Third Quarter 2023

Management's Discussion & Analysis
Financial Statements

Financial Report for the Quarter Ended September 30, 2023

CAPSTONE INFRASTRUCTURE

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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 and nine months ended September 30, 2023 with the comparative prior period and the Corporation's financial position as at September 30, 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 and nine months ended September 30, 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 November 8, 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 continued to execute on its strategic objectives by achieving commercial operation ("COD") at each of Michichi and Kneehill, advancing its development projects, recontracting existing and new 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 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	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") will be holding a hearing with respect to amendments to the Wild Rose 2 project's existing approval.

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 project financing for the Buffalo Atlee wind facility, expanded the US LC credit facility, refinanced the SkyGen and Skyway 8 wind projects, and received shareholder funding to support ongoing growth.

Buffalo Atlee financing

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. Both tranches are converted to a fixed rate using interest rate swap contracts.

US LC facility extension

On February 28, 2023, the US LC facility was increased to $39,884, 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.

Class A shareholder funding

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

Alberta Reviews Electricity Sector Regulations

On August 3, 2023, the Government of Alberta enacted the Generation Approvals Pause Regulation (the “Regulation”) under the AUC. The Regulation prohibits the AUC from granting an approval in respect of a power plant that produces renewable energy during the period in which the Regulation is in force. The Regulation, which expires on February 29, 2024, clarifies that the prohibition on approvals does not apply to certain amendments of existing approvals. Concurrently, the Government of Alberta has also directed the AUC to conduct what appears to be a broad inquiry into the development of electricity generation in Alberta. Capstone continues to monitor the impact of the recently announced Regulation and any potential impacts to our Alberta projects.

On August 31, 2023, the Ministry of Affordability and Utilities requested the AESO and the Market Surveillance Administrator ("MSA") conduct a study of the current market framework and make observations and recommendations on market incentives, market design and legislative changes, and the current and future role of different dispatchable technologies, to mitigate the impacts of intermittency of supply and promote grid reliability within the province. The AESO was requested to report back by February 1, 2024, and is conducting an expedited stakeholdering process in support of this report. Capstone is monitoring the process and potential impacts to our Alberta projects.

On October 23, 2023, the Government of Alberta published a white paper entitled *Transmission Policy Review: Delivering the Electricity of Tomorrow*. It presents analysis of transmission policies and solicits feedback from stakeholders on proposed and potential changes to the Transmission Regulation to support objectives of affordability, reliability and decarbonization. Capstone is monitoring the process and 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 26MW 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.

SUBSEQUENT EVENTS

Michichi and Kneehill term conversion

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

RESULTS OF OPERATIONS

Overview

In 2023, Capstone's EBITDA and net income were both higher in the third quarter compared to the same period in the prior year, and EBITDA and net income were both lower for the year-to-date period.

Lower year-to-date EBITDA primarily reflects:

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

	Three months ended			Nine months ended		
	Sep 30, 2023	Sep 30, 2022	Change	Sep 30, 2023	Sep 30, 2022	Change
Revenue	53,618	59,624	(6,006)	174,404	178,761	(4,357)
Expenses	(21,749)	(24,966)	3,217	(67,500)	(64,039)	(3,461)
Other income and expenses	36,294	(1,054)	37,348	32,802	28,447	4,355
EBITDA	68,163	33,604	34,559	139,706	143,169	(3,463)
Interest expense	(13,185)	(10,988)	(2,197)	(38,124)	(33,688)	(4,436)
Depreciation and amortization	(24,702)	(23,730)	(972)	(72,936)	(72,125)	(811)
Income tax recovery (expense)	(5,527)	(398)	(5,129)	(6,246)	(9,880)	3,634
Net income	24,749	(1,512)	26,261	22,400	27,476	(5,076)

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 September 30, 2022; and
- Lower 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, biomass, natural gas, 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			Nine months ended		
	Sep 30, 2023	Sep 30, 2022	Change	Sep 30, 2023	Sep 30, 2022	Change
Wind	18,593	21,725	(3,132)	81,527	91,589	(10,062)
Solar (1)	17,921	13,833	4,088	42,182	32,194	9,988
Biomass (1)	7,773	8,283	(510)	23,296	18,707	4,589
Gas	8,171	13,351	(5,180)	19,760	26,248	(6,488)
Hydro	1,160	2,432	(1,272)	7,639	10,023	(2,384)
Total Revenue	53,618	59,624	(6,006)	174,404	178,761	(4,357)

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

Power generated (GWh)	Three months ended			Nine months ended		
	Sep 30, 2023	Sep 30, 2022	Change	Sep 30, 2023	Sep 30, 2022	Change
Wind	155.2	191.0	(35.8)	692.7	798.8	(106.1)
Solar	125.8	100.7	25.1	317.9	241.5	76.4
Biomass	47.7	40.2	7.5	143.3	134.7	8.6
Gas	30.7	56.0	(25.3)	39.6	72.5	(32.9)
Hydro	12.6	30.6	(18.0)	95.3	123.4	(28.1)
Total Power	372.0	418.5	(46.5)	1,288.8	1,370.9	(82.1)

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.

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

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

Three months	Nine months	Explanations
5,515	10,433	Revenue from adding Michichi and Kneehill which achieved COD in March 2023.
(785)	3,453	Higher revenue from Whitecourt due to higher Alberta Power Pool prices.
1,535	1,178	Higher revenue from Whitecourt due to higher production.
(5,180)	(6,488)	Lower revenue at Cardinal due to fewer market runs.
(4,404)	(12,446)	Lower revenue from the wind and hydro facilities, due to lower resources.
(2,687)	(487)	Various other changes.
(6,006)	(4,357)	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			Nine months ended		
	Sep 30, 2023	Sep 30, 2022	Change	Sep 30, 2023	Sep 30, 2022	Change
Wind	(5,623)	(6,217)	594	(19,038)	(18,772)	(266)
Solar	(3,019)	(3,717)	698	(7,480)	(6,679)	(801)
Biomass	(3,588)	(2,651)	(937)	(11,097)	(8,792)	(2,305)
Gas	(4,026)	(8,408)	4,382	(10,022)	(15,383)	5,361
Hydro	(1,233)	(1,053)	(180)	(3,254)	(3,115)	(139)
Power operating expenses	(17,489)	(22,046)	4,557	(50,891)	(52,741)	1,850
Administrative expenses	(2,318)	(2,172)	(146)	(7,591)	(6,534)	(1,057)
Project development costs	(1,942)	(748)	(1,194)	(9,018)	(4,764)	(4,254)
Total Expenses	(21,749)	(24,966)	3,217	(67,500)	(64,039)	(3,461)

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	Nine months	Explanations
(1,194)	(4,254)	Higher project development costs associated with early-stage development in 2023.
(937)	(2,305)	Higher expenses at Whitecourt primarily due to fuel & transportation costs.
(283)	(1,216)	Operating expenses from adding Michichi and Kneehill which achieved COD in March 2023.
4,382	5,361	Lower expenses at Cardinal due to fewer market runs in 2023.
1,249	(1,047)	Various other changes.
3,217	(3,461)	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at September 30, 2023, Capstone's working capital was $31,844, compared with $88,979 as at December 31, 2022. The decrease relates to the Grey Highlands Clean debt becoming current, which Capstone expects to refinance, as well as higher accruals and cash spent to build the development projects.

Capstone has adequate financial flexibility to meet liquidity needs and support further growth, including $113,235 of unrestricted cash and cash equivalents, and credit facility capacity of $119,057 available.

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

Liquidity

Working capital

As at	Sep 30, 2023	Dec 31, 2022
Power	31,397	88,638
Corporate	447	341
Working capital (equals current assets, less current liabilities)	31,844	88,979

Capstone's working capital was $57,135 lower than December 31, 2022, mainly due to the power segment. The power segment decreased because of the reclassification of the Grey Highlands Clean debt of $51,761, which is now current, along with more construction and development activities increasing accounts payable by $15,115 and reducing cash by $11,224. These working capital decreases were partially offset by $20,128 from extending the SkyGen and Skyway 8 debt.

The remaining variances include offsetting movements of $12,266 of lower accounts receivable from lower production and a $12,751 increase in the current net derivative assets.

Cash and cash equivalents

As at	Sep 30, 2023	Dec 31, 2022
Power	111,884	123,108
Corporate	1,351	1,789
Unrestricted cash and cash equivalents	113,235	124,897

These funds are available for operating activities, capital expenditures, and future acquisitions. The $11,662 decrease consists of a $11,224 lower balance at power and a $438 lower balance at corporate, reflecting increased funding for construction and development activities, offset by $70,000 from Class A common shareholder capital contributions.

Cash at the power segment is comprised of $7,934 at CPC and $103,950 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 $104,353 as at September 30, 2023.

Cash flow

Capstone's consolidated cash and cash equivalents for the quarter decreased by $11,662 in 2023 compared with an increase of $44,625 in 2022. The components of the change in cash, as presented in the consolidated statement of cash flows, are summarized as follows:

Nine months ended	Sep 30, 2023	Sep 30, 2022
Operating activities	75,785	82,202
Investing activities	(258,016)	(123,206)
Financing activities (excluding dividends to shareholders)	172,651	87,784
Dividends paid to shareholders	(2,082)	(2,155)
Change in cash and cash equivalents	(11,662)	44,625

Cash flow from operating activities was $6,417 lower in 2023 as a result of a decrease of $4,310 from the power segment and $2,107 from corporate. 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 comparatively $134,810 higher in 2023 resulting from an increase in projects under development ("PUD") and capital assets. In 2023, $237,488 was used for PUD, mainly to build Buffalo Atlee, Michichi, and Kneehill, and to advance Wild Rose 2. Additionally, $21,999 was used for capital assets, mainly at Claresholm, Hydros, and Whitecourt in 2023.

Cash flow from financing activities was $84,940 higher in 2023, driven by $75,984 lower repayments of debt in 2023. Proceeds from loans payable also decreased by $11,499 which was partially offset by lower proceeds from Class A common shareholder contributions of $10,000 for the year-to-date period. Additional proceeds from long-term debt of $3,689 and government funding of $10,894 were used to pay for construction in 2023.

Long-term Debt

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

	Dec 31, 2022	Additions	Repayments	Other	Sep 30, 2023
Long-term debt (1), (2), and (3)	936,156	194,811	(126,399)	—	1,004,568
Deferred financing fees (4)	(20,737)	(156)	—	2,549	(18,344)
	915,419	194,655	(126,399)	2,549	986,224
Less: current portion of long-term debt (5)	(87,862)	—	—	(31,338)	(119,200)
	827,557	194,655	(126,399)	(28,789)	867,024

(1) The power segment has drawn $100,714 for letters of credit for project securities, along with $36,914 supported by the common shareholder.
(2) Additions of $194,811 consist of CPC revolving credit facility draws of $125,000 and Buffalo Atlee construction financing of $69,811.
(3) Repayments of $126,399 include $60,500 on the CPC revolving credit facility, and scheduled repayments.
(4) 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.
(5) Change to current portion of $31,338 reflects an increase of $56,139 for the current maturity of the Grey Highlands Clean debt maturing mid-2024, partly offset by a decrease of $22,914 from the SkyGen and Skyway 8 project financing extensions.

As at September 30, 2023, Capstone's long-term debt consisted of $924,568 of project debt and $80,000 for the CPC credit facility. The current portion of long-term debt was $119,200, consisting of $55,614 for Grey Highlands Clean debt maturing in 2024 and scheduled debt amortization. Capstone expects to repay the scheduled amortization from income generated by the power assets and is evaluating readily available options to refinance or extend the project debt maturing in the next twelve months.

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	Sep 30, 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	108,837	95,984
Equity attributable to Capstone shareholders	393,127	310,274
Non-controlling interests	119,389	119,040
Total shareholders' equity	512,516	429,314

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

Capital Expenditure Program

Capstone's power segment incurred $242,586 of capital expenditures during the nine months ended September 30, 2023, which included $274,752 of costs capitalized to PUD, less $44,551 of government funding, plus $12,385 of capital asset additions, excluding right-of-use ("ROU") asset additions.

Amounts capitalized to PUD in 2023 were primarily for costs to advance the Wild Rose 2 and Buffalo Atlee wind projects ($182,138 and $32,388, respectively), and costs for the construction of Michichi and Kneehill ($50,672).

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.

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 September 30, 2023, Capstone's capital purchase obligations for development projects are $121,003 for the Wild Rose 2 wind project, and $18,554 for the Buffalo Atlee wind project.

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 expense relates to the taxable 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	Sep 30, 2023	Dec 31, 2022
Derivative contract assets	73,867	39,727
Derivative contract liabilities	(6,039)	(4,220)
Net derivative contract assets (liabilities)	67,828	35,507

Derivative contract assets increased by $32,321 from December 31, 2022, due to gains of $28,529 in the statement of income and by contractual settlements of $3,792 paid.

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

	Three months ended		Nine months ended	
	Sep 30, 2023	Sep 30, 2022	Sep 30, 2023	Sep 30, 2022
Interest rate swap contracts (1)	27,642	27	25,440	34,948
Embedded derivatives (2)	7,084	(2,836)	3,089	(10,506)
Gains (losses) on derivatives in net income	34,726	(2,809)	28,529	24,442
Foreign currency contracts in OCI	—	(448)	—	(7)
Gains (losses) on derivatives in comprehensive income	34,726	(3,257)	28,529	24,435

(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 gains reflect generally higher forecasted interest rates during the swap periods since December 31, 2022. In addition, new PPA contracts derivatives were recorded in 2023, leading to a gain resulting from lower 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**53,618**	62,407	58,379	76,261	59,624	59,937	59,200	64,120
EBITDA	**68,163**	63,749	7,794	42,956	33,604	46,367	63,198	38,674
Net income (loss) (1)	**20,483**	13,249	(18,813)	2,193	(2,281)	5,854	19,342	2,559
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.

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 and IAS 12 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. The IAS 12 amendment provides temporary relief from accounting for deferred taxes arising from the implementation of a minimum tax regime for multinationals, and is effective for annual reporting periods beginning on or after January 1, 2023.

In addition, the International Sustainability Standards Board ("ISSB") issued IFRS S1 and IFRS S2. These new standards identify and determine disclosure requirements for sustainability-related risks and opportunities that could affect an entity, and are effective for annual reporting periods beginning on or after January 1, 2024. Capstone is evaluating the impact on the Corporation. Furthermore, Capstone plans to monitor changes to IFRS and has implemented applicable IASB and ISSB 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	Sep 30, 2023	Dec 31, 2022
Current assets			
Cash and cash equivalents		113,235	124,897
Restricted cash		27,144	28,615
Accounts receivable		35,591	47,890
Current portion of loan receivable	5	16,636	14,921
Other assets		6,350	5,247
Current portion of derivative contract assets	6	23,779	11,028
		222,735	232,598
Non-current assets			
Loans receivable	5	17,257	21,567
Derivative contract assets	6	50,088	28,699
Equity accounted investments	7	5,424	6,492
Capital assets	8	966,572	954,922
Projects under development	9	341,547	162,018
Intangible assets		127,879	137,811
Deferred income tax assets		7,300	6,328
Total assets		1,738,802	1,550,435
Current liabilities			
Accounts payable and other liabilities		68,949	53,976
Current portion of derivative contract liabilities	6	1,500	401
Current portion of lease liabilities		1,242	1,380
Current portion of long-term debt	10	119,200	87,862
		190,891	143,619
Long-term liabilities			
Derivative contract liabilities	6	4,539	3,819
Deferred income tax liabilities		105,065	98,135
Lease liabilities		45,587	35,309
Long-term debt	10	867,024	827,557
Liability for asset retirement obligation		13,180	12,682
Total liabilities		1,226,286	1,121,121
Equity attributable to shareholders of Capstone		393,127	310,274
Non-controlling interest		119,389	119,040
Total liabilities and shareholders' equity		1,738,802	1,550,435
Commitments and contingencies	16		
Subsequent events	17		

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone			NCI [(2)]	Total Equity
		Share Capital	AOCI [(1)]	Retained Earnings		
Balance, December 31, 2021		134,290	5	73,742	96,129	304,166
Capital contribution	11	80,000	—	—	—	80,000
Net income (loss) for the period		—	(5)	22,920	4,561	27,476
Dividends declared to preferred shareholders of Capstone [(3)]	11	—	—	(2,155)	—	(2,155)
Deferred tax recovery on transaction with NCI		—	—	—	2,385	2,385
Dividends declared to NCI		—	—	—	(2,397)	(2,397)
Convertible debenture repayments [(4)]		—	—	—	(1,150)	(1,150)
Contributions from NCI [(5)]		—	—	—	17,595	17,595
Balance, September 30, 2022		214,290	—	94,507	117,123	425,920

	Notes	Equity attributable to shareholders of Capstone			NCI [(2)]	Total Equity
		Share Capital	AOCI [(1)]	Retained Earnings		
Balance, December 31, 2022		214,290	—	95,984	119,040	429,314
Capital contribution	11	70,000	—	—	—	70,000
Net income (loss) for the period		—	—	14,919	7,481	22,400
Dividends declared to preferred shareholders of Capstone [(3)]	11	—	—	(2,066)	—	(2,066)
Dividends declared to NCI		—	—	—	(7,818)	(7,818)
Contributions from NCI [(5)]		—	—	—	686	686
Balance, September 30, 2023		284,290	—	108,837	119,389	512,516

(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 $16 (2022 - expense of $73).
(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

	Notes	Three months ended Sep 30, 2023	Three months ended Sep 30, 2022	Nine months ended Sep 30, 2023	Nine months ended Sep 30, 2022
Revenue	12	53,618	59,624	174,404	178,761
Operating expenses	13	(17,489)	(22,046)	(50,891)	(52,741)
Administrative expenses	13	(2,318)	(2,172)	(7,591)	(6,534)
Project development costs	13	(1,942)	(748)	(9,018)	(4,764)
Equity accounted income (loss)	7	(257)	(169)	(1,068)	(367)
Interest income		1,682	981	4,903	1,805
Other gains and (losses), net	14	34,734	(2,880)	28,755	25,756
Foreign exchange gain (loss)		135	1,014	212	1,253
Earnings before interest expense, taxes, depreciation and amortization		68,163	33,604	139,706	143,169
Interest expense		(13,185)	(10,988)	(38,124)	(33,688)
Depreciation of capital assets	8	(21,309)	(20,451)	(62,960)	(62,144)
Amortization of intangible assets		(3,393)	(3,279)	(9,976)	(9,981)
Earnings before income taxes		30,276	(1,114)	28,646	37,356
Income tax recovery (expense)					
Current		498	102	463	(91)
Deferred		(6,025)	(500)	(6,709)	(9,789)
Total income tax recovery (expense)		(5,527)	(398)	(6,246)	(9,880)
Net income (loss)		24,749	(1,512)	22,400	27,476
Attributable to:					
Shareholders of Capstone		20,483	(2,281)	14,919	22,915
Non-controlling interest		4,266	769	7,481	4,561
		24,749	(1,512)	22,400	27,476

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	Three months ended Sep 30, 2023	Three months ended Sep 30, 2022	Nine months ended Sep 30, 2023	Nine months ended Sep 30, 2022
Gains (losses) on financial instruments designated as cash flow hedges (1)		—	(332)	—	—
Other comprehensive income (loss)		—	(332)	—	—
Net income (loss)		24,749	(1,512)	22,400	27,476
Total comprehensive income (loss)		24,749	(1,844)	22,400	27,476
Comprehensive income (loss) attributable to:					
Shareholders of Capstone		20,483	(2,613)	14,919	22,915
Non-controlling interest		4,266	769	7,481	4,561
		24,749	(1,844)	22,400	27,476

(1) No cash flow hedges in 2023 (2022 - net of tax expense of $110 and nil for the quarter and year to date)

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended	Notes	Sep 30, 2023	Sep 30, 2022
Operating activities:			
Net income		22,400	27,476
Deferred income tax expense		6,709	9,789
Depreciation and amortization		72,936	72,125
Non-cash other gains and (losses), net		(32,848)	(28,353)
Transaction costs on debt		(115)	(6,142)
Amortization of deferred financing costs and non-cash financing costs		2,691	3,383
Equity accounted (income) loss		1,068	367
Change in non-cash working capital and foreign exchange		2,944	3,557
Total cash flows from operating activities		75,785	82,202
Investing activities:			
Investment in projects under development	9	(237,488)	(106,236)
Investment in capital assets	8	(21,999)	(30,071)
Decrease (increase) in restricted cash		1,471	10,012
Proceeds from partial sale of subsidiary		—	3,302
Advances of loans receivable to investee		—	(213)
Total cash flows used in investing activities		(258,016)	(123,206)
Financing activities:			
Proceeds from issuance of long-term debt		194,811	198,500
Proceeds from Class A common shareholder capital contribution		70,000	80,000
Proceeds from government funding		40,096	29,202
Proceeds received from repayment of partner loans		4,939	—
Repayment of long-term debt		(126,399)	(202,383)
Dividends paid to non-controlling interests		(7,818)	(2,397)
Dividends paid to preferred shareholders		(2,082)	(2,155)
Lease principal payments		(1,532)	(1,043)
Advances on loans receivable to partner	5	(1,446)	(12,945)
Convertible debenture repayments		—	(1,150)
Total cash flows from financing activities		170,569	85,629
Increase (decrease) in cash and cash equivalents		(11,662)	44,625
Cash and cash equivalents, beginning of year		124,897	57,376
Cash and cash equivalents, end of period		113,235	102,001
Supplemental information:			
Interest paid		33,982	30,761
Taxes paid		717	753

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"), 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 September 30, 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 nine 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 November 8, 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 and IAS 12 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. The IAS 12 amendment provides temporary relief from accounting for deferred taxes arising from the implementation of a minimum tax regime for multinationals, and is effective for annual reporting periods beginning on or after January 1, 2023.

In addition, the International Sustainability Standards Board ("ISSB") issued IFRS S1 and IFRS S2. These new standards identify and determine disclosure requirements for sustainability-related risks and opportunities that could affect an entity, and are effective for annual reporting periods beginning on or after January 1, 2024. Capstone is evaluating the impact on the Corporation. Furthermore, Capstone plans to monitor changes to IFRS and has implemented applicable IASB and ISSB 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

	Sep 30, 2023	Dec 31, 2022
Sawridge [1]	17,257	21,567
Current portion [2]	16,636	14,921
	33,893	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 projects' excess cash flows subsequent to the achievement of commercial operation ("COD"). The loan is interest-free until COD. The loan receivable is recorded at its fair value.

(2) Capstone's demand loans to a partner, presented net of amortization. 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	Sep 30, 2023	Dec 31, 2022
Loans receivable [1]	—	17,257	—	17,257	21,567
Derivative contract assets:					
Embedded derivatives [2]	—	—	9,100	9,100	—
Interest rate swap contracts [3]	—	64,767	—	64,767	39,727
Less: current portion	—	(23,779)	—	(23,779)	(11,028)
	—	40,988	9,100	50,088	28,699
Derivative contract liabilities:					
Embedded derivatives [2]	—	—	6,039	6,039	3,819
Interest rate swap contracts	—	—	—	—	401
Less: current portion	—	—	(1,500)	(1,500)	(401)
	—	—	4,539	4,539	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 embedded derivatives relate to fuel supply and PPA contracts. Refer to note 2.

(3) 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.

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 $981,757 compared to a carrying value of $986,224.

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.
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 %	Sep 30, 2023 Carrying Value	Dec 31, 2022 Carrying Value
Obra Maestra	50%	5,424	6,492
		5,424	6,492

Capstone's September 30, 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 September 30, 2023 was:

Three months ended	Opening Balance	Equity accounted income (loss)	Contributions	Ending balance
September 30, 2023	5,681	(257)	—	5,424
September 30, 2022	3,426	(169)	329	3,586

Nine months ended	Opening Balance (1)	Equity accounted income (loss)	Contributions	Ending balance
September 30, 2023	6,492	(1,068)	—	5,424
September 30, 2022	3,302	(367)	651	3,586

(1) Prior year opening balance reflects balance at June 7, 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 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	24,056
Transferred from PUD (1)	50,672
Disposals	(118)
Depreciation	(62,960)
As at September 30	966,572

(1) Transfers of $50,672 on COD of Michichi and Kneehill from projects under development. Refer to note 9.

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

	Nine months ended	
	Sep 30, 2023	Sep 30, 2022
Additions	24,056	10,165
Adjustment for non-cash ROU asset additions	(11,671)	—
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	9,614	19,906
Cash additions	21,999	30,071

9. PROJECTS UNDER DEVELOPMENT ("PUD")

	2023
As at January 1	162,018
Capitalized costs during the period	274,752
Less government funding	(44,551)
Transferred to capital assets (1)	(50,672)
As at September 30 (2)	341,547

(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 ($245,216), Buffalo Atlee projects ($74,298), early-stage US development projects ($12,422), and other early-stage development projects ($9,611).

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

	Nine months ended	
	Sep 30, 2023	Sep 30, 2022
Capitalized costs during the period	274,752	139,824
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(37,264)	(33,588)
Cash additions	237,488	106,236

10. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Sep 30, 2023	Dec 31, 2022
CPC credit facilities (1)	80,000	35,500
Project debt		
Wind (2)	518,274	548,492
Wind - Development (3)	69,811	—
Solar (4)	208,245	219,414
Gas	62,545	66,080
Hydro	65,633	66,610
Other	60	60
Power (5)	1,004,568	936,156
Less: deferred financing costs (6)	(18,344)	(20,737)
Long-term debt	986,224	915,419
Less: current portion	(119,200)	(87,862)
	867,024	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) Wind project debt for development consists of Buffalo Atlee.
(4) Solar project debt consists of Claresholm, Amherstburg, Michichi and Kneehill term facilities.
(5) The power segment has $100,714 of securities used on its letter of credit facilities and $36,914 of letters of credit supported by the common shareholder.
(6) 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 $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. Both tranches are converted to a fixed rate using interest rate swap contracts.

US LC facility extension

On February 28, 2023, the US LC facility was increased to $39,884, 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	Sep 30, 2023	Dec 31, 2022
Common shares (1), (2)	212,270	142,270
Preferred shares	72,020	72,020
	284,290	214,290

(1) Includes $70,000 of cash capital contributions from Class A common shareholder in 2023.

(2) Capstone has outstanding letters of credit of $36,914 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		Nine months ended	
	Sep 30, 2023	Sep 30, 2022	Sep 30, 2023	Sep 30, 2022
Preferred shares declared (1)	692	719	2,066	2,155

(1) Includes current and deferred income tax recovery of $2 and $16 for the quarter and year to date, respectively (2022 - expense of $25 and $73 for the quarter and year to date, respectively).

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		Nine months ended	
	Sep 30, 2023	Sep 30, 2022	Sep 30, 2023	Sep 30, 2022
Wind	18,593	21,725	81,527	91,589
Solar (1)	17,921	13,833	42,182	32,194
Biomass (1)	7,773	8,283	23,296	18,707
Gas (2)	8,171	13,351	19,760	26,248
Hydro	1,160	2,432	7,639	10,023
Total	53,618	59,624	174,404	178,761

(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 Sep 30, 2023				Three months ended Sep 30, 2022			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Wages and benefits (1)	3,692	1,603	596	5,891	3,282	1,599	202	5,083
Maintenance & operations	5,403	—	—	5,403	7,452	—	—	7,452
Fuel & transportation	3,248	—	—	3,248	6,744	—	—	6,744
Property expenses (2)	2,298	172	50	2,520	1,636	135	57	1,828
Professional fees (3)	485	145	1,035	1,665	453	98	437	988
Insurance	1,091	40	—	1,131	1,051	37	—	1,088
Power facility administration	811	—	—	811	1,087	—	—	1,087
Other	461	358	261	1,080	341	303	52	696
Total	17,489	2,318	1,942	21,749	22,046	2,172	748	24,966

	Nine months ended Sep 30, 2023				Nine months ended Sep 30, 2022			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Wages and benefits (1)	11,241	5,531	1,817	18,589	9,932	4,920	474	15,326
Maintenance & operations	17,857	—	—	17,857	16,724	—	—	16,724
Fuel & transportation	7,237	—	—	7,237	10,663	—	—	10,663
Property expenses (2)	5,934	437	135	6,506	6,211	368	111	6,690
Professional fees (3)	1,366	271	3,215	4,852	2,091	239	1,196	3,526
Insurance	3,196	115	—	3,311	3,153	103	—	3,256
Contract termination costs	—	—	2,873	2,873	—	—	2,415	2,415
Power facility administration	2,483	—	—	2,483	2,636	—	—	2,636
Other	1,577	1,237	978	3,792	1,331	904	568	2,803
Total	50,891	7,591	9,018	67,500	52,741	6,534	4,764	64,039

(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		Nine months ended	
	Sep 30, 2023	Sep 30, 2022	Sep 30, 2023	Sep 30, 2022
Changes in derivative financial instruments fair value (1)	34,726	(2,810)	28,529	24,442
Losses on disposal of capital assets	8	(65)	(22)	(607)
Other	—	(5)	248	1,921
Other gains and (losses), net	34,734	(2,880)	28,755	25,756

(1) The year-to-date gain of $28,529 on derivatives includes gains from the interest rate swap contracts and an increase in the embedded derivatives, which consist of the fuel supply and PPA contracts. 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 Sep 30, 2023			Three months ended Sep 30, 2022		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	53,618	—	53,618	59,624	—	59,624
Expenses	(19,018)	(2,731)	(21,749)	(22,553)	(2,413)	(24,966)
EBITDA	70,494	(2,331)	68,163	35,376	(1,772)	33,604
Interest expense	(13,185)	—	(13,185)	(10,988)	—	(10,988)
Income tax recovery (expense)	(5,966)	439	(5,527)	(1,546)	1,148	(398)
Net income (loss)	26,731	(1,982)	24,749	(799)	(713)	(1,512)
Additions to capital assets	8,654	—	8,654	4,157	—	4,157
Additions to PUD (1)	73,369	—	73,369	69,515	—	69,515

	Nine months ended Sep 30, 2023			Nine months ended Sep 30, 2022		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	174,404	—	174,404	178,761	—	178,761
Expenses	(58,640)	(8,860)	(67,500)	(57,098)	(6,941)	(64,039)
EBITDA	147,369	(7,663)	139,706	148,849	(5,680)	143,169
Interest expense	(38,124)	—	(38,124)	(33,688)	—	(33,688)
Income tax recovery (expense)	(7,526)	1,280	(6,246)	(11,667)	1,787	(9,880)
Net income (loss)	29,053	(6,653)	22,400	31,640	(4,164)	27,476
Additions to capital assets	24,056	—	24,056	10,165	—	10,165
Additions to PUD (1)	274,752	—	274,752	139,824	—	139,824

(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 September 30, 2023, Capstone's development projects have aggregate commitments of $139,557 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.

17. SUBSEQUENT EVENTS

Michichi and Kneehill term conversion

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

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