



CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended March 31, 2019

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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, 2018 under the headings "Changes in the Business", "Results of Operations" and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation's SEDAR profile at www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements contained herein include or relate to the following: that the business and economic conditions affecting the Corporation's operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that the preferred shares will remain outstanding and that dividends will continue to be paid on the preferred shares; that there will be no material delays in the Corporation's wind development projects achieving commercial operation; that the Corporation's power facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no further material changes to the Corporation's facilities, equipment or contractual arrangements; that there will be no material changes in the legislative, regulatory and operating framework for the Corporation's businesses; that there will be no material delays in obtaining required approvals for the Corporation's power facilities; that there will be no material changes in environmental regulations for the power facilities; that there will be no significant event occurring outside the ordinary course of the Corporation's businesses; the refinancing on similar terms of the Corporation's and its subsidiaries' various outstanding credit facilities and debt instruments which mature during the period in which the forward-looking statements relate; that the conversion rights pursuant to the convertible debenture issued in connection with the Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing wind facilities are exercised; market prices for electricity in Ontario and the amount of hours that the Cardinal Facility is dispatched; and the price that the Whitecourt Biomass Facility will receive for its electricity production considering the market price for electricity in Alberta, and the Whitecourt Biomass Facility's agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by the facility.

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation's securities (controlling shareholder; dividends on common shares and preferred shares are not guaranteed; and 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; and reliance on key personnel); and risks related to the Corporation's power facilities (power purchase agreements; operational performance; market price for electricity; contract performance and reliance on suppliers; completion of the Corporation's wind development projects; land tenure and related rights; environmental; and regulatory environment).

For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 22, 2019, 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, 2019 with the comparative prior period and the Corporation's financial position as at March 31, 2018 and December 31, 2018.

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, 2019, and the financial statements and MD&A for the year ended December 31, 2018. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 22, 2019 and its MD&A and audited annual financial statements for the year ended December 31, 2018. 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 15, 2019, 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 GAAP PERFORMANCE MEASURES DEFINITIONS

While the accompanying consolidated financial statements have been prepared in accordance with IFRS, this MD&A also contains EBITDA, a performance measure not defined by IFRS. EBITDA is an additional GAAP performance measure and does not have a standardized meaning prescribed by IFRS and is, therefore, unlikely to be comparable to similar measures presented by other issuers. The Corporation believes that this indicator is useful since it provides additional information about the Corporation's earnings performance and facilitates comparison of results over different periods. EBITDA is defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest ("NCI"), interest income, and other gains and losses (net). EBITDA represents Capstone's capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their age, technology, and management's estimate of their useful life. EBITDA is presented on the consolidated statement of income.

CHANGES IN THE BUSINESS

In 2019, Capstone acquired the 10MW operating Watford Wind Facility ("Watford"), in addition to progressing power development activities.

Watford Wind Facility Acquisition

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

Project Development

Capstone continues to pursue projects at all stages of development and is actively progressing a number of projects. As at March 31, 2019, Capstone's development pipeline included the rights to 58MW gross across the projects, including the Riverhurst wind project, a 10MW facility located in Saskatchewan, and the Buffalo Atlee 1, 2 and 3 projects (collectively the "Buffalo Atlee" projects) located near Jenner, Alberta, which are being developed with its partner, Sawridge First Nation ("Sawridge").

SUBSEQUENT EVENTS

Cardinal Refinancing

On April 1, 2019, the Cardinal term loan was refinanced with its existing lender, increasing its term loan by \$20,200. The term loan now matures on April 1, 2026. Cardinal has entered into additional swap contracts to convert its floating interest rate obligations under the credit agreement to a fixed rate. The proceeds were used to repay \$19,500 towards the term portion of the CPC credit facility, reducing the balance to \$25,500.

Senvion Insolvency

On April 9, 2019, Capstone received notice from Senvion GmbH ("Senvion") with regards to Senvion's initiation of insolvency proceedings. Among other things, Senvion provides operations and maintenance services and warranty obligations for Capstone's Grey Highlands Clean, Grey Highlands ZEP and Ganaraska ("GHG"), Snowy Ridge, and Settlers Landing wind facilities. To date, Senvion continues to provide uninterrupted service to these facilities, which have \$163,049 of debt principal outstanding in the statement of financial position as at March 31, 2019.

As a result of the insolvency notice, Capstone is not in compliance with certain covenants under its respective project debt agreements and has provided a notice of event of default to the applicable lenders. There has been no change to the projects' operational performance arising from these defaults. In addition, the project financing defaults by Grey Highlands Clean and GHG triggered a cross-default under the CPC credit facilities with total capacity of \$120,500. The CPC credit facilities have \$60,921 utilized to support both the letters of credit and remaining term portion of the facilities. These lenders were also provided with a notice of event of default. On May 15, 2019, Capstone received waivers for the respective project debt and from the CPC credit facilities, waiving such events of default.

CPC Refinancing

On May 15, 2019, the remaining \$25,500 of the CPC term credit facility was converted into the revolving credit facility. The revolving credit facility capacity is now \$120,500, of which \$35,421 is utilized on its letter of credit facilities. Capstone also extended the maturity date of the CPC revolving credit facility to December 15, 2022.

RESULTS OF OPERATIONS

Overview

In 2019, Capstone's EBITDA and net income were both lower in the first quarter compared with the same period in 2018. Lower EBITDA reflects:

- Higher unrealized losses on interest rate swaps in 2019 due to lower long-term interest rates; and
- Lower revenue from operating wind facilities, primarily due to poor weather conditions; partially offset by
- Higher revenue at Whitecourt, due to higher power rates, and Cardinal, due to higher market revenues.

	Three months ended		
	Mar 31, 2019	Mar 31, 2018	Change
Revenue	50,478	48,870	1,608
Expenses	(13,772)	(14,008)	236
Other income and expenses	(5,909)	(3,527)	(2,382)
EBITDA	30,797	31,335	(538)
Interest expense	(9,489)	(9,689)	200
Depreciation and amortization	(19,992)	(19,020)	(972)
Income tax recovery (expense)	(212)	(417)	205
Net income	1,104	2,209	(1,105)

The remaining material change in net income was:

- Higher depreciation and amortization due to the impact of IFRS 16 and addition of the Watford 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 environmental factors such as water flows, solar irradiation, wind speeds and air density, ambient temperature and humidity, which affect the amount of electricity generated. In aggregate, these factors have historically resulted in higher electricity production during the first and fourth quarters.

Results by Segment

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

Corporate activities primarily comprise growth initiatives, capital structure expenses not specifically attributed to the facilities and costs to manage, oversee and report on the facilities.

Revenue

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

Revenue	Three months ended		
	Mar 31, 2019	Mar 31, 2018	Change
Wind	34,998	35,909	(911)
Gas	5,742	5,091	651
Hydro	2,906	2,975	(69)
Solar	2,591	2,947	(356)
Biomass ⁽¹⁾	4,241	1,948	2,293
Total Revenue	50,478	48,870	1,608

(1) Biomass revenue includes \$541 of grant funding eligibility for Whitecourt (2018 - nil).

Power generated (GWh)	Three months ended		
	Mar 31, 2019	Mar 31, 2018	Change
Wind	313.7	321.9	(8.2)
Gas	5.8	—	5.8
Hydro	31.0	33.8	(2.8)
Solar	6.2	7.0	(0.8)
Biomass	51.3	50.8	0.5
Total Power	408.0	413.5	(5.5)

Capstone's power segment earns revenue from:

- The wind facilities, which are located in Ontario, Nova Scotia and Québec, by producing and selling electricity in accordance with their PPAs with government agencies or regulated credit-worthy counterparties. On a megawatt ("MW") weighted-average-basis, the wind facilities have 13 years remaining on the current PPAs, with the earliest expiry in 2020.
- Cardinal, a natural gas peaking facility located in Ontario, from fixed payments for providing capacity and availability to the IESO with a 2034 power contract expiry and by supplying electricity to the Ontario grid when it is profitable to do so. In addition, Cardinal receives a fixed amount (subject to escalation) to provide operational and maintenance services to Ingredion's 15MW facility.
- Amherstburg Solar Park, a solar facility located in Ontario, and the four hydro facilities located in Ontario and British Columbia, by generating and selling electricity under long-term PPAs. On a MW weighted-average-basis, the hydro facilities have 27 years remaining on the current PPAs, with the earliest expiry in 2020. The Amherstburg Solar Park PPA expires in 2031.
- Whitecourt, a biomass facility located in Alberta, by selling electricity at market rates to the Alberta Power Pool. Whitecourt also earns a portion of its revenue from government grants and the sale of renewable energy credits. These are supplemented by a revenue sharing agreement with Whitecourt's fuel supplier, Millar Western, where contractual settlements are included in other gains and losses in the consolidated statement of income.

The following table shows the significant changes in revenue from 2018:

Three months	Explanations
1,520	Higher revenue from Whitecourt due to higher Alberta Power Pool prices.
611	Higher revenue from Cardinal due to more runs.
542	Higher revenue from Whitecourt due to BPP funding earned in 2019.
(910)	Lower revenue from the operating wind facilities due to lower production, reflecting relative weather conditions.
(155)	Various other changes.
1,608	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, 2019	Mar 31, 2018	Change
Wind	(5,233)	(5,287)	54
Gas	(3,100)	(2,659)	(441)
Hydro	(994)	(987)	(7)
Solar	(171)	(209)	38
Biomass	(2,510)	(2,650)	140
Power operating expenses	(12,008)	(11,792)	(216)
Project development costs	(215)	(341)	126
Administrative expenses	(1,549)	(1,875)	326
Total Expenses	(13,772)	(14,008)	236

Expenses for the operation and maintenance ("O&M") of the power facilities mainly consist of wages and benefits and payments to third party providers. The hydro facilities are operated and maintained under an O&M agreement. Capstone's wind facilities are operated by Capstone's staff and maintained under service agreements, typically with the original equipment manufacturers, except for the Erie Shores wind facility, which has an internalized service function. In addition, Cardinal, Whitecourt and Amherstburg rely on the internal capabilities and experience of Capstone's staff. The remaining significant costs include fuel, transportation, insurance, utilities, land leases, raw materials, chemicals, supplies and property taxes.

Project development costs consist of professional fees and other costs to pursue greenfield opportunities, as well as costs to explore and execute transactions. Administrative expenses are comprised of staff costs, professional fees for legal, audit and tax, as well as certain office administration and premises costs.

The following table shows the significant changes in expenses from 2018:

Three months	Explanations
648	Lower expenses due to the adoption of IFRS 16. Fixed portion of lease payments, which were previously expensed, are now treated as capital asset depreciation, liability principal payments and interest expense. Refer to note 2 "Summary of Significant Accounting Policies".
(329)	Higher operating expenses at Cardinal due to more runs.
(83)	Various other changes.
236	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at March 31, 2019, Capstone's working capital was \$56,989, compared with \$60,870 as at December 31, 2018 due to routine quarterly transactions. Subsequent to March 31, 2019, Capstone refinanced the Cardinal term loan and amended the CPC credit facilities. The net proceeds from the Cardinal refinancing were used to reduce the term portion of the CPC credit facility. The remaining portion was converted into the revolving facility. These financing activities increase Capstone's financial flexibility and lower borrowing costs, further positioning the Corporation for growth.

Capstone and its subsidiaries continue to comply with all debt covenants, except as described on page 3 "Subsequent Events" of the MD&A.

Liquidity

Working capital

As at	Mar 31, 2019	Dec 31, 2018
Power	54,193	57,306
Corporate	2,796	3,564
Working capital (equals current assets, less current liabilities)	56,989	60,870

Capstone's working capital was \$3,881 lower than December 31, 2018 due to decreases of \$3,113 and \$768 in power and corporate, respectively. The power segment decrease primarily reflects a \$2,885 decrease in the accounts receivable due to timing of revenue receipts, as well as lower cash of \$2,186, partially offset by lower accruals of \$3,269 due to settlement of year-end liabilities. The corporate decrease primarily reflects lower cash of \$1,703, partially offset by lower accruals due to settlement of year-end liabilities. Refer to page 3 "Subsequent Events" of the MD&A for events which could impact liquidity.

Cash and cash equivalents

As at	Mar 31, 2019	Dec 31, 2018
Power	68,388	70,574
Corporate	4,064	5,767
	72,452	76,341

These funds are available for operating activities, capital expenditures and future acquisitions. The \$3,889 decrease consists of decreases of \$2,186 and \$1,703 at power and corporate, respectively. Lower cash at the power segment reflects the asset purchase of Watford for \$13,960, partially offset by accumulation of asset distributions. The decrease at corporate reflects the settlement of year-end liabilities. In addition to these funds, the CPC revolving credit facility has an available capacity of \$59,579, as at March 31, 2019. Refer to page 3 "Subsequent Events" of the MD&A for changes to the CPC credit facilities and uses of available cash.

Cash at the power segment of \$68,388 is only periodically accessible by corporate through distributions. The power segment's cash and cash equivalents are accessible through distributions under the terms of the CPC credit facilities, which allows for distributions, subject to certain conditions. In turn, CPC receives distributions from its subsidiary power assets, which are subject to the terms of their project-specific credit agreements.

Cash flow

Capstone's consolidated cash and cash equivalents decreased by \$3,889 in 2019 compared with an decrease of \$7,426 in 2018. 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, 2019	Mar 31, 2018
Operating activities	27,051	26,921
Investing activities	(17,100)	(3,346)
Financing activities (excluding dividends to shareholders)	(13,227)	(30,388)
Dividends paid to shareholders	(613)	(613)
Change in cash and cash equivalents	(3,889)	(7,426)

Cash flow from operating activities was \$130 higher in 2019. The increase consists of \$2,834 of higher corporate cash flows, partially offset by \$2,704 of lower power segment cash flows. The increase and decrease in corporate and power segment cash flows, respectively is primarily attributable to changes in working capital.

Cash flow used in investing activities was \$13,754 higher in 2019 primarily due to \$13,289 higher cash used for funding capital assets additions, including the purchase of Watford.

Cash flow used in financing activities was \$17,161 lower in 2019, primarily due to \$17,694 lower debt repayments, mainly for the CPC credit facilities.

Long-term Debt

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

	Dec 31, 2018	Repayments	Other	Mar 31, 2019
Long-term debt ^{(1), (2)}	768,565	(11,190)	—	757,375
Deferred financing fees	(13,871)	—	528	(13,343)
	754,694	(11,190)	528	744,032
Less: current portion of long-term debt	(49,355)	—	(1,125)	(50,480)
	705,339	(11,190)	(597)	693,552

(1) The power segment has a cumulative \$49,730 utilized on its letter of credit facilities.

(2) Subsequent to March 31, 2019, the Cardinal term loan and CPC credit facilities were amended as detailed on page 3 "Subsequent events" of the MD&A.

As at March 31, 2019, Capstone's long-term debt consisted of \$45,000 for the CPC credit facilities and \$712,375 of project debt. The current portion of long-term debt was \$50,480, 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, 2019	Dec 31, 2018
Common shares	62,270	62,270
Preferred shares ⁽¹⁾	72,020	72,020
Share capital	134,290	134,290
Retained earnings	71,288	71,842
Equity attributable to Capstone shareholders	205,578	206,132
Non-controlling interests	49,313	50,086
Total shareholders' equity	254,891	256,218

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

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.

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

Income Taxes

The current income tax expense primarily relates to current tax on income from operations in one of Capstone's subsidiaries.

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

To manage certain financial risks inherent in the business, Capstone enters into derivative contracts primarily to mitigate the economic impact of the fluctuations in interest rates. The fair values of these contracts, as well as the Whitecourt embedded derivative included in the consolidated statement of financial position, were:

As at	Mar 31, 2019	Dec 31, 2018
Derivative contract assets	10,759	13,851
Derivative contract liabilities	(5,313)	(2,144)
Net derivative contract assets (liabilities)	5,446	11,707

Net derivative contract assets decreased by \$6,261 from December 31, 2018, primarily due to losses of \$6,284, partially offset by contractual settlement payments of \$23 to Millar Western.

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

	Three months ended	
	Mar 31, 2019	Mar 31, 2018
Interest rate swap contracts	(6,140)	709
Whitecourt embedded derivative	(144)	(4,556)
Gain (losses) on derivatives	(6,284)	(3,847)

The loss on derivatives were primarily attributable to losses from the interest rate swap contracts, mainly because of lower long-term interest rates since December 31, 2018. In addition, the Whitecourt embedded derivative asset decreased primarily due to the passage of time, partially offset by slightly lower estimated forward Alberta power pool prices since December 31, 2018.

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, 2018 and the "Risk Factors" section of the Annual Information Form dated March 22, 2019 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, 2018 and the "Environmental, Health and Safety Matters" section of the Corporation's Annual Information Form dated March 22, 2019, 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.

	2019		2018			2017		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	50,478	49,991	39,951	44,817	48,870	41,561	29,089	40,380
EBITDA	30,797	29,018	31,262	31,061	31,335	28,529	22,221	30,176
Net income (loss) ⁽¹⁾	77	(668)	272	1,386	1,314	1,287	(2,125)	3,285
Preferred dividends	613	613	613	613	613	613	613	613

(1) Net income (loss) attributable to the common shareholders includes discontinued operations for applicable periods, but excludes non-controlling interests.

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2018 consolidated financial statements, except for the adoption of IFRS 16, *Leases*, effective January 1, 2019.

Refer to note 2 "Summary of Significant Accounting Policies" to the March 31, 2019 interim consolidated financial statements for a description of the standard and the impact of adoption. The adoption of these accounting standards did not change any comparative figures presented in the interim consolidated financial statements.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any significant accounting changes that impact the Corporation since the standards described in the most recent annual financial statements for the year ended December 31, 2018.

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, 2018 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:	
<ul style="list-style-type: none">• Purchase price allocations.• Depreciation on capital assets.• Amortization on intangible assets.• Asset retirement obligations.• Impairment assessments of capital assets, projects under development and intangible assets.	<ul style="list-style-type: none">• Initial fair value of net assets.• Estimated useful lives and residual value.• Estimated useful lives.• Expected settlement date, amount and discount rate.• Future cash flows and discount rate.
Deferred income taxes	<ul style="list-style-type: none">• Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	<ul style="list-style-type: none">• Forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators, fuel supply volumes, electricity sales, carbon pricing and EPC generation.
Accounting for investments in non-wholly owned subsidiaries	<ul style="list-style-type: none">• Determine how relevant activities are directed (either through voting rights or contracts);• Determine if Capstone has substantive or protective rights; and• Determine Capstone's ability to influence returns.

Management's estimates are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances. Actual results could materially differ from those estimates.

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Since December 31, 2018, 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, 2019	Dec 31, 2018
Current assets			
Cash and cash equivalents		72,452	76,341
Restricted cash		23,233	23,132
Accounts receivable		22,503	25,477
Other assets		3,716	2,747
Current portion of derivative contract assets	5	1,407	1,996
		<u>123,311</u>	<u>129,693</u>
Non-current assets			
Derivative contract assets	5	9,352	11,855
Capital assets		859,336	833,799
Projects under development		2,087	1,595
Intangible assets		152,053	154,861
Deferred income tax assets		105	125
Total assets		<u><u>1,146,244</u></u>	<u><u>1,131,928</u></u>
Current liabilities			
Accounts payable and other liabilities		14,887	19,468
Current portion of lease liabilities	2	955	—
Current portion of long-term debt	6	50,480	49,355
		<u>66,322</u>	<u>68,823</u>
Long-term liabilities			
Derivative contract liabilities	5	5,313	2,144
Deferred income tax liabilities		89,602	89,962
Lease liabilities	2	27,009	—
Long-term debt	6	693,552	705,339
Liability for asset retirement obligation		9,555	9,442
Total liabilities		<u>891,353</u>	<u>875,710</u>
Equity attributable to shareholders' of Capstone		205,578	206,132
Non-controlling interest		49,313	50,086
Total liabilities and shareholders' equity		<u><u>1,146,244</u></u>	<u><u>1,131,928</u></u>
Commitments and contingencies	12		
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See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone		NCI ⁽¹⁾	Total Equity
		Share Capital	Retained Earnings		
Balance, December 31, 2017		134,290	72,024	55,249	261,563
Net income for the period		—	1,314	895	2,209
Dividends declared to preferred shareholders of Capstone ⁽²⁾	7	—	(631)	—	(631)
Dividends declared to NCI		—	—	(654)	(654)
Convertible debenture repayments ⁽³⁾		—	—	(850)	(850)
Balance, March 31, 2018		<u>134,290</u>	<u>72,707</u>	<u>54,640</u>	<u>261,637</u>

	Notes	Equity attributable to shareholders of Capstone		NCI ⁽¹⁾	Total Equity
		Share Capital	Retained Earnings		
Balance, December 31, 2018		134,290	71,842	50,086	256,218
Net income for the period		—	77	1,027	1,104
Dividends declared to preferred shareholders of Capstone ⁽²⁾	7	—	(631)	—	(631)
Dividends declared to NCI		—	—	(1,217)	(1,217)
Convertible debenture repayments ⁽³⁾		—	—	(583)	(583)
Balance, March 31, 2019		<u>134,290</u>	<u>71,288</u>	<u>49,313</u>	<u>254,891</u>

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

(2) Dividends declared to preferred shareholders of Capstone include current and deferred income taxes of \$18 (2018 - \$18).

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

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Notes	Three months ended	
		Mar 31, 2019	Mar 31, 2018
Revenue	8	50,478	48,870
Operating expenses	9	(12,008)	(11,792)
Administrative expenses	9	(1,549)	(1,875)
Project development costs	9	(215)	(341)
Interest income		461	262
Other gains and (losses), net	10	(6,370)	(3,789)
Earnings before interest expense, taxes, depreciation and amortization		<u>30,797</u>	<u>31,335</u>
Interest expense		(9,489)	(9,689)
Depreciation of capital assets		(17,191)	(16,640)
Amortization of intangible assets		(2,801)	(2,380)
Earnings before income taxes		<u>1,316</u>	<u>2,626</u>
Income tax recovery (expense)			
Current		(324)	—
Deferred		112	(417)
Total income tax recovery (expense)		<u>(212)</u>	<u>(417)</u>
Net income and total comprehensive income		<u>1,104</u>	<u>2,209</u>
Attributable to:			
Shareholders of Capstone		77	1,314
Non-controlling interest		1,027	895
		<u>1,104</u>	<u>2,209</u>

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended	Notes	Mar 31, 2019	Mar 31, 2018
Operating activities:			
Net income		1,104	2,209
Deferred income tax expense (recovery)		(112)	417
Depreciation and amortization		19,992	19,020
Non-cash other gains and losses (net)		6,347	5,203
Amortization of deferred financing costs and non-cash financing costs		641	615
Change in non-cash working capital		(921)	(543)
Total cash flows from operating activities		27,051	26,921
Investing activities:			
Investment in capital assets		(16,571)	(3,282)
Investment in projects under development		(428)	—
Increase in restricted cash		(101)	(64)
Total cash flows used in investing activities		(17,100)	(3,346)
Financing activities:			
Repayment of long-term debt		(11,190)	(28,884)
Dividends paid to non-controlling interests		(1,217)	(654)
Dividends paid to preferred shareholders		(613)	(613)
Convertible debenture repayments		(583)	(850)
Lease principal payments		(237)	—
Total cash flows used in financing activities		(13,840)	(31,001)
Decrease in cash and cash equivalents		(3,889)	(7,426)
Cash and cash equivalents, beginning of year		76,341	64,083
Cash and cash equivalents, end of period		72,452	56,657
Supplemental information:			
Interest paid		8,742	9,431
Taxes paid		677	251

See accompanying notes to these consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone is incorporated and domiciled in Canada and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. All of Capstone's Class A common shares are owned by Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund managed by London, UK-based iCON Infrastructure LLP ("iCON"), who is the ultimate parent. Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") mission is to provide investors with an attractive total return from responsibly managed long-term investments in power generation in North America. Capstone's strategy is to develop, acquire and manage a portfolio of high quality power assets. As at March 31, 2019, Capstone owns and operates an approximate net installed capacity of 541 megawatts across 24 facilities in Canada, including wind, hydro, solar, biomass, and natural gas power plants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no material changes to Capstone's accounting policies during the first three months of 2019, except as noted in the following section "Changes in Accounting Standards".

Basis of Preparation

Statement of Compliance

The interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standard ("IAS") 34 Interim Financial Reporting ("IAS 34") on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the year ended December 31, 2018. 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 2018 annual consolidated financial statements.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on May 15, 2019. All amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

Basis of Measurement

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

Changes in Accounting Standards

Capstone has adopted IFRS 16, *Leases*, effective January 1, 2019. The adoption of this accounting standard did not change any comparative figures presented in the interim consolidated financial statements and instead resulted in the recognition of lease liabilities and equal right-of-use ("ROU") assets on transition. IFRS 16 replaces IAS 17 and was applied using the modified retrospective approach on a prospective basis. Capstone elected the following practical expedients:

- 1) Use of a single discount rate for leases with similar characteristics;
- 2) Accounting for leases with remaining terms of less than twelve months as short-term leases;
- 3) Accounting for payments as expenses for low dollar value assets; and
- 4) Use of hindsight in determining term where options to extend or terminate exist.

Impact to previously reported results

	As reported as at December 31, 2018	Adjustments ⁽¹⁾	As at January 1, 2019
Capital assets ⁽²⁾	833,799	28,201	862,000
Current portion of lease liabilities	—	(945)	(945)
Lease liabilities	—	(27,256)	(27,256)

(1) Discounted at Capstone's incremental borrowing rate of 5.75%.

(2) ROU assets, included within capital assets, are depreciated over the shorter of the asset's useful life and the lease term. The ROU assets are \$27,803 as at March 31, 2019.

Reconciliation of total lease liabilities from operating lease commitments

	January 1, 2019
Operating land lease commitments disclosed as at December 31, 2018 ⁽¹⁾	59,787
Add adjustment due to different treatment of extension or termination options	14,236
Less adjustment due to variable lease payments	(25,677)
Less adjustment due to present valuing lease payments	(20,145)
Opening current and non-current lease liabilities as at January 1, 2019	28,201

(1) Lease payments are incurred over the term of the PPA.

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

Ongoing impact of change in accounting standard

In 2019, Capstone anticipates the accounting policy change will increase EBITDA within the power segment by approximately \$2,600. The increase reflects treating the fixed portion of lease payments as ROU asset depreciation, liability principal payments and interest expense, none of which are included in EBITDA. The fixed portion of lease payments were previously expensed, which reduced EBITDA. The variable portion of lease payments will remain in operating expenses in the statement of income. After adoption, new leases will be recognized as ROU assets along with the corresponding liabilities at the date of which the leased assets is available for use by the Company.

The lease liabilities are discounted using the Capstone's incremental borrowing rate where the rate implicit in the lease is not readily determinable. ROU assets are measured at cost comprising of the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date and any initial direct costs.

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, 2018. Capstone continues to monitor changes to IFRS, applicable IASB changes to standards, new interpretations and annual improvements.

3. SEASONALITY

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

4. ACQUISITIONS

Watford Wind Facility

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

5. FINANCIAL INSTRUMENTS

The following table summarizes the Corporation's financial instruments that have been recorded at fair value:

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Mar 31, 2019	Dec 31, 2018
Derivative contract assets:					
Whitecourt embedded derivative ⁽¹⁾	—	—	7,357	7,357	7,478
Interest rate swap contracts	—	3,402	—	3,402	6,373
Less: current portion	—	(1,407)	—	(1,407)	(1,996)
	—	1,995	7,357	9,352	11,855
Derivative contract liabilities:					
Interest rate swap contracts	—	5,313	—	5,313	2,144
	—	5,313	—	5,313	2,144

(1) Whitecourt's embedded derivative consists of a \$11,153 fair value asset and \$3,796 amortized contra-asset, set up on inception (2018 - \$11,362 fair value asset, offset by the \$3,884 of contra-asset).

Financial instruments not recorded at fair value

Accounts receivable, accounts payable and long-term debt are reported at carrying value on the statement of financial position. The fair values of these items approximate their carrying values with the exception of long-term debt, which has a fair value of \$772,748 compared to a carrying value of \$744,032.

Fair value determination

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

Interest rate swap	<ul style="list-style-type: none">The interest rate swap contract's fair value fluctuates with changes in market interest rates.A discounted cash flow valuation based on a forward interest rate curve was used to determine their fair value.
Whitecourt embedded derivative	<ul style="list-style-type: none">The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including estimates on the forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators, fuel supply volumes, electricity sales, carbon pricing and Emission Performance Credits ("EPC") generation.

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

6. LONG-TERM DEBT

As at	Mar 31, 2019	Dec 31, 2018
CPC credit facilities ⁽¹⁾	45,000	45,000
Project debt		
Wind - Operating ⁽²⁾	502,927	511,927
Solar	75,235	76,093
Hydro	74,415	74,817
Gas ⁽³⁾	59,798	60,728
Power ⁽⁴⁾	757,375	768,565
Less: deferred financing costs	(13,343)	(13,871)
Long-term debt	744,032	754,694
Less: current portion	(50,480)	(49,355)
	693,552	705,339

(1) Subsequent to March 31, 2019, \$19,500 of the CPC credit facilities was repaid. Refer to note 13 subsequent events for details.

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

(3) On April 1, 2019, the Cardinal term loan was refinanced to increase the term loan by \$20,200. Refer to note 13 subsequent events.

(4) The power segment has a cumulative \$49,730 utilized on its letter of credit facilities.

7. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Mar 31, 2019	Dec 31, 2018
Common shares	62,270	62,270
Preferred shares	72,020	72,020
	134,290	134,290

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

	Three months ended	
	Mar 31, 2019	Mar 31, 2018
Preferred shares declared ⁽¹⁾	631	631

(1) Includes \$18 of current and deferred income taxes (2018 - \$18).

8. REVENUE BY NATURE

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

	Three months ended	
	Mar 31, 2019	Mar 31, 2018
Wind	34,998	35,909
Gas ⁽¹⁾	5,742	5,091
Hydro	2,906	2,975
Solar	2,591	2,947
Biomass ⁽²⁾	4,241	1,948
Total Revenue	50,478	48,870

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

(2) Biomass revenue includes \$541 of grant funding eligibility for Whitecourt (2018 - nil).

9. EXPENSES BY NATURE

	Three months ended Mar 31, 2019				Three months ended Mar 31, 2018			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	4,122	—	—	4,122	3,975	—	—	3,975
Wages and benefits	2,595	1,138	—	3,733	2,325	1,355	—	3,680
Property expenses ⁽¹⁾	1,873	44	29	1,946	2,309	112	13	2,434
Fuel and transportation	1,443	—	—	1,443	1,136	—	—	1,136
Power facility administration	609	—	—	609	693	—	—	693
Insurance	557	30	—	587	566	34	—	600
Professional fees ⁽²⁾	309	—	102	411	468	71	311	850
Other	500	337	84	921	320	303	17	640
Total	12,008	1,549	215	13,772	11,792	1,875	341	14,008

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

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

10. OTHER GAINS AND LOSSES

	Three months ended	
	Mar 31, 2019	Mar 31, 2018
Unrealized gains and (losses) on derivative financial instruments ⁽¹⁾	(6,284)	(3,847)
Losses on disposal of capital assets	(86)	—
Other	—	58
Other gains and (losses), net	(6,370)	(3,789)

(1) Unrealized losses on derivative financial instruments were attributable to losses on interest rate swap contracts due to lower long-term interest rates since December 31, 2018.

11. SEGMENTED INFORMATION

The Corporation's business has one reportable segment, which contains the power operations in order to assess performance and allocate capital, as well as the remaining corporate activities, all of which are located in Canada. Management evaluates performance primarily on revenue, expenses and EBITDA. Cash generating units within the power segment have similar economic characteristics based on the nature of the products or services they provide, the customers they serve, the method of distributing those products or services and the prevailing regulatory environment.

	Three months ended Mar 31, 2019			Three months ended Mar 31, 2018		
	Power	Corporate	Total	Power	Corporate	Total
Revenue ⁽¹⁾	50,478	—	50,478	48,870	—	48,870
Expenses	(12,239)	(1,533)	(13,772)	(12,027)	(1,981)	(14,008)
EBITDA	32,077	(1,280)	30,797	33,217	(1,882)	31,335
Interest expense	(9,489)	—	(9,489)	(9,689)	—	(9,689)
Income tax recovery (expense)	(577)	365	(212)	(952)	535	(417)
Net income (loss)	2,104	(1,000)	1,104	3,556	(1,347)	2,209
Additions to capital assets, net ⁽²⁾	41,475	1,331	42,806	(129)	—	(129)
Additions to PUD	492	—	492	1	—	1

(1) Power revenue includes \$541 of grant funding eligibility for Whitecourt for the year to date (2018 - nil).

(2) Capital asset additions include the adoption of IFRS 16 (\$28,201) and the acquisition of the Watford assets (\$13,960).

12. 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, 2018.

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

13. SUBSEQUENT EVENTS

Cardinal Refinancing

On April 1, 2019, the Cardinal term loan was refinanced with its existing lender, increasing its term loan by \$20,200. The term loan now matures on April 1, 2026. Cardinal has entered into additional swap contracts to convert its floating interest rate obligations under the credit agreement to a fixed rate. The proceeds were used to repay \$19,500 towards the term portion of the CPC credit facility, reducing the balance to \$25,500.

Senvion Insolvency

On April 9, 2019, Capstone received notice from Senvion GmbH ("Senvion") with regards to Senvion's initiation of insolvency proceedings. Among other things, Senvion provides operations and maintenance services and warranty obligations for Capstone's Grey Highlands Clean, Grey Highlands ZEP and Ganaraska ("GHG"), Snowy Ridge, and Settlers Landing wind facilities. To date, Senvion continues to provide uninterrupted service to these facilities, which have \$163,049 of debt principal outstanding in the statement of financial position as at March 31, 2019.

As a result of the insolvency notice, Capstone is not in compliance with certain covenants under its respective project debt agreements and has provided a notice of event of default to the applicable lenders. There has been no change to the projects' operational performance arising from these defaults. In addition, the project financing defaults by Grey Highlands Clean and GHG triggered a cross-default under the CPC credit facilities with total capacity of \$120,500. The CPC credit facilities have \$60,921 utilized to support both the letters of credit and remaining term portion of the facilities. These lenders were also provided with a notice of event of default. On May 15, 2019, Capstone received waivers for the respective project debt and from the CPC credit facilities, waiving such events of default.

CPC Refinancing

On May 15, 2019, the remaining \$25,500 of the CPC term credit facility was converted into the revolving credit facility. The revolving credit facility capacity is now \$120,500, of which \$35,421 is utilized on its letter of credit facilities. Capstone also extended the maturity date of the CPC revolving credit facility to December 15, 2022.

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