CAPSTONE INFRASTRUCTURE

CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended September 30, 2021

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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, 2020 under the headings "Changes in the Business", “Results of Operations” and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation’s SEDAR profile at www.sedar.com).

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

Although the Corporation believes that it has a reasonable basis for the expectations reflected in these forward-looking statements, actual results may differ from those suggested by the forward-looking statements for various reasons, including: risks related to the Corporation’s securities (controlling shareholder; dividends on common shares and preferred shares are not guaranteed; volatile market price for the Corporation’s securities (including related to global health emergencies such as the COVID-19 coronavirus pandemic)); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; acquisitions, development and integration; environmental, health and safety; foreign exchange fluctuations; changes in legislation and administrative policy; and reliance on key personnel); and risks related to the Corporation’s power facilities (power purchase agreements; operational performance; market price for electricity; contract performance and reliance on suppliers (including potential delays related to the COVID-19 coronavirus pandemic); completion of the Corporation’s wind and solar development projects (including potential delays related to the COVID-19 coronavirus pandemic); land tenure and related rights; environmental; insurance coverage; climate change; cybersecurity and reliance on information technology; regulatory environment; US jurisdiction; and US tax incentives and tax equity financing availability).

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, 2021, 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, 2021 with the comparative prior period and the Corporation's financial position as at September 30, 2020 and December 31, 2020.

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, 2021, and the financial statements and MD&A for the year ended December 31, 2020. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 22, 2021 and its MD&A and audited annual financial statements for the year ended December 31, 2020. 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, 2021, 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"), 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 2021, Capstone continues to execute on its strategic objectives, purchasing 29MW of operating wind facilities in Ontario, which its in-house team operates and maintains, successfully extending several credit facilities with near-term maturities, recontracting expiring power purchase agreements ("PPA"), and advancing its development projects, despite the continued global impact of COVID-19. In addition, Capstone's preferred share dividend rate was reset.

SWNS Wind Facilities

On January 7, 2021, Capstone purchased 29MW of operating wind projects, known as the Springwood, Whittington, Napier, and Sumac Ridge wind facilities from wpd Europe GmbH ("wpd"). These projects have assets that operate in Ontario and long term PPAs, with approximately 14 years remaining. They are held by a wholly-owned indirect subsidiary, SWNS Wind LP ("SWNS"), and were funded with existing cash on hand and non-recourse project debt.

The project debt of $88,600 is subject to a variable interest rate and matures on March 31, 2026. To mitigate interest rate risk, SWNS entered into swap contracts to convert interest into an effective fixed interest rate.

Financing Activities

SkyGen and Skyway 8 Refinancing

On March 25, 2021, the SkyGen and Skyway 8 term loans were refinanced with their existing lender. The term loans now have a fixed interest rate of 3.60% and mature on March 23, 2023 and March 17, 2023, respectively.

Grey Highlands ZEP and Ganaraska ("GHG"), and Snowy Ridge Extensions

In July 2021, the GHG and Snowy Ridge term loans were extended with existing lenders, and now mature on June 30, 2022.

Preferred Shares Dividend Rate Reset

On July 5, 2021, Capstone announced to preferred shareholders the applicable fixed and floating dividend rates for its cumulative five-year rate reset preferred shares, effective from July 31, 2021 to July 30, 2026. In accordance with the terms and conditions of those shares, all Class A preferred shares accrue dividends at a fixed rate of 3.702% per annum and preferred dividends are paid quarterly.

Glace Bay Wind Facility Recontracting

On September 29, 2021, and effective as of December 31, 2021, Capstone entered into an amendment of the PPA with Nova Scotia Power Inc. ("NSPI") for 15.9MW of the Lingan facility. The amended PPA has a 20 year term and now expires in December 2041.

Project Development Activities

Capstone successfully advanced its development projects achieving commercial operations ("COD") at Claresholm, while further building a development pipeline across several jurisdictions. The following table lists the significant development projects:

Name of project [1]	Status	Gross MW	Jurisdiction	Technology
Claresholm [2]	COD April 19, 2021	132	Alberta	Solar
MW added to operating portfolio		**132**		
Riverhurst [3]	Construction	10	Saskatchewan	Wind
Buffalo Atlee	Development	58	Alberta	Wind
Michichi	Development	25	Alberta	Solar
Kneehill	Development	25	Alberta	Solar
MW capacity in Canada		**118**		
Early-stage development projects	Development	>1,000	United States	Wind/Solar/Battery
MW capacity in the United States		**>1,000**		

(1) For details of supplemental risks associated with the projects, please refer to the section "Risks and Uncertainties".
(2) A portion of the output, including electricity sales and associated emission offset credits generated, is sold to TC Energy under the terms of a PPA. The remaining electricity is sold into the Alberta Power Pool.
(3) Output will be sold under the terms of a PPA expiring in 2041.

COVID-19 Impact

In 2020, an outbreak of a novel strain of coronavirus, responsible for a communicable disease called "COVID-19", was declared a pandemic by the World Health Organization and has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally, resulting in an economic slowdown. At the time of this report, the duration and impacts of COVID-19 are unknown, as this is a continuing and evolving global concern.

Capstone's businesses have been deemed essential services and as such continue to operate, including construction of development projects. To this end, Capstone's priority is to protect the health and safety of its employees, as well as the communities that it operates in. While it is not currently possible to estimate the length and severity of these developments, the Corporation's existing operations have not been materially impacted as the facilities are operating under long-term revenue contracts and have experienced continued demand. Capstone continues to maintain sufficient liquidity and will continue to monitor and respond to disruptions to global credit markets and supply chains, which may impact its businesses, as well as construction and development projects.

RESULTS OF OPERATIONS

Overview

In 2021, Capstone's EBITDA and net income were higher in both the third quarter and for the year-to-date period. Higher year-to-date EBITDA primarily reflects:

- Higher revenue due to the addition of Claresholm and SWNS, as well as higher average realized prices at Whitecourt and Cardinal, partially offset by lower wind and hydro resources;
- Higher other income relates to unrealized fair value changes on interest rate swaps, which rose in value, partially offset by a decline in the Whitecourt embedded derivative; partially offset by:
- Higher expenses due to Claresholm which commenced operations in the current year, the addition of SWNS, and higher expenses at Cardinal in line with additional market runs.

	Three months ended			Nine months ended		
	Sep 30, 2021	Sep 30, 2020	Change	Sep 30, 2021	Sep 30, 2020	Change
Revenue	47,788	36,595	11,193	158,447	130,397	28,050
Expenses	(17,114)	(13,628)	(3,486)	(48,094)	(43,747)	(4,347)
Other income and expenses	(875)	(216)	(659)	7,651	(11,708)	19,359
EBITDA	29,799	22,751	7,048	118,004	74,942	43,062
Interest expense	(11,190)	(9,011)	(2,179)	(31,294)	(26,894)	(4,400)
Depreciation and amortization	(24,448)	(20,576)	(3,872)	(70,228)	(61,374)	(8,854)
Income tax recovery (expense)	2,366	1,473	893	(3,117)	3,998	(7,115)
Net income (loss)	(3,473)	(5,363)	1,890	13,365	(9,328)	22,693

The remaining material change in net income was:

- Higher depreciation and amortization and interest expense due to the addition of SWNS and Claresholm; and
- Higher income tax expense in 2021 relates to the taxable temporary differences on financial instruments, capital assets, and intangible assets.

Seasonality

Overall, the results for Capstone's power segment fluctuate during the year because of seasonal factors that affect the production of each facility. These factors include scheduled maintenance and environmental factors such as water flows, solar irradiance, wind speeds, air density, ambient temperature, and humidity, which affect the amount of electricity generated. In aggregate, these factors have historically resulted in higher electricity production during the first and fourth quarters.

Results by Segment

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

Revenue	Three months ended			Nine months ended		
	Sep 30, 2021	Sep 30, 2020	Change	Sep 30, 2021	Sep 30, 2020	Change
Wind	21,476	20,345	1,131	84,695	80,957	3,738
Solar (1), (2)	12,841	5,533	7,308	31,286	13,642	17,644
Gas	7,362	6,241	1,121	18,736	16,990	1,746
Biomass (2)	4,512	2,345	2,167	15,447	8,544	6,903
Hydro	1,597	2,131	(534)	8,283	10,264	(1,981)
Total Revenue	47,788	36,595	11,193	158,447	130,397	28,050

(1) Solar includes revenue earned during project commissioning at Claresholm.
(2) Solar and Biomass include revenue from the generation and sale of electricity at market rates.

Power generated (GWh)	Three months ended			Nine months ended		
	Sep 30, 2021	Sep 30, 2020	Change	Sep 30, 2021	Sep 30, 2020	Change
Wind	188.8	179.4	9.4	752.9	719.2	33.7
Solar	96.0	13.2	82.8	183.4	32.5	150.9
Gas	30.4	27.4	3.0	41.7	39.2	2.5
Biomass	47.6	47.9	(0.3)	145.2	142.0	3.2
Hydro	18.3	23.5	(5.2)	101.2	119.5	(18.3)
Total Power	381.1	291.4	89.7	1,224.4	1,052.4	172.0

Capstone's power segment earns revenue from:

- The wind facilities, which are located in Ontario, Nova Scotia, and Québec, by producing and selling electricity in accordance with their PPAs with government agencies or regulated credit-worthy counterparties. On a megawatt ("MW") weighted-average-basis, the wind facilities have approximately 11 years remaining on the current PPAs.
- The solar facilities, which include Amherstburg Solar Park in Ontario, by generating and selling electricity under a long-term PPA, which expires in 2031, and Claresholm in Alberta, by selling electricity at market rates to the Alberta Power Pool as well as under a PPA, which expires in 2029.
- Cardinal, a natural gas cogeneration 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.
- Whitecourt, a biomass facility located in Alberta, by selling electricity at market rates to the Alberta Power Pool. 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 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 12 years remaining on the current PPAs, with the earliest expiry in October 2022.

The following table shows the significant changes in revenue from 2020:

Three months	Nine months	Explanations
7,395	17,131	Revenue from adding Claresholm in 2021, pre- and post-commissioning.
2,099	8,609	Revenue from SWNS following the purchase in January 2021.
2,843	7,900	Higher revenue from Whitecourt due to higher average Alberta Power Pool prices.
1,120	1,746	Higher revenue at Cardinal due to higher average realized prices and additional market runs.
(88)	513	Higher year-to-date revenue from Amherstburg, due to higher production from resource.
—	(799)	Lower revenue from Whitecourt because the BPP funding program ended in March 2020.
(1,500)	(6,853)	Lower revenue from the wind (excluding SWNS) and hydro facilities, due to lower production from resources.
(676)	(197)	Various other changes.
11,193	28,050	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, 2021	Sep 30, 2020	Change	Sep 30, 2021	Sep 30, 2020	Change
Wind	(5,318)	(4,798)	(520)	(16,547)	(15,757)	(790)
Solar	(1,419)	(185)	(1,234)	(2,828)	(539)	(2,289)
Gas	(3,907)	(2,965)	(942)	(9,137)	(8,137)	(1,000)
Biomass	(2,634)	(2,610)	(24)	(8,089)	(8,022)	(67)
Hydro	(897)	(876)	(21)	(2,834)	(2,848)	14
Power operating expenses	(14,175)	(11,434)	(2,741)	(39,435)	(35,303)	(4,132)
Project development costs	(1,222)	(597)	(625)	(3,319)	(3,623)	304
Administrative expenses	(1,717)	(1,597)	(120)	(5,340)	(4,821)	(519)
Total Expenses	(17,114)	(13,628)	(3,486)	(48,094)	(43,747)	(4,347)

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 Fitzpatrick, which are maintained under service agreements with the original equipment manufacturers. The hydro facilities also operate under a third party O&M agreement, whereas Cardinal, Whitecourt, Claresholm, and Amherstburg 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 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 2020:

Three months	Nine months	Explanations
(1,247)	(2,250)	Operating expenses at Claresholm after beginning commercial operation in April 2021.
(507)	(1,501)	Operating expenses at SWNS following the purchase in January 2021.
(942)	(1,000)	Higher expenses at Cardinal due to additional market runs in 2021.
(790)	404	Various other changes.
(3,486)	(4,347)	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at September 30, 2021, Capstone's working capital deficit was $67,806, compared with $42,453 as at December 31, 2020. The increase was mainly due to lower cash and restricted cash, which was used to purchase SWNS and build Claresholm and Riverhurst. The deficit position is driven by near-term debt maturities totaling $101,695 for GHG, Snowy Ridge and Settlers Landing. Management is evaluating readily available options to refinance or extend project debts maturing in 2022. Capstone has adequate financial flexibility, including $58,691 of unrestricted cash and credit facility capacity of $39,060 available, to meet liquidity needs and support further growth.

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

Liquidity

Working capital

As at	Sep 30, 2021	Dec 31, 2020
Power	(69,593)	(43,389)
Corporate	1,787	936
Working capital (equals current assets, less current liabilities)	(67,806)	(42,453)

Capstone's working capital was $25,353 lower than December 31, 2020 because of a $26,204 decrease from power, partially offset by a $851 increase at corporate. The power decrease relates to the use of $22,404 of cash and restricted cash and $5,081 lower accounts receivable due to seasonality. The corporate increase largely reflects settling of year-end liabilities.

Cash and cash equivalents

As at	Sep 30, 2021	Dec 31, 2020
Power	56,784	69,689
Corporate	1,907	1,472
Unrestricted cash and cash equivalents	58,691	71,161

These funds are available for operating activities, capital expenditures, and future acquisitions. The $12,470 decrease consists of a decrease of $12,905 at power slightly offset by an increase of $435 at corporate. Lower cash at power mainly reflects cash used to purchase SWNS and build Claresholm and Riverhurst. The slight increase at corporate reflects settling of year-end liabilities.

Cash at the power segment is comprised of $15,018 at Capstone Power Corp. ("CPC") and $41,766 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 $39,060 as at September 30, 2021.

Cash flow

Capstone's consolidated cash and cash equivalents decreased by $12,470 in 2021 compared with an increase of $2,697 in 2020. 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, 2021	Sep 30, 2020
Operating activities	93,089	69,075
Investing activities	(195,389)	(139,656)
Financing activities (excluding dividends to shareholders)	91,670	75,118
Dividends paid to shareholders	(1,840)	(1,840)
Change in cash and cash equivalents	(12,470)	2,697

Cash flow from operating activities was $24,014 higher in 2021 comprised of an $18,617 increase from the power segment and $5,397 of higher corporate cash flows. The power segment increase reflects higher revenue from new operating assets and changes in working capital.

Cash flow used in investing activities was $55,733 higher in 2021 due to the SWNS purchase, as well as further investments in projects under development of $16,533, primarily for Claresholm and Riverhurst. These were partially offset by a $69,349 decrease in restricted cash, mainly reflecting higher Claresholm construction advances in 2020.

Cash flow from financing activities was $16,552 higher in 2021 reflecting proceeds of $88,600 from the SWNS financing, debt draws of $41,500 for Claresholm, and a net draw of $7,500 on the CPC revolving credit facility, whereas 2020 included $66,096 from refinancing Grey Highlands Clean. In addition, other offsetting movements include a temporary draw and repayment of $52,000 from the CPC revolving credit facility for the purchase of SWNS, along with $30,515 to refinance SkyGen and Skyway 8 and lower partner contributions than 2020, which included $39,949 for Claresholm.

Long-term Debt

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

	Dec 31, 2020	Additions	Repayments	Other	Sep 30, 2021
Long-term debt (1), (2) and (3)	777,289	220,115	(118,680)	—	878,724
Deferred financing fees (4)	(15,690)	(3,306)	—	1,937	(17,059)
	761,599	216,809	(118,680)	1,937	861,665
Less: current portion of long-term debt	(154,360)	—	—	4,807	(149,553)
	607,239	216,809	(118,680)	6,744	712,112

(1) The power segment has drawn $94,576 for letters of credit.
(2) Additions of $220,115 consist of $88,600 for SWNS, $59,500 drawn on the CPC revolving credit facility, $41,500 for Claresholm, and $30,515 for the refinancing of SkyGen and Skyway 8. See the "Changes in the Business" section in this MD&A for detail.
(3) Repayments of $118,680 include $52,000 on the CPC revolving credit facility, $30,515 for the refinancing of SkyGen and Skyway 8, as well as scheduled repayments.
(4) Additions consist of SWNS, GHG, Snowy Ridge, SkyGen and Skyway 8 deferred transaction costs.

As at September 30, 2021, Capstone's long-term debt consisted of $871,224 of project debt. The current portion of long-term debt was $149,553, consisting of scheduled debt amortization and upcoming mid-2022 maturities of $56,538 for GHG, $23,824 for Snowy Ridge and $21,333 for Settlers Landing. 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, 2021	Dec 31, 2020
Common shares	62,270	62,270
Preferred shares (1)	72,020	72,020
Share capital	134,290	134,290
Accumulated other comprehensive income (loss)	98	(717)
Retained earnings	71,875	67,233
Equity attributable to Capstone shareholders	206,263	200,806
Non-controlling interests	98,585	96,850
Total shareholders' equity	304,848	297,656

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

Projects Under Development ("PUD")

In 2021, Capstone capitalized $89,818 to PUD, then transferred $213,581 from PUD to capital assets upon Claresholm achieving COD. The balance of $53,365 consists of costs to build the Riverhurst and Buffalo Atlee wind projects and the Michichi and Kneehill solar projects, as well as refundable costs for the early-stage US development projects.

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, 2021, further contractual obligations relating to the development projects have been entered. This consists of commitments for the construction of Riverhurst of $6,437 and asset purchase obligations for the early-stage US development projects of $3,664. 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, capital assets, and intangible 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 or foreign exchange. The fair values of these contracts, as well as the Whitecourt embedded derivative are included in the consolidated statement of financial position, were:

As at	Sep 30, 2021	Dec 31, 2020
Derivative contract assets	17,186	15,181
Derivative contract liabilities	(10,181)	(17,723)
Net derivative contract assets (liabilities)	7,005	(2,542)

Net derivative contract assets increased by $9,547 from December 31, 2020, due to gains of $7,478 in the statement of income, contractual settlement payments of $1,938 paid to Millar Western, and gains on foreign exchange contracts included in other comprehensive income ("OCI") of $131.

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

	Three months ended		Nine months ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Interest rate swap contracts	2,182	(138)	15,247	(14,352)
Whitecourt embedded derivative	(3,162)	124	(7,769)	7,614
Gains (losses) on derivatives in net income	(980)	(14)	7,478	(6,738)
Foreign currency contracts in OCI	690	(511)	131	(1,193)
Gains (losses) on derivatives in comprehensive income	(290)	(525)	7,609	(7,931)

The year-to-date gains on derivatives are attributable to gains from the interest rate swap contracts, resulting from higher long-term interest rates since December 31, 2020. This was partially offset by a decrease in the Whitecourt embedded derivative asset primarily due to higher estimated forward Alberta Power Pool prices since December 31, 2020.

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, 2020 and the "Risk Factors" section of the Annual Information Form ("AIF") dated March 22, 2021 as supplemented by the risks noted below, 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.

Supplemental Risks

The Corporation is subject to further risks, including impacts from COVID-19, which can be found in the "Changes in the Business" section of this MD&A. Additionally, Capstone's development activities in the US subject the Corporation to the following risks:

Foreign Exchange Fluctuations

The Corporation’s development work and operations in both Canada and the US subjects it to foreign currency fluctuations. The Corporation may be exposed to changes in the Canadian dollar in relation to foreign currency denominated equipment purchases or other foreign currency denominated expenditures or investments. This could negatively impact the Corporation’s cash flows or the value of its investments.

The Corporation’s functional and reporting currency is the Canadian dollar. As such, volatility in exchange rates could have an adverse effect on the Corporation’s business, financial condition, and operating results as they are reported in Canadian dollars. While the Corporation attempts to manage this risk by using hedging instruments when economically feasible, there can be no assurance that these risk management efforts can be done on a cost effective basis or will be effective, and fluctuations in these exchange rates may still have an adverse effect on the Corporation.

US Jurisdiction

The Corporation may pursue growth opportunities in the US that are subject to regulation by federal, state and local governments and regulatory authorities and to the application of federal, state and local laws. Such laws or regulations may not provide for the same type of legal certainty and rights in connection with the Corporation's contractual relationships in the US as are afforded to the Corporation in Canada, which may adversely affect its ability to enforce its rights in connection with any US operations. Any operations or project interests of the Corporation in the United States may be subject to significant business, political, economic, currency, and financial risks, which may include: (i) changes in general economic conditions (in both the United States and Canada); (ii) restrictions on currency transfer or convertibility; (iii) changes in labor relations; (iv) political instability and civil unrest; (v) breach or repudiation of important contractual undertakings and expropriation and confiscation of assets and facilities without compensation or compensation that is less than fair market value; (vi) the absence of uniform accounting and financial reporting standards and disclosure requirements; (vii) political hostility to investments by foreign investors, including laws affecting foreign ownership; (viii) adversely higher or lower rates of inflation; (ix) foreign exchange rate fluctuations; (x) changes in international and local taxation; and (xi) regulatory or other changes in the local electricity market.

US Tax Incentives and Availability of Tax Equity Financing

The financial viability of the Corporation’s projects in the United States may be dependent on the continued availability of: (i) tax incentives promoting renewable energy investment in the US, most notably the Production Tax Credit and Investment Tax Credits; and (ii) a market of equity investors willing to transact with the Corporation’s affiliates in order to benefit from such tax incentives ("Tax Equity Investors"). There is no assurance that such tax incentives and/or a Tax Equity Investor market will be available generally and/or will be available to the Corporation's US projects specifically. If such tax incentives and/or the Tax Equity Investor market are not available, it may have a material and adverse impact on the financial viability of the Corporation's US projects.

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, 2020 and the "Environmental, Health, and Safety Matters" section of the Corporation's Annual Information Form dated March 22, 2021, which are available on the SEDAR website at www.sedar.com.

Since issuing the AIF, there has been a significant development regarding greenhouse gases. On March 25, 2021, the Supreme Court of Canada ("SCC") rendered its decision on the constitutional challenges to the Greenhouse Gas Pollution Pricing Act ("GGPPA") initiated by several Provinces. The SCC upheld Canada’s ability to implement minimum pricing standards for greenhouse gas emissions as a national backstop under the GGPPA. Since it is now settled that the pricing of greenhouse gas emissions is dictated by Canada as opposed to the Provinces, such pricing is anticipated to be more consistent across Canada, subject only to the particulars of any provincial regimes deemed by Canada to be as stringent as the Canadian regime.

In addition, Capstone continues to monitor the outbreak of COVID-19, which was declared a pandemic by the World Health Organization in 2020, as it poses risks to its employees, contractors, suppliers, and other partners. The Corporation's priority is to protect the health and safety of our employees and the communities that it operates in.

SUMMARY OF QUARTERLY RESULTS

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

	2021			2020				2019
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**47,788**	56,480	54,179	51,106	36,595	45,581	48,221	51,424
EBITDA	**29,799**	34,334	53,871	43,629	22,751	26,785	25,406	36,346
Net income (loss) [(1)]	**(5,262)**	(3,175)	14,988	9,995	(5,718)	(2,631)	(3,036)	3,496
Preferred dividends	**613**	613	613	613	613	613	613	613

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

ACCOUNTING POLICIES AND INTERNAL CONTROLS

Significant Changes in Accounting Policies

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2020 consolidated financial statements included in the Annual Report except as noted in the section "Changes in Accounting Standards".

Changes in Accounting Standards

The International Accounting Standards Board ("IASB") issued amendments to IAS 16, particularly regarding proceeds from sales generated by an asset before its intended use. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Capstone has decided to early adopt the amendments effective January 1, 2021.

Future Changes in Accounting Standards

The 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, 2020. Capstone continues to monitor changes to IFRS, applicable IASB changes to standards, new interpretations, and annual improvements.

Accounting Estimates

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

Refer to note 2 "Summary of Significant Accounting Policies" in the most recent annual financial statements for the year ended December 31, 2020 for greater details of the areas of significance and the related critical estimates and judgments.

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

Area of Significance	Critical Estimates and Judgments (1)
Capital assets, projects under development and intangible assets:	
• Purchase price allocations.	• Initial fair value of net assets.
• Depreciation on capital assets.	• Estimated useful lives and residual value.
• Amortization on intangible assets.	• Estimated useful lives.
• Asset retirement obligations.	• Expected settlement date, amount and discount rate.
• Impairment assessments of capital assets, projects under development and intangible assets.	• Future cash flows and discount rate.
Deferred income taxes	• Timing of reversal of temporary differences, tax rates and current and future taxable income.
Financial instruments and fair value measurements	• Forward Alberta Power Pool prices, volatility, credit spreads and production projections.
Accounting for investments in non-wholly owned subsidiaries	• Determine how relevant activities are directed (either through voting rights or contracts); • Determine if Capstone has substantive or protective rights; and • Determine Capstone's ability to influence returns.

(1) The COVID-19 outbreak (refer to the "Changes in the Business" section of this MD&A) has not changed Capstone's method of calculation for its critical estimates and judgments to date, although underlying market assumptions have fluctuated significantly for its financial instruments.

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

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Since December 31, 2020, 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, 2021	Dec 31, 2020
Current assets			
Cash and cash equivalents		58,691	71,161
Restricted cash		35,946	45,445
Accounts receivable		20,766	25,850
Other assets		7,111	7,138
Current portion of derivative contract assets	5	131	—
		122,645	149,594
Non-current assets			
Loans receivable		5,692	5,468
Derivative contract assets	5	17,055	15,181
Capital assets	6	995,336	760,339
Projects under development	7	53,365	177,128
Intangible assets	8	154,504	132,415
Deferred income tax assets		167	135
Total assets		1,348,764	1,240,260
Current liabilities			
Accounts payable and other liabilities		36,097	33,205
Current portion of derivative contract liabilities	5	3,615	3,377
Current portion of lease liabilities		1,186	1,105
Current portion of long-term debt	9	149,553	154,360
		190,451	192,047
Long-term liabilities			
Derivative contract liabilities	5	6,566	14,346
Deferred income tax liabilities		86,491	83,895
Lease liabilities		36,547	34,828
Long-term debt	9	712,112	607,239
Liability for asset retirement obligation		11,749	10,249
Total liabilities		1,043,916	942,604
Equity attributable to shareholders of Capstone		206,263	200,806
Non-controlling interest		98,585	96,850
Total liabilities and shareholders' equity		1,348,764	1,240,260
Commitments and contingencies	15		

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone				
		Share Capital	AOCI [1]	Retained Earnings	NCI [2]	Total Equity
Balance, December 31, 2019		134,290	—	71,113	59,247	264,650
Other comprehensive income (loss)		—	(449)	—	(432)	(881)
Net income (loss) for the period		—	—	(11,385)	2,057	(9,328)
Dividends declared to preferred shareholders of Capstone [3]	10	—	—	(1,852)	—	(1,852)
Dividends declared to NCI		—	—	—	(2,782)	(2,782)
Convertible debenture repayments [4]		—	—	—	(2,420)	(2,420)
Contributions from NCI		—	—	—	40,698	40,698
Balance, September 30, 2020		134,290	(449)	57,876	96,368	288,085

	Notes	Equity attributable to shareholders of Capstone				
		Share Capital	AOCI [1]	Retained Earnings	NCI [2]	Total Equity
Balance, December 31, 2020		134,290	(717)	67,233	96,850	297,656
Other comprehensive income (loss)		—	815	—	688	1,503
Net income (loss) for the period		—	—	6,551	6,814	13,365
Dividends declared to preferred shareholders of Capstone [3]	10	—	—	(1,909)	—	(1,909)
Dividends declared to NCI		—	—	—	(3,302)	(3,302)
Convertible debenture repayments [4]		—	—	—	(2,688)	(2,688)
Contributions from NCI		—	—	—	223	223
Balance, September 30, 2021		134,290	98	71,875	98,585	304,848

(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 expense of $16 (2020 - recovery of $13).
(4) Repayments are to the holder of the convertible debenture related to the GHG Wind Development LP, SR Wind Development LP and SLS Wind Development LP wind facilities. 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

		Three months ended		Nine months ended	
	Notes	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Revenue	11	47,788	36,595	158,447	130,397
Operating expenses	12	(14,175)	(11,434)	(39,435)	(35,303)
Administrative expenses	12	(1,717)	(1,597)	(5,340)	(4,821)
Project development costs	12	(1,222)	(597)	(3,319)	(3,623)
Interest income		239	128	706	752
Other gains and (losses), net	13	(1,419)	(150)	6,977	(12,127)
Foreign exchange gain (loss)		305	(194)	(32)	(333)
Earnings before interest expense, taxes, depreciation and amortization		29,799	22,751	118,004	74,942
Interest expense		(11,190)	(9,011)	(31,294)	(26,894)
Depreciation of capital assets	6	(21,032)	(17,740)	(60,096)	(52,901)
Amortization of intangible assets	8	(3,416)	(2,836)	(10,132)	(8,473)
Earnings (loss) before income taxes		(5,839)	(6,836)	16,482	(13,326)
Income tax recovery (expense)					
Current		259	165	134	(85)
Deferred		2,107	1,308	(3,251)	4,083
Total income tax recovery (expense)		2,366	1,473	(3,117)	3,998
Net income (loss)		(3,473)	(5,363)	13,365	(9,328)
Attributable to:					
Shareholders of Capstone		(5,262)	(5,718)	6,551	(11,385)
Non-controlling interest		1,789	355	6,814	2,057
		(3,473)	(5,363)	13,365	(9,328)

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Three months ended		Nine months ended	
	Notes	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Gains (losses) on financial instruments designated as cash flow hedges (1)		515	(372)	1,503	(881)
Other comprehensive income (loss)		515	(372)	1,503	(881)
Net income (loss)		(3,473)	(5,363)	13,365	(9,328)
Total comprehensive income (loss)		(2,958)	(5,735)	14,868	(10,209)
Comprehensive income (loss) attributable to:					
Shareholders of Capstone		(4,747)	(5,907)	7,366	(11,834)
Non-controlling interest		1,789	172	7,502	1,625
		(2,958)	(5,735)	14,868	(10,209)

(1) Net of tax expense of $175 and $33 for the quarter and year to date, respectively (2020 - net of tax recovery of $139 and $312 for the quarter and year to date, respectively)

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended	Notes	Sep 30, 2021	Sep 30, 2020
Operating activities:			
Net income (loss)		13,365	(9,328)
Deferred income tax expense (recovery)		3,251	(4,083)
Depreciation and amortization		70,228	61,374
Non-cash other gains and losses (net)		(8,915)	9,873
Amortization of deferred financing costs and non-cash financing costs		2,338	1,883
Change in non-cash working capital and foreign exchange		12,822	9,356
Total cash flows from operating activities		93,089	69,075
Investing activities:			
Investment in projects under development	7	(89,555)	(73,022)
Investment in capital assets	6	(84,523)	(6,784)
Investment in intangible assets	8	(30,810)	—
Decrease (increase) in restricted cash		9,499	(59,850)
Total cash flows used in investing activities		(195,389)	(139,656)
Financing activities:			
Proceeds from issuance of long-term debt		220,115	126,096
Partner contributions		—	39,949
Repayment of long-term debt		(118,680)	(81,202)
Dividends paid to non-controlling interests		(3,302)	(2,782)
Transaction costs on debt		(3,272)	(3,620)
Convertible debenture repayments		(2,688)	(2,420)
Dividends paid to preferred shareholders		(1,840)	(1,840)
Lease principal payments		(503)	(903)
Total cash flows from financing activities		89,830	73,278
Increase (decrease) in cash and cash equivalents		(12,470)	2,697
Cash and cash equivalents, beginning of year		71,161	69,256
Cash and cash equivalents, end of period		58,691	71,953
Supplemental information:			
Interest paid		29,164	24,810
Taxes paid		1,174	848

See accompanying notes to these consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone is incorporated in British Columbia, domiciled in Canada, and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. All of Capstone's Class A common shares are owned by Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund advised by London, UK-based iCON Infrastructure LLP ("iCON"), who is the ultimate parent. Capstone Infrastructure Corporation and its subsidiaries (together the "Corporation" or "Capstone") mission is to power society, protect the environment, contribute to communities, and create value for its shareholders. As at September 30, 2021, Capstone operates an approximate installed capacity of 766 megawatts across 29 facilities in Canada, including wind, solar, hydro, biomass, and natural gas cogeneration power plants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant Changes in Accounting Policies

There have been no material changes to Capstone's accounting policies during the first nine months of 2021, except as noted in the 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, 2020. 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 2020 annual consolidated financial statements.

In 2020, an outbreak of a novel strain of coronavirus, responsible for a communicable disease called "COVID-19", was declared a pandemic by the World Health Organization and has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures have caused material disruption to businesses globally, resulting in an economic slowdown in many sectors. At the time of this report, the duration and impacts of COVID-19 are unknown, as this is a continuing and evolving global concern. The COVID-19 outbreak has not changed Capstone's method of calculation for its critical estimates and judgments to date, although underlying market assumptions have fluctuated significantly for its financial instruments. Capstone continues to maintain sufficient liquidity and will continue to monitor and respond to disruptions to global credit markets and supply chains, which may impact its operating businesses, as well as construction and development projects.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on November 8, 2021. All amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

Basis of Measurement

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

Changes in Accounting Standards

The IASB issued amendments to IAS 16, particularly regarding proceeds from sales generated by an asset before its intended use. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Capstone adopted the amendments early, effective January 1, 2021.

Future Changes in Accounting Standards

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, 2020. Capstone continues to monitor changes to IFRS, applicable IASB changes to standards, new interpretations, and annual improvements.

3. SEASONALITY

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

4. ACQUISITIONS

SWNS Wind Facilities

On January 7, 2021, Capstone purchased 29MW of operating wind projects, known as the Springwood, Whittington, Napier, and Sumac Ridge wind facilities from wpd Europe GmbH ("wpd"). These projects have assets that operate in Ontario and long term power purchase agreements ("PPA"), with approximately 14 years remaining. They are held by a wholly-owned indirect subsidiary, SWNS Wind LP ("SWNS"), and were funded with existing cash on hand and non-recourse project debt (see note 9 Long-Term Debt).

As at September 30, 2021, the balances in Capstone's consolidated statement of financial position include the SWNS wind facilities. The statements of comprehensive income and cash flows include the results from SWNS subsequent to January 7, 2021.

5. 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, 2021	Dec 31, 2020
Derivative contract assets:					
Whitecourt embedded derivative	—	—	7,659	7,659	13,493
Interest rate swap contracts	—	9,396	—	9,396	1,688
Foreign currency contracts (1)	—	131	—	131	—
Less: current portion	—	(131)	—	(131)	—
	—	9,396	7,659	17,055	15,181
Derivative contract liabilities:					
Interest rate swap contracts	—	10,181	—	10,181	17,723
Less: current portion	—	(3,615)	—	(3,615)	(3,377)
	—	6,566	—	6,566	14,346

(1) Foreign currency contracts relate to USD purchases for the construction of development projects.

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 $904,581 compared to a carrying value of $861,665.

Fair value determination

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

Whitecourt embedded derivative	• The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including the forward Alberta Power Pool prices, volatility, credit spreads and production projections.
Interest rate swap	• Fair value fluctuates with changes in market interest rates. • A discounted cash flow valuation based on a forward interest rate curve was used to determine their fair value.
Foreign currency contracts	• Fair value fluctuates with changes in the US dollar to the Canadian dollar. • A discounted cash flow valuation based on a forward USD/CAD exchange rate curve was used to determine their fair value.

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. CAPITAL ASSETS

	2021
As at January 1	760,339
Additions (1)	82,013
Transfers (2)	213,581
Disposals	(501)
Depreciation	(60,096)
As at September 30	995,336

(1) Additions include $75,019 related to SWNS. Refer to note 4.
(2) Transfers of $213,581 from projects under development when Claresholm commenced commercial operation ("COD"). Refer to note 7.

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

	Nine months ended	
	Sep 30, 2021	Sep 30, 2020
Additions	82,013	13,348
Adjustment for non-cash ROU asset additions	(2,302)	(8,490)
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	4,812	1,926
Cash additions	84,523	6,784

7. PROJECTS UNDER DEVELOPMENT ("PUD")

	2021
As at January 1	177,128
Capitalized costs during the period	89,818
Transferred to capital assets (1)	(213,581)
As at September 30 (2)	53,365

(1) Amounts were transferred on COD of Claresholm. Refer to note 6.
(2) The balance primarily includes costs to develop the Riverhurst and Buffalo Atlee wind projects ($28,513, and $6,396, respectively), as well as the early-stage US development projects ($11,423) and Michichi and Kneehill solar projects ($4,434 and $2,463, respectively).

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

	Nine months ended	
	Sep 30, 2021	Sep 30, 2020
Additions	89,818	71,219
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(263)	1,803
Cash additions	89,555	73,022

8. INTANGIBLE ASSETS

	2021
As at January 1	132,415
Additions (1)	32,221
Amortization	(10,132)
As at September 30	154,504

(1) Additions relate to SWNS, of which $30,810 were cash additions. Refer to note 4.

9. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Sep 30, 2021	Dec 31, 2020
CPC credit facility (1)	7,500	—
Project debt		
Wind (2)	531,505	468,554
Solar (3)	199,793	165,179
Gas	70,787	73,522
Hydro	69,139	70,034
Power (4)	878,724	777,289
Less: deferred financing costs (5)	(17,059)	(15,690)
Long-term debt	861,665	761,599
Less: current portion	(149,553)	(154,360)
	712,112	607,239

(1) The CPC revolving credit facility matures December 15, 2023.
(2) Wind project debt consists of Amherst, Erie Shores, GHG, Glace Bay, Glen Dhu, Goulais, Grey Highlands Clean, Saint-Philémon, Settlers Landing, SkyGen, Skyway8, Snowy Ridge, and SWNS term facilities.
(3) Solar project debt consists of Claresholm construction facility and Amherstburg term facility. At Claresholm, interest during construction of $2,295 was capitalized as of September 30, 2021.
(4) The power segment has $94,576 of securities used on its letter of credit facilities.
(5) The September 30, 2021 balance includes $3,306 of transaction costs for the SWNS financing, GHG and Snowy Ridge extensions, and SkyGen and Skyway 8 refinancing.

(B) Financing Changes

SWNS Financing

On January 7, 2021, Capstone entered into a credit facility which provided $88,600 of project debt at a variable interest rate and matures on March 31, 2026. To mitigate interest rate risk, SWNS entered into swap contracts to convert interest into an effective fixed rate of 3.05%.

SkyGen and Skyway 8 Refinancing

On March 25, 2021, the SkyGen and Skyway 8 term loans were refinanced with their existing lender. The term loans now have a fixed interest rate of 3.60% and mature on March 23, 2023 and March 17, 2023, respectively.

Grey Highlands ZEP and Ganaraska ("GHG") and Snowy Ridge Extensions

In July 2021, the GHG and Snowy Ridge term loans were extended with existing lenders, and now mature on June 30, 2022.

10. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Sep 30, 2021	Dec 31, 2020
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		Nine months ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Preferred shares declared (1)	770	623	1,909	1,852

(1) Includes current and deferred income tax expense of $103 and $16 for the quarter and year to date, respectively (2020 - expense of $10 and $13 for the quarter and year to date, respectively).

11. REVENUE BY NATURE

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

	Three months ended		Nine months ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Wind	21,476	20,345	84,695	80,957
Solar (1), (2)	12,841	5,533	31,286	13,642
Gas (3)	7,362	6,241	18,736	16,990
Biomass (2)	4,512	2,345	15,447	8,544
Hydro	1,597	2,131	8,283	10,264
Total	47,788	36,595	158,447	130,397

(1) Solar includes revenue earned during project commissioning at Claresholm.
(2) Solar and Biomass include revenue from the generation of electricity at market rates.
(3) 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.

12. EXPENSES BY NATURE

	Three months ended Sep 30, 2021				Three months ended Sep 30, 2020			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	4,812	—	—	4,812	3,738	—	—	3,738
Wages and benefits	2,929	1,336	—	4,265	2,648	1,187	—	3,835
Fuel & transportation	2,542	—	—	2,542	1,686	—	—	1,686
Property expenses (1)	1,682	135	—	1,817	1,489	116	3	1,608
Professional fees (2)	285	86	983	1,354	337	99	594	1,030
Insurance	840	22	—	862	620	27	—	647
Power facility administration	752	—	—	752	654	—	—	654
Other	333	138	239	710	262	168	—	430
Total	14,175	1,717	1,222	17,114	11,434	1,597	597	13,628

	Nine months ended Sep 30, 2021				Nine months ended Sep 30, 2020			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	13,538	—	—	13,538	11,815	—	—	11,815
Wages and benefits	8,937	4,144	—	13,081	8,137	3,680	—	11,817
Property expenses (1)	4,951	378	71	5,400	4,985	381	74	5,440
Fuel and transportation	5,190	—	—	5,190	4,214	—	—	4,214
Professional fees (2)	1,006	256	2,565	3,827	1,127	221	3,327	4,675
Insurance	2,404	66	—	2,470	1,860	65	—	1,925
Power facility administration	2,107	—	—	2,107	2,014	—	—	2,014
Other	1,302	496	683	2,481	1,151	474	222	1,847
Total	39,435	5,340	3,319	48,094	35,303	4,821	3,623	43,747

(1) Property expenses include leases, utilities, and property taxes.
(2) Professional fees include legal, audit, tax and other advisory services.

13. OTHER GAINS AND LOSSES

	Three months ended		Nine months ended	
	Sep 30, 2021	Sep 30, 2020	Sep 30, 2021	Sep 30, 2020
Changes in derivative financial instruments fair value (1)	(980)	(14)	7,478	(6,738)
Loss on debt extinguishment (2)	—	—	—	(5,248)
Losses on disposal of capital assets	(439)	(136)	(501)	(141)
Other gains and (losses), net	(1,419)	(150)	6,977	(12,127)

(1) Year-to-date unrealized gains on derivative financial instruments were primarily attributable to gains on interest rate swap contracts due to higher long-term interest rates partially offset by a decrease in the Whitecourt embedded derivative asset, primarily due to higher estimated forward Alberta Power Pool prices since December 31, 2020.
(2) Related to Grey Highlands Clean refinancing in 2020.

14. 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, 2021			Three months ended Sep 30, 2020		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	47,788	—	47,788	36,595	—	36,595
Expenses	(14,931)	(2,183)	(17,114)	(11,580)	(2,048)	(13,628)
EBITDA	31,828	(2,029)	29,799	24,800	(2,049)	22,751
Interest expense	(11,190)	—	(11,190)	(9,011)	—	(9,011)
Income tax recovery (expense)	1,718	648	2,366	1,826	(353)	1,473
Net income (loss)	(2,003)	(1,470)	(3,473)	(2,896)	(2,467)	(5,363)
Additions to capital assets, net	6,187	—	6,187	2,219	—	2,219
Additions to PUD (1)	13,100	—	13,100	39,627	—	39,627

	Nine months ended Sep 30, 2021			Nine months ended Sep 30, 2020		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	158,447	—	158,447	130,397	—	130,397
Expenses	(42,112)	(5,982)	(48,094)	(36,805)	(6,942)	(43,747)
EBITDA	123,484	(5,480)	118,004	81,662	(6,720)	74,942
Interest expense	(31,294)	—	(31,294)	(26,894)	—	(26,894)
Income tax recovery (expense)	(4,689)	1,572	(3,117)	2,357	1,641	3,998
Net income (loss)	17,539	(4,174)	13,365	(4,026)	(5,302)	(9,328)
Additions to capital assets, net (2)	82,013	—	82,013	13,348	—	13,348
Additions to PUD (1)	89,818	—	89,818	71,219	—	71,219

(1) PUD additions primarily include costs to develop the Claresholm solar project, Riverhurst wind project, as well as other early-stage projects.
(2) Capital assets additions include $75,019 related to SWNS. Refer to note 4.

15. 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, 2020.

As at September 30, 2021, Riverhurst has commitments of $6,437 for the construction of the facility. In addition, the early-stage US development projects have commitments of $3,664 for asset purchase obligations.

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

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