CAPSTONE INFRASTRUCTURE

CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended March 31, 2023

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LEGAL NOTICE

This document is not an offer or invitation for the subscription or purchase of or a recommendation of securities. It does not take into account the investment objectives, financial situation and particular needs of any investors. Before making an investment in Capstone Infrastructure Corporation (the "Corporation"), an investor or prospective investor should consider whether such an investment is appropriate to their particular investment needs, objectives and financial circumstances and consult an investment adviser if necessary.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain of the statements contained within this document are forward-looking and reflect management's expectations regarding the future growth, results of operations, performance and business of the Corporation based on information currently available to the Corporation. Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. These statements use forward-looking words, such as "anticipate", "continue", "could", "expect", "may", "will", "intend", "estimate", "plan", "believe" or other similar words, and include, among other things, statements found in "Results of Operations" and "Financial Position Review". These statements are subject to known and unknown risks and uncertainties that may cause actual results or events to differ materially from those expressed or implied by such statements and, accordingly, should not be read as guarantees of future performance or results. The forward-looking statements within this document are based on information currently available and what the Corporation currently believes are reasonable assumptions, including the material assumptions set out in the management's discussion and analysis of the results of operations and the financial condition of the Corporation ("MD&A") for the year ended December 31, 2022 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 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

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

This MD&A should be read in conjunction with the accompanying unaudited interim consolidated financial statements of the Corporation and notes thereto as at, and for the three months ended March 31, 2023, and the financial statements and MD&A for the year ended December 31, 2022. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 21, 2023 and its MD&A and audited annual financial statements for the year ended December 31, 2022. These filings are available under the Corporation's profile on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

This MD&A is dated May 10, 2023, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

ADDITIONAL PERFORMANCE MEASURES DEFINITIONS

This MD&A also contains EBITDA, a performance measure not defined by IFRS. EBITDA is an additional GAAP performance measure and does not have a standardized meaning prescribed by IFRS 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") and 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 continues to execute on its strategic objectives by achieving commercial operations ("COD") at Michichi and Kneehill, advancing its development projects, recontracting existing projects, and successfully managing financing activities providing funding for continued growth.

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	In Construction	61	Alberta	Wind
Wild Rose 2 (3)	Development	192	Alberta	Wind
Early-stage development projects	Development	>1,000	Canada	Wind/Solar/Storage
MW capacity in Canada		**>1,253**		
Early-stage development projects	Development	>1,000	United States	Wind/Solar/Storage
MW capacity in the United States ("US")		**>1,000**		

(1) Electricity and associated emissions offset credits generated are sold under the terms of a power purchase agreement ("PPA") expiring in 2038. The PPA includes 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") has scheduled 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, if accretive.

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, subject to British Columbia Utilities Commission ("BCUC") approval.

Financing Activities

Capstone has executed a project financing for the Buffalo Atlee wind facility, expanded the US LC credit facility, and refinanced the SkyGen and Skyway 8 wind projects.

Buffalo Atlee financing

On January 27, 2023, Buffalo Atlee entered into a credit agreement which provided up to $50,000 of variable rate debt for the construction of the wind facilities, which is converted to a fixed rate using an interest rate swap contract.

US LC facility extension

On February 28, 2023, the US LC facility was increased to $39,922, and now expires on December 23, 2024.

SkyGen and Skyway 8 extensions

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.

RESULTS OF OPERATIONS

Overview

In 2023, Capstone's EBITDA and net income were both lower in the first quarter compared to the same period in the prior year. Lower EBITDA primarily reflects:

- Lower revenue due to generally lower wind production from lower wind resources, partially offset by higher Alberta Power Pool prices at Whitecourt, as well as the addition of Michichi and Kneehill, which achieved COD in March 2023;
- Higher other losses from unrealized fair value changes on interest rate swaps, which declined in value due to lower forecasted long-term interest rates, and recognition of new PPA embedded derivatives; and
- Higher expenses due to higher project development costs, and higher fuel costs at Whitecourt.

	Three months ended		
	Mar 31, 2023	Mar 31, 2022	Change
Revenue	58,379	59,200	(821)
Expenses	(19,534)	(16,804)	(2,730)
Other income and expenses	(31,051)	20,802	(51,853)
EBITDA	7,794	63,198	(55,404)
Interest expense	(12,207)	(10,949)	(1,258)
Depreciation and amortization	(23,691)	(23,777)	86
Income tax recovery (expense)	5,212	(7,153)	12,365
Net income	(22,892)	21,319	(44,211)

The remaining material change in net income was:

- Higher interest expense due to the addition of the Michichi and Kneehill, Riverhurst, and SLGR financings since March 31, 2022; and
- Higher income tax expense in 2023 relates to deferred taxes on financial instruments and capital assets.

Seasonality

Overall, the results for Capstone's power segment fluctuate during the year because of seasonal factors that affect the production of each facility. These factors include 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.

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, natural gas, biomass, and hydrological resources, and are located in Ontario, Alberta, Nova Scotia, British Columbia, Québec, 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	Three months ended		
	Mar 31, 2023	Mar 31, 2022	Change
Wind	35,643	39,440	(3,797)
Biomass [(1)]	7,288	4,366	2,922
Solar [(1)]	7,237	6,684	553
Gas	5,449	5,762	(313)
Hydro	2,762	2,948	(186)
Total Revenue	58,379	59,200	(821)

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

Power generated (GWh)	Three months ended		
	Mar 31, 2023	Mar 31, 2022	Change
Wind	304.3	346.5	(42.2)
Biomass	49.9	46.7	3.2
Solar	64.9	51.7	13.2
Gas	—	2.4	(2.4)
Hydro	29.3	35.0	(5.7)
Total Power	448.4	482.3	(33.9)

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, consisting 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 Whitecourt's fuel supplier, Millar Western Forest Products Ltd. ("Millar Western"), 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.

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

Three months	Explanations
2,654	Higher revenue from Whitecourt due to higher Alberta Power Pool prices.
670	Revenue from adding Michichi and Kneehill which achieved COD in March 2023.
(3,797)	Lower revenue from the wind facilities, due to lower wind resources.
(348)	Various other changes.
(821)	Change in revenue.

Expenses

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

Expenses	Three months ended		
	Mar 31, 2023	Mar 31, 2022	Change
Wind	(6,646)	(6,495)	(151)
Solar	(1,142)	(843)	(299)
Gas	(2,819)	(3,105)	286
Biomass	(3,546)	(2,880)	(666)
Hydro	(1,026)	(913)	(113)
Power operating expenses	(15,179)	(14,236)	(943)
Administrative expenses	(2,655)	(2,080)	(575)
Project development costs	(1,700)	(488)	(1,212)
Total Expenses	(19,534)	(16,804)	(2,730)

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:

Three months	Explanations
(1,212)	Higher project development costs associated with early-stage development in 2023 year-to-date versus 2022.
(666)	Higher expenses at Whitecourt primarily due to fuel & transportation costs.
(852)	Various other changes.
(2,730)	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at March 31, 2023, Capstone's working capital was $14,298, compared with $88,979 as at December 31, 2022, mainly due to higher accruals to build the development projects.

Capstone has adequate financial flexibility to meet liquidity needs and support further growth, including $117,526 of unrestricted cash and cash equivalents, and credit facility capacity of $156,560 available, to meet liquidity needs and support further growth.

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

Liquidity

Working capital

As at	Mar 31, 2023	Dec 31, 2022
Power	15,094	88,638
Corporate	(796)	341
Working capital (equals current assets, less current liabilities)	14,298	88,979

Capstone's working capital was $74,681 lower than December 31, 2022 because of decreases of $73,544 and $1,137 from power and corporate, respectively. The power decrease was mainly from higher accounts payable and accruals of $76,896, reflecting more construction and development activities. In addition, the current portion of derivative contract liabilities was $11,322 higher, along with lower cash of $6,028, and accounts receivable of $2,907. These working capital decreases were partly offset by $22,904 on extending the SkyGen and Skyway 8 project debts during the quarter.

Cash and cash equivalents

As at	Mar 31, 2023	Dec 31, 2022
Power	117,074	123,108
Corporate	452	1,789
Unrestricted cash and cash equivalents	117,526	124,897

These funds are available for operating activities, capital expenditures, and future acquisitions. The $7,371 decrease consists of lower balances of $6,034 at power, and $1,337 at corporate, reflecting a repayment of $5,500 on the CPC revolving credit facility.

Cash at the power segment is comprised of $28,646 at CPC and $88,428 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 revolving 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, the CPC revolving credit facility has an available capacity of $152,135 as at March 31, 2023.

Cash flow

Capstone's consolidated cash and cash equivalents for the quarter decreased by $7,371 in 2023 compared with an increase of $26,750 in 2022. The components of the change in cash, as presented in the consolidated statement of cash flows, are summarized as follows:

Three months ended	Mar 31, 2023	Mar 31, 2022
Operating activities	26,855	24,229
Investing activities	(26,770)	(32,101)
Financing activities (excluding dividends to shareholders)	(6,762)	35,316
Dividends paid to shareholders	(694)	(694)
Change in cash and cash equivalents	(7,371)	26,750

Cash flow from operating activities was $2,626 higher in 2023 comprised of a $2,659 decrease from the corporate segment offset by a $5,285 increase from the power segment. The changes in corporate and power mainly reflects changes in working capital.

Cash flow used in investing activities was comparatively $5,331 lower in 2023 resulting from an increase in projects under development ("PUD") offset by a decrease in capital assets. In 2023, $21,906 was used for PUD, mainly to build Wild Rose 2, Buffalo Atlee, Michichi, and Kneehill. Additionally, $4,858 was used for capital assets, mainly at Claresholm, Hydros, and Whitecourt in 2023.

Cash flow from (used in) financing activities was $42,078 lower in 2023, as proceeds from long-term debt and Class A common shareholder contributions of $52,500 raised in 2022 to pay for construction versus use of existing cash resources and additional government funding of $16,825, in 2023. The remaining difference relates to higher long-term debt repayments in 2023 of $5,940.

Long-term Debt

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

	Dec 31, 2022	Additions	Repayments	Other	Mar 31, 2023
Long-term debt (1) and (2)	936,156	—	(22,920)	—	913,236
Deferred financing fees (3)	(20,737)	(142)	—	1,135	(19,744)
	915,419	(142)	(22,920)	1,135	893,492
Less: current portion of long-term debt (4)	(87,862)	—	—	23,673	(64,189)
	827,557	(142)	(22,920)	24,808	829,303

(1) The power segment has drawn $110,026 for letters of credit for project securities, along with $26,512 supported by the common shareholder.
(2) Repayments of $22,920 include $5,500 on the CPC revolving credit facility, and scheduled repayments.
(3) Additions consist of deferred transaction costs on the Michichi and Kneehill financing, and extensions of the US LC facility. See the "Changes in the Business" section in this MD&A for detail.
(4) Change to current portion reflects a $22,914 decrease from the SkyGen and Skyway 8 debt extensions.

As at March 31, 2023, Capstone's long-term debt consisted of $883,236 of project debt and $30,000 for the CPC credit facility. The current portion of long-term debt was $64,189, consisting of scheduled debt amortization. Capstone expects to repay the scheduled amortization from income generated by the power assets.

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

Equity

Shareholders' equity comprised:

As at	Mar 31, 2023	Dec 31, 2022
Common shares	142,270	142,270
Preferred shares [(1)]	72,020	72,020
Share capital	214,290	214,290
Retained earnings	76,489	95,984
Equity attributable to Capstone shareholders	290,779	310,274
Non-controlling interests	114,445	119,040
Total shareholders' equity	405,224	429,314

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

Capital Expenditure Program

Capstone's power segment incurred $88,813 of capital expenditures during the three months ended March 31, 2023, which included $106,734 of costs capitalized to PUD, less $20,311 of government funding, plus $2,390 of capital asset additions, which excludes right-of-use ("ROU") asset additions.

Amounts capitalized to PUD in 2023 were primarily for costs to advance the Wild Rose 2 wind project ($56,021), and the Buffalo Atlee wind project ($7,797).

The government funding relates to the Michichi, Kneehill, and Buffalo Atlee 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.

Contractual Obligations

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

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

As at March 31, 2023, Capstone's capital purchase obligations for development projects are $258,365 for the Wild Rose 2 wind project, $65,192 for the Buffalo Atlee wind project, and $25,212 for the Michichi and Kneehill solar projects.

There are no other significant changes to the specified contractual obligations that are outside the ordinary course of business.

In addition, Capstone is not engaged in any off-balance sheet financing transactions or material contingent liabilities from asset operations.

Income Taxes

The deferred income tax recovery relates to the deductible temporary differences on financial instruments and capital assets.

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

As at	Mar 31, 2023	Dec 31, 2022
Derivative contract assets	27,160	39,727
Derivative contract liabilities	(22,968)	(4,220)
Net derivative contract assets (liabilities)	4,192	35,507

Net derivative contract assets decreased by $31,315 from December 31, 2022, due to losses of $32,677 in the statement of income and contractual settlements of $1,362 paid.

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

	Three months ended	
	Mar 31, 2023	Mar 31, 2022
Interest rate swap contracts (1)	(21,790)	20,077
Embedded derivatives (2)	(10,887)	(29)
Foreign currency contracts	—	(9)
Gains (losses) on derivatives in net income	(32,677)	20,039
Foreign currency contracts in OCI	—	(329)
Gains (losses) on derivatives in comprehensive income	(32,677)	19,710

(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 "Accounting policies, estimates, and internal controls" in this MD&A.

The year-to-date loss on derivatives includes losses from the interest rate swap contracts, resulting from generally lower interest rates during the swap periods since December 31, 2022, and a decrease in the Whitecourt embedded derivative, resulting from higher forecasted Alberta Power Pool prices. In addition, new PPA embedded derivatives were recorded, leading to a loss resulting from higher forecasted Alberta Power Pool prices.

RISKS AND UNCERTAINTIES

Capstone is subject to a variety of risks and uncertainties. These risks and uncertainties could impact future operating results and financial condition, which could adversely affect Capstone's ability to pay preferred dividends. For a comprehensive description of risks, please refer to the disclosure in the Corporation's MD&A for the year ended December 31, 2022 and the "Risk Factors" section of the Annual Information Form ("AIF") dated March 21, 2023 as supplemented by risk factors contained in any material change reports (except confidential material change reports), business acquisition reports, interim financial statements, interim MD&A, and information circulars filed by the Corporation with securities commissions or similar authorities in Canada, which are available on the SEDAR website at www.sedar.com.

ENVIRONMENTAL, HEALTH, AND SAFETY REGULATION

Capstone monitors developments with respect to environmental, health, and safety regulation. Refer to the Corporation's prior environmental, health, and safety regulation disclosure in its MD&A for the year ended December 31, 2022 and the "Environmental, Health, and Safety Matters" section of the Corporation's Annual Information Form dated March 21, 2023, which are available on the SEDAR website at www.sedar.com.

SUMMARY OF QUARTERLY RESULTS

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

	2023	2022				2021		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**58,379**	76,261	59,624	59,937	59,200	64,120	47,788	56,480
EBITDA	**7,794**	42,956	33,604	46,367	63,198	38,674	29,799	34,334
Net income (loss) (1)	**(18,813)**	2,193	(2,281)	5,854	19,342	2,559	(5,262)	(3,175)
Preferred dividends	**694**	694	694	694	694	694	613	613

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

ACCOUNTING POLICIES, ESTIMATES, AND INTERNAL CONTROLS

Changes in Accounting Policies

The consolidated financial statements have been prepared in accordance with IFRS and are consistent with policies for the year ended December 31, 2022, except for the update to revenue recognition as described below.

The Corporation enters certain PPAs from time to time whereby the Corporation receives a fixed price per MW of electricity and the associated emissions offset credits generated and pays the prevailing Alberta Power Pool price per MW. Such PPAs may include embedded derivatives for the electricity component according to conditions met under IAS 37 and IFRS 9. The PPA embedded derivatives are classified as fair value through profit and loss ("FVTPL") as disclosed in the Financial Instruments accounting policy in the audited consolidated financial statements for the year ended December 31, 2022.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any significant accounting changes that impact the Corporation. Capstone is evaluating the impact of the narrow-scope amendments to IAS 1 on the Corporation. The 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 continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements.

Accounting Estimates

The interim consolidated financial statements are prepared in accordance with IFRS, which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses, and contingencies.

Refer to note 2 "Summary of Significant Accounting Policies" in the most recent annual financial statements for the year ended December 31, 2022 for greater details of the areas of significance and the related critical estimates and judgments.

The following accounting estimates included in the preparation of the interim consolidated financial statements are based on significant estimates and judgments, which are summarized as follows:

Area of Significance	Critical Estimates and Judgments
Capital assets, projects under development and intangible assets:	
• Purchase price allocations.	• Initial fair value of net assets.
• Depreciation on capital assets.	• Estimated useful lives and residual value.
• Amortization on intangible assets.	• Estimated useful lives.
• Asset retirement obligations.	• Expected settlement date, amount and discount rate.
• Impairment assessments of capital assets, projects under development and intangible assets.	• Future cash flows and discount rate.
Deferred income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	• Forward Alberta Power Pool prices, volatility, credit spreads and production projections. • Future cash flows and discount rate.

Management's estimates are 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

Since December 31, 2022, no material changes have occurred in Capstone's policies and procedures and other processes that comprise its internal controls over financial reporting and disclosure controls and procedures.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Mar 31, 2023	Dec 31, 2022
Current assets			
Cash and cash equivalents		117,526	124,897
Restricted cash		28,621	28,615
Accounts receivable		44,982	47,890
Current portion of loan receivable	5	15,243	14,921
Other assets		5,793	5,247
Current portion of derivative contract assets	6	10,148	11,028
		222,313	232,598
Non-current assets			
Loans receivable	5	21,929	21,567
Derivative contract assets	6	17,012	28,699
Equity accounted investments	7	6,218	6,492
Capital assets	8	1,005,217	954,922
Projects under development	9	189,109	162,018
Intangible assets		134,628	137,811
Deferred income tax assets		8,214	6,328
Total assets		1,604,640	1,550,435
Current liabilities			
Accounts payable and other liabilities		130,740	53,976
Current portion of derivative contract liabilities	6	11,723	401
Current portion of lease liabilities		1,363	1,380
Current portion of long-term debt	10	64,189	87,862
		208,015	143,619
Long-term liabilities			
Derivative contract liabilities	6	11,245	3,819
Deferred income tax liabilities		94,550	98,135
Lease liabilities		43,462	35,309
Long-term debt	10	829,303	827,557
Liability for asset retirement obligation		12,841	12,682
Total liabilities		1,199,416	1,121,121
Equity attributable to shareholders of Capstone		290,779	310,274
Non-controlling interest		114,445	119,040
Total liabilities and shareholders' equity		1,604,640	1,550,435
Commitments and contingencies	16		

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone				
		Share Capital	AOCI (1)	Retained Earnings	NCI (2)	Total Equity
Balance, December 31, 2021		134,290	5	73,742	96,129	304,166
Capital contribution		20,000	—	—	—	20,000
Other comprehensive income (loss)		—	(245)	—	—	(245)
Net income (loss) for the period		—	—	19,342	1,977	21,319
Dividends declared to preferred shareholders of Capstone (3)	11	—	—	(681)	—	(681)
Dividends declared to NCI		—	—	—	(716)	(716)
Convertible debenture repayments (4)		—	—	—	(150)	(150)
Contributions from NCI (5)		—	—	—	10,041	10,041
Balance, March 31, 2022		154,290	(240)	92,403	107,281	353,734

	Notes	Equity attributable to shareholders of Capstone				
		Share Capital	AOCI (1)	Retained Earnings	NCI (2)	Total Equity
Balance, December 31, 2022		214,290	—	95,984	119,040	429,314
Net income (loss) for the period		—	—	(18,813)	(4,079)	(22,892)
Dividends declared to preferred shareholders of Capstone (3)	11	—	—	(682)	—	(682)
Dividends declared to NCI		—	—	—	(878)	(878)
Contributions from NCI (5)		—	—	—	362	362
Balance, March 31, 2023		214,290	—	76,489	114,445	405,224

(1) Accumulated other comprehensive income (loss) ("AOCI").
(2) Non-controlling interest ("NCI").
(3) Dividends declared to preferred shareholders of Capstone include current and deferred income tax recovery of $12 (2022 - recovery of $13).
(4) Repayments were 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 4.
(5) Includes contributions from Sawridge First Nation ("Sawridge") to Buffalo Atlee, Michichi, and Kneehill.

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

		Three months ended	
	Notes	Mar 31, 2023	Mar 31, 2022
Revenue	12	58,379	59,200
Operating expenses	13	(15,179)	(14,236)
Administrative expenses	13	(2,655)	(2,080)
Project development costs	13	(1,700)	(488)
Equity accounted income (loss)	7	(274)	—
Interest income		1,632	331
Other gains and (losses), net	14	(32,369)	20,595
Foreign exchange gain (loss)		(40)	(124)
Earnings before interest expense, taxes, depreciation and amortization		7,794	63,198
Interest expense		(12,207)	(10,949)
Depreciation of capital assets	8	(20,485)	(20,438)
Amortization of intangible assets		(3,206)	(3,339)
Earnings before income taxes		(28,104)	28,472
Income tax recovery (expense)			
Current		(1)	(162)
Deferred		5,213	(6,991)
Total income tax recovery (expense)		5,212	(7,153)
Net income (loss)		(22,892)	21,319
Attributable to:			
Shareholders of Capstone		(18,813)	19,342
Non-controlling interest		(4,079)	1,977
		(22,892)	21,319

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Three months ended	
	Notes	Mar 31, 2023	Mar 31, 2022
Gains (losses) on financial instruments designated as cash flow hedges (1)		—	(245)
Other comprehensive income (loss)		—	(245)
Net income (loss)		(22,892)	21,319
Total comprehensive income (loss)		(22,892)	21,074
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		(18,813)	19,097
Non-controlling interest		(4,079)	1,977
		(22,892)	21,074

(1) Net of tax expense of nil for year to date (2022 - net of tax recovery of $84)

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended	Notes	Mar 31, 2023	Mar 31, 2022
Operating activities:			
Net income (loss)		(22,892)	21,319
Deferred income tax expense (recovery)		(5,213)	6,991
Depreciation and amortization		23,691	23,777
Non-cash other gains and (losses), net		30,739	(20,921)
Transaction costs on debt		(124)	(745)
Amortization of deferred financing costs and non-cash financing costs		933	746
Equity accounted (income) loss		274	—
Change in non-cash working capital and foreign exchange		(553)	(6,938)
Total cash flows from operating activities		26,855	24,229
Investing activities:			
Investment in projects under development	9	(21,906)	(12,214)
Investment in capital assets	8	(4,858)	(19,682)
Decrease (increase) in restricted cash		(6)	(205)
Total cash flows used in investing activities		(26,770)	(32,101)
Financing activities:			
Proceeds from government funding		18,280	1,455
Proceeds received for repayment of loans to partner	5	266	—
Repayment of long-term debt		(22,920)	(16,980)
Lease principal payments		(922)	(793)
Dividends paid to non-controlling interests		(878)	(716)
Dividends paid to preferred shareholders		(694)	(694)
Advances on loans receivable to partner	5	(588)	—
Convertible debenture repayments		—	(150)
Proceeds from issuance of long-term debt		—	32,500
Proceeds from Class A common shareholder capital contribution		—	20,000
Total cash flows from (used in) financing activities		(7,456)	34,622
Increase (decrease) in cash and cash equivalents		(7,371)	26,750
Cash and cash equivalents, beginning of year		124,897	57,376
Cash and cash equivalents, end of period		117,526	84,126
Supplemental information:			
Interest paid		9,095	10,290
Taxes paid		645	387

See accompanying notes to these consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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"), a fund advised by London, UK-based iCON Infrastructure LLP ("iCON"), who is the ultimate parent. Capstone Infrastructure Corporation and its subsidiaries' (together the "Corporation" or "Capstone") mission is to drive the energy transition forward through creative thinking, strong partnerships, and a commitment to quality and integrity in how it does business. As at March 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, hydro, biomass, and natural gas power plants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to Capstone's accounting policies during the first three months of 2023, except for the update to revenue recognition as described below.

Basis of Preparation

Statement of compliance

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34") on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2022. In accordance with IAS 34, certain information and footnote disclosures included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. These unaudited interim consolidated financial statements should be read in conjunction with the audited 2022 annual consolidated financial statements.

For a comprehensive description of risks, please refer to the disclosure in the Corporation's MD&A for the year ended December 31, 2022 and the "Risk Factors" section of the Annual Information Form ("AIF") dated March 21, 2023, which are available on the SEDAR website at www.sedar.com.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on May 10, 2023. All amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

Basis of measurement

The interim consolidated financial statements have been prepared on a going concern basis of accounting and primarily under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value.

Revenue Recognition

Revenue from Contracts with Customers

The Corporation enters certain power purchase agreements ("PPA") from time to time whereby the Corporation receives a fixed price per MW of electricity and the associated emissions offset credits generated and pays the prevailing Alberta Power Pool price per MW. Such PPAs may include embedded derivatives for the electricity component according to conditions met under IAS 37 and IFRS 9. The PPA embedded derivatives are classified as fair value through profit and loss ("FVTPL") as disclosed in the Financial Instruments accounting policy in the audited consolidated financial statements for the year ended December 31, 2022.

Future Accounting Changes

The IASB has not issued any significant new accounting standards that impact the Corporation since the standards described in the most recent annual financial statements for the year ended December 31, 2022. Capstone is evaluating the impact of the narrow-scope amendments to IAS 1 on the Corporation. The 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 continues to monitor changes to IFRS, applicable IASB changes to standards, new interpretations, and annual improvements.

3. SEASONALITY

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

4. 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 Wind LP ("SLGR"). The projects remain consolidated in Capstone's interim statement of financial position and the statements of comprehensive income and cash flows in 2022 and 2023.

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' PPAs.

5. LOANS RECEIVABLE

	Mar 31, 2023	Dec 31, 2022
Sawridge (1)	21,929	21,567
Current portion (2)	15,243	14,921
	37,172	36,488

(1) Capstone has provided its First Nation partner on the Buffalo Atlee wind projects and Michichi and Kneehill solar projects with a loan for their pro rata share of project costs. The principal is to be repaid from the project's excess cash flows from the achievement of commercial operations ("COD"). The loan is interest-free until COD. The loan receivable is recorded at its fair value. The portion of the loan related to Michichi and Kneehill began to accrue interest following COD in March 2023.

(2) Capstone's demand loans to a partner, presented net of amortization. Interest receivable of $450 is included in accounts receivable on the statement of financial position as at March 31, 2023. This loan receivable is recorded at amortized cost.

6. FINANCIAL INSTRUMENTS

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	Mar 31, 2023	Dec 31, 2022
Loans receivable (1)	—	21,929	—	21,929	21,567
Derivative contract assets:					
Interest rate swap contracts (2)	—	27,160	—	27,160	39,727
Less: current portion	—	(10,148)	—	(10,148)	(11,028)
	—	17,012	—	17,012	28,699
Derivative contract liabilities:					
Embedded derivatives (3)	—	—	13,345	13,345	3,819
Interest rate swap contracts	—	9,623	—	9,623	401
Less: current portion	—	(8,621)	(3,102)	(11,723)	(401)
	—	1,002	10,243	11,245	3,819

(1) Includes loans receivable which are recorded at fair value with changes recognized through profit and loss. Refer to note 5.

(2) 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.

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

Financial instruments not recorded at fair value

Accounts receivable, loans receivable, accounts payable and long-term debt are reported at carrying value on the statement of financial position. The fair values of these items approximate their carrying values with the exception of long-term debt, which has a fair value of $909,399 compared to a carrying value of $893,492.

Fair value determination

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

Loans receivable at FVTPL	According to the conditions met under IFRS 9, loans carried at FVTPL are measured using a discounted cash flow valuation based on the repayment schedule from project cash flows is used to determine their fair value.
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.
Embedded derivatives	The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including the forward Alberta Power Pool prices, volatility, credit spreads and production projections.
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.

Capstone, with the assistance of third-party experts, is responsible for performing the valuation of financial instruments, including Level 3 fair values. The valuation processes and results are reviewed and approved each reporting period. These critical estimates are discussed as part of the Audit Committee's quarterly review of the financial statements.

7. EQUITY ACCOUNTED INVESTMENTS

As at	Ownership %	Mar 31, 2023 Carrying Value	Dec 31, 2022 Carrying Value
Obra Maestra	50%	6,218	6,492
		6,218	6,492

Capstone's March 31, 2023 consolidated financial statements include its 50% interest as an equity accounted investment adjusted by its 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 March 31, 2023 was:

Three months ended	Opening Balance	Equity accounted income (loss)	Contributions	Ending balance
March 31, 2023	6,492	(274)	—	6,218
March 31, 2022	—	—	—	—

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 owned the projects and had included the balances as part of the December 31, 2022 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.

8. CAPITAL ASSETS

	2023
As at January 1	954,922
Additions	11,448
Transfers (1)	59,332
Depreciation	(20,485)
As at March 31	1,005,217

(1) Transfers of $59,332 from projects under development when Michichi and Kneehill achieved COD. Refer to note 9.

The reconciliation of capital asset additions to cash basis included in consolidated statement of cash flow was:

	Three months ended	
	Mar 31, 2023	Mar 31, 2022
Additions	11,448	2,228
Adjustment for non-cash ROU asset additions	(9,058)	—
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	2,468	17,454
Cash additions	4,858	19,682

9. PROJECTS UNDER DEVELOPMENT ("PUD")

	2023
As at January 1	162,018
Capitalized costs during the period	106,734
Less government funding	(20,311)
Transferred to capital assets (1)	(59,332)
As at March 31 (2)	189,109

(1) Amounts were transferred on COD of Michichi and Kneehill. Refer to note 8.
(2) The balance primarily includes costs to develop the Wild Rose 2 project ($119,099), Buffalo Atlee projects ($49,707), and early-stage US development projects ($9,887).

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

	Three months ended	
	Mar 31, 2023	Mar 31, 2022
Capitalized costs during the period	106,734	36,789
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(84,828)	(24,575)
Cash additions	21,906	12,214

10. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Mar 31, 2023	Dec 31, 2022
CPC credit facilities (1)	30,000	35,500
Project debt		
Wind (2)	534,705	548,492
Solar (3)	217,142	219,414
Gas	64,806	66,080
Hydro	66,523	66,610
Other	60	60
Power (4)	913,236	936,156
Less: deferred financing costs (5)	(19,744)	(20,737)
Long-term debt	893,492	915,419
Less: current portion	(64,189)	(87,862)
	829,303	827,557

(1) The Capstone Power Corp. ("CPC") revolving credit facilities mature on December 15, 2024.
(2) Wind project debt consists of Amherst, Erie Shores, Glace Bay, Glen Dhu, Goulais, Grey Highlands Clean, Saint-Philémon, SkyGen, Skyway8, SLGR, SWNS, and Riverhurst term facilities.
(3) Solar project debt consists of Claresholm, Amherstburg, Michichi and Kneehill term facilities.
(4) The power segment has $110,026 of securities used on its letter of credit facilities and $26,512 of letters of credit supported by the common shareholder.
(5) Additions consist of deferred transaction costs on the Michichi and Kneehill financing, and extensions of the US LC facility.

(B) Financing Changes

Buffalo Atlee financing

On January 27, 2023, Buffalo Atlee entered into a credit agreement which provided up to $50,000 of variable rate debt for the construction of the wind facilities, which is converted to a fixed rate using an interest rate swap contract.

US LC facility extension

On February 28, 2023, the US LC facility was increased to $39,922, and now expires on December 23, 2024.

SkyGen and Skyway 8 extensions

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.

11. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Mar 31, 2023	Dec 31, 2022
Common shares (1)	142,270	142,270
Preferred shares	72,020	72,020
	214,290	214,290

(1) Capstone has outstanding letters of credit of $26,512 which are supported by the common shareholder under a financing and reimbursement agreement. Under the terms of the agreement, Capstone would reimburse the common shareholder for any payments made on its behalf related to the letters of credit.

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

	Three months ended	
	Mar 31, 2023	Mar 31, 2022
Preferred shares declared (1)	682	681

(1) Includes current and deferred income tax recovery of $12 (2022 - recovery of $13).

12. REVENUE BY NATURE

Capstone's power segment 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. The corporate activities do not generate revenue.

	Three months ended	
	Mar 31, 2023	Mar 31, 2022
Wind	35,643	39,440
Biomass (1)	7,288	4,366
Solar (1)	7,237	6,684
Gas (2)	5,449	5,762
Hydro	2,762	2,948
Total	58,379	59,200

(1) Solar and Biomass include revenue from the generation and sale of electricity and 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.

13. EXPENSES BY NATURE

	Three months ended Mar 31, 2023				Three months ended March 31, 2022			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Wages and benefits (1)	3,764	1,953	553	6,270	3,352	1,612	149	5,113
Maintenance & supplies	4,882	—	—	4,882	4,312	—	—	4,312
Property expenses (2)	1,872	125	27	2,024	1,886	135	—	2,021
Fuel & transportation	1,827	—	—	1,827	1,653	—	—	1,653
Professional fees (3)	379	60	826	1,265	781	59	223	1,063
Insurance	1,023	35	—	1,058	1,050	29	—	1,079
Power facility administration	813	—	—	813	695	—	—	695
Other	619	482	294	1,395	507	245	116	868
Total	15,179	2,655	1,700	19,534	14,236	2,080	488	16,804

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

14. OTHER GAINS AND LOSSES

	Three months ended	
	Mar 31, 2023	Mar 31, 2022
Changes in derivative financial instruments fair value (1)	(32,677)	20,048
Gains on disposal of capital assets	—	220
Other	308	336
Unrealized losses on foreign currency contracts	—	(9)
Other gains and (losses), net	(32,369)	20,595

(1) Year-to-date unrealized losses on derivative financial instruments were primarily attributable to losses on interest rate swap contracts due to lower forecasted long-term interest rates since December 31, 2022, a decrease in the Whitecourt embedded derivative, resulting from higher forecasted Alberta Power Pool prices, and new PPA embedded derivatives. Refer to note 6.

15. 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. Cash generating units within the power segment have similar economic characteristics based on the nature of the products or services they provide, the customers they serve, the method of distributing those products or services, and the prevailing regulatory environment.

	Three months ended Mar 31, 2023			Three months ended March 31, 2022		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	58,379	—	58,379	59,200	—	59,200
Expenses	(16,516)	(3,018)	(19,534)	(14,791)	(2,013)	(16,804)
EBITDA	10,415	(2,621)	7,794	64,940	(1,742)	63,198
Interest expense	(12,207)	—	(12,207)	(10,949)	—	(10,949)
Income tax recovery (expense)	4,804	408	5,212	(7,527)	374	(7,153)
Net income (loss)	(20,589)	(2,303)	(22,892)	22,778	(1,459)	21,319
Additions to capital assets	11,448	—	11,448	2,228	—	2,228
Additions to PUD (1)	106,734	—	106,734	36,789	—	36,789

(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.

16. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various material contracts and commitments as disclosed in the annual consolidated financial statements for the year ended December 31, 2022. As at March 31, 2023, Capstone's development projects have aggregate commitments of $348,769 for the construction of the projects. There are no other significant changes to the specified contractual obligations that are outside the ordinary course of business.

CONTACT INFORMATION

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