capital assets, mainly at Claresholm, Hydros, and Whitecourt in 2023.

Cash flow from financing activities was $32,414 lower in 2023, primarily driven by $22,886 lower proceeds from government funding and lower proceeds from Class A common shareholder contributions of $10,000 for the year. Additional proceeds from long-term debt of $71,928 were offset by $77,978 of repayments in 2023.

Long-term Debt

Continuity of Capstone's long-term debt for the year ended was:

	Dec 31, 2022	Additions	Repayments	Other	Dec 31, 2023
Long-term debt (1), (2) and (3)	936,156	347,488	(299,331)	—	984,313
Deferred financing fees (4)	(20,737)	1,150	—	2,843	(16,744)
	915,419	348,638	(299,331)	2,843	967,569
Less: current portion of long-term debt (5)	(87,862)	—	—	18,266	(69,596)
	827,557	348,638	(299,331)	21,109	897,973

(1) The power segment has drawn $114,763 for letters of credit, along with $36,113 supported by Capstone's common shareholder.
(2) Additions of $347,488 consist of CPC revolving credit facility draws of $142,500, SWNS and GHC project financing of $135,177, and Buffalo Atlee project financing of $69,811. See the "Changes in the Business" section in this MD&A for detail.
(3) Repayments of $299,331 include $100,500 on the CPC revolving credit facility, repayments of the SWNS and GHC credit facilities of $74,357 and $54,424, respectively, and scheduled repayments on the various project debt facilities.
(4) Additions consist of deferred transaction costs on the project refinancing at GHC and SWNS, Michichi and Kneehill financing, the extension of the US LC facility and CPC credit facility extension. See the "Changes in the Business" section in this MD&A for detail.
(5) Change to current portion of $18,266 reflects a decrease of $22,914 from the SkyGen and Skyway 8 project financing extensions.

As at December 31, 2023, Capstone's long-term debt consisted of $906,813 of project debt and $77,500 for the CPC credit facilities. The current portion of long-term debt was $69,596, 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. In 2023, CPC extended the revolving credit facility, which now matures on March 31, 2025.

Equity

Shareholders’ equity comprised:

As at	Dec 31, 2023	Dec 31, 2022
Common shares (1)	212,270	142,270
Preferred shares (2)	72,020	72,020
Share capital	284,290	214,290
Retained earnings	63,476	95,984
Equity attributable to Capstone shareholders	347,766	310,274
Non-controlling interests	96,856	97,473
Total shareholders’ equity	444,622	407,747

(1) $70,000 of cash capital contributions from Class A common shareholder in 2023 (2022 - $80,000).
(2) Capstone has 3,000 publicly listed Series A preferred shares on the Toronto Stock Exchange.

Contractual Obligations

As at December 31, 2023, Capstone had outstanding contractual obligations with amounts due as follows:

	Within one year	One year to five years	Beyond five years	Total
Long-term debt [(1)]	105,838	480,294	654,876	1,241,008
Leases	6,483	24,350	70,159	100,992
Asset retirement obligations	—	—	20,643	20,643
Purchase obligations	115,435	42,973	271,130	429,538
Total contractual obligations	227,756	547,617	1,016,808	1,792,181

(1) Long-term debt includes principal and interest payments.

Long-term debt

- Long-term debt is discussed in the "Long-term Debt" section of this MD&A.

Leases

The following leases have been included in the table based on known minimum lease payments:

- Capstone's operating wind facilities and wind development projects have entered into agreements to use, or the option to use, land in connection with the operation of existing and future wind facilities. Payment under these agreements is typically a minimum amount with additional payments dependent on the amount of power generated by the wind facility. The agreements can be renewed and extended as far as 2061.
- Cardinal leases the site on which it is located from Ingredion. Under the lease, Cardinal pays monthly rent. The lease extends through 2034 and expires concurrently with the Energy Savings Agreement between Ingredion and Cardinal.
- Capstone's operating solar facilities have entered into agreements to use land in connection with their operation with terms extending as far as 2067.
- The Corporation has two leases for its corporate offices expiring in 2026 and 2028.

Capstone's operating leases with no minimum payments required are:

- Agreements with the Provinces of Ontario and British Columbia for the lease of certain lands and water rights necessary for the operation of its hydro power facilities. The payments under these agreements vary based on actual power production. The terms of the lease agreements expire in 2025 and 2042.

Asset retirement obligations

Commitments associated with asset retirement obligations for Capstone's power facilities are projected to occur principally over the next 25 years. Some asset retirement obligations could be incurred as early as 2026, but the average asset retirement date is expected to be 2036.

Purchase obligations

Capstone enters into contractual commitments in the normal course of business, either directly or through its subsidiaries. These contracts include capital commitments and operations and maintenance ("O&M") agreements:

Capital commitments

- As at December 31, 2023, Capstone had various capital commitments, including payments to previous developers, for the operation and development of the Buffalo Atlee and Wild Rose 2 wind development projects. The capital commitments related to these projects made up 82% of Capstone's purchase commitments at December 31, 2023.

O&M agreements

- Cardinal has a maintenance contract with Siemens Energy Canada Limited covering the gas turbine at Ingredion's 15MW facility.
- Capstone has several service and maintenance agreements covering the turbines in operation on various wind facilities. The agreements provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.
- Capstone has an O&M agreement with Regional Power OPCO Inc. ("Regional") to operate and maintain the hydro power facilities. Regional is paid a monthly management fee and is eligible for an annual incentive fee.

Other commitments

In addition to the commitments included in the table above, Capstone has the following other commitments with no fixed minimum payments:

Power Purchase Agreements

A significant portion of the Corporation's electricity revenue is earned through long-term PPAs. The majority of these contracts include terms and conditions customary to the industry. For Cardinal's contract, the nature of commitments includes: electricity capacity; availability; and production targets. For the remaining power facilities, Capstone is not obligated to deliver electricity; however, in certain circumstances, if a facility fails to meet the performance requirements, the operating facility's PPA may be terminated after a specified period of time. For certain solar and wind projects in development, commitments include availability and product targets subsequent to achieving COD.

Management services agreements

Capstone has management services agreements with all the partially owned wind and solar facilities and development projects, including Amherst, Buffalo Atlee, Claresholm, Goulais, Kneehill, Michichi, Saint-Philémon, and SLGR. For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue.

Wood waste supply agreement

One of the Whitecourt fuel supply agreements for wood waste includes sharing mechanisms regarding the price received for electricity and emissions offset credits sold by Whitecourt.

Energy savings agreement ("ESA")

Cardinal has an ESA with Ingredion which matures in 2034. Under the terms of the ESA, Cardinal is required to provide O&M services in respect of Ingredion's 15MW facility, and supply steam and compressed air to Ingredion for the use of its manufacturing facility. Cardinal entered into a maintenance contract with Siemens Energy Canada Limited in connection with the operation and maintenance of the 15MW plant in order to support Cardinal's satisfaction of the O&M terms of the ESA.

Guarantees

Capstone has provided certain guarantees relating to the government funding received, as well as limited recourse guarantees on the project debt of certain wind and solar projects totaling $59,247 as at December 31, 2023.

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business. Capstone is not engaged in any off-balance sheet financing transactions. Due to the nature of their operations, the power facilities are not expected to incur material contingent liabilities upon the retirement of assets.

Capital Expenditure Program

Capstone's power segment invested $277,176 in capital expenditures during 2023. This consisted of $315,604 of capitalized PUD, less $53,760 of government funding, plus $27,004 of capital asset additions.

Amounts capitalized to PUD in 2023 were primarily for costs to advance the Wild Rose 2 and Buffalo Atlee wind projects ($207,915 and $37,303, respectively), and costs for the construction of Michichi and Kneehill ($50,809).

The government funding relates to the Michichi, Kneehill, Buffalo Atlee, and Wild Rose 2 projects which have agreements with the government of Canada, and are eligible for funding for a portion of the capital expenditures, subject to certain conditions.

Income Taxes

In 2023, the current income tax recovery of $781 (2022 - expense of $731) primarily relates to the partial reversal of Canadian Renewable and Conservation Expense (CRCE) reserve as the claim periods expire.

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 net deferred income tax liability decreased by $7,379 primarily due to the difference between accounting and tax amortization claimed during the year and non-deductible fair value adjustments on financial instruments, partially offset by the utilization of tax losses. Capstone's total deferred income tax assets of $8,874 (2022 - $6,328) primarily relate to unused tax losses carried forward. Deferred income tax liabilities of $93,302 (2022 - $98,135) primarily relate to the differences between amortization of intangible and capital assets for tax and accounting purposes and non-deductible fair value adjustments on financial instruments.

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in note 8 financial instruments and note 9 financial risk management in the consolidated financial statements as at and for the year ended December 31, 2023. These notes contain further details on the implicit risks and valuation methodology employed for Capstone’s financial instruments.

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

As at	Dec 31, 2023	Dec 31, 2022
Derivative contract assets	24,957	39,727
Derivative contract liabilities	(21,381)	(4,220)
Net derivative contract assets	3,576	35,507

Net derivative contract assets decreased by $31,931 from December 31, 2022, due to losses of $35,791 in the statement of income and contractual settlements of $3,860 paid.

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

For the year ended	Dec 31, 2023	Dec 31, 2022
Interest rate swap contracts [(1), (2)]	(26,655)	38,357
Embedded derivatives [(3)]	(9,136)	(18,992)
Gain (losses) on derivatives in net income	(35,791)	19,365
Foreign currency contracts in OCI	—	(7)
Gain (losses) on derivatives in comprehensive income	(35,791)	19,358

(1) The interest rate swap contracts include a contingent interest rate swap in anticipation of financing the Wild Rose 2 project.
(2) In Canada, regulators have announced that the Canadian Overnight Repo Rate Average ("CORRA") will be the successor rate for the Canadian Dollar Offered Rate ("CDOR"), and all loans referencing CDOR will transition to CORRA by June 28, 2024. Management has a CORRA transition plan, which will be completed prior to June 28, 2024. The transitions have not and are not expected to have a material financial impact to the Corporation.
(3) The embedded derivatives relate to fuel supply and PPA contracts. Refer to "Accounting policies, estimates, and internal controls" in this MD&A.

The losses on derivatives includes losses from the interest rate swap contracts, resulting from generally lower forecasted interest rates during the swap periods since December 31, 2022, partially offset by an increase in the Whitecourt embedded derivative, resulting from lower forecasted Alberta Power Pool prices. In addition, new PPA contracts derivatives were recorded in 2023, leading to a loss resulting from lower forecasted Alberta Power Pool prices.

RISKS AND UNCERTAINTIES

Introduction

Risk is an inevitable aspect of operating any business. Decisions that balance risk exposure with intended financial rewards within risk tolerances are the responsibility of the Corporation's management under the supervision of the Board of Directors. When a risk exposure exceeds the Corporation's risk tolerance, the Corporation will, to the extent possible, take steps to eliminate, avoid, reduce or transfer such risk.

The Corporation recognizes the importance and benefits of timely identification, assessment and management of risks that may impact the Corporation's ability to achieve its strategic and financial objectives. In this respect, the Corporation is committed to prudent risk management practices within the context of an enterprise risk management ("ERM") framework. The Corporation maintains a registry of risks that is reviewed by management and the Board of Directors at least quarterly. The Corporation also undertakes an annual comprehensive review of its ERM framework and practices to continuously improve its risk management practices.

What follows is a description of the Corporation's key risk governance and risk processes to support achievement of strategic and financial performance objectives.

Risk Management Principles and Governance

The Corporation's ERM framework is based on five core principles which establish the culture and tone that guide risk management decisions. Risk management is everyone's responsibility, about decision-making, embedded within existing management routines, about people and culture, and specific to each business unit. The Corporation's interpretation of the ERM framework includes the following hierarchy of responsibilities:

- **Board of Directors and Audit Committee** have overall governance responsibility for setting and overseeing management's implementation of the risk management policy.
- **Internal Audit** reports to the Audit Committee and is responsible for reviewing management's practices to manage risks in specific areas agreed from time to time between management and the Audit Committee.
- **Senior Management** is responsible for ensuring the implementation of the ERM framework to all applicable activities and reporting to the Audit Committee and the Board of Directors.
- **Business Units** are responsible for ensuring the application of a risk management framework to identify, monitor and report risk.
- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area.

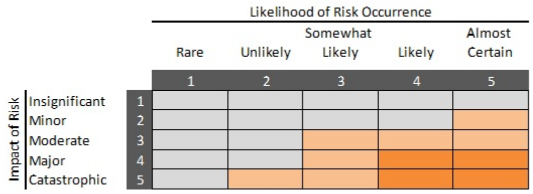
Risk Management Processes

The Corporation's framework relies on the following six key ERM processes to integrate risk management activities with strategic and operational planning, decision-making and day-to-day oversight of business activities.

- **Risk identification** is the process of identifying and categorizing risks that could impact the Corporation's objectives.
- **Risk assessment** is the process of determining the likelihood and impact of the risk. The Corporation uses a five-point rating scale for likelihood and impact.
- **Risk prioritization** is the process of ranking risks as high, medium or low based on the net risk rating as described in the diagram below.

- **Risk management** responses are measures taken to optimize the Corporation's net risk exposure within overall tolerance to achieve the desired balance between risk and reward.
- **Monitoring and reporting** are the processes of assessing the effectiveness of risk management responses.
- **Training and support** ensure that personnel tasked with risk management responsibilities have sufficient knowledge and experience to complete their risk management obligations.

The Corporation's risk management approach is comprehensive. It combines the experience and specialized knowledge of individual business segments and corporate oversight functions as well as various analytic tools and methodologies, including a risk matrix (see chart to the right), to assist the Corporation in regularly assessing and updating the net exposure (including mitigants) of each known material risk facing the Corporation in the following four risk categories: operational; strategic; financial; and legal and regulatory. The Corporation's assessment process prioritizes risks.



Managing Risk

The Corporation requires that risk assessments (which encompass operational, strategic, financial and legal and regulatory risks) be performed for the power facilities and at the corporate level.

In addition to these risks, there are numerous other risk factors, many of which are beyond the Corporation's control and the effects of which can be difficult to predict, that could be material to investors or cause the Corporation's results to differ significantly from its plans, objectives and estimates. For a more comprehensive list and description of the risks affecting the Corporation refer to the "Risk Factor" section of the Corporation's most recently filed Annual Information Form, as supplemented by risk factors contained in any of the following documents filed by the Corporation with securities commissions or similar authorities in Canada after the date of this annual MD&A, which are available on SEDAR at www.sedar.com: material change reports; business acquisition reports; interim financial statements; and interim management's discussion and analysis.

Risks Related to the Corporation and its Businesses

Risks that have materially affected the Corporation's financial statements, or that have a reasonable likelihood of affecting them materially in the future, are presented in the table below.

The Corporation continues to monitor developments and develop mitigation measures to manage impacts on its businesses and development projects. Risks specific to Capstone's power segment, as well as at the corporate-level, are included.

Risk and Description	Impact	Monitoring and Mitigation
Operational Risks		
Development and capital expenditure risks concern the construction of new Canadian or US power generation facilities in line with the requirements of awarded PPAs and regulatory requirements and planned maintenance capital expenditures required on existing facilities to maintain operations.	Delays and cost overruns in the construction of new facilities, failure to meet regulatory standards or in performing planned maintenance or refurbishments could lead to lower cash flows, and where PPA requirements are not met, cancellation of the PPA resulting in lost revenue and impairment of any capitalized costs for the facility.	Capstone has professional project management processes and uses experienced contractors and advisors. Capstone contracts include a combination of incentives, liquidated damages, or fixed-pricing to align suppliers interests to project results.
Production risk concerns the dependence of power production on adequate resources such as wind, sunlight and water flow as well as fuel supply and the availability of each of the sites.	Low availability, inadequate wind, sunlight, water flow, wood waste, or gas leads to lower power production which results in lower revenues.	Capstone maintains facilities in quality condition to maximize availability for power generation when renewable resources are available and strongest. Capstone also seeks to diversify its portfolio of businesses to mitigate the dependency on a single resource or geography.
PPA renewal risk concerns the ability to recontract expiring PPAs on economically feasible terms and failing to align with the useful lives of the power facilities.	If Capstone is unsuccessful or delayed in recontracting its expiring PPAs, it would cause Capstone to fall short of its financial forecasts, as revenue short-falls could result from operating in merchant or other markets.	Capstone mitigates by starting negotiations with counterparty(ies) well before contract expiry, considering impacts of other stakeholders and working to ensure the broader benefits of the facility are considered in the process. In addition, company-wide mitigation is provided by maintaining a diversified portfolio to reduce the impact of any one facility to the overall consolidated financial results.
Merchant risk concerns the power generation facilities with ties, directly or indirectly, to the wholesale market price for electricity in Ontario and Alberta.	Volatility and uncertainty in the energy market and market prices for electricity could cause Capstone to fall short of its financial forecasts due to revenue short-falls.	Capstone mitigates by obtaining third party forecasts of market prices for electricity and opportunistically pursuing PPA or off-take contracts with reputable counterparties.
Information technology and data security risk concerns the ability to develop, maintain and manage complex information technology systems which are used to operate and monitor its facilities and other business systems.	Cyber attacks or unauthorized access to information technology systems may lead to production disruptions and system failures that, amongst other things, may result in lower production and revenues.	Capstone follows a recognized IT framework which includes security and recovery plans. In addition, certain sites are compliant with North American Electric Reliability Corporation standards.

Risk and Description	Impact	Monitoring and Mitigation
Succession and human resources retention risks concern the ability to replace senior management and attract, retain and motivate key staff.	Inability to retain or replace key staff or senior management could prevent or delay Capstone from executing its business strategy, thereby causing Capstone to fall short of its financial forecasts.	Capstone maintains a succession plan and provides career and development opportunities to its employees.
Strategic Risks		
Competition risk concerns the ability to source and complete attractive investment opportunities that support Capstone's growth initiatives within the power segment.	Inability to source and execute attractive growth opportunities may lead to lower long-term cash flow as businesses operating under finite term contracts experience uncertainty about their longer term cash flow potential.	Management periodically reviews and updates strategy according to market conditions and developments.
Financial Risks		
Expense management risk concerns unexpected non-recoverable increases in operating and administrative costs.	Unanticipated increases in costs could result in lower earnings and cash flow.	Capstone monitors costs against budgets and considers asset lifecycle costs in decision making.
Forecasting risk concerns the accuracy of projections for results from operations due to error or unpredictable economic, market and specific business factors.	Volatility of financial forecasts increases liquidity reserve requirements to pay expenses, reducing cash flows.	Capstone targets businesses which have inherently predictable financial results from operations. Capstone maintains adequate levels of liquidity to manage during periods of uncertainty.
Taxation risk concerns higher income and other taxes attributable to adverse legislation changes, both in the US and domestic, including tax rate increases, or interpretations by tax authorities on audit.	Higher taxation results in both lower income and cash flow available.	Capstone minimizes exposures to adverse tax rulings by choosing structures that adhere to taxation regulations, are commonly used in practice and wherever practical supported by opinions of external advisers. In addition, Capstone monitors the trends and policies of taxation authorities in the jurisdictions where its businesses operate.
Foreign exchange fluctuations risk concerns volatility of the Canadian dollar relative to foreign currencies.	Volatility in exchange rates could negatively impact cash flows, value of investments and operating results, which are denominated in Canadian dollars.	Capstone minimizes exposure to foreign exchange fluctuations through hedging instruments where economically feasible.
Financing risk concerns the ability to access timely and cost effective debt or equity to support the development and construction of power facilities, business acquisitions and replace maturing debt.	Inability to access cost-effective debt or equity could result in higher interest costs, lower cash flow or liquidity difficulties. For an acquisition, this could also prevent Capstone from realizing a growth opportunity.	Capstone maintains relationships with multiple financial institutions that have the resources to provide some or all financing requirements. In addition, most existing project debt amortizes over the term of the PPAs to minimize refinancing requirements and debt maturities are staggered.
Legal and Regulatory Risks		
Contract and permit compliance risk concerns the ability to operate Capstone's power businesses within the allowances of an increasing number of requirements.	Failure to comply with contracts and permits can impact Capstone's power contracts, debt facilities, and other agreements, which can lead to lower cash flow from the existing businesses by reducing revenue or increasing costs to restore the ability to operate at capacity.	Capstone maintains its contracts, permits and licenses, works with knowledgeable contractors, engages industry associations and regulatory bodies and responds to adverse findings promptly to minimize the impact.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone's power facilities (collectively the "Facilities") hold all material permits and approvals required for their operation and maintenance. All assets are managed to comply with health, safety and environmental ("HSE") laws in addition to Capstone's corporate and facility-specific HSE policies.

The Facilities are subject to robust and stringent environmental, health and safety regulatory regimes, which focus on:

- Commitment to identify, eliminate, mitigate and manage health and safety issues for all workers, visitors, nearby landowners and other personnel at each of the Facilities;
- Regulatory compliance of emissions and discharges related to air, noise, water, and sewage;
- Proper storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual materials including the prevention of releases of these materials to the environment;
- Management of construction and operation related permits to ensure compliance with all HSE regulations; and
- Protection of the natural and built environment.

Climate Change, Greenhouse Gas Emissions and Policy Initiatives

Due to the emission of greenhouse gases, such as carbon dioxide ("CO_2") and nitrous oxides ("NO_x"), some of the Facilities, specifically the Cardinal and Whitecourt facilities, have an ongoing operational impact on the environment. All Facilities comply in all material respects with the applicable Canadian and provincial legislation and guidelines regarding greenhouse gases and other emissions. Capstone monitors the potential impact of future changes to environmental legislation and guidelines by remaining diligent in the operation of the Facilities, including implementing stringent policies and procedures to prevent the contravention of permits and approvals.

The Canadian federal government ratified the Paris Accord, negotiated under the United Nations Framework Convention on Climate Change, in the fall of 2016. Pursuant to the Paris Accord, the parties committed, in a non-binding manner, to accelerate actions and investments needed to limit global average temperatures to below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C. In late 2016, Canada and the majority of its provinces agreed to the Pan-Canadian Framework on Clean Growth and Climate Change ("Framework"). Pursuant to the Framework, provincial jurisdictions have the flexibility to implement a variety of carbon regimes ranging from price-based regimes involving a carbon tax, to performance-based emissions regimes involving emissions intensity and cap and trade. As a regulatory backstop, the federal government has also enacted the Greenhouse Gas Pollution Pricing Act ("GGPPA"), which introduces a carbon pricing regime to those provinces that fail to implement adequate provincial measures. Pursuant to the GGPPA, the minimum price for carbon was $65/tonne in 2023 and is $80/tonne in 2024. As set out in Schedule 4 of the GGPPA, the carbon price will increase by $15/tonne per year over the next several years, resulting in a carbon price of $170/tonne in 2030.

Saskatchewan, Ontario and Alberta all launched constitutional challenges to the GGPPA. On March 25, 2021, the Supreme Court of Canada ("SCC") rendered its decision upholding Canada’s ability to implement minimum pricing standards for greenhouse gas emissions as a national backstop under the GGPPA in the event that a provincial carbon pricing program does not meet the GGPPA's stringency requirements. The Corporation continues to monitor the federal government's assessment of alternative carbon pricing systems for compliance with the GGPPA.

In Alberta, the Technology Innovation and Emissions Reduction ("TIER") Regulation applies to regulated facilities that emit 100,000 tonnes or more of greenhouse gases per year. TIER has been accepted by the federal government as an alternative to the federal backstop for large emitters. If a large emitter cannot meet its provincial greenhouse gas emissions thresholds through operational improvements, it can purchase emission offsets from qualified offset facilities, purchase emission performance credits from other large emitters, or contribute to the Alberta TIER fund. To ensure consistency with the provisions of the GGPPA, the Alberta government has announced the TIER fund price will increase in a manner consistent with the GGPPA for the years 2023 to 2030. In 2024, the price of the Alberta TIER fund will increase to $80/tonne. Capstone's operating Alberta-based wind and solar development projects are all eligible to produce valid emission offsets under TIER, including Claresholm and Whitecourt, which produced emission offsets in the current year.

Ontario has introduced an Emissions Performance Standards ("EPS") program which applies to greenhouse gas emissions from large industrial emitters. The EPS program has also been accepted by the federal government as an alternative to the federal backstop. Although Ontario previously indicated it intended to develop an offset trading program, in December of 2022 it confirmed nothing would be developed in the short term and it remains unclear if and when Ontario will develop an offset trading system as part of its EPS program.

Cardinal

The Cardinal facility uses natural gas to generate electricity and, therefore, produces greenhouse gas emissions ("GHG"s). The facility is required to report its GHG ($CO_{24,}$ CH_4, and N_2O) emissions under various federal and provincial regulations. Federal and provincial environmental regulations also require for, among other things, the reporting, allocation, and retirement of NO_x emissions and other particulate matter pollutants as conditions of the facility's operating permits. The Cardinal facility is in compliance with all federal and provincial greenhouse gas and environmental monitoring and reporting requirements.

Whitecourt

The Whitecourt facility uses biomass combustion technology to convert the energy content in wood waste into electricity. Biomass is generally considered to be carbon-neutral as the amount of CO_2 arising from combustion is equal to what would be emitted if the biomass were to decompose naturally. Although electricity generated from biomass is regarded as an environmentally friendly form of power generation, the facility is still required to report its GHG ($CO_{24,}$ CH_4, and N_2O) emissions under various federal and provincial regulations and programs. Federal and provincial environmental regulations also require for, among other things, the reporting, allocation, and retirement of NO_x emissions and other particulate matter pollutants as conditions of the facility's operating permits. The Whitecourt facility is in compliance with all federal and provincial greenhouse gas and environmental monitoring and reporting requirements.

Hydro Facilities

Capstone's hydro facilities do not produce greenhouse gases through electricity generation. However, ancillary operations and maintenance activities do produce immaterial amounts of GHG emissions, which are well below the federal and provincial threshold for verification and reporting. The facilities also are governed by water management plans and/or water licenses, which specify the hydrological conditions during which production may occur.

Wind and Solar Facilities

Capstone's wind and solar facilities do not generate greenhouse gases through electricity generation. However, ancillary operations and maintenance activities do produce immaterial amounts of GHG emissions, which are well below the federal and provincial threshold for verification and reporting.

Further Information

Further information regarding Environmental, Safety and Health Regulations matters is contained in the Corporation's Annual Information Form (which is available under the Corporation's profile on www.sedar.com).

RELATED PARTY TRANSACTIONS

Capstone's 2023 related party transactions and balances are comprised of transactions with iCON Infrastructure LLP and subsidiaries ("iCON") and compensation to key management.

Shared Service Arrangement with iCON

Fees earned from iCON Infrastructure North America Inc. ("iCON NA"), a subsidiary of iCON, under a shared service arrangement, are reported in the consolidated statements of income as an administrative expense recovery. During 2023, Capstone earned fees of $139 from iCON NA (2022 - $192).

Contributions and Credit Support from iCON

Capstone's Class A common shareholder contributed $70,000 in cash in 2023 (2022 - $80,000).

On September 12, 2022, the Class A common shareholder provided letters of credit issued to the benefit of Capstone under a financing and reimbursement agreement. Capstone reimburses the common shareholder for payments made on its behalf, including fees and draws on the letters of credit. For the year ended December 31, 2023, Capstone reimbursed normal course fees of $801 (2022 - $116). As at December 31, 2023, the balance of outstanding letters of credit is $36,113 to support various development projects.

Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and Chief Operating Officer ("COO"). Compensation awarded to key management consisted of salaries, directors' fees, short-term employee benefits and long-term incentive plans. Key management compensation is described in note 26 related party transactions in the consolidated financial statements for the year ended December 31, 2023.

Linking Management Compensation to Performance

Compensation plays an important role in achieving short- and long-term business objectives that ultimately drive the Corporation’s business success in alignment with long-term shareholder goals. The objectives of the Corporation's compensation program are to:

- Attract and retain highly qualified employees with a history of proven success;
- Align the interests of employees with shareholders’ interests and with the execution of the Corporation’s business strategy;
- Establish performance goals that, if met, are expected to improve long-term shareholder value; and
- Tie compensation to those goals and provide meaningful rewards for achieving them.

Corporate performance targets are set each year to provide management with an incentive to exceed annual budgeted financial results and other business performance measures and are therefore aligned with shareholder interests.

The following table summarizes the link between the Corporation's executive and senior officer forms of compensation and performance:

	Salary	Short-term incentive plan ("STIP")	Share appreciation rights ("SAR") plan
Description	Salary is a fixed component of compensation that provides income certainty by establishing a base level of compensation for executives fulfilling their roles and responsibilities.	The STIP provides the possibility of an additional annual cash award based on the achievement of corporate and individual goals.	Capstone has a share appreciation rights ("SAR") plan, which is tied to long-term growth to motivate and retain executives on a long-term basis. The awards will be paid in cash after meeting certain vesting conditions.
Purpose	To attract and retain qualified executives.	To motivate, attract and retain qualified executives.	To reward long-term performance and align interests of executives with security holders.
Link to performance	No direct link.	A significant portion of this award is based on actual business performance against Capstone's internal performance measures.	The SAR is directly linked to the long-term increase in the Corporation's value upon a sale transaction.

For a comprehensive understanding of Capstone's compensation program refer to the "Compensation Discussion and Analysis" section of the Corporation's most recently filed AIF.

SUMMARY OF QUARTERLY RESULTS

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

	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	64,611	53,618	62,407	58,379	76,261	59,624	59,937	59,200
EBITDA	(29,640)	68,163	63,749	7,794	42,956	33,604	46,367	63,198
Net income (loss) (1)	(44,663)	20,483	13,249	(18,813)	2,193	(2,281)	5,854	19,342
Preferred dividends	694	694	694	694	694	694	694	694

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

FOURTH QUARTER HIGHLIGHTS

	Three months ended	
	Dec 31, 2023	Dec 31, 2022
Revenue	64,611	76,261
Operating expenses	(17,639)	(17,971)
Administrative expenses	(3,740)	(2,936)
Project development costs	(2,576)	(1,945)
Equity accounted income (loss)	(644)	(328)
Interest income	1,986	1,308
Other gains and (losses), net	(71,411)	(10,789)
Foreign exchange gains and (losses)	(227)	(644)
Earnings before interest, taxes, depreciation and amortization	(29,640)	42,956
Interest expense	(10,628)	(12,573)
Depreciation of capital assets	(21,338)	(20,663)
Amortization of intangible assets	(3,398)	(3,494)
Earnings (loss) before income taxes	(65,004)	6,226
Income tax recovery (expense)		
Current	318	822
Deferred	13,094	(3,176)
Total income tax recovery (expense)	13,412	(2,354)
Net income (loss)	(51,592)	3,872
Net income (loss) attributable to:		
Shareholders of Capstone	(44,663)	2,193
Non-controlling interest	(6,929)	1,679
	(51,592)	3,872

In the fourth quarter of 2023, Capstone's EBITDA and net income were lower than in 2022. Lower quarterly net income reflects:

- Higher unrealized losses primarily due to decreasing future interest rates on financial instruments;
- Lower revenue due to lower overall wind production from lower resource, fewer market runs at Cardinal, and lower Alberta Power Pool prices at Whitecourt and Claresholm. Partially offset by the addition of the Michichi and Kneehill solar projects, which achieved COD in March 2023;
- Higher interest income due to increasing interest rates and higher average cash balances; and
- Higher deferred income tax recovery is primarily attributable to non-deductible fair value adjustments on financial instruments and the difference in accounting and tax amortization.

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards and are consistent with policies for the year ended December 31, 2022, except for the narrow-scope amendments to IAS 12. The IAS 12 amendment provides temporary relief from accounting for deferred taxes arising from the implementation of a minimum tax regime for multinationals and includes changes to deferred taxes related to assets and liabilities arising from a single transaction. Capstone adopted the amendments as required for annual reporting periods beginning on or after January 1, 2023. This change did not have a material impact on the Corporation.

Refer to note 2 of the December 31, 2023 consolidated financial statements for a summary of material accounting policies.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any material accounting standard changes that impact the Corporation. Capstone is evaluating the impact of the narrow-scope amendments to IAS 1 on the Corporation. The IAS 1 amendments clarify how liabilities are classified based on the conditions with which an entity must comply within twelve months after the reporting period, and are effective for annual reporting periods beginning on or after January 1, 2024. Capstone does not expect this change to have a material impact on the Corporation.

Capstone continues to monitor changes to IFRS Accounting Standards and has implemented applicable IASB changes to standards, new interpretations and annual improvements.

Accounting Estimates

The consolidated financial statements require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies. The following accounting estimates included in the preparation of the consolidated financial statements are based on significant estimates and judgments, which are summarized as follows:

Area of Significance	Critical Estimates, Judgments & Key Assumptions
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	• Realizable forward Alberta Power Pool prices, volatility, credit spreads and production projections. • Future cash flows and discount rate.

Management’s estimates and judgments were based on historical experience, 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

Capstone's CEO and CFO are required by the various provincial securities regulators to certify annually that they have designed, or caused to be designed, Capstone's disclosure controls and procedures, as defined in the Canadian Securities Administrators' National Instrument 52-109 ("NI 52-109"), and that they have evaluated the effectiveness of the presence and function of these controls and procedures in the applicable period. Disclosure controls are those controls and other procedures that are designed to provide reasonable assurance that the relevant information that Capstone is required to disclose is recorded, processed and reported within the time frame specified by such securities regulators.

Capstone's management, under the supervision of and with the participation of the CEO and CFO, has designed internal controls over financial reporting, as defined in NI 52-109. The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of Capstone's financial reporting, in accordance with IFRS Accounting Standards, focusing in particular on controls over information contained in the audited annual and unaudited interim consolidated financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Consistent with the prior year, Capstone uses the 2013 version of Committee of Sponsoring Organizations (COSO) internal control framework.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at December 31, 2023 to ensure that information required to be disclosed in reports that Capstone files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

As at December 31, 2023, Capstone's management had assessed the effectiveness of Capstone's internal control over financial reporting using the criteria set forth by COSO of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on this assessment, management has determined that Capstone's internal control over financial reporting was effective as at December 31, 2023.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information contained in this annual report have been prepared by management. It is management's responsibility to ensure that sound judgment, appropriate accounting policies and reasonable estimates have been used to prepare this information and that the consolidated financial statements are in accordance with International Financial Reporting Standards.

Management is also responsible for designing, maintaining and testing a system of internal controls over the financial reporting processes. Internal controls have been designed to provide reasonable assurance that the financial records are reliable, accurate and form a proper basis for the preparation of the consolidated financial statements. As of December 31, 2023, management reviewed and tested the internal controls over financial reporting and concluded that they were effective to provide reasonable assurance over the consolidated financial statements.

The Audit Committee of the Board of Directors, consisting entirely of independent directors, is responsible for reviewing the consolidated financial statements with management and the external auditors and reporting to the Board of Directors. The Audit Committee is responsible for retaining the services of the independent auditor and for renewing the auditor's mandate, which is subject to Board of Directors' review and shareholders' approval.

The independent auditor, PricewaterhouseCoopers LLP, is responsible for conducting an examination in accordance with Canadian generally accepted auditing standards to express an opinion on whether the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). The report of PricewaterhouseCoopers LLP, which outlines the scope of its examination and its opinion on the consolidated financial statements, appears on the following pages.

David Eva
Chief Executive Officer

Andrew Kennedy
Chief Financial Officer

Toronto, Canada
March 6, 2024

Independent auditor's report

To the Shareholders of Capstone Infrastructure Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Capstone Infrastructure Corporation and its subsidiaries (together, the Corporation) as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

What we have audited
The Corporation's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2023 and 2022;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of income and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2500, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215, ca_toronto_18_york_fax@pwc.com

Key audit matter	How our audit addressed the key audit matter

Fair value measurement of embedded derivatives with significant unobservable inputs
 	
Refer to note 2 – Summary of material accounting policies and note 8 – Financial instruments to the consolidated financial statements.
 	
The Corporation has fuel supply and power purchase agreements which give rise to embedded derivatives measured at fair value using significant unobservable inputs. The value of these embedded derivatives amount to a liability as at December 31, 2023 of $9.1 million.
 	
The determination of the fair values of these embedded derivatives requires the use of option pricing models or discounted cash flow models. Management exercises judgment in the determination of the assumptions to be used in the valuation models which include the discount rates, the realizable forward Alberta Power Pool prices, credit spreads, volatility and production projections.
 	
We considered this a key audit matter due to the judgment made by management when determining the fair values of the embedded derivatives with significant unobservable inputs and due to the significant auditor judgment and work effort in assessing audit evidence related to the assumptions and the models. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.
	Our approach to addressing the matter included the following procedures, among others:
	
	• With the assistance of professionals with specialized skill and knowledge in the field of valuation, developed an independent point estimate of the fair values of the embedded derivatives with significant unobservable inputs based on assumptions applied by management.
	• Evaluated the reasonableness of assumptions, which included the following:
	  – Compared the realizable forward Alberta Power Pool prices, credit spreads and volatility to third party information.
	  – Compared production projections to current and past performance of the specified asset or similar assets.
	  – Compared the discount rates to external market data.
	• Tested the underlying data used in developing the independent point estimates.
	• Compared the independent point estimates to management's estimates to evaluate the reasonableness of management's fair values of the embedded derivatives.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information in the Annual Report other than the financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael Clarke.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2024

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Dec 31, 2023	Dec 31, 2022 (1)
Current assets			
Cash and cash equivalents	4	63,445	124,897
Restricted cash	4	26,507	28,615
Accounts receivable	5	49,646	47,890
Other assets	6	4,892	5,247
Current portion of derivative contract assets	8	10,682	11,028
		155,172	217,677
Non-current assets			
Loans receivable	7	21,435	14,921
Derivative contract assets	8	14,275	28,699
Equity accounted investments	10	4,121	6,492
Capital assets	11	947,406	954,922
Projects under development	12	373,053	162,018
Intangible assets	13	124,493	137,811
Deferred income tax assets	14	8,874	6,328
Total assets		1,648,829	1,528,868
Current liabilities			
Accounts payable and other liabilities	15	61,130	53,976
Current portion of derivative contract liabilities	8	10,100	401
Current portion of lease liabilities	16	1,209	1,380
Current portion of long-term debt	17	69,596	87,862
		142,035	143,619
Long-term liabilities			
Derivative contract liabilities	8	11,281	3,819
Deferred income tax liabilities	14	93,302	98,135
Lease liabilities	16	45,599	35,309
Long-term debt	17	897,973	827,557
Liability for asset retirement obligation	18	14,017	12,682
Total liabilities		1,204,207	1,121,121
Equity attributable to shareholders' of Capstone		347,766	310,274
Non-controlling interest	20	96,856	97,473
Total liabilities and shareholders' equity		1,648,829	1,528,868
Commitments and contingencies	25		

(1) Refer to note 2.

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Equity attributable to shareholders of Capstone				
		Share Capital	AOCI (1)	Retained Earnings (Deficit)	NCI (2)	Total Equity
Balance, December 31, 2021		134,290	5	73,742	93,899	301,936
Capital contribution		80,000	—	—	—	80,000
Net income (loss) for the period		—	(5)	25,113	6,240	31,348
Dividends declared to preferred shareholders of Capstone (3)	19	—	—	(2,871)	—	(2,871)
Dividends declared to NCI	20	—	—	—	(3,668)	(3,668)
Deferred tax recovery on transaction with NCI		—	—	—	2,385	2,385
Convertible debenture repayments (4)	20	—	—	—	(1,150)	(1,150)
Net contributions from NCI (5)	20	—	—	—	(233)	(233)
Balance, December 31, 2022		214,290	—	95,984	97,473	407,747
Capital contribution	19	70,000	—	—	—	70,000
Net income (loss) for the period		—	—	(29,744)	552	(29,192)
Dividends declared to preferred shareholders of Capstone (3)	19	—	—	(2,764)	—	(2,764)
Dividends declared to NCI	20	—	—	—	(13,326)	(13,326)
Net contributions from NCI (5)	20	—	—	—	12,157	12,157
Balance, December 31, 2023		284,290	—	63,476	96,856	444,622

(1) Accumulated other comprehensive income (loss) ("AOCI").
(2) Non-controlling interest ("NCI"). Refer to note 2.
(3) Dividends declared to preferred shareholders of Capstone include current and deferred income taxes recovery of $12 (2022 - recovery of $95).
(4) 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 prior to the conversion from debt to equity by the debenture holder. Refer to note 3.
(5) Includes contributions from Sawridge First Nation ("SFN") to Buffalo Atlee, Michichi, and Kneehill, and from Firelight Infrastructure Partners L.P. ('Firelight') to Amherst.

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

		For the year ended	
	Notes	Dec 31, 2023	Dec 31, 2022
Revenue	22	239,015	255,022
Operating expenses	23	(68,530)	(70,712)
Administrative expenses	23	(11,331)	(9,470)
Project development costs	23	(11,594)	(6,709)
Equity accounted income (loss)	10	(1,712)	(695)
Interest income	8	6,889	3,113
Other gains and (losses), net	24	(42,656)	14,967
Foreign exchange gain (loss)	8	(15)	609
Earnings before interest expense, taxes, depreciation and amortization		110,066	186,125
Interest expense	8	(48,752)	(46,261)
Depreciation of capital assets	11	(84,298)	(82,807)
Amortization of intangible assets	13	(13,374)	(13,475)
Earnings before income taxes		(36,358)	43,582
Income tax recovery (expense)			
Current		781	731
Deferred		6,385	(12,965)
Total income tax recovery (expense)	14	7,166	(12,234)
Net income (loss) and total comprehensive income (loss)		(29,192)	31,348
Attributable to:			
Shareholders of Capstone		(29,744)	25,108
Non-controlling interest	20	552	6,240
		(29,192)	31,348

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the year ended Dec 31, 2023	Dec 31, 2022 (1)
Operating activities:			
Net income (loss)		(29,192)	31,348
Deferred income tax expense	14	(6,385)	12,965
Depreciation and amortization		97,672	96,282
Non-cash other gains and (losses), net		38,796	(23,016)
Transaction costs on debt		(2,393)	(8,487)
Amortization of deferred financing costs and non-cash financing costs		3,540	4,648
Equity accounted (income) loss		1,712	695
Change in non-cash working capital and foreign exchange		7,908	2,949
Total cash flows from operating activities		111,658	117,384
Investing activities:			
Investment in projects under development	12	(293,469)	(203,401)
Investment in capital assets	11	(31,787)	(35,694)
Contributions to equity accounted investments	10	(1,488)	(3,885)
Distribution from equity accounted investments	10	2,147	—
Decrease in restricted cash		2,108	9,264
Purchase of subsidiary		—	(1,242)
Proceeds from partial sale of subsidiary	10	—	3,302
Total cash flows used in investing activities		(322,489)	(231,656)
Financing activities:			
Proceeds from issuance of long-term debt	17	347,488	275,560
Proceeds from Class A common shareholder capital contribution		70,000	80,000
Proceeds from government funding		48,384	71,270
Repayment of long-term debt		(299,331)	(221,353)
Dividends paid to non-controlling interests	20	(11,387)	(3,439)
Dividends paid to preferred shareholders		(2,776)	(2,776)
Lease principal payments		(1,553)	(1,169)
Advances on loans receivable to partner	7	(1,446)	(15,150)
Convertible debenture repayments	20	—	(1,150)
Total cash flows from financing activities		149,379	181,793
Increase (decrease) in cash and cash equivalents		(61,452)	67,521
Cash and cash equivalents, beginning of year		124,897	57,376
Cash and cash equivalents, end of year		63,445	124,897
Supplemental information:			
Interest paid		47,919	41,253
Taxes paid		993	1,035

(1) Refer to note 2.

See accompanying notes to these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. CORPORATE INFORMATION

Capstone is incorporated in British Columbia, 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"), the ultimate parent and a fund advised by London, UK-based iCON Infrastructure LLP ("iCON"). Capstone Infrastructure Corporation and its subsidiaries' (together the "Corporation" or "Capstone") mission is to drive the energy transition forward through creative thinking, strong partnerships, and a commitment to quality and integrity in how it does business. As at December 31, 2023, Capstone develops, owns, and operates clean and renewable energy projects across North America with an approximate net installed capacity of 824 megawatts across 31 facilities in Canada, including wind, solar, biomass, hydro, and natural gas power plants.

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

NOTE 2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

The following material accounting policies are used in the preparation of these consolidated financial statements.

Basis of Preparation

Statement of compliance

The consolidated financial statements of Capstone have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards").

The consolidated financial statements were authorized for issue by the Board of Directors on March 6, 2024.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value as explained in the accounting policies set out below and on a going concern basis of accounting. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Consolidation

These consolidated financial statements are primarily made up of the assets, liabilities and results of operations of the Corporation's subsidiaries. Subsidiaries are all entities over which Capstone has control. Capstone controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The following table lists the significant subsidiaries of the Corporation which are accounted for on a consolidated basis:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31, 2023	2022	Principal activity
Capstone Power Corp. ("CPC")	Canada	100%	100%	Power holding company
Cardinal Power of Canada, L.P. ("Cardinal")	Canada	100%	100%	Power generation
Chi-Wiikwedong Holdings LP	Canada	100%	100%	Power holding company
Chi-Wiikwedong LP ("Goulais")	Canada	51%	51%	Power generation
Claresholm Solar LP ("Claresholm")	Canada	51%	51%	Power generation
Erie Shores Wind Farm Limited Partnership ("Erie Shores")	Canada	100%	100%	Power generation
Glace Bay Lingan Wind Power Ltd. ("Glace Bay")	Canada	100%	100%	Power generation
Glen Dhu Wind Energy LP ("Glen Dhu")	Canada	100%	100%	Power generation
Grey Highlands Clean Energy Development LP ("Grey Highlands Clean")	Canada	100%	100%	Power generation
Helios Solar Star A-1 Partnership ("Amherstburg")	Canada	100%	100%	Power generation
Kneehill Solar LP ("Kneehill")	Canada	75%	75%	Power generation
Michichi Solar LP ("Michichi")	Canada	75%	75%	Power generation
MPT Hydro LP ("Hydro")	Canada	100%	100%	Power generation
SP Amherst Wind Power LP ("Amherst")	Canada	51%	51%	Power generation
Parc Éolien Saint-Philémon S.E.C. ("Saint-Philémon")	Canada	51%	51%	Power generation
Riverhurst Wind Farm LP ("Riverhurst")	Canada	100%	100%	Power generation
Sky Generation L.P. ("SkyGen") (1)	Canada	100%	100%	Power generation
SLGR Wind LP ("SLGR")	Canada	51%	51%	Power generation
SWNS Wind LP ("SWNS")	Canada	100%	100%	Power generation
Watford Wind LP ("Watford")	Canada	100%	100%	Power generation
Whitecourt Power Limited Partnership ("Whitecourt")	Canada	100%	100%	Power generation
Buffalo Atlee 1 Wind LP, Buffalo Atlee 2 Wind LP, Buffalo Atlee 3 Wind LP, Buffalo Atlee 4 Wind LP (collectively, "Buffalo Atlee")	Canada	75%	75%	Development
Wild Rose 2 Wind LP ("Wild Rose 2")	Canada	100%	100%	Development
Capstone Power United States, LLC	United States	100%	100%	Development holding company
Obra Maestra Renewables, LLC ("Obra Maestra")	United States	50%	50%	Development holding company

(1) The SkyGen entity holds the Ferndale, Ravenswood, Proof Line and Skyway 8 operating wind facilities.

The Corporation accounts for its controlled investments using the consolidation method of accounting from the date control is obtained and deconsolidates from the date that control ceases. All intercompany balances and transactions have been eliminated on consolidation.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Corporation's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Equity Accounted Investments

Companies in which the Corporation has the ability to exercise significant influence, but not control, or has the ability to exercise joint control over financial and operating policy decisions are accounted for using the equity method. Significant influence is presumed to exist when the Corporation holds between 20% and 50% of the voting power of another entity.

Business Combinations

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

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

Foreign Currency Translation

Transactions and balances

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

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents are composed of highly liquid investments with original maturities of 90 days or less at the date of acquisition and are recorded at fair value. Restricted cash comprises amounts primarily restricted by credit agreements for specific uses including amounts funded against future maintenance, debt service, and construction costs at certain subsidiaries.

Loans Receivable

The Corporation has financial assets that consist of interest-bearing and non interest-bearing loans receivable. Loans are carried at either amortized cost or fair value through profit or loss, according to the conditions met under IFRS 9.

Capitalized Interest

The Corporation capitalizes interest and borrowing costs when activities that are necessary to prepare the asset for its intended use are in progress, and expenditures for the asset have been used or borrowed to fund the construction or development. Capitalization of interest and borrowing costs ceases when the asset is ready for its intended use. Capitalized interest is included in the statement of financial position as part of capital assets and projects under development.

Grants and Contributions

Grants are recognized at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants and contributions related to charges to net income are netted against such expenditures as received.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset, excluding variable payments contingent on future events, and assets related to the provision for the future retirement obligations. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying value of an asset is derecognized when retired or replaced.

Right-of-use ("ROU") assets are primarily land leases, measured at cost comprising of the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date and any initial direct costs.

Major maintenance costs are capitalized in the carrying value of the assets as incurred, and depreciated over their useful lives. Other repairs and maintenance costs are charged to the consolidated statement of income during the period incurred.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognized within the consolidated statement of income.

The Corporation allocates the amount initially recognized in respect of an item of capital assets to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. The major categories of capital assets are depreciated using the straight-line method as follows:

	Power
Equipment and vehicles:	
Computer hardware	3 to 5 years
Communications, meters and telemetry equipment	3 to 25 years
Vehicles	3 to 10 years
Property and plant:	
Operational structures	3 to 40 years
Operational properties	4 to 40 years
ROU assets	5 to 45 years

Leases

ROU assets and equal lease liabilities arising from a lease are initially measured on a present value basis, using a single discount rate for a portfolio of leases with reasonably similar characteristics.

Leased (ROU) Assets

At the inception of a contract, the Corporation assesses whether the contract is, or contains, a lease that conveys to the Corporation the right to control the use of an underlying asset in return for payment. Assets financed by leasing agreements that meet the criteria are capitalized as an ROU asset on the date on which they are available for use and depreciated over the shorter of their estimated useful lives and the lease term. The capital element of the lease rental is deducted from the obligation to the lessor as paid. The interest element of lease rentals and the depreciation of the relevant assets are charged to the consolidated statement of income.

Lease Liabilities

Lease liabilities are measured at the net present value of fixed payments, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is virtually certain to exercise that option, and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option. Capital lease payments are discounted using Capstone's incremental borrowing rate where the rate implicit in the lease is not readily determinable. The variable portion of lease payments not included in the lease liability will remain in operating expenses in the statement of income.

Projects Under Development ("PUD")

Capitalized costs related to an asset under development include all eligible expenditures incurred in connection with the development and construction of the power generating asset until it is available for its intended use. The Corporation capitalizes all direct project costs related to the development of the Corporation's electricity generation or storage projects. Capitalization commences when the costs are measurable and it is probable the benefits will flow to Capstone.

Development cost capitalization criteria include the following and are dependent on the type of clearly identified project:

- The technical feasibility has been established or interconnection permit secured;
- Management has indicated its intention to construct, operate and maintain the project or land option(s) established;
- An offtake market is identified or a power purchase agreement ("PPA") awarded; and
- Adequate resources exist or are expected to be available to complete the project.

Upon a project becoming commercially operational, the capitalized costs, including capitalized borrowing costs, if any, are transferred to capital assets and are amortized on a straight-line basis over the estimated useful lives of the various components.

The recovery of project development costs is dependent upon successful commercialization of project sites for the profitable sale of electricity.

Intangible Assets

Identifiable intangible assets

The Corporation separately identifies acquired intangible assets, including computer software, electricity supply contracts, gas purchase contracts, water rights and licenses, and records each at their fair value at the date of acquisition. Intangible assets acquired separately are measure on initial recognition at cost. The initial value is amortized over their estimated useful lives using the straight-line method as follows:

	Power
Computer software	3 to 7 years
Electricity supply, gas purchase and other contracts	14 to 25 years
Water rights	35 years

The expected useful lives of intangible assets are reviewed on an annual basis and adjusted prospectively.

Impairment of Non-financial Assets

The capital assets, projects under development and intangible assets with finite lives are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell the assets and the value in use (being the present value of the expected future cash flows of the relevant assets or Cash Generating Unit ("CGU")). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The Corporation evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Corporation performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Asset Retirement Obligations

The Corporation recognizes a provision for the future retirement obligations associated with its operating plants. These obligations are initially measured at the present value, which is the discounted future cost of the liability. A reassessment of the expected costs associated with these liabilities is performed annually with changes in the estimates of timing or amount of cash flows added or deducted from the cost of the related asset. The liability grows until the date of expected settlement of the retirement obligations.

Share Capital

Common and Class A shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

Preferred Shares

The Corporation classifies its series A preferred shares as equity for reporting purposes given that the preferred shares may be converted into a fixed number of the Corporation's own equity instruments and there is no settlement required at a future date. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

Dividends

Dividends on series A preferred shares are recognized in the Corporation's consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Corporation.

Revenue Recognition

Revenue from Contracts with Customers

Revenue derived from the sale of electricity and steam is recognized upon delivery to the customer and priced in accordance with the provisions of the applicable electricity and steam sales agreements. Revenue derived from the sale of emissions offset credits is recognized upon execution of a contract for sale. In addition, capacity and availability payments to Cardinal are recognized in accordance with the non-utility generator contract. Certain power purchase arrangements provide for an electricity rate adjustment, which is updated periodically both for the current and prior periods. Capstone accounts for such adjustments when a reliable estimate of the adjustment can be determined. Whitecourt, Claresholm, and Kneehill derive revenue from the generation and sale of electricity at market rates and the sale of emissions offset credits. Revenue from electricity sales to the Alberta Power Pool are recorded at the hourly weighted average power pool rate, and revenue from the sale of emissions offset credits is recorded at the contracted price.

The Corporation enters certain power purchase agreements ("PPA") from time to time whereby the Corporation receives a fixed price per MWh of electricity and the associated emissions offset credits generated and pays the prevailing Alberta Power Pool price per MWh. Such PPAs may include embedded derivatives for the electricity component according to conditions met under IFRS 9. The PPA embedded derivatives are classified as fair value through profit and loss ("FVTPL").

When projects earn revenue during the pre-commissioning stage, the corporation recognizes proceeds from electricity sales generated by an asset before its intended use in income.

The customer invoices and provides payments on a systematic basis based on fixed billing cycles. There are no significant financing components inherent in Capstone’s contracts with customers. Capstone does not make significant judgments that affect the determination of the amount and timing of revenue from contracts with customers.

Other Revenue and Income Recognition

Capstone follows Accounting for Government Grants and disclosure of Government Assistance (IAS 20) with respect to certain power contracts with provincial jurisdictions.

Interest income is earned with the passage of time and is recorded on an accrual basis.

Expense Recognition

Costs related to the purchases of fuel are recorded upon delivery. All other costs are recorded as incurred.

Project development costs are recorded as incurred. These costs include the activities to pursue and develop greenfield projects and acquisition-related business development expenses incurred at both the power segment and corporate.

Interest expense is incurred with the passage of time and is recorded on an accrual basis.

Long-term Incentive Plans

The Corporation accounts for grants under its share appreciation rights ("SAR") plan in accordance with IFRS 2 Share-Based Payments.

Income Taxes

Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized directly in equity or in other comprehensive income, in which case the income tax is also recognized directly in equity or in other comprehensive income.

Current income tax is the amount recoverable or expensed based on the current year's taxable income using tax rates enacted, or substantively enacted, at the reporting period, and any adjustments to income tax payable or recoveries in respect of previous years.

The Corporation follows the liability method of accounting for deferred income tax whereby deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income tax assets and liabilities are determined using income tax rates that are both expected to apply when the deferred income tax asset or liability will be settled and that have been enacted or substantively enacted as at the date of the consolidated statement of financial position. Deferred income tax assets are recognized to the extent that it is probable that the asset can be recovered. Deferred income tax assets and liabilities are presented as non-current.

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.

Financial Instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument.

Classification and Measurement

Financial instruments are required to be measured at fair value on initial recognition plus transaction costs in the case of financial instruments measured at amortized cost. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as fair value through profit and loss ("FVTPL") are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

The Corporation has designated each of its significant categories of financial instruments outstanding as follows:

IFRS 9 Classification	Significant Categories	Measurement
Amortized cost assets	• Cash and cash equivalents • Restricted cash • Accounts receivable • Loans receivable at amortized cost	• At amortized cost using the effective interest method
Financial assets and liabilities at fair value through profit and loss	• Derivative contract assets • Derivative contract liabilities	• At fair value with changes in fair value recognized in the consolidated statement of income
Other liabilities	• Accounts payable and other liabilities • Long-term debt	• At amortized cost using the effective interest method

The classification of financial assets depends on Capstone's business objectives for managing the assets and whether contractual terms of the cash flows are considered solely payments of principal and interest. For assets measured at FVTPL, gains and losses will be recorded in the statement of income as incurred.

The Corporation determines the fair value of its financial instruments based on the following hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Derivative Financial Instruments

The Corporation's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value.The Corporation's derivatives typically include embedded derivatives related to fuel supply and PPA contracts, interest rate swaps, and 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 forecasted 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.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract.

Impairment of Financial Assets

For financial assets measured at amortized cost, Capstone applies the simplified expected credit loss ("ECL") approach as permitted by IFRS 9. ECLs are estimated based on historical information, third-party accreditations such as credit ratings, and forward looking information regarding historical customer default rates. Capstone does not expect this to affect any measurement of financial assets and liabilities as its customer base is predominantly investment grade counterparties.

If impairment exists on the financial asset, the Corporation recognizes an impairment loss in the consolidated statement of income. The loss is measured as the difference between the carrying and the present value of the expected future cash flows. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Impairment of cash and cash equivalents and restricted cash are evaluated by reference to the credit quality of the underlying financial institution.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

Earnings Before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA")

EBITDA is a supplemental GAAP performance measure defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest ("NCI"), equity accounted investments, interest income, other gains and losses (net), and foreign exchange gains and losses. 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 to Accounting Policies

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2022 consolidated financial statements, except for the narrow-scope amendments to IAS 12. The IAS 12 amendment provides temporary relief from accounting for deferred taxes arising from the implementation of a minimum tax regime for multinationals and includes changes to deferred taxes related to assets and liabilities arising from a single transaction. Capstone adopted the amendments as required for annual reporting periods beginning on or after January 1, 2023. This change did not have a material impact on the Corporation.

Change to Comparative Figures

The Corporation made adjustments to the 2022 comparative figures in the Statement of Financial Position, Statement of Changes in Shareholders' Equity, and Statement of Cash Flows related to the presentation of loans receivable resulting in the following changes compared with amounts presented in the financial statements for the year ended December 31, 2022:

- a $14,921 decrease in current loans receivable and an offsetting increase in long-term loans receivable
- a $19,338 decrease in long-term loans receivable and an offsetting decrease in net contributions from NCI
- a $229 reclassification between line items within financing activities (decrease in proceeds received for repayment of loans to partner, with an offsetting increase to dividends paid to non-controlling interests)

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any material accounting standard changes that impact the Corporation. Capstone is evaluating the impact of the narrow-scope amendments to IAS 1 on the Corporation. The IAS 1 amendments clarify how liabilities are classified based on the conditions with which an entity must comply within twelve months after the reporting period, and are effective for annual reporting periods beginning on or after January 1, 2024. Capstone does not expect this change to have a material impact on the Corporation.

Capstone continues to monitor changes to IFRS Accounting Standards and has implemented applicable IASB changes to standards, new interpretations and annual improvements.

Critical Accounting Estimates and Judgments

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a risk of causing a material adjustment to the carrying values of financial assets and financial liabilities within the next financial year.

Area of Significance	Critical Estimate	Critical Judgments & Key Assumptions
Capital assets, projects under development and intangible assets – carrying values Fair value estimates are required in the determination of the net assets acquired in a business combination and in the impairment assessment for our capital assets and the assignment of amounts to the asset retirement obligations, as well as assessing capitalization criteria for project development costs.	• Estimates are based on assumptions that are sensitive to change, which may have a significant impact on the valuations performed. • Impairment reviews of the carrying value of capital and other long-lived assets along with the asset retirement obligations require management to estimate fair value based on future cash flows, discount rates and business performance.	• Initial fair value of net assets • Estimated useful lives and residual value • Expected settlement date, amount and discount rate • Future cash flows and discount rate
Deferred income taxes Estimates in the determination of deferred income taxes affect asset and liability balances.	• The determination of the deferred income tax balances of the Corporation requires management to make estimates of the reversal of existing temporary differences between the accounting and tax bases of assets and liabilities in future periods.	• Timing of reversal of temporary differences • Tax rates • Current and future taxable income
Financial instrument fair value measurements When observable prices are not available, fair values are determined by using valuation techniques that refer to observable market data. This is specifically related to Capstone's financial instruments.	• Management's valuation techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. • For embedded derivatives, fair values are determined from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate.	• Estimates of realizable forward Alberta Power Pool prices, discount rates, volatility, credit spreads and production projections

NOTE 3. ACQUISITIONS AND TRANSACTIONS

SLGR Convertible Debenture, Reorganization and Refinancing

Pursuant to a convertible debenture held by a subsidiary of One West Holdings Ltd. ("Concord"), Concord had an option to convert the debt into a 50% ownership interest in the Ganaraska and Grey Highlands ZEP ("GHG"), Snowy Ridge ("SR") and Settlers Landing ("SLS") wind projects. On July 14, 2022, as part of a reorganization, Capstone purchased 1% of Concord's option, then Concord exercised its right to convert its outstanding convertible debenture debt to equity, resulting in Capstone and Concord having 51% and 49% ownership interests in the projects, respectively. After conversion, changes to Concord's interest in the projects are reflected as net income (loss) attributable to NCI.

On July 14, 2022, the GHG, SR, and SLS wind projects were reorganized and the assets and liabilities of these wind facilities were transferred into SLGR. The projects remain consolidated in Capstone's statement of financial position and the statements of comprehensive income and cash flows.

Concurrently, SLGR executed a refinancing which provided $119,000 of variable rate project debt and swap contracts to convert the variable rate obligations to a fixed rate. The debt amortizes over the remaining term of the projects' power purchase agreements of approximately 14 years. The proceeds of the SLGR financing were used in part to fully repay the existing project debt at GHG, SR, and SLS. Refer to note 17.

NOTE 4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Dec 31, 2023	Dec 31, 2022
Debt service and maintenance reserves	21,806	21,808
Construction holdbacks	1,226	2,206
Other reserves	3,475	4,601
Restricted cash	26,507	28,615
Unrestricted cash and cash equivalents	63,445	124,897
	89,952	153,512

Restricted cash is primarily cash that is held by the Corporation's subsidiaries in support of segregated bank accounts to support debt service reserves, operating and maintenance reserves in support of specific long-term debt and/or proceeds from construction facilities used for specific project costs. Capstone has also provided letters of credit to back other reserve requirements (refer to note 17), and the Class A common shareholder provided letters of credit issued to the benefit of Capstone (refer to note 26).

NOTE 5. ACCOUNTS RECEIVABLE

	Dec 31, 2023	Dec 31, 2022
Power [1]	49,562	47,840
Corporate	84	50
	49,646	47,890

(1) Power accounts receivable balance includes government funding receivable of $13,295 (2022 - $7,919) held back subject to conditions.

For both periods presented, accounts receivable did not require a provision for impairment. Substantially all of the accounts receivable are with government authorities or investment grade counterparties and none are past due. Refer to note 9b and 9c for further detail of credit risk and economic dependence.

NOTE 6. OTHER ASSETS

	Dec 31, 2023	Dec 31, 2022
Prepaid expenses	2,605	3,057
Inventory of spare parts and consumable supplies, net [1]	2,076	1,979
Other	211	211
	4,892	5,247

(1) No inventory obsolescence provision is required as at December 31, 2023 (2022 - nil).

The cost of inventories recognized in operating expenses for the year ended December 31, 2023 was $744 (2022 - $724).

NOTE 7. LOANS RECEIVABLE

	Dec 31, 2023	Dec 31, 2022
Loans to partners [1]	21,435	14,921

(1) Capstone's demand loans to partners, presented net of amortization. This loan receivable is recorded at amortized cost. Refer to note 2 for changes to loans receivable.

NOTE 8. FINANCIAL INSTRUMENTS

Financial instruments consist of amortized cost assets, other liabilities and financial instruments at fair value through profit and loss.

Amortized Cost Assets

Cash and cash equivalents, restricted cash	Balances are invested in financial instruments of highly rated financial institutions and government securities with original maturities of 90 days or less. As at December 31, 2023, the carrying values of cash and cash equivalents and restricted cash are considered to approximate their fair values due to their short-term nature.
Accounts receivable	Are trade receivables with carrying values that approximate their fair values.
Loans receivable at amortized cost	According to the conditions met under IFRS 9, loans carried at amortized cost are measured using the effective interest rate method. The fair value of the Corporation's loans receivable may differ from the carrying value due to changes in interest rates and the underlying risk associated with the debtor.

Other Liabilities

Accounts payable and other liabilities	Are short-term liabilities with carrying values that approximate their fair values.
Long-term debt	Balances are recorded at amortized cost using the effective interest rate method. The fair value of the Corporation's long-term debt is determined using level 2 inputs as follows: • Floating rate debt approximates its carrying value. • Fixed-rate debt is determined through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an estimated margin.

Financial Instruments at Fair Value through Profit and Loss ("FVTPL")

Embedded derivatives

Fuel Supply embedded derivative

Whitecourt has a fuel supply agreement for 15 years from inception, extendable to 20 years, that includes power price support and revenue sharing mechanisms that reduces Whitecourt's exposure to merchant price risk in Alberta.

The price support and revenue sharing mechanisms comprise an embedded derivative that is measured at fair value and results in an asset during periods when the projected merchant power price is forecast to be lower than the price support and a liability during periods when the merchant power price is forecast to be higher.

Virtual Power Purchase Agreements ("VPPA") embedded derivatives

Some of the Corporation's Alberta facilities have VPPAs to reduce their exposure to merchant price risk. Under the contracts, the facilities receive a fixed price per MWh from the counterparties for the electricity and the associated emissions offset credits generated. In return the respective facilities pays the prevailing Alberta Power Pool price per MWh. The VPPA agreements comprise embedded derivatives that are measured at fair value and result in either an asset during periods when the projected Alberta power price is forecasted to be lower than the contracted price, or a liability during periods when the Alberta power pool price is forecasted to be higher.

During 2023, there were four VPPA contracts at the Corporation's Alberta facilities, which range from 15-20 years from COD, and have fixed prices, with some variable or escalating components.

Interest rate swaps

These contracts effectively fix the interest cost on long-term debt with variable rates, specifically for SLGR, SWNS, Cardinal, Grey Highlands Clean, Claresholm, Riverhurst, and Michichi. In addition, an interest rate swap was entered for Buffalo Atlee's construction debt, and a contingent interest rate hedge contract in anticipation of financing Wild Rose 2. Under these agreements, the projects receive or will receive Canadian Dollar Offered Rate ("CDOR") or Canadian Overnight Repo Rate Average ("CORRA"), as applicable, in exchange for fixed rate (refer to note 9a). Canadian regulators have announced that the CORRA will be the successor rate for CDOR, and all loans referencing CDOR will transition to CORRA by June 28, 2024. Management has a CORRA transition plan, which will be completed prior to June 28, 2024. The transitions have not and are not expected to have a material financial impact to the Corporation.

Foreign currency contracts

These contracts mitigate the currency risk related to US dollar purchases.

Fair value determination

The Corporation has determined the fair values of derivative financial instruments as follows:

Embedded derivatives	The determination of the fair values of the embedded derivatives requires the use of option pricing models or discounted cash flow models involving significant judgment based on management's estimates and assumptions, including discount rates, the realizable forward Alberta Power Pool prices, volatility, credit spreads and production projections.
Interest rate swaps	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	Fair value fluctuates 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.

Due to the lack of observable market quotes on the embedded derivatives, the contracts have been classified as level 3 financial instruments.

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.

The following table illustrates the classification of 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	**Dec 31, 2023**	**Dec 31, 2022**
Derivative contract assets:					
Interest rate swap contracts [(1)]	—	24,957	—	24,957	39,727
Less: current portion	—	(10,682)	—	(10,682)	(11,028)
	—	14,275	—	14,275	28,699
Derivative contract liabilities:					
Embedded derivatives [(2)]	—	—	9,096	9,096	3,819
Interest rate swap contracts	—	12,285	—	12,285	401
Less: current portion	—	(9,100)	(1,000)	(10,100)	(401)
	—	3,185	8,096	11,281	3,819

(1) The interest rate swap contracts include a contingent interest rate swap in anticipation of financing the Wild Rose 2 project. On March 13, 2023, the interest rate swap contract at Michichi was novated to each of the Michichi and Kneehill projects, as borrowers, and the interest rate swap contract at Buffalo Atlee 1 was novated to each of the four Buffalo Atlee projects, as borrowers.

(2) The embedded derivatives relate to fuel supply and PPA contracts. Refer to note 2.

Fair value continuity for Level 3 inputs

	2023	2022
Opening balance, January 1,	(3,819)	5,983
Change in value of the VPPA embedded derivatives included in other gains and (losses) in net income	(8,500)	—
Change in value of the Whitecourt embedded derivative included in other gains and (losses) in net income	6,730	(965)
Whitecourt derivative settlements during the period	(3,860)	(9,190)
Amortization of Whitecourt derivative inception value included in other gains and (losses) in net income	353	353
Closing balance, December 31,	(9,096)	(3,819)

Income and Expenses from Financial Instruments

	Dec 31, 2023	Dec 31, 2022
Amortized cost assets:		
Interest income on cash and cash equivalents, restricted cash	5,021	2,007
Interest income on loans receivable	1,868	1,106
	6,889	3,113
Other liabilities:		
Interest expense on long-term debt [1]	(48,752)	(46,261)
Financial instruments at FVTPL (refer to note 24):		
Embedded derivatives	(9,136)	(18,992)
Interest rate swap contracts	(26,655)	38,357
Changes in derivative financial instruments fair value	(35,791)	19,365

(1) Interest expense on the long-term debt for 2023 of $48,752 includes amortization of deferred financing fees, interest expense on lease liabilities and accretion on liability for asset retirement obligations of $2,843, $2,537 and $698, respectively (2022 - $4,047, $2,212 and $602).

NOTE 9. FINANCIAL RISK MANAGEMENT

The Corporation's normal operating, investing and financing activities expose it to a variety of financial risks, including market risk, credit risk, economic dependence and liquidity risk. The Corporation's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk.

(A) Market Risk

Market risk is the risk or uncertainty arising from possible price movements and their impact on the future performance of the business. The Corporation is exposed to commodity price risk (electricity revenue), interest rate and inflation risk, foreign currency exchange risk, and other indices that could adversely affect the value of the Corporation's financial assets, liabilities or expected future cash flows.

Commodity price risk

Capstone manages commodity price risk by (i) entering into PPAs whereby the Corporation receives a fixed price per MWh of electricity; and (ii) entering into VPPAs that reduce exposure to merchant price risk.

In 2023, Cardinal, Whitecourt, Claresholm, and Kneehill's revenues are exposed to price risk as follows:

(i) Cardinal earns a portion of its revenue by supplying electricity to the Ontario grid only when profitable to do so.

(ii) Whitecourt sells all electricity generated into the Alberta Power Pool. Whitecourt's fuel supply agreement includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

(iii) Claresholm sells a portion of electricity generated into the Alberta Power Pool, and the remaining energy is sold under the terms of various VPPAs.

(iv) Kneehill sells all electricity generated into the Alberta Power Pool.

Interest rate and inflation risk

Interest rate risk arises as changes in market interest rates affect the Corporation's future payments on debt obligations. The Corporation is exposed to interest rate risk on its floating rate debt. Currently, the Corporation has interest rate swap contracts to mitigate some of the risks associated with its long-term debt.

The terms of the interest rate swap contracts are:

Entity	Maturity Date	Notional Amount	Swap Fixed Rate	Credit Margin	Effective Interest Rate
SLGR	Dec 31, 2036	109,776	3.25%	1.25%	4.50%
SWNS	Dec 31, 2036	75,409	1.41%	1.38%	2.79%
Cardinal	Jun 30, 2034	62,545	2.44% - 2.77%	1.25%	3.69% - 4.02%
Grey Highlands Clean	Sep 30, 2036	55,608	1.41%	1.38%	2.79%
Claresholm	Sep 30, 2030	44,426	1.06%	2.75%	3.81%
Claresholm	Sep 29, 2032	3,489	3.16%	2.75%	5.91%
Buffalo Atlee	Dec 31, 2043	48,440	3.58%	1.50%	5.08%
Buffalo Atlee	Dec 31, 2043	19,882	4.42%	1.50%	5.92%
Riverhurst	Dec 10, 2041	45,469	3.42%	1.38%	4.80%
Kneehill	Mar 31, 2043	23,175	3.67%	1.50%	5.17%
Michichi	Mar 31, 2043	16,465	3.67%	1.50%	5.17%

(1) The interest rate swap contracts include a contingent contract in anticipation of financing the Wild Rose 2 project.
(2) Interest rate swap settlement receipts of $11,678 have been included within interest expense on the consolidated statement of income.

Foreign currency exchange risk

Capstone's power assets have expenses or capital commitments in currencies other than the Canadian dollar; as new projects are built, expected additional purchases will be made in foreign currencies. To mitigate these risks Capstone monitors the risk associated with foreign exchange rate fluctuations and, from time to time, may enter into forward foreign exchange contracts or employ other hedging strategies.

(B) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to honour a financial obligation.

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents, restricted cash, accounts receivable, loan receivable and derivative contracts.

The Corporation deposits its cash with reputable financial institutions and limits the exposure by counterparty; management therefore believes the risk of loss to be remote.

Credit risk concentration with respect to power trade receivables is limited due to the Corporation's customer base being predominantly investment grade counterparties. The table below summarizes power trade receivables from the sale of electricity and government incentive programs by credit quality:

	Dec 31, 2023		Dec 31, 2022	
As at	$	%	$	%
Investment grade (1)	48,387	97 %	47,043	98 %
Other	1,259	3 %	847	2 %
	49,646	100 %	47,890	100 %

(1) Investment grade is defined as a credit rating of BBB or higher as defined by both S&P and DBRS.

There are no accounts receivable that are past due. Since the corporation uses external credit ratings to assess the credit quality of all counterparties, and counterparties are regularly monitored for credit worthiness, management considers credit risk to be minimal.

The Corporation's derivative agreements expose Capstone to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect hedge. Counterparties to the Corporation's interest rate derivative contracts are major financial institutions that have been accorded investment-grade ratings. Consequently, management believes there to be minimal credit risk associated with its interest rate derivative contracts.

(C) Economic Dependence

Economic dependence arises when an enterprise relies on a significant volume of business with another party that cannot be easily transferred at similar terms and conditions, or is abnormal relative to expectations of similar entities. Revenue from transactions with a single external customer that amount to 10% or more of total revenue include revenue earned by Capstone’s power facilities in Ontario (61% or $145,564), Capstone’s power facilities in Nova Scotia (11% or $25,303), and Capstone's power facilities in Alberta (10% or $22,895). The table below summarizes revenue from the sale of electricity by credit quality for the power segment:

For the year ended	Dec 31, 2023 $	%	Dec 31, 2022 $	%
Investment grade [1]	238,703	100 %	254,963	100 %
Other	312	— %	59	— %
	239,015	100 %	255,022	100 %

(1) Investment grade is defined as a credit rating of BBB or higher as defined by both S&P and DBRS.

(D) Liquidity Risk

Liquidity risk is the risk that the Corporation may have insufficient cash or other resources to meet obligations as they come due. Capstone manages liquidity risk by (i) maintaining prudent levels of cash balances, capacity under credit facilities and access to capital to manage during periods of uncertainty; and (ii) implementing fixed revenue and financing structures that minimize the risk of material fluctuations in cash flows.

Compliance with debt covenants

The Corporation has financial liabilities in its power operating segments and at corporate. Refer to notes 15 accounts payable and other liabilities and 17 long-term debt for further details on financial liabilities. These financial liabilities contain a number of standard financial and other covenants.

Failure to comply with terms and covenants of the Corporation's credit agreements could result in a default, which, if not cured or waived, could result in accelerated repayment or the suspension of preferred dividends.

In the event of default, there can be no assurance that the Corporation could:

(i) Generate sufficient cash flow from operations in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs; or

(ii) Pay future preferred dividends; or

(iii) Refinance these credit agreements or obtain additional financing on commercially reasonable terms, if at all. The credit agreements, and future borrowings may be at variable rates of interest, which exposes the Corporation to the risk of increased interest rates.

Contractual maturities

The contractual undiscounted maturities of the Corporation's financial liabilities as at December 31, 2023 were as follows:

Financial Liabilities	Within one year	One year to five years	Beyond five years	Total
Accounts payable and other liabilities	61,130	—	—	61,130
Lease liabilities [1]	3,966	16,104	91,331	111,401
Long-term debt				
Principal payments	69,596	370,159	544,558	984,313
Interest payments	36,242	110,135	110,318	256,695
	105,838	480,294	654,876	1,241,008

(1) Includes the fixed portion of minimum lease payments.

(E) Sensitivity Analysis

The sensitivity analysis provided below discloses the effect on net income for the year ended December 31, 2023, assuming that a reasonably possible change in the relevant risk variable has occurred during the year, and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The changes in market variables used in the sensitivity analysis were determined based on implied volatilities, where available, or historical data.

The sensitivity analysis has been prepared based on December 31, 2023 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, and the energy contracts that are financial instruments in place at December 31, 2023 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments under IFRS 9.

The sensitivity analysis provided is hypothetical and should be used with caution because the impacts provided are not necessarily indicative of the actual impacts that would be experienced, as the Corporation's actual exposure to market rates is constantly changing as the Corporation's portfolio of commodity, debt, foreign currency, and equity contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates, hedging strategies employed by the Corporation or other mitigating actions that would be taken by the Corporation.

The table summarizes the impact on fair value of changes in the embedded derivative's level 3 unobservable inputs:

Dec 31, 2023	Unobservable inputs	Estimated input	Relationship of input to fair value
$(9,096)	Realizable forward Alberta Power Pool prices (1)	From $48/MWh to $280/ MWh over the contract terms.	A reasonably possible increase in estimated realizable forward Alberta Power Pool prices of 5% or a decrease of 5%, would cause fair value to increase by $5,416 and $3,221, respectively.

(1) Realizable forward Alberta Power Pool prices include estimates of the increase or decrease in power prices received by the Corporation relative to the average power pool prices for wind or solar.

Changes in these estimates may have a significant impact on the fair value of the embedded derivative given the length of contract involved. As new information becomes available, management may choose to revise these estimates where there is an absence of reliable observable market data.

The table summarizes the impact on fair value of changes in level 2 observable inputs:

	Carrying	Interest Rate Risk	
Dec 31, 2023	Amount	(0.5)%	0.5%
Financial assets and (liabilities) (1):			
Interest rate swap assets (liabilities), net	12,672	(12,846)	34,800

(1) Financial liabilities in long-term debt are not included as all long-term debt is either fixed-rate debt or variable rate debt that is covered by a swap contract for fixed-rate debt. The outstanding balance on the CPC revolving credit facility was $77,500.

NOTE 10. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

On June 7, 2022, a Capstone subsidiary entered into an agreement with a subsidiary of Eurowind Energy A/S ("Eurowind") for the purpose of jointly developing renewable energy projects in the United States ("US"). Capstone and Eurowind have equal interests in these projects. Prior to the transaction, Capstone indirectly wholly owned the projects and had included the balances as part of the December 31, 2021 and March 31, 2022 consolidated financial statements.

The investments were deconsolidated on the date of the transaction. Since Capstone has the ability to exercise significant influence, but not control, over financial and operating policy decisions, the investment is accounted for on an equity accounting basis.

The fair value of the projects as at June 7, 2022 was $6,604. The deconsolidation on loss of control resulted in derecognition of PUD of $5,463 and a gain of $1,141 in other gains and losses for project development costs incurred. Capstone recognized its initial fair value of the equity accounted investment of $3,302.The following table shows Capstone's investment as of June 7, 2022:

	Opening balance June 7, 2022
PUD	5,463
Cumulative project development expenses	1,141
Cumulative costs	6,604
Capstone ownership interest	50 %
Capstone investment	3,302

As part of the transaction, Capstone contributed the project entities and the associated net assets, and Eurowind paid cash of $3,302 for its half. Subsequent to the transaction, the projects are held by a jointly owned entity, Obra Maestra Renewables, LLC ("Obra Maestra"), and are equally owned by indirect subsidiaries of Capstone and Eurowind.

As at		Dec 31, 2023	Dec 31, 2022
	Ownership %	Carrying Value	Carrying Value
Obra Maestra	50%	4,121	6,492
		4,121	6,492

Capstone's December 31, 2023 consolidated financial statements include its 50% interest as an equity accounted investment adjusted by the share of net income (loss) and contributions made subsequent to the initial contribution on June 7, 2022.

The change in Capstone's equity accounted investment for the period ended December 31, 2023 was:

For the year ended	Opening balance(1)	Contributions	Distributions	Equity accounted income (loss)	Ending balance
December 31, 2023	6,492	1,488	(2,147)	(1,712)	4,121
December 31, 2022	3,302	3,885	—	(695)	6,492

(1) Prior year opening balance reflects balance at June 7, 2022.

(B) Summarized Information for Equity Accounted Investments

The Corporation has summarized its equity accounted investments using their gross values as follows:

As at Summarized Statements of Financial Position	Dec 31, 2023 Obra Maestra	Dec 31, 2022 Obra Maestra
Assets		
Current	4,417	5,578
Non-current	3,702	7,366
Liabilities		
Current	(980)	(1,065)
Equity before fair value increments on purchase and NCI	7,139	11,879
Fair value increments	1,103	1,105
Equity including fair value increments on purchase	8,242	12,984
Capstone's interest	50 %	50 %
Carrying value of investment	4,121	6,492

For the year ended Summarized Statements of Income	Dec 31, 2023 Obra Maestra	Dec 31, 2022 Obra Maestra
Revenue	—	—
Net income (loss)	(3,423)	(1,777)
Capstone's interest	50 %	50 %
Subtotal	(1,712)	(889)
Adjustment for net income prior to June 7 execution of agreement	—	194
Net income (loss) to Capstone	(1,712)	(695)

NOTE 11. CAPITAL ASSETS

(A) Continuity

	Jan 1, 2023	Additions	Disposals [1]	Transfers [2]	Dec 31, 2023
Cost					
Land	1,411	—	—	—	1,411
ROU assets (refer to note 16)	40,547	11,672	—	—	52,219
Equipment and vehicles	13,519	1,282	(196)	—	14,605
Property and plant	1,590,967	14,050	(2,913)	50,809	1,652,913
	1,646,444	27,004	(3,109)	50,809	1,721,148
Accumulated depreciation					
ROU assets	(7,513)	(2,181)	—	—	(9,694)
Equipment and vehicles	(8,751)	(378)	196	—	(8,933)
Property and plant	(675,258)	(81,739)	1,882	—	(755,115)
	(691,522)	(84,298)	2,078	—	(773,742)
Net carrying value	954,922	(57,294)	(1,031)	50,809	947,406

(1) Disposals of $1,031 were offset by proceeds of $110 resulting in a $921 loss (refer to note 24).
(2) Transfers of $50,809 on COD of Michichi and Kneehill from projects under development (refer to note 12).

	Jan 1, 2022	Additions	Disposals [1]	Transfers	Dec 31, 2022
Cost					
Land	1,374	109	(72)	—	1,411
ROU assets (refer to note 16)	40,252	295	—	—	40,547
Equipment and vehicles	12,581	1,324	(386)	—	13,519
Property and plant	1,580,092	15,768	(4,893)	—	1,590,967
	1,634,299	17,496	(5,351)	—	1,646,444
Accumulated depreciation					
ROU assets	(5,408)	(2,105)	—	—	(7,513)
Equipment and vehicles	(8,656)	(481)	386	—	(8,751)
Property and plant	(597,874)	(80,221)	2,837	—	(675,258)
	(611,938)	(82,807)	3,223	—	(691,522)
Net carrying value	1,022,361	(65,311)	(2,128)	—	954,922

(1) Disposals of $2,128 were offset by proceeds of $3,020 resulting in a $892 gain (refer to note 24).

(B) Reconciliation to Cash Additions for the Cash Flow Statement

For the year ended	Dec 31, 2023	Dec 31, 2022
Additions	27,004	17,496
Adjustment for non-cash ROU asset additions	(11,672)	(295)
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	16,455	18,493
Cash additions	31,787	35,694

NOTE 12. PROJECTS UNDER DEVELOPMENT

(A) Continuity

	2023	2022
As at January 1	162,018	38,530
Capitalized costs during the year	315,604	208,140
Less government funding	(53,760)	(79,189)
Transfer to equity accounted investments	—	(5,463)
Costs transferred to capital assets [1]	(50,809)	—
As at December 31 [2]	373,053	162,018

(1) Amounts were transferred on COD of Michichi and Kneehill. Refer to note 11.
(2) The balance includes costs to develop the Wild Rose 2 project ($270,993), the Buffalo Atlee projects ($79,213), the early-stage US development projects ($12,505), and other early-stage development projects ($10,342).

(B) Reconciliation to Cash Additions for the Cash Flow Statement

For the year ended	Dec 31, 2023	Dec 31, 2022
Additions	315,604	208,140
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(22,135)	(4,739)
Cash additions	293,469	203,401

NOTE 13. INTANGIBLE ASSETS

	Jan 1, 2023	Additions	Disposals	Dec 31, 2023
Assets				
Computer software	668	56	(63)	661
Electricity supply and other contracts	203,628	—		203,628
Water rights	73,018	—	—	73,018
	277,314	56	(63)	277,307
Accumulated amortization				
Computer software	(393)	(137)	63	(467)
Electricity supply and other contracts	(106,275)	(11,121)	—	(117,396)
Water rights	(32,835)	(2,116)	—	(34,951)
	(139,503)	(13,374)	63	(152,814)
Net carrying value	137,811	(13,318)	—	124,493

	Jan 1, 2022	Additions	Disposals	Dec 31, 2022
Assets				
Computer software	668	—	—	668
Electricity supply and other contracts	203,628	—	—	203,628
Water rights	73,018	—	—	73,018
	277,314	—	—	277,314
Accumulated amortization				
Computer software	(312)	(81)	—	(393)
Electricity supply and other contracts	(94,997)	(11,278)	—	(106,275)
Water rights	(30,719)	(2,116)	—	(32,835)
	(126,028)	(13,475)	—	(139,503)
Net carrying value	151,286	(13,475)	—	137,811

NOTE 14. INCOME TAXES

(A) Deferred Income Tax

As at	Dec 31, 2023	Dec 31, 2022
Deferred income tax assets	8,874	6,328
Deferred income tax liabilities	(93,302)	(98,135)
Net deferred income tax liability	(84,428)	(91,807)

The net deferred income tax liability, without taking into consideration the offsetting of balances within the same jurisdiction, are detailed as follows:

As at	Dec 31, 2023	Dec 31, 2022
Non-capital loss carry forwards	33,956	32,127
Asset retirement obligations	3,297	3,153
Financial Instruments	1,158	—
Other	6,441	6,317
Deferred income tax assets	44,852	41,597
Capital assets	(99,332)	(94,078)
Intangible assets	(28,281)	(31,505)
Financial instruments	—	(5,774)
Loan premium and deferred financing costs	(1,667)	(2,047)
Deferred income tax liabilities	(129,280)	(133,404)
Net deferred income tax liability	(84,428)	(91,807)

A continuity of the net deferred income tax liability follows:

	2023	2022
Net deferred income tax liability as at January 1	(91,807)	(86,284)
Recorded in earnings	6,385	(12,965)
Acquisition (1)	—	4,038
Recorded in equity	989	3,402
Recorded in OCI	—	2
Other	5	—
Net deferred income tax liability as at December 31	(84,428)	(91,807)

(1) Relates to the Genalta purchase in 2022.

(B) Timing of Deferred Income Tax Reversal

The timing of deferred income tax reversal is summarized as follows:

As at	Dec 31, 2023	Dec 31, 2022
Within 12 months	7,159	20,602
After more than 12 months	(91,587)	(112,409)
Net deferred income tax liability	(84,428)	(91,807)

(C) Tax Loss Carry Forwards

Capstone's tax loss carry forwards and the portion recognized in deferred income tax assets were as follows:

	Expiry	Recognized	Unrecognized	Dec 31, 2023	Dec 31, 2022
Canadian – non-capital losses	2026 – 2043	134,821	97,759	232,580	216,427
US – non-capital losses	2024 – 2028	—	28,002	28,002	21,913
Canadian – capital losses	No expiry	—	—	—	2,326

The Corporation also has $11,185 of unrecognized deferred tax assets, which have not been recognized as at December 31, 2023 (2022 - $9,829).

(D) Rate Reconciliation

The following table reconciles the expected income tax expense using the statutory tax rate to the expense:

For the year ended	Dec 31, 2023	Dec 31, 2022
Income (loss) before income taxes	(36,358)	43,582
Statutory income tax rate	25.06 %	25.13 %
Income tax expense based on statutory income tax rate	(9,111)	10,952
Permanent differences	(739)	1,714
Tax rate differentials	271	427
Change in unrecognized deferred tax assets	3,435	1,356
Other	(1,022)	(2,215)
Total income tax expense (recovery)	(7,166)	12,234

The statutory income tax rate of 25.06% (2022 - 25.13%) changes in response to Capstone's allocation of taxable income to different tax jurisdictions.

(E) Current Income Taxes

Current income taxes payable of $414 are included in accounts payable and other liabilities on the statement of financial position (refer to note 15) (2022 - $1,211).

NOTE 15. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	Dec 31, 2023	Dec 31, 2022
Dividends payable	463	463
Income taxes payable	414	1,211
Other accounts payable and accrued liabilities	60,253	52,302
	61,130	53,976

Income taxes payable	Dec 31, 2023	Dec 31, 2022
Canadian Renewable and Conservation Expense ("CRCE") penalties (1)	329	659
Current income taxes payable	56	185
Taxes payable on preferred share dividends	29	367
	414	1,211

(1) CRCE penalties related to flow-through shares originally issued by Renewable Energy Developers Inc., which was acquired by Capstone in 2013.

NOTE 16. LEASE LIABILITIES

	2023	2022
As at January 1	36,689	37,629
Interest expense	2,537	2,212
Additions (1)	11,672	229
Lease payments	(4,090)	(3,381)
Lease liabilities	46,808	36,689
Less: current portion	(1,209)	(1,380)
As at December 31	45,599	35,309

(1) Includes $9,058 of additions for Michichi and Kneehill and $2,614 of additions at Corporate (2022 - $229).

Capstone has the following known lease payments:

- Capstone's operating wind facilities and wind development projects have entered into agreements to use, or the option to use, land in connection with the operation of existing and future wind facilities. Payment under these agreements is typically a minimum amount with additional payments dependent on the amount of power generated by the wind facility. The agreements can be renewed and extended as far as 2061.
- Cardinal leases the site on which it is located from Ingredion Canada Corporation ("Ingredion"). Under the lease, Cardinal pays monthly rent. The lease extends through 2034 and expires concurrently with the Energy Savings Agreement between Ingredion and Cardinal.
- Capstone's operating solar facilities have entered into agreements to use land in connection with their operation with terms extending as far as 2067.
- The Corporation has two leases for its corporate offices expiring in 2026 and 2028.

Capstone's leases with no minimum payments required were:

- Agreements with the Provinces of Ontario and British Columbia for the lease of certain lands and water rights necessary for the operation of its hydro power facilities. The payments under these agreements vary based on actual power production. The terms of the lease agreements expire in 2025 and 2042.

NOTE 17. LONG-TERM DEBT

(A) Power

As at	Dec 31, 2023		Dec 31, 2022	
	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC credit facilities	77,500	77,500	35,500	35,500
Project debt				
Wind	581,745	577,452	545,810	548,492
Solar	202,684	203,132	214,338	219,414
Hydros	62,557	64,814	63,609	66,610
Gas	61,355	61,355	66,080	66,080
Other	60	60	60	60
Power	985,901	984,313	925,397	936,156
Less: deferred financing costs		(16,744)		(20,737)
Long-term debt		967,569		915,419
Less: current portion		(69,596)		(87,862)
		897,973		827,557

The power segment has drawn $114,763 for letters of credit, as well as $36,113 which are supported by the common shareholder. Refer to note 26.

The project debts within the power segment have regular principal and interest payments over the term to maturity and are secured only by the assets of their respective projects, with no recourse to the Corporation's other assets, except as noted. Refer to note 25 for description of limited recourse guarantees.

In addition, the individual project debt agreements require the respective projects to maintain certain restrictive covenants including a minimum debt service coverage ratio to allow distributions to Capstone.

(i) CPC Credit Facilities

	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Available credit				
Revolving credit facility (1)		Mar 31, 2025	220,000	220,000
US LC facility (2)		Dec 23, 2024	52,904	19,910
Total available credit - all facilities			272,904	239,910
Amount drawn				
Revolving loan	6.74%		77,500	35,500
Letters of credit - revolving credit facility (3)	1.83%		23,227	36,842
Letters of credit - US LC facility	1.58%		39,997	18,861
Remaining available credit			132,180	148,707

(1) The effective rate on the revolving credit facility was 6.74% in 2023 (2022 - 3.1%) based on a variable rate plus an applicable margin.
(2) In 2023, the US LC facility was increased twice resulting in a capacity of $52,904, and now expires on December 23, 2024.
(3) As at December 31, 2023, Capstone had 18 letters of credit authorized under the revolving credit facility.

In 2023, CPC extended the maturity on its revolving credit facility to March 31, 2025. As at December 31, 2023, the revolving credit facility capacity was $220,000, of which $77,500 was drawn and $23,227 supports letters of credit for the operating and construction facilities. The US LC Facility has $39,997 of letters of credit supporting construction facilities.

Under the CPC credit facilities, CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios, and a minimum cash flow profile. The collateral for the CPC credit facilities is provided by Capstone, CPC, and its material subsidiaries. CPC and its material subsidiary guarantors (with the exception of certain subsidiaries, including previously encumbered project financed subsidiaries) provided demand debentures granting a first ranking security interest in all present and future property, a floating charge over real property and first ranking securities pledge agreements (subject to certain permitted liens). Capstone provided a limited recourse guarantee, a securities pledge agreement, and an assignment of indebtedness owed to Capstone by CPC.

(ii) Wind

Project debt	Dec 31, 2023	Dec 31, 2022
SWNS and Grey Highlands Clean	131,017	137,918
SLGR	109,776	116,396
Buffalo Atlee	69,811	—
Glen Dhu	52,959	59,033
Goulais	52,415	55,936
Riverhurst	45,469	46,514
Saint-Philémon	39,883	42,293
Erie Shores	23,693	32,221
Amherst	23,661	25,978
Skyway 8 (1)	13,602	14,471
SkyGen (1)	9,281	10,882
Glace Bay	5,885	6,850
	577,452	548,492

(1) SkyGen project debt includes financing related to the Ferndale, Ravenswood, and Proof Line facilities. Skyway 8 was financed separately.

SWNS and Grey Highlands Clean	Interest Rate (4)	Maturity	Dec 31, 2023	Dec 31, 2022
SWNS	2.79%	Dec 31, 2036	75,409	79,938
Grey Highlands Clean	2.79%	Dec 31, 2036	55,608	57,980
			131,017	137,918

(1) SWNS and Grey Highlands Clean are required to set aside $5,200 and $3,500, respectively, as letters of credit to cover the debt service reserve.
(2) SWNS and Grey Highlands Clean are required to set aside $691 and $697, respectively, as restricted cash to fund the operating and maintenance reserves (see note 4).
(3) On November 17, 2023, Grey Highlands Clean and SWNS entered into a co-borrowing and amending agreement with existing lenders providing $135,177 of project debt at a variable interest rate, and maturing on December 31, 2036.
(4) As at December 31, 2023, SWNS and Grey Highlands Clean had swap contracts to convert interest to a fixed rate (see note 9a).

SLGR	Interest Rate (3)	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	4.50%	Dec 31, 2036	109,776	116,396

(1) SLGR is required to set aside $7,300 as letters of credit to cover the debt service reserve.
(2) SLGR is required to set aside $764 as restricted cash to fund the operating and maintenance reserve (see note 4).
(3) As at December 31, 2023, SLGR had swap contracts to convert interest to a fixed rate (see note 9a).

Buffalo Atlee	Interest Rate (3)	Maturity	Dec 31, 2023	Dec 31, 2022
Construction facility	5.33%	Jan 27, 2028	69,811	—

(1) The construction facility matures no later than January 27, 2028. After COD, the debt will convert into a term loan.
(2) Buffalo Atlee has a $53,247 limited recourse guarantee to a lender of the Buffalo Atlee debt.
(3) As at December 31, 2023, the Buffalo Atlee projects had swap contracts to convert interest for Buffalo Atlee 1-4 to a fixed rate (see note 9a).

Glen Dhu	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	5.33%	Dec 31, 2030	52,959	59,033

(1) Glen Dhu is required to set aside $4,631 as letters of credit supported by the common shareholder to cover the debt service reserve.

Goulais	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	5.16%	Sep 30, 2034	52,415	55,936

(1) Goulais is required to set aside $3,287 as restricted cash to cover the debt service reserve (see note 4).

Riverhurst	Interest Rate (2)	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	4.80%	Dec 31, 2041	45,469	46,514

(1) Riverhurst is required to set aside $2,500 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2023, Riverhurst had swap contracts to convert interest to a fixed rate (see note 9a).

Saint-Philémon	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	5.49%	May 31, 2034	39,883	42,293

(1) Saint-Philémon is required to set aside $1,224 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service reserve.

Erie Shores (3)	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Tranche A	5.96%	Apr 1, 2026	14,257	19,395
Tranche C	6.15%	Apr 1, 2026	9,436	12,826
			23,693	32,221

(1) Erie Shores project debt has a $5,000 limited recourse guarantee provided by CPC to the lenders of the Erie Shores project debt.
(2) Erie Shores is required to set aside $5,163 as restricted cash and $550 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service and maintenance reserves (see note 4).
(3) Tranche B matured on April 1, 2016.

Amherst	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	6.20%	Apr 30, 2032	23,661	25,978

(1) Amherst's project debt has a $1,000 limited recourse guarantee provided by CPC to the lenders of the Amherst project debt.
(2) Amherst is required to set aside $1,775 as letters of credit against the borrowing capacity of the CPC revolving credit facility to cover the debt service and maintenance reserves.

Skyway 8	Interest Rate	Maturity (2)	Dec 31, 2023	Dec 31, 2022
Term loan	7.00%	Mar 17, 2025	13,602	14,471

(1) Skyway 8 is required to set aside $766 as restricted cash to cover the debt service reserve (see note 4).
(2) On March 23, 2023, the Skyway 8 term loan was refinanced with existing lenders.

SkyGen	Interest Rate	Maturity (2)	Dec 31, 2023	Dec 31, 2022
Term loans	7.00%	Mar 23, 2025	9,281	10,882

(1) SkyGen is required to set aside $1,334 as restricted cash to cover the debt service reserve (see note 4).
(2) On March 23, 2023, the SkyGen term loan was refinanced with existing lenders.

Glace Bay	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	5.99%	Mar 15, 2027	2,875	3,617
Term loan	4.72%	Oct 1, 2032	3,010	3,233
			5,885	6,850

(1) Glace Bay is required to set aside $2,431 as restricted cash to cover the debt service and operating and maintenance reserves (see note 4).

(iii) Solar

Project debt	Dec 31, 2023	Dec 31, 2022
Claresholm	93,627	101,819
Amherstburg	68,005	76,095
Michichi and Kneehill	41,500	41,500
	203,132	219,414

Claresholm	Interest Rate (2)	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	4.77%	Mar 24, 2026	93,627	101,819

(1) Claresholm is required to set aside $1,226 as restricted cash to cover construction holdbacks with vendors (see note 4), and is required to set aside $5,034 and $2,440 as letters of credit to cover the debt service reserve and operating and maintenance reserve, respectively.
(2) As at December 31, 2023, Claresholm had swap contracts to convert floating interest to a fixed rate (see note 9a).

Amherstburg	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Senior term loan	3.49%	Dec 31, 2030	46,729	52,836
Subordinated term loan	3.78%	Jun 30, 2031	21,276	23,259
			68,005	76,095

(1) Amherstburg is required to set aside $6,091 as letters of credit supported by the common shareholder to cover the debt service and maintenance reserves.

Michichi and Kneehill	Interest Rate (2)	Maturity	Dec 31, 2023	Dec 31, 2022
Kneehill	5.17%	Dec 22, 2027	24,262	24,262
Michichi	5.17%	Dec 22, 2027	17,238	17,238
			41,500	41,500

(1) On October 31, 2023, the Michichi and Kneehill construction credit facilities converted to term loans, amortizing over 19 years and maturing on December 22, 2027.
(2) As at December 31, 2023, Michichi and Kneehill had swap contracts to convert interest for Kneehill and Michichi to a fixed rate (see note 9a).

(iv) Gas

	Interest Rate (2)	Maturity	Dec 31, 2023	Dec 31, 2022
Term loan	3.69%	Apr 1, 2026	42,620	45,880
Term loan	4.02%	Apr 1, 2026	18,735	20,200
			61,355	66,080

(1) Cardinal is required to set aside $1,334 as restricted cash to cover the operating and maintenance reserves and $4,000 as letters of credit to cover the debt service reserve (see note 4).
(2) As at December 31, 2023, Cardinal had swap contracts to convert interest to a fixed rate (see note 9a).

(v) Hydros

	Interest Rate	Maturity	Dec 31, 2023	Dec 31, 2022
Senior secured bonds	4.56%	Jun 30, 2040	47,256	48,737
Subordinated secured bonds	7.00%	Jun 30, 2041	17,558	17,873
			64,814	66,610

(1) The hydro facilities are required to set aside $10,200 as letters of credit supported by the common shareholder to cover the debt service and maintenance reserves.

(B) Long-term Debt Covenants

For the year ended and as at December 31, 2023, the Corporation and its subsidiaries complied with all financial and non-financial debt covenants.

(C) Long-term Debt Repayments

The following table summarizes total principal payments required under each of the Corporation's facilities in the next five years and thereafter:

Year of Repayment	Within one year	One year to five years	Beyond five years	Total
Power	69,596	370,159	544,558	984,313

NOTE 18. LIABILITY FOR ASSET RETIREMENT OBLIGATION

The carrying value of these obligations is based on estimated cash flows required to settle these obligations in present day costs. The costs relate to site restoration and decommissioning of Cardinal and the operating wind and hydro power facilities.

The following table provides the underlying assumptions and reconciles the Corporation's total asset retirement obligation activity:

	Dec 31, 2023	Dec 31, 2022
Assumptions:		
Expected settlement date	2026-2062	2026-2058
Inflation rate	2.0 %	2.0 %
Credit adjusted discount rate	4.75% - 7.75%	5.00% - 6.00%
Balance, beginning of year	12,682	12,000
Revision of estimates	(9)	80
Liabilities incurred (1)	646	—
Accretion expense	698	602
Balance, end of year	14,017	12,682

(1) Liabilities incurred related to Buffalo Atlee were recorded as at December 31, 2023 as construction has progressed and COD expected in 2024.

NOTE 19. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Dec 31, 2023	Dec 31, 2022
Common and Class A shares (1)	212,270	142,270
Preferred shares	72,020	72,020
	284,290	214,290

(1) In 2023, Capstone's Class A common shareholder contributed $70,000 in cash, bringing total cash contributions by Capstone's Class A common shareholder to $150,000.

(A) Common and Class A Shares

Capstone is authorized to issue an unlimited number of common and Class A shares, all of which have the same rights and attributes. As at December 31, 2023, there were 304,609 common and Class A shares issued and outstanding, with a carrying value of $212,270 (2022 - 304,609 common and Class A shares issued and outstanding with a carrying value of $142,270).

(B) Preferred Shares

Capstone is authorized to issue preferred shares equal to 50% of the outstanding common shares. As at December 31, 2023 and 2022, there were 3,000 series A preferred shares issued and outstanding, with a carrying value of $72,020.

The series A preferred shares have a cumulative discretionary dividend, which has a rate reset on each 5-year anniversary; the next anniversary date is July 31, 2026. The shares are non-voting and redeemable at the Corporation's discretion.

In accordance with the terms and conditions of the share agreement, all Class A preferred shares accrue dividends at a fixed rate of 3.702% per annum and preferred dividends are paid quarterly.

(C) Dividends

No dividends were declared in 2023 or 2022 in respect of the Corporation's common shareholders.

For the year ended	Dec 31, 2023	Dec 31, 2022
Preferred shares declared (1), (2)	2,764	2,871

(1) Includes $12 of deferred income taxes recovery for the year ended December 31, 2023 (2022 - $95).
(2) Capstone has included $463 of accrued preferred dividends as declared on November 8, 2023 (2022 - $463).

(D) Capital Management

The Corporation manages its capital to achieve the following objectives:

- Maintain a capital structure that provides financial flexibility to the Corporation to ensure access to debt on commercially reasonable terms, without exceeding its debt capacity;
- Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and distribution payments; and
- Deploy capital to provide an appropriate investment return to its security holders.

The Corporation's financial strategy is designed to maintain a capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In doing so, the Corporation may receive capital contributions from its common shareholder, issue additional shares, issue additional debt, issue debt to replace existing debt with similar or different characteristics, or adjust the amount of dividends paid to shareholders.

The Corporation's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Corporation's needs and economic conditions at the time of the transaction.

The Corporation is not subject to any external capital requirements and is in compliance with all debt covenants as described in note 17.

NOTE 20. NON-CONTROLLING INTERESTS

(A) Non-controlling Interests

Non-controlling interests represent ownership interests by third parties in businesses consolidated by Capstone. Capstone's entities with non-controlling interests and Capstone's partners as at December 31, 2023 were:

Partner(s)	Obton A/S ("Obton")	Sawridge First Nation ("SFN")	Batchewana First Nation ("BFN")	One West Holdings Ltd. ("Concord")	Firelight Infrastructure Partners LP ("Firelight")	Municipal interests
Project(s) and Ownership	Claresholm 49%	SFN Projects 25% (1)	Goulais 49%	SLGR 49%	Amherst 49%	Saint-Philémon 49% (2)

(1) The SFN Projects are comprised of Buffalo Atlee, Michichi, and Kneehill.
(2) Saint-Philémon is 48.9% owned by Municipalité Régionale de Comté de Bellechasse and 0.1% owned by Municipalité de Saint-Philémon.

Capstone has agreements with each partner that govern distributions from these investments. In addition, distributions must also comply with the respective debt agreements.

The balances and changes in non-controlling interests are:

	Obton's interest in Claresholm	Sawridge's interest in SFN Projects(1)	BFN's interest in Goulais (2)	Concord's interest in SLGR	Firelight's interest in Amherst	Municipal interest in Saint-Philémon	Total
January 1, 2022	55,344	—	17,894	13,844	8,386	(1,569)	93,899
NCI portion of net income	3,364	116	1,071	519	807	363	6,240
Dividends declared	(781)	—	(1,265)	(284)	(441)	(897)	(3,668)
Convertible debenture repayments	—	—	—	(1,150)	—	—	(1,150)
Net contributions from NCI	—	(233)	—	—	—	—	(233)
Deferred tax recovery on transaction with NCI	—	—	—	2,385	—	—	2,385
As at December 31, 2022	57,927	(117)	17,700	15,314	8,752	(2,103)	97,473
NCI portion of net income	894	(1,065)	1,226	(1,030)	454	73	552
Dividends declared	(2,575)	(7,339)	(1,265)	(723)	(490)	(934)	(13,326)
Net contributions from NCI	—	12,034	—	—	123	—	12,157
As at December 31, 2023	56,246	3,513	17,661	13,561	8,839	(2,964)	96,856

(1) The SFN Projects are comprised of Buffalo Atlee, Michichi, and Kneehill. Refer to note 2.
(2) Net income is allocated based on pro-rata share of distributions.

(B) Summarized Information for Material Partly Owned Subsidiaries

As at	December 31, 2023					
Summarized Statements of Financial Position	**Claresholm**	**SFN Projects**	**Goulais**	**SLGR**	**Amherst**	**Saint-Philémon**
Assets						
Current	12,106	62,135	2,147	26,889	1,918	1,241
Non-current	207,059	128,674	—	106,722	43,512	38,143
Liabilities						
Current	(11,521)	(15,824)	(601)	3,588	(3,126)	(2,830)
Non-current	(93,171)	(112,854)	(2,833)	(101,259)	(21,926)	(38,677)
Total equity	114,473	62,131	(1,287)	35,940	20,378	(2,123)
Attributable to:						
Shareholders of Capstone	58,227	58,618	(18,948)	22,379	11,539	841
NCI	56,246	3,513	17,661	13,561	8,839	(2,964)
	114,473	62,131	(1,287)	35,940	20,378	(2,123)

As at Summarized Statements of Financial Position	Claresholm	SFN Projects	December 31, 2022 Goulais	SLGR	Amherst	Saint-Philémon
Assets						
Current	16,580	55,832	2,378	36,731	2,097	1,812
Non-current	214,764	62,514	—	117,667	45,502	41,461
Liabilities						
Current	(12,842)	(14,528)	(748)	(7,290)	(3,029)	(2,647)
Non-current	(100,277)	(40,250)	(2,016)	(107,504)	(24,367)	(41,124)
Total equity	118,225	63,568	(386)	39,604	20,203	(498)
Attributable to:						
Shareholders of Capstone	60,298	63,685	(18,086)	24,290	11,451	1,605
NCI	57,927	(117)	17,700	15,314	8,752	(2,103)
	118,225	63,568	(386)	39,604	20,203	(498)

For the year ended Summarized Statements of Income	Claresholm	SFN Projects	December 31, 2023 Goulais	SLGR	Amherst	Saint-Philémon
Revenue	24,372	12,151	3,072	17,446	6,939	8,023
Net income (loss)	1,496	3,788	364	(2,103)	925	149
Attributable to:						
Shareholders of Capstone	602	4,853	(862)	(1,073)	471	76
NCI	894	(1,065)	1,226	(1,030)	454	73
	1,496	3,788	364	(2,103)	925	149

For the year ended Summarized Statements of Income	Claresholm	SFN Projects	December 31, 2022 Goulais	SLGR	Amherst	Saint-Philémon
Revenue	24,710	—	3,098	8,726	8,165	8,429
Net income (loss)	6,866	464	312	1,057	1,648	741
Attributable to:						
Shareholders of Capstone	3,502	348	(759)	538	841	378
NCI	3,364	116	1,071	519	807	363
	6,866	464	312	1,057	1,648	741

For the year ended Summarized Statements of Cash Flows	Claresholm	SFN Projects	December 31, 2023 Goulais	SLGR	Amherst	Saint-Philémon
Operating	11,181	4,687	2,617	9,923	4,101	3,738
Investing	(1,382)	(85,666)	—	(225)	(1,182)	(13)
Financing	(13,446)	61,638	(2,700)	(9,571)	(2,969)	(4,185)
Net increase / (decrease) in cash and equivalents	(3,647)	(19,341)	(83)	127	(50)	(460)

For the year ended Summarized Statements of Cash Flows	Claresholm	SFN Projects	December 31, 2022 Goulais	SLGR	Amherst	Saint-Philémon
Operating	9,593	(254)	4,851	3,953	4,664	4,275
Investing	(3,229)	(138,631)	—	9,073	(1,305)	(21)
Financing	(12,376)	184,186	(4,430)	(12,137)	(2,927)	(3,934)
Net increase / (decrease) in cash and equivalents	(6,012)	45,301	421	889	432	320

NOTE 21. SHARE-BASED COMPENSATION

Share Appreciation Rights Plan

On April 1, 2017, a SAR plan was approved by the board. The SAR plan allows up to 15,230,457 SAR units, or 5% of the number of shares issued, to be granted. At the beginning of 2023 and as at December 31, 2023, there were 15,230,457 units outstanding. A SAR unit entitles the holder to the appreciation in value of one unit over a period of time. The SAR units have a maximum life of 13 years and vest upon a sale transaction, defined as more than 50% of the equity securities of Capstone being sold to a third party. The sale price will determine the ultimate fair value of the SAR units on the vesting date. The SAR units will be settled in cash for individuals who meet the vesting conditions on the vesting date. No liability has been recorded as a sale transaction is not currently probable.

NOTE 22. REVENUE BY NATURE

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

	For the year ended	
	Dec 31, 2023	Dec 31, 2022
Wind	117,129	131,420
Solar (1)	51,970	41,233
Biomass (1)	32,879	34,871
Gas (2)	25,881	33,933
Hydro	11,156	13,565
Total Revenue	239,015	255,022

(1) Solar and Biomass include revenue from the generation and sale of electricity at market rates and the sale of emissions offset credits.
(2) 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.

As at December 31, 2023, Capstone has trade receivable balances of $33,698 (2022 - $35,709).

NOTE 23. EXPENSES BY NATURE

For the year ended	Dec 31, 2023				Dec 31, 2022			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	24,177	—	—	24,177	22,446	—	—	22,446
Wages and benefits (1)	16,209	7,753	2,424	26,386	13,420	7,031	883	21,334
Property expenses (2)	8,317	606	294	9,217	8,932	548	386	9,866
Fuel and transportation	8,809	—	—	8,809	13,589	—	—	13,589
Professional fees (3)	2,237	1,131	4,447	7,815	2,796	510	2,254	5,560
Insurance	4,295	156	—	4,451	4,183	138	—	4,321
Power facility administration	2,476	—	—	2,476	3,421	—	—	3,421
Contract termination costs	—	—	2,873	2,873	—	—	2,415	2,415
Other	2,010	1,685	1,556	5,251	1,925	1,243	771	3,939
Total	68,530	11,331	11,594	91,455	70,712	9,470	6,709	86,891

(1) Wages and benefits include project development direct staff costs in 2023.
(2) Property expenses include leases, utilities, and property taxes.
(3) Professional fees include legal, audit, tax and other advisory services.

NOTE 24. OTHER GAINS AND LOSSES

	For the year ended	
	Dec 31, 2023	Dec 31, 2022
Changes in derivative financial instruments fair value (1)	(35,791)	19,365
Losses on debt modification (2)	(4,512)	—
Gains (losses) on disposal of capital assets	(921)	892
Other	(1,432)	(5,290)
Other gains and (losses), net	(42,656)	14,967

(1) The loss of $35,791 on derivatives includes losses from the interest rate swap contracts and a decrease in the embedded derivatives, which consist of the fuel supply and PPA contracts. Refer to note 8.
(2) Relates to the Grey Highlands Clean and SWNS refinancing. Refer to note 17 Long-term Debt in the notes to the financial statements.

NOTE 25. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments in addition to the commitments described in note 8 financial instruments, note 9 financial risk management, notes 17 long-term debt, 18 liability for asset retirement obligation and 19 shareholders' equity as at December 31, 2023 were as follows:

(A) Capital Commitments

Capstone enters into capital commitments in the normal course of operations. As part of Capstone's power development operations, Capstone enters into various construction and purchase agreements. As at December 31, 2023, Buffalo Atlee and Wild Rose 2 wind development projects, have aggregate commitments of $352,315 for the construction and subsequent operation of the facilities, including payments to previous developers. The capital commitments related to these projects made up 82% of Capstone's purchase commitments at December 31, 2023.

(B) Power Purchase Agreements

A significant portion of the Corporation's electricity revenue is earned through long-term PPAs. The majority of these contracts include terms and conditions customary to the industry. For Cardinal's contract, the nature of the material commitments includes: electricity capacity; availability; and production targets. For the remaining power facilities, Capstone is not obligated to deliver electricity; however, in certain circumstances, if a facility fails to meet the performance requirements, the operating facility's PPA may be terminated after a specified period of time. For certain solar and wind projects in development, commitments include availability and product targets subsequent to achieving COD.

(C) Management Services Agreements

Capstone has agreements with all the partially owned wind and solar facilities and development projects, including Amherst, Buffalo Atlee, Claresholm, Goulais, Kneehill, Michichi, Saint-Philémon, and SLGR. For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue.

(D) Wood Waste Supply Agreement

One of the Whitecourt fuel supply agreements for wood waste includes sharing mechanisms regarding the price received for electricity and emissions offset credits sold by Whitecourt.

(E) Operations and Maintenance ("O&M") Agreements

Cardinal has a maintenance contract with Siemens Energy Canada Limited covering the gas turbine at Ingredion's 15MW facility.

Capstone has several service and maintenance agreements covering the turbines in operation on various wind facilities. The agreements provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.

Capstone has an O&M agreement with Regional Power OPCO Inc. ("Regional") to operate and maintain the hydro power facilities. Regional is paid a monthly management fee and is eligible for an annual incentive fee.

(F) Energy Savings Agreement ("ESA")

Cardinal has an ESA with Ingredion which matures in 2034. Under the terms of the ESA, Cardinal is required to provide O&M services in respect of the 15MW plant, and supply steam and compressed air to Ingredion for the use of its manufacturing facility. Cardinal entered into a maintenance contract with Siemens Canada Limited in connection with the operation and maintenance of the 15MW plant in order to support Cardinal's satisfaction of the O&M terms of the ESA.

(G) Guarantees

Capstone has provided certain guarantees relating to the government funding received, as well as limited recourse guarantees on the project debt of certain wind and solar projects totaling $59,247 as at December 31, 2023.

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business. Capstone is not engaged in any off-balance sheet financing transactions. Due to the nature of their operations, the power facilities are not expected to incur material contingent liabilities upon the retirement of assets.

NOTE 26. RELATED PARTY TRANSACTIONS

(A) Shared Service Arrangement with iCON Infrastructure LLP and subsidiaries ("iCON")

Fees earned from iCON Infrastructure North America Inc. ("iCON NA"), a subsidiary of iCON, under a shared service arrangement, are reported in the consolidated statements of income as an administrative expense recovery. During 2023, Capstone earned fees of $139 from iCON NA (2022 - $192). As at December 31, 2023, accounts receivable included $79 due from iCON NA.

(B) Contributions and Credit Support from iCON

Capstone's Class A common shareholder contributed $70,000 in cash in 2023 (2022 - $80,000).

On September 12, 2022, the Class A common shareholder provided letters of credit issued to the benefit of Capstone under a financing and reimbursement agreement. Capstone reimburses the common shareholder for payments made on its behalf, including fees and draws on the letters of credit. For the year ended December 31, 2023, Capstone reimbursed normal course fees of $801 (2022 - $116). As at December 31, 2023, the balance of outstanding letters of credit is $36,113 to support various development projects.

(C) Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), and Chief Operating Officer ("COO"). Compensation awarded to key management consisted of salaries, directors' fees, short-term employee benefits and long-term incentive plan payments.

Key Management Compensation for the year ended	Dec 31, 2023	Dec 31, 2022
Salaries, directors' fees and short-term employee benefits (1)	2,324	1,732
	2,324	1,732

(1) The short-term incentive plan component is based on amounts paid during the year.

NOTE 27. 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 and the US. Management evaluates performance primarily on revenue, expenses and EBITDA. Projects 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 environments.

For the year ended	Dec 31, 2023			Dec 31, 2022		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	239,015	—	239,015	255,022	—	255,022
Expenses	(78,367)	(13,088)	(91,455)	(76,912)	(9,979)	(86,891)
EBITDA	121,423	(11,357)	110,066	194,458	(8,333)	186,125
Interest expense	(48,752)	—	(48,752)	(46,261)	—	(46,261)
Income tax recovery (expense)	5,350	1,816	7,166	(14,294)	2,060	(12,234)
Net income (loss)	(19,291)	(9,901)	(29,192)	37,867	(6,519)	31,348
Additions to capital assets, net	24,366	2,638	27,004	17,188	308	17,496
Additions to PUD (1)	315,604	—	315,604	208,140	—	208,140

(1) PUD additions primarily include costs to develop the Buffalo Atlee wind projects, Wild Rose 2 wind project, and early-stage US development projects, as well as Michichi and Kneehill prior to COD. Refer to note 12.

INVESTOR INFORMATION

Quick Facts	
Preferred shares outstanding	3,000,000
Securities exchange and symbols	Toronto Stock Exchange: CSE.PR.A

CONTACT INFORMATION

Address:

155 Wellington Street West, Suite 2930

Toronto, ON M5V 3H1

www.capstoneinfrastructure.com

Email: info@capstoneinfra.com

Contact:

Megan Hunter

Senior Manager, Communications

Tel: 416-649-1325

Email: mhunter@capstoneinfra.com