CAPSTONE INFRASTRUCTURE CORPORATION

Financial Report for the Quarter Ended September 30, 2022

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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, 2021 under the headings "Changes in the Business", “Results of Operations” and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation’s SEDAR profile at www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements contained herein include or relate to the following: that the business and economic conditions affecting the Corporation’s operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes, inflation, and interest rates; that the preferred shares will remain outstanding and that dividends will continue to be paid on the preferred shares; that there will be no material delays in the Corporation’s 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; 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); risks related to the Corporation and its businesses (availability of debt and equity financing; default under credit agreements and debt instruments; geographic concentration; acquisitions, development and integration; environmental, health and safety; changes in legislation and administrative policy; foreign exchange fluctuations; reliance on key personnel); and risks related to the Corporation’s power facilities (power purchase agreements; operational performance; market price for electricity; contract performance and reliance on suppliers; completion of the Corporation’s wind and solar development projects; land tenure and related rights; the COVID-19 pandemic; environmental; insurance coverage; climate change; cybersecurity and reliance on information technology; regulatory environment; environmental attributes; US jurisdiction; US tax incentives and availability of tax equity financing).

For a comprehensive description of these risk factors, please refer to the "Risk Factors" section of the Corporation's Annual Information Form dated March 22, 2022, 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, 2022 with the comparative prior period and the Corporation's financial position as at September 30, 2021 and December 31, 2021.

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, 2022, and the financial statements and MD&A for the year ended December 31, 2021. Additional information about the Corporation can be found in its other public filings, specifically the Corporation's Annual Information Form dated March 22, 2022 and its MD&A and audited annual financial statements for the year ended December 31, 2021. 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 14, 2022, the date on which this MD&A was approved by the Corporation's Board of Directors.

BASIS OF PRESENTATION

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

ADDITIONAL PERFORMANCE MEASURES DEFINITIONS

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

CHANGES IN THE BUSINESS

In 2022, Capstone continues to execute on its strategic objectives, advancing its development projects and successfully managing financing activities providing funding for continued growth, despite evolving global events.

Project Development Activities

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

Name of project	Status	Gross MW	Jurisdiction	Technology
Buffalo Atlee	In Construction	67	Alberta	Wind
Michichi	In Construction	25	Alberta	Solar
Kneehill	In Construction	25	Alberta	Solar
Wild Rose 2	Development	192	Alberta	Wind
Early-stage development projects	Development	>700	Canada	Wind/Solar
MW capacity in Canada		**>1,009**		
Early-stage development projects	Development	>1,000	United States	Wind/Solar/Battery
MW capacity in the United States ("US")		**>1,000**		

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

Wild Rose 2 and Buffalo Atlee

Capstone's Wild Rose 2 project entered two offtake agreements in 2022, effectively contracting over 95% of the facility's capacity. These consist of an agreement with Pembina Pipeline Corporation for the offtake of 105MW of renewable energy and associated renewable energy attributes over 15 years, and a 78MW agreement with the City of Edmonton to supply renewable attributes over 20 years.

On June 10, 2022, Capstone's Buffalo Atlee 1-3 projects terminated their Renewable Electricity Support Agreements with the Alberta Electric System Operator ("AESO") in accordance with the termination and release agreements that were entered into between the projects and the AESO.

Further, Wild Rose 2 and Buffalo Atlee projects executed turbine supply agreements with Siemens Gamesa Renewable Energy Inc. for the procurement of 51 turbines, as well as executed Engineering, Procurement and Construction contracts.

Equity accounted investments

On June 7, 2022, a Capstone subsidiary entered into an agreement with a subsidiary of Eurowind Energy A/S ("Eurowind") for the purpose of jointly developing renewable energy projects in the US. Capstone and Eurowind have equal interests in these projects. Capstone's consolidated financial statements include its 50% interest as an equity accounted investment adjusted by the share of net income (loss) and contributions made subsequent to Capstone's initial contribution on June 7, 2022.

SLGR reorganization

On July 14, 2022, the Ganaraska and Grey Highlands ZEP ("GHG"), Snowy Ridge ("SR"), and Settlers Landing ("SLS") wind projects were reorganized. As part of the reorganization, Capstone purchased 1% of the conversion option held by a subsidiary of One West Holdings Ltd. ("Concord") and then the assets and liabilities of these wind projects were transferred into SLGR Wind LP ("SLGR"). Concord then exercised its right to convert its debenture into a 49% equity interest in the projects, resulting in Capstone and Concord having 51% and 49% ownership of SLGR, respectively. The projects remain consolidated in the interim consolidated financial statements of Capstone.

Arrangement Agreement for the Acquisition of Genalta Power Inc.

On September 29, 2022, Capstone Power Corp. entered into an arrangement agreement with Genalta Power Inc. ("Genalta") that provides for the acquisition of all of the remaining shares of Genalta not owned by Capstone by way of a plan of arrangement under the British Columbia Business Corporations Act, subject to the terms and conditions of the arrangement agreement. The completion of the transaction is subject to Genalta shareholder approval, court approval, and satisfaction of waiver of customary closing conditions.

Financing Activities

Capstone has converted the existing construction credit facility for Claresholm to a term loan, and further improved corporate liquidity for growth by executing a project financing for the Riverhurst wind facility, receiving cash capital contributions from its Class A common shareholder, expanding the Capstone Power Corp. ("CPC") credit facilities, and refinancing the GHG, SR, and SLS wind projects as SLGR.

Claresholm term conversion

On March 24, 2022, the Claresholm construction facility was converted to a term loan, amortizing over 20 years. The term loan is comprised of two tranches, a floating interest rate tranche which matures on March 24, 2026 and a fixed interest rate tranche which matures on July 9, 2032. To mitigate the interest rate risk from the bank lenders, Claresholm has swap contracts to convert the floating interest rate obligations to a fixed rate.

Riverhurst financing

On April 27, 2022, Riverhurst entered into a credit agreement providing $47,000 of variable rate project debt, which has swap contracts to convert the obligations to a fixed rate, amortizing over 20 years.

Class A shareholder funding

Capstone's Class A common shareholder contributed $80,000 in cash in 2022.

In addition, Capstone has outstanding letters of credit of $9,677 which are supported by the common shareholder under a financing and reimbursement agreement. Under the terms of the agreement, Capstone would reimburse the common shareholder for any payments made on their behalf related to the letters of credit.

CPC credit facilities

On April 29, 2022, CPC increased the capacity on its revolving credit facility by $40,000. The CPC revolving credit facility now has a capacity of $160,500 and matures December 15, 2023.

SLGR refinancing

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

SUBSEQUENT EVENTS

Hydros EPA extension

On October 30, 2022, Capstone entered into an extension to the Sechelt Creek hydro facility Electricity Purchase Agreement ("EPA") with BC Hydro until January 31, 2023. The extension is subject to BCUC approval.

RESULTS OF OPERATIONS

Overview

In 2022, Capstone's EBITDA and net income were both higher in the third quarter and for the year-to-date period. Higher year-to-date EBITDA primarily reflects:

- Higher revenue due to added market runs at Cardinal, generally higher wind and hydro production from better resource, and higher Alberta Power Pool prices at Whitecourt, as well as the addition of Riverhurst, which achieved COD in 2021;
- Higher other income from unrealized fair value changes on interest rate swaps, which rose in value due to higher long-term interest rates, partially offset by;
- Higher expenses due to higher fuel costs at Cardinal due to market runs, higher expenses at Claresholm since 2021 COD, higher project development costs, and higher fuel costs at Whitecourt.

	Three months ended			Nine months ended		
	Sep 30, 2022	Sep 30, 2021	Change	Sep 30, 2022	Sep 30, 2021	Change
Revenue	59,624	47,788	11,836	178,761	158,447	20,314
Expenses	(24,966)	(17,114)	(7,852)	(64,039)	(48,094)	(15,945)
Other income and expenses	(1,054)	(875)	(179)	28,447	7,651	20,796
EBITDA	33,604	29,799	3,805	143,169	118,004	25,165
Interest expense	(10,988)	(11,190)	202	(33,688)	(31,294)	(2,394)
Depreciation and amortization	(23,730)	(24,448)	718	(72,125)	(70,228)	(1,897)
Income tax recovery (expense)	(398)	2,366	(2,764)	(9,880)	(3,117)	(6,763)
Net income	(1,512)	(3,473)	1,961	27,476	13,365	14,111

The remaining material change in net income was:

- Higher depreciation and amortization and interest expense due to the addition of Claresholm and Riverhurst; and
- Higher income tax expense in 2022 relates to deferred taxes on financial instruments and capital assets.

Seasonality

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

Results by Segment

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

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

Revenue

Capstone's revenue is 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, 2022	Sep 30, 2021	Change	Sep 30, 2022	Sep 30, 2021	Change
Wind	21,725	21,476	249	91,589	84,695	6,894
Solar (1)	13,833	12,841	992	32,194	31,286	908
Gas	13,351	7,362	5,989	26,248	18,736	7,512
Biomass (1)	8,283	4,512	3,771	18,707	15,447	3,260
Hydro	2,432	1,597	835	10,023	8,283	1,740
Total Revenue	59,624	47,788	11,836	178,761	158,447	20,314

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

Power generated (GWh)	Three months ended			Nine months ended		
	Sep 30, 2022	Sep 30, 2021	Change	Sep 30, 2022	Sep 30, 2021	Change
Wind	191.0	188.8	2.2	798.8	752.9	45.9
Solar	100.7	96.0	4.7	241.5	183.4	58.1
Gas	56.0	30.4	25.6	72.5	41.7	30.8
Biomass	40.2	47.6	(7.4)	134.7	145.2	(10.5)
Hydro	30.6	18.3	12.3	123.4	101.2	22.2
Total Power	418.5	381.1	37.4	1,370.9	1,224.4	146.5

Capstone's power segment earns revenue from:

- The wind facilities, in Ontario, Nova Scotia, Québec, and Saskatchewan, by selling electricity in accordance with their PPAs. On a megawatt ("MW") weighted-average-basis, there are 10 years remaining on the current PPAs.
- The solar facilities, consisting of Amherstburg in Ontario, selling its electricity under a long-term PPA expiring in 2031, and Claresholm in Alberta, which sells a portion of its electricity, and the associated emissions offset credits, under a long-term PPA expiring in 2029, as well as a merchant portion, which sells electricity at market rates to the Alberta Power Pool and the associated emissions offset credits to third parties.
- Whitecourt, a biomass facility in Alberta, by selling electricity at market rates to the Alberta Power Pool. Whitecourt also earns a portion of its revenue from the sale of emissions offset credits. These are supplemented or offset by a revenue sharing agreement with Whitecourt's fuel supplier, Millar Western Forest Products Ltd. ("Millar Western"), where contractual settlements are included in other gains and losses in the consolidated statement of income.
- Cardinal, a natural gas peaking facility in Ontario, from fixed payments for providing capacity and availability to the IESO with a 2034 power contract expiry and by supplying electricity to the Ontario grid when it is profitable to do so. In addition, Cardinal receives a fixed amount (subject to escalation) to provide operational and maintenance services to Ingredion's 15MW facility.
- The hydro facilities, in Ontario and British Columbia, by selling electricity under long-term PPAs. On a MW weighted-average-basis, there are 11 years remaining on the current PPAs, with the earliest expiry in January 2023. See the "Subsequent Events" section in this MD&A for detail.

Three months	Nine months	Explanations
5,989	7,512	Higher revenue at Cardinal due to additional market runs.
145	5,521	Higher revenue from wind (excluding Riverhurst) and hydro facilities, due to higher production from resources.
3,294	3,641	Higher revenue from Whitecourt due to higher Alberta Power Pool prices offsetting lower production.
939	3,115	Revenue from adding Riverhurst which reached COD on December 10, 2021.
1,469	525	Various other changes.
11,836	20,314	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, 2022	Sep 30, 2021	Change	Sep 30, 2022	Sep 30, 2021	Change
Wind	(6,217)	(5,318)	(899)	(18,772)	(16,547)	(2,225)
Solar	(3,717)	(1,419)	(2,298)	(6,679)	(2,828)	(3,851)
Gas	(8,408)	(3,907)	(4,501)	(15,383)	(9,137)	(6,246)
Biomass	(2,651)	(2,634)	(17)	(8,792)	(8,089)	(703)
Hydro	(1,053)	(897)	(156)	(3,115)	(2,834)	(281)
Power operating expenses	(22,046)	(14,175)	(7,871)	(52,741)	(39,435)	(13,306)
Administrative expenses	(2,172)	(1,717)	(455)	(6,534)	(5,340)	(1,194)
Project development costs	(748)	(1,222)	474	(4,764)	(3,319)	(1,445)
Total Expenses	(24,966)	(17,114)	(7,852)	(64,039)	(48,094)	(15,945)

Expenses for the operation and maintenance ("O&M") of the power facilities mainly consist of wages and benefits and payments to third party providers. Capstone's wind facilities are operated by Capstone's in-house operations and maintenance teams, except for Glen Dhu, Goulais, SkyGen, Saint-Philémon, Glace Bay and Riverhurst which are maintained under service agreements, typically with the original equipment manufacturers. The hydro facilities are operated and maintained under an O&M agreement. In addition, Cardinal, Whitecourt, Claresholm, 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 direct staff costs in 2022, and professional fees and other costs to pursue greenfield opportunities, as well as costs to explore and execute transactions in both periods. 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 2021:

Three months	Nine months	Explanations
(4,501)	(6,246)	Higher expenses at Cardinal due to additional market runs in 2022.
(2,266)	(4,355)	Higher operating expenses at Claresholm which reached COD on April 19, 2021.
474	(1,445)	Higher project development costs associated with early-stage development in 2022 year-to-date versus 2021.
(16)	(703)	Higher expenses at Whitecourt due to higher fuel costs.
(126)	(485)	Higher operating expenses at Riverhurst which reached COD on December 10, 2021.
(1,417)	(2,711)	Various other changes.
(7,852)	(15,945)	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

As at September 30, 2022, Capstone's working capital surplus was $26,733, compared with a deficit of $76,445 as at December 31, 2021, mainly resulting from refinancing the near-term debt maturities.

Capstone has adequate financial flexibility to meet liquidity needs and support further growth, including $102,001 of unrestricted cash and cash equivalents, and credit facility capacity of $89,297 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, 2022	Dec 31, 2021
Power	25,358	(75,778)
Corporate	1,375	(667)
Working capital (equals current assets, less current liabilities)	26,733	(76,445)

Capstone's working capital was $103,178 higher than December 31, 2021 because of increases of $101,136 and $2,042 from power and corporate, respectively. The power increase was mainly driven by a $61,259 decrease in current portion of long-term debt, which was a result of the SLGR refinancing (net decrease of $90,674), offset by an increase of $26,004 for 2023 project debt maturities at SkyGen and Skyway 8. It also includes higher cash and restricted cash of $33,286, current loans receivable of $12,945, and current portion of derivative contract assets of $9,969, partially offset by a $17,285 increase of accounts payable primarily for costs to construct the development projects.

Cash and cash equivalents

As at	Sep 30, 2022	Dec 31, 2021
Power	99,791	56,494
Corporate	2,210	882
Unrestricted cash and cash equivalents	102,001	57,376

These funds are available for operating activities, capital expenditures, and future acquisitions. The $44,625 increase consists of higher balances of $1,328 at corporate, and $43,297 at power, reflecting $80,000 from Class A common shareholder capital contributions, proceeds of $47,000 from the Riverhurst project financing, and an accumulation of asset distributions, partially offset by repayments of $61,000 on the CPC revolving credit facility.

Cash at the power segment is comprised of $31,235 at CPC and $68,556 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 $89,297 as at September 30, 2022.

Cash flow

Capstone's consolidated cash and cash equivalents increased by $44,625 in 2022 compared with a decrease of $12,470 in 2021. 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, 2022	Sep 30, 2021
Operating activities	82,202	85,592
Investing activities	(123,206)	(191,164)
Financing activities (excluding dividends to shareholders)	87,784	94,942
Dividends paid to shareholders	(2,155)	(1,840)
Change in cash and cash equivalents	44,625	(12,470)

Cash flow from operating activities was $3,390 lower in 2022 comprised of a $2,161 decrease from the corporate segment, and a $1,229 decrease from the power segment. The decreases reflect changes in working capital, partially offset by higher revenues after covering expenses from operating assets at the power segment.

Cash flow used in investing activities was comparatively $67,958 lower in 2022, as 2021 included $200,663 to purchase SWNS and build Claresholm and Riverhurst. In 2022, $106,236 was used for projects under development ("PUD"), primarily to build Buffalo Atlee, Michichi, and Kneehill and develop Wild Rose 2. $30,071 was used for capital assets, for both additions, including refurbishments on the Dryden hydro facility dams, as well as for settlement of 2021 payables, mainly at Claresholm and Riverhurst.

Cash flow from financing activities was $7,473 lower in 2022, in which Capstone received $80,000 cash from Class A common shareholder capital contributions and $29,202 in government funding, offset by $105,318 lower net debt proceeds and $12,945 of advances on loans receivable.

The net debt proceeds in 2022 include $119,000 from refinancing SLGR, less $97,203 to repay prior project debts, plus $47,000 from financing Riverhurst. The remaining change reflects $61,000 of repayments on the CPC revolving credit facility and various scheduled repayments of project debt. In 2021, the net debt proceeds consisted of $88,600 of SWNS project debt, $41,500 of draws on the Claresholm facility, and a net draw of $7,500 on the CPC revolving credit facility, partly offset by $30,515 to refinance SkyGen and Skyway8, and scheduled repayments.

Long-term Debt

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

	Dec 31, 2021	Additions	Repayments	Other	Sep 30, 2022
Long-term debt (1), (2) and (3)	881,949	198,500	(202,383)	—	878,066
Deferred financing fees (4)	(16,297)	(6,316)	—	2,938	(19,675)
	865,652	192,184	(202,383)	2,938	858,391
Less: current portion of long-term debt	(149,473)	—	—	61,259	(88,214)
	716,179	192,184	(202,383)	64,197	770,177

(1) The power segment has drawn $120,995 for letters of credit. In addition, Capstone has outstanding letters of credit of $9,677 which are supported by the common shareholder.
(2) Additions of $198,500 consist of SLGR project financing of $119,000, Riverhurst project financing of $47,000, and $32,500 drawn on the CPC revolving credit facility.
(3) Repayments of $202,383 consist of repayments on the CPC revolving credit facility of $61,000, repayments of the GHG, SR and SLS credit facilities of $53,986, $22,673 and $20,580 respectively, and scheduled repayments.
(4) Additions consist of deferred transaction costs on the Riverhurst and SLGR project financings and Claresholm term conversion. See the "Changes in the Business" section in this MD&A for detail.

As at September 30, 2022, Capstone's long-term debt consisted of $878,066 of project debt. The current portion of long-term debt was $88,214, consisting of scheduled debt amortization and upcoming 2023 maturities for Skygen and Skyway 8 of $11,296 and $14,708, respectively. 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. On April 29, 2022, CPC increased the capacity on its revolving credit facility, which now has a capacity of $160,500 and matures December 15, 2023.

Equity

Shareholders' equity comprised:

As at	Sep 30, 2022	Dec 31, 2021
Common shares (1)	142,270	62,270
Preferred shares (2)	72,020	72,020
Share capital	214,290	134,290
Accumulated other comprehensive income (loss)	—	5
Retained earnings	94,507	73,742
Equity attributable to Capstone shareholders	308,797	208,037
Non-controlling interests	117,123	96,129
Total shareholders' equity	425,920	304,166

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

Capital Expenditure Program

Capstone's power segment incurred $117,542 of capital expenditures during the nine months ended September 30, 2022, which included $139,824 of costs capitalized to PUD, offset by $32,447 of government funding, and $10,165 of additions to capital assets.

Net PUD expenditures in 2022 were primarily for costs to advance the Michichi and Kneehill solar projects ($56,003), the Wild Rose 2 wind project ($26,887), and the Buffalo Atlee wind project ($15,983). Expenditures related to the US development projects jointly owned with Eurowind were transferred from PUD to equity accounted investments.

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

Contractual Obligations

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

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

As at September 30, 2022, Capstone's indirect commitments for development are $284,208 for the Wild Rose 2 wind project, $103,250 for the Buffalo Atlee wind projects, and $76,832 for the Michichi and Kneehill solar projects. The Dryden hydro facility has commitments of $6,244 for contracts to refurbish the dams.

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

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

Income Taxes

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

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

Capstone's deferred income tax assets primarily relate to unused tax losses carried forward. Capstone's deferred income tax liabilities primarily relate to the differences between the amortization of intangible and capital assets for tax and accounting purposes and non-deductible fair value adjustments on financial instruments partially offset by the utilization of tax losses.

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, included in the consolidated statement of financial position, were:

As at	Sep 30, 2022	Dec 31, 2021
Derivative contract assets	37,673	15,138
Derivative contract liabilities	(2,541)	(8,179)
Net derivative contract assets (liabilities)	35,132	6,959

Net derivative contract assets increased by $28,173 from December 31, 2021, due to gains of $24,442 in the statement of income and contractual settlements of $3,738 paid to Millar Western, slightly offset by losses of $7 on foreign exchange contracts included in other comprehensive income ("OCI").

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

	Three months ended		Nine months ended	
	Sep 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021
Interest rate swap contracts (1)	27	2,182	34,948	15,247
Whitecourt embedded derivative	(2,836)	(3,162)	(10,506)	(7,769)
Gains (losses) on derivatives in net income	(2,809)	(980)	24,442	7,478
Foreign currency contracts in OCI	(448)	690	(7)	131
Gains (losses) on derivatives in comprehensive income	(3,257)	(290)	24,435	7,609

(1) The interest rate swap contracts include a contingent interest rate swap in anticipation of financing the Wild Rose 2 project.

The year-to-date gain on derivatives includes gains from the interest rate swap contracts, resulting from generally higher interest rates during the swap periods since December 31, 2021, partially offset by a decrease in the Whitecourt embedded derivative, resulting from higher forecasted Alberta Power Pool prices and losses on foreign exchange contracts.

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, 2021 and the "Risk Factors" section of the Annual Information Form ("AIF") dated March 22, 2022 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.

Additionally, in February 2022, Russia commenced a military invasion of Ukraine. While the direct impact of the conflict is currently in eastern Europe, the potential global impact of these actions is unclear and may have the effect of heightening the Corporation's risk factors, including with respect to foreign exchange fluctuations, supply chain matters, completion of development projects (including because of commodity price or other market inflationary factors), and cybersecurity. While it is not currently possible to estimate the length and severity of these events, the Corporation's existing operations have not been materially impacted. Capstone continues to monitor developments and develop mitigation measures to manage impact on its businesses and development 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, 2021 and the "Environmental, Health, and Safety Matters" section of the Corporation's Annual Information Form dated March 22, 2022, which are available on the SEDAR website at www.sedar.com.

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.

	2022			2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**59,624**	59,937	59,200	64,120	47,788	56,480	54,179	51,106
EBITDA	**33,604**	46,367	63,198	38,674	29,799	34,334	53,871	43,629
Net income (loss) (1)	**(2,281)**	5,854	19,342	2,559	(5,262)	(3,175)	14,988	9,995
Preferred dividends	**694**	694	694	694	613	613	613	613

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

ACCOUNTING POLICIES, ESTIMATES, AND INTERNAL CONTROLS

Significant Changes in Accounting Standards

The consolidated financial statements have been prepared in accordance with IFRS and are consistent with policies for the year ended December 31, 2021.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has not issued any significant accounting changes that impact the Corporation. Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements.

Accounting Estimates

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

Refer to note 2 "Summary of Significant Accounting Policies" in the most recent annual financial statements for the year ended December 31, 2021 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 pandemic and 2022 Russian invasion of Ukraine have 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, 2021, 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, 2022	Dec 31, 2021
Current assets			
Cash and cash equivalents		102,001	57,376
Restricted cash		27,867	37,879
Accounts receivable		29,812	30,916
Current portion of loan receivable	5	12,945	—
Other assets		7,308	5,599
Current portion of derivative contract assets	6	9,979	10
		189,912	131,780
Non-current assets			
Loans receivable	5	28,272	10,230
Derivative contract assets	6	27,694	15,128
Equity accounted investments	7	3,586	—
Capital assets	8	969,577	1,022,361
Projects under development	9	140,444	38,530
Intangible assets		141,305	151,286
Deferred income tax assets		929	176
Total assets		1,501,719	1,369,491
Current liabilities			
Accounts payable and other liabilities		71,895	55,405
Current portion of derivative contract liabilities	6	1,756	2,143
Current portion of lease liabilities		1,314	1,204
Current portion of long-term debt	10	88,214	149,473
		163,179	208,225
Long-term liabilities			
Derivative contract liabilities	6	785	6,036
Deferred income tax liabilities		93,856	86,460
Lease liabilities		35,277	36,425
Long-term debt	10	770,177	716,179
Liability for asset retirement obligation		12,525	12,000
Total liabilities		1,075,799	1,065,325
Equity attributable to shareholders of Capstone		308,797	208,037
Non-controlling interest		117,123	96,129
Total liabilities and shareholders' equity		1,501,719	1,369,491
Commitments and contingencies	16		

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	Equity attributable to shareholders of Capstone				
		Share Capital	AOCI [1]	Retained Earnings	NCI [2]	Total Equity
Balance, December 31, 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]	11	—	—	(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

	Notes	Equity attributable to shareholders of Capstone				
		Share Capital	AOCI [1]	Retained Earnings	NCI [2]	Total Equity
Balance, December 31, 2021		134,290	5	73,742	96,129	304,166
Capital contribution	11	80,000	—	—	—	80,000
Other comprehensive income (loss)		—	—	—	—	—
Net income (loss) for the period		—	(5)	22,920	4,561	27,476
Dividends declared to preferred shareholders of Capstone [3]	11	—	—	(2,155)	—	(2,155)
Deferred tax recovery on transaction with NCI		—	—	—	2,385	2,385
Convertible debenture repayments [4]		—	—	—	(1,150)	(1,150)
Dividends declared to NCI [5]		—	—	—	(2,397)	(2,397)
Contributions from NCI [6]		—	—	—	17,595	17,595
Balance, September 30, 2022		214,290	—	94,507	117,123	425,920

(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 $73 (2021 - expense of $16).
(4) Repayments were to the holder of the convertible debenture related to the GHG Wind Development LP, SR Wind Development LP and SLS Wind Development LP wind facilities prior to the conversion from debt to equity by the debenture holder. Refer to Note 4.
(5) Includes advances from SLGR Wind LP ("SLGR").
(6) Includes contributions from Sawridge First Nation ("Sawridge") to Buffalo Atlee, Michichi, and Kneehill.

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

		Three months ended		Nine months ended	
	Notes	Sep 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021
Revenue	12	59,624	47,788	178,761	158,447
Operating expenses	13	(22,046)	(14,175)	(52,741)	(39,435)
Administrative expenses	13	(2,172)	(1,717)	(6,534)	(5,340)
Project development costs	13	(748)	(1,222)	(4,764)	(3,319)
Equity accounted income (loss)	7	(169)	—	(367)	—
Interest income		981	239	1,805	706
Other gains and (losses), net	14	(2,880)	(1,419)	25,756	6,977
Foreign exchange gain (loss)		1,014	305	1,253	(32)
Earnings before interest expense, taxes, depreciation and amortization		33,604	29,799	143,169	118,004
Interest expense		(10,988)	(11,190)	(33,688)	(31,294)
Depreciation of capital assets	8	(20,451)	(21,032)	(62,144)	(60,096)
Amortization of intangible assets		(3,279)	(3,416)	(9,981)	(10,132)
Earnings before income taxes		(1,114)	(5,839)	37,356	16,482
Income tax recovery (expense)					
Current		102	259	(91)	134
Deferred		(500)	2,107	(9,789)	(3,251)
Total income tax recovery (expense)		(398)	2,366	(9,880)	(3,117)
Net income (loss)		(1,512)	(3,473)	27,476	13,365
Attributable to:					
Shareholders of Capstone		(2,281)	(5,262)	22,915	6,551
Non-controlling interest		769	1,789	4,561	6,814
		(1,512)	(3,473)	27,476	13,365

UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Three months ended		Nine months ended	
	Notes	Sep 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021
Gains (losses) on financial instruments designated as cash flow hedges (1)		(332)	515	—	1,503
Other comprehensive income (loss)		(332)	515	—	1,503
Net income (loss)		(1,512)	(3,473)	27,476	13,365
Total comprehensive income (loss)		(1,844)	(2,958)	27,476	14,868
Comprehensive income (loss) attributable to:					
Shareholders of Capstone		(2,613)	(4,747)	22,915	7,366
Non-controlling interest		769	1,789	4,561	7,502
		(1,844)	(2,958)	27,476	14,868

(1) Net of tax expense of $110 and nil for the quarter and year to date, respectively (2021 - net of tax expense of $175 and $33 for the quarter and year to date)

See accompanying notes to these consolidated financial statements

UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine months ended	Notes	Sep 30, 2022	Sep 30, 2021 [1]
Operating activities:			
Net income		27,476	13,365
Deferred income tax expense		9,789	3,251
Depreciation and amortization		72,125	70,228
Non-cash other gains and (losses), net		(28,353)	(8,915)
Transaction costs on debt		(6,142)	(3,272)
Amortization of deferred financing costs and non-cash financing costs		3,383	2,338
Equity accounted (income) loss		367	—
Change in non-cash working capital and foreign exchange		3,557	8,597
Total cash flows from operating activities		82,202	85,592
Investing activities:			
Investment in projects under development	9	(106,236)	(89,555)
Investment in capital assets	8	(30,071)	(80,298)
Advances on loans receivable to investee	5	(213)	—
Proceeds from partial sale of subsidiary	7	3,302	—
Decrease in restricted cash		10,012	9,499
Investment in intangible assets		—	(30,810)
Total cash flows used in investing activities		(123,206)	(191,164)
Financing activities:			
Proceeds from issuance of long-term debt		198,500	220,115
Proceeds from Class A common shareholder capital contribution		80,000	—
Proceeds from government funding		29,202	—
Repayment of long-term debt		(202,383)	(118,680)
Advances on loans receivable to partner	5	(12,945)	—
Dividends paid to non-controlling interests		(2,397)	(3,302)
Dividends paid to preferred shareholders		(2,155)	(1,840)
Convertible debenture repayments		(1,150)	(2,688)
Lease principal payments		(1,043)	(503)
Total cash flows from financing activities		85,629	93,102
Increase (decrease) in cash and cash equivalents		44,625	(12,470)
Cash and cash equivalents, beginning of year		57,376	71,161
Cash and cash equivalents, end of period		102,001	58,691
Supplemental information:			
Interest paid		30,761	29,164
Taxes paid		753	1,174

(1) Refer to Note 2.

See accompanying notes to these consolidated financial statements

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Capstone is incorporated in British Columbia, domiciled in Canada, and located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. All of Capstone's Class A common shares are owned by Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund advised by London, UK-based iCON Infrastructure LLP ("iCON"), who is the ultimate parent. Capstone Infrastructure Corporation and its subsidiaries' (together the "Corporation" or "Capstone") mission is to drive the energy transition forward through creative thinking, strong partnerships, and a commitment to quality and integrity in how it does business. As at September 30, 2022, Capstone operates an approximate installed capacity of 774 megawatts across 29 facilities in Canada, including wind, solar, hydro, biomass, and natural gas cogeneration power plants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

There have been no material changes to Capstone's accounting policies during the first nine months of 2022.

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, 2021. 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 2021 annual consolidated financial statements.

In reading these consolidated financial statements, recent ongoing global events including the COVID-19 pandemic and the 2022 Russian invasion of Ukraine may affect critical estimates and judgements relied upon. These global events continue to evolve and may have the effect of heightening the Corporation's risk factors. Capstone has not changed the methods of calculation for its critical estimates and judgements, although underlying market assumptions have fluctuated, primarily for its financial instruments. Capstone continues to monitor and respond to disruptions which may impact its operating businesses, as well as construction and development projects.

For a comprehensive description of risks, please refer to the disclosure in the Corporation's MD&A for the year ended December 31, 2021 and the "Risk Factors" section of the Annual Information Form ("AIF") dated March 22, 2022, which are available on the SEDAR website at www.sedar.com.

These interim condensed consolidated financial statements were approved by the Board of Directors for issue on November 14, 2022. 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.

Change to presentation and classification and comparative figures

On December 31, 2021, the Corporation adopted a change in presentation and classification with respect to Transaction costs on debt issuance in the Statement of Cash Flows. Transaction costs on debt issuance are now included in operating activities rather than financing activities.

In addition, the Corporation made an adjustment to the 2021 comparative figures in the Statement of Cash Flows related to the treatment of non-cash additions to Capital Assets as Investments in Capital Assets. This resulted in a $4,225 decrease in cash flows from operating activities and an offsetting decrease in cash flows used in investing activities, compared with amounts presented in the financial statements for the quarter ended September 30, 2021.

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, 2021. Capstone continues to monitor changes to IFRS, applicable IASB changes to standards, new interpretations, and annual improvements.

3. SEASONALITY

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

4. ACQUISITIONS AND TRANSACTIONS

(A) 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 10 Long-Term Debt). As at December 31, 2021 and September 30, 2022, 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.

(B) SLGR Convertible Debenture, Reorganization and Refinancing

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

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

Concurrently, SLGR executed a refinancing which provided $119,000 of variable rate project debt and swap contracts to convert the variable rate obligations to a fixed rate. The debt amortizes over the remaining term of the projects' power purchase agreements of approximately 14 years. The proceeds of the SLGR financing were used in part to fully repay the existing project debt at GHG, SR, and SLS. Refer to note 10.

5. LOANS RECEIVABLE

	Sep 30, 2022	Dec 31, 2021
Sawridge (1)	20,059	2,230
Genalta (2)	8,213	8,000
	28,272	10,230
Current portion (3)	12,945	—
	41,217	10,230

(1) Capstone has provided its First Nation partner on the Buffalo Atlee wind projects and Michichi and Kneehill solar projects with a loan for their pro rata share of project costs. Principal is to be repaid from the project's excess cash flows from the achievement of commercial operations ("COD"). The loan is interest-free until COD.

(2) In the quarter ended September 30, 2022, Capstone started funding a third tranche to Genalta, under the same terms disclosed in the audited consolidated financial statements for the year ended December 31, 2021. Interest receivable of $1,477 is included in accounts receivable on the statement of financial position as at September 30, 2022 (2021 - $463). Furthermore, on September 29, 2022, Capstone Power Corp. entered an arrangement agreement with Genalta that provides for the acquisition of all of the remaining shares of Genalta not owned by Capstone by way of a plan of arrangement under the British Columbia Business Corporations Act, subject to the terms and conditions of the agreement. The completion of the transaction is subject to Genalta shareholder approval, court approval and satisfaction of waiver of customary closing conditions.

(3) Capstone's demand loans to partner, presented net of amortization. Interest receivable of $136 is included in accounts receivable on the statement of financial position as at September 30, 2022.

The estimated fair value of the loans receivable as at September 30, 2022 approximates the carrying value.

6. FINANCIAL INSTRUMENTS

The following table illustrates the classification of the Corporation's financial instruments, that have been recorded at fair value:

Recurring measurements	Level 1 Quoted prices in active markets for identical assets	Level 2 Significant other observable inputs	Level 3 Significant unobservable inputs	Sep 30, 2022	Dec 31, 2021
Derivative contract assets:					
Whitecourt embedded derivative	—	—	—	—	5,983
Interest rate swap contracts (1)	—	37,673	—	37,673	9,148
Foreign currency contracts (2)	—	—	—	—	7
Less: current portion	—	(9,979)	—	(9,979)	(10)
	—	27,694	—	27,694	15,128
Derivative contract liabilities:					
Whitecourt embedded derivative	—	—	785	785	—
Interest rate swap contracts	—	1,756	—	1,756	8,179
Less: current portion	—	(1,756)	—	(1,756)	(2,143)
	—	—	785	785	6,036

(1) The interest rate swap contracts include a contingent interest rate swap in anticipation of financing the Wild Rose 2 project.
(2) Foreign currency contracts relate to USD purchases for the construction of development projects.

Financial instruments not recorded at fair value

Accounts receivable, loans receivable, accounts payable and long-term debt are reported at carrying value on the statement of financial position. The fair values of these items approximate their carrying values with the exception of long-term debt, which has a fair value of $865,666 compared to a carrying value of $858,391.

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.

7. EQUITY ACCOUNTED INVESTMENTS

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

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

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

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

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

As at	Ownership %	Sep 30, 2022 Carrying Value	Dec 31, 2021 Carrying Value
Obra Maestra	50%	3,586	—
		3,586	—

Capstone's September 30, 2022 consolidated financial statements include its 50% interest as an equity accounted investment adjusted by the share of net income (loss) and contributions made subsequent to the initial contribution on June 7, 2022.

The change in Capstone's equity accounted investment for the period ended September 30, 2022 was:

	Opening balance June 7, 2022	Equity accounted income (loss)	Contributions	Ending balance
Obra Maestra	3,302	(367)	651	3,586

8. CAPITAL ASSETS

	2022
As at January 1	1,022,361
Additions	10,165
Disposals (1)	(805)
Depreciation	(62,144)
As at September 30	969,577

(1) Disposals of $805 were offset by proceeds of $984 resulting in a $179 gain (refer to note 14).

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

	Nine months ended	
	Sep 30, 2022	Sep 30, 2021
Additions	10,165	82,013
Adjustment for non-cash ROU asset additions	—	(2,302)
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	19,906	587
Cash additions	30,071	80,298

9. PROJECTS UNDER DEVELOPMENT ("PUD")

	2022
As at January 1	38,530
Capitalized costs during the period	139,824
Less government funding	(32,447)
Transfer to equity accounted investments (1)	(5,463)
As at September 30 (2)	140,444

(1) Refer to note 7 Equity Accounted Investments.
(2) The balance primarily includes costs to develop the Michichi and Kneehill solar projects ($65,297), Wild Rose 2 wind project ($33,863), Buffalo Atlee wind project ($24,126), and early-stage US development projects ($10,583).

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

	Nine months ended	
	Sep 30, 2022	Sep 30, 2021
Capitalized costs during the period	139,824	89,818
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	(33,588)	(263)
Cash additions	106,236	89,555

10. LONG-TERM DEBT

(A) Components of Long-term Debt

As at	Sep 30, 2022	Dec 31, 2021
CPC credit facilities [(1)]	—	28,500
Project debt		
Wind [(2)]	560,856	518,858
Solar [(3)]	182,745	196,382
Gas	67,051	69,863
Hydro	67,414	68,346
Power [(4)]	878,066	881,949
Less: deferred financing costs [(5)]	(19,675)	(16,297)
Long-term debt	858,391	865,652
Less: current portion	(88,214)	(149,473)
	770,177	716,179

(1) The Capstone Power Corp. ("CPC") revolving credit facilities mature on December 15, 2023.
(2) Wind project debt consists of Amherst, Erie Shores, Glace Bay, Glen Dhu, Goulais, Grey Highlands Clean, Saint-Philémon, SkyGen, Skyway8, SLGR, SWNS, and Riverhurst term facilities. SLGR was formerly GHG, SR, and SLS. Refer to Note 4.
(3) Solar project debt consists of Claresholm and Amherstburg term facilities.
(4) The power segment has $120,995 of securities used on its letter of credit facilities. In addition, Capstone has $9,677 of letters of credit supported by the common shareholder.
(5) The September 30, 2022 balance includes $6,316 of transaction costs for the Riverhurst and SLGR financings and Claresholm term conversion.

(B) Financing Changes

Claresholm term conversion

On March 24, 2022, the construction credit facility converted to a term loan, amortizing over 20 years. The term loan is comprised of two tranches, a floating interest rate tranche which matures on March 24, 2026 and a fixed interest rate tranche which matures on July 9, 2032.

Riverhurst financing

On April 27, 2022, Riverhurst entered into a credit agreement providing $47,000 of variable rate project debt, which has swap contracts to convert the variable rate obligations to a fixed rate, amortizing over 20 years.

CPC credit facilities

On April 29, 2022, CPC increased the capacity on its revolving credit facility, which now has a capacity of $160,500 and matures December 15, 2023.

SLGR refinancing

On July 14, 2022, the GHG, SR, and SLS term loans were refinanced as a new credit agreement was executed by SLGR, which provided $119,000 of variable rate project debt, amortizing over 14 years. The existing interest rate swaps were novated to the new facility and the variable rate obligations were exchanged for fixed. The refinancing was tied to the SLGR reorganization. Refer to Note 4.

11. SHAREHOLDERS' EQUITY

The following table summarizes the Corporation's share capital:

As at	Sep 30, 2022	Dec 31, 2021
Common shares [(1)]	142,270	62,270
Preferred shares	72,020	72,020
	214,290	134,290

(1) $80,000 of capital contributions from Class A common shareholder in 2022. In addition, Capstone has outstanding letters of credit of $9,677 which are supported by the common shareholder under a financing and reimbursement agreement. Under the terms of the agreement, Capstone would reimburse the common shareholder for any payments made on their behalf related to the letters of credit.

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

	Three months ended		Nine months ended	
	Sep 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021
Preferred shares declared [(1)]	719	770	2,155	1,909

(1) Includes current and deferred income tax expense of $25 and $73 for the quarter and year to date, respectively (2021 - expense of $103 and $16 for the quarter and year to date, respectively).

12. 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, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021
Wind	21,725	21,476	91,589	84,695
Solar (1)	13,833	12,841	32,194	31,286
Gas (2)	13,351	7,362	26,248	18,736
Biomass (1)	8,283	4,512	18,707	15,447
Hydro	2,432	1,597	10,023	8,283
Total	59,624	47,788	178,761	158,447

(1) Solar and Biomass include revenue from the generation and sale of electricity at market rates and the sale of emissions offset credits.
(2) Gas revenue at Cardinal consists of fixed payments for providing capacity and availability based on its PPA and other contracts; the remaining revenue is variable based on production.

13. EXPENSES BY NATURE

	Three months ended Sep 30, 2022				Three months ended Sep 30, 2021			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	7,452	—	—	7,452	4,812	—	—	4,812
Fuel & transportation	6,744	—	—	6,744	2,542	—	—	2,542
Wages and benefits (1)	3,282	1,599	202	5,083	2,929	1,336	—	4,265
Property expenses (2)	1,636	135	57	1,828	1,682	135	—	1,817
Insurance	1,051	37	—	1,088	840	22	—	862
Power facility administration	1,087	—	—	1,087	752	—	—	752
Professional fees (3)	453	98	437	988	285	86	983	1,354
Contract termination costs	—	—	—	—	—	—	—	—
Other	341	303	52	696	333	138	239	710
Total	22,046	2,172	748	24,966	14,175	1,717	1,222	17,114

	Nine months ended Sep 30, 2022				Nine months ended Sep 30, 2021			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Maintenance & supplies	16,724	—	—	16,724	13,538	—	—	13,538
Wages and benefits (1)	9,932	4,920	474	15,326	8,937	4,144	—	13,081
Fuel & transportation	10,663	—	—	10,663	5,190	—	—	5,190
Property expenses (2)	6,211	368	111	6,690	4,951	378	71	5,400
Professional fees (3)	2,091	239	1,196	3,526	1,006	256	2,565	3,827
Insurance	3,153	103	—	3,256	2,404	66	—	2,470
Power facility administration	2,636	—	—	2,636	2,107	—	—	2,107
Contract termination costs	—	—	2,415	2,415	—	—	—	—
Other	1,331	904	568	2,803	1,302	496	683	2,481
Total	52,741	6,534	4,764	64,039	39,435	5,340	3,319	48,094

(1) Wages and benefits include project development direct staff costs in 2022.
(2) Property expenses include leases, utilities, and property taxes.
(3) Professional fees include legal, audit, tax and other advisory services.

14. OTHER GAINS AND LOSSES

	Three months ended		Nine months ended	
	Sep 30, 2022	Sep 30, 2021	Sep 30, 2022	Sep 30, 2021
Changes in derivative financial instruments fair value (1)	(2,810)	(980)	24,442	7,478
Gains (losses) on disposal of capital assets	(65)	(439)	179	(501)
Other (2)	(5)	—	1,135	—
Other gains and (losses), net	(2,880)	(1,419)	25,756	6,977

(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.
(2) Includes gain of $1,141 on deconsolidation of US development projects which were transferred to Obra Maestra on June 7, 2022. Refer to note 7 Equity Accounted Investments.

15. SEGMENTED INFORMATION

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

	Three months ended Sep 30, 2022			Three months ended Sep 30, 2021		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	59,624	—	59,624	47,788	—	47,788
Expenses	(22,553)	(2,413)	(24,966)	(14,931)	(2,183)	(17,114)
EBITDA	35,376	(1,772)	33,604	31,828	(2,029)	29,799
Interest expense	(10,988)	—	(10,988)	(11,190)	—	(11,190)
Income tax recovery (expense)	(1,546)	1,148	(398)	1,718	648	2,366
Net income (loss)	(799)	(713)	(1,512)	(2,003)	(1,470)	(3,473)
Additions to capital assets, net	4,157	—	4,157	6,187	—	6,187
Additions to PUD (1)	69,515	—	69,515	13,100	—	13,100

	Nine months ended Sep 30, 2022			Nine months ended Sep 30, 2021		
	Power	Corporate	Total	Power	Corporate	Total
Revenue	178,761	—	178,761	158,447	—	158,447
Expenses	(57,098)	(6,941)	(64,039)	(42,112)	(5,982)	(48,094)
EBITDA	148,849	(5,680)	143,169	123,484	(5,480)	118,004
Interest expense	(33,688)	—	(33,688)	(31,294)	—	(31,294)
Income tax recovery (expense)	(11,667)	1,787	(9,880)	(4,689)	1,572	(3,117)
Net income (loss)	31,640	(4,164)	27,476	17,539	(4,174)	13,365
Additions to capital assets, net	10,165	—	10,165	82,013	—	82,013
Additions to PUD (1)	139,824	—	139,824	89,818	—	89,818

(1) PUD additions primarily include costs to develop the Wild Rose 2 and Buffalo Atlee wind projects, Michichi and Kneehill solar projects, and early-stage US development projects.

16. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various material contracts and commitments as disclosed in the annual consolidated financial statements for the year ended December 31, 2021. As at September 30, 2022, Capstone's development projects have aggregate commitments of $464,290 for the construction of the projects, and the Dryden hydro facility has commitments of $6,244 for contracts to refurbish the dams. There are no other significant changes to the specified contractual obligations that are outside the ordinary course of business.

CONTACT INFORMATION

Address:
155 Wellington Street West, Suite 2930
Toronto, ON M5V 3H1
www.capstoneinfrastructure.com
Email: info@capstoneinfra.com

Contacts:

Megan Hunter
Corporate Communications Manager
Tel: 416-649-1325
Email: mhunter@capstoneinfra.com