2017 ANNUAL
MD&A and Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL HIGHLIGHTS

	As at and for the year ended December 31,		
	2017	2016	2015
Revenue (1), (2)	154,163	172,940	117,956
EBITDA (1), (2)	110,055	108,249	49,137
Net income (loss) (3), (4), (5)	117,383	(13,758)	135
Preferred dividends	2,452	3,427	3,752
Total assets (6)	1,201,910	1,147,017	2,522,089
Total long-term liabilities (6)	833,882	785,087	1,493,836

(1) Comparative figures have been adjusted to remove amounts from discontinued operations. Total revenue and EBITDA including discontinued operations for 2016 are $364,255 and $130,190, respectively, and for 2015 are $344,983 and $162,227, respectively.
(2) Revenue includes proceeds awarded of $33,288 for retroactive adjustments from the Ontario Electricity Financial Corporation ("OEFC") for Cardinal and the Ontario hydro facilities in 2016. In addition, EBITDA for 2016 includes $2,288 of interest income and $12,049 of associated operating expenses, which is a net $23,527 in EBITDA.
(3) Net income (loss) attributable to the common shareholders, which excludes non-controlling interests.
(4) Results include continuing operations and discontinued operations for all periods.
(5) Net income for 2017 includes a $128,087 gain on the sale of Värmevärden and 2016 includes a $2,803 loss on the sale of Bristol Water.
(6) The total assets and long-term liabilities for 2015 include balances relating to discontinued operations.

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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, 2017 under the headings "Changes in the Business", “Results of Operations” and "Financial Position Review", as updated in subsequently filed MD&A of the Corporation (such documents are available under the Corporation’s SEDAR profile at www.sedar.com).

Other potential material factors or assumptions that were applied in formulating the forward-looking statements contained herein include or relate to the following: that the business and economic conditions affecting the Corporation’s operations will continue substantially in their current state, including, with respect to industry conditions, general levels of economic activity, regulations, weather, taxes and interest rates; that the preferred shares will remain outstanding and that dividends will continue to be paid on the preferred shares; that there will be no material delays in the Corporation’s wind development projects achieving commercial operation; that the Corporation’s power facilities will experience normal wind, hydrological and solar irradiation conditions, and ambient temperature and humidity levels; that there will be no 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 Grey Highlands ZEP, Ganaraska, Snowy Ridge and Settlers Landing wind facilities are exercised; market prices for electricity in Ontario and the amount of hours that Cardinal is dispatched; and the price that Whitecourt will receive for its electricity production considering the market price for electricity in Alberta, and Whitecourt’s agreement with Millar Western, which includes sharing mechanisms regarding the price received for electricity sold by the facility.

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

For a comprehensive description of these risk factors, please refer to the “Risk Factors” section of the Corporation’s Annual Information Form dated March 24, 2017, 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.

INTRODUCTION

Management's discussion and analysis ("MD&A") summarizes Capstone Infrastructure Corporation's (the "Corporation" or "Capstone") consolidated financial position, operating results and cash flows as at and for the years ended December 31, 2017 and 2016.

This MD&A should be read in conjunction with the accompanying audited consolidated financial statements of the Corporation and notes thereto as at and for the years ended December 31, 2017 and 2016. Additional information about the Corporation, including its Annual Information Form ("AIF") for the year ended December 31, 2016, quarterly financial reports of Capstone and other public filings of the Corporation 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 March 6, 2018, 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.

Discontinued Operations and Assets Held for Sale

On March 3, 2017, Capstone sold its 33.3% indirect interest in Värmevärden, resulting in the *utilities - district heating* segment being presented as a discontinued operation in the statements of income for the years ended December 31, 2017 and 2016. As at December 31, 2016, Capstone accounted for its investment in Värmevärden as assets held for sale ("AHFS") on the consolidated statement of financial position within the current assets and liabilities.

On December 15, 2016, Capstone sold its 50% interest in Bristol Water, resulting in the *utilities - water segment* being presented as a discontinued operation in the statements of income for the year ended December 31, 2016.

Foreign Currency Translation and Presentation

Amounts included in the consolidated financial statements of each entity in the Corporation are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars ("presentation currency"), which is Capstone's functional currency. The exchange rates used in the translation to the presentation currency are:

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the year ended	Average	Spot	Average	Spot
December 31, 2016 (1)	0.1550	0.1478	1.8014	1.6597
December 31, 2017 (2)	0.1528	0.1530	N/A	N/A

(1) Bristol Water's spot rate and average rate were as at and for the period ended December 15, 2016, the date of sale.
(2) Refer to page 4 of "Changes in the Business" in this MD&A for details on the sale of Värmevärden. Capstone continues to have minimal SEK-denominated balances following the sale, which are expected to cease in 2018.

Results of Operations

The results of operations in this MD&A are discussed using GAAP performance measures such as revenue and expenses, and Earnings Before Interest Expense, Taxes, Depreciation and Amortization ("EBITDA"), an additional GAAP performance measure, which is not defined by IFRS. These performance measures are in place of the non-GAAP performance measures Adjusted EBITDA and AFFO discussed in the MD&A for the year ended December 31, 2016. The Corporation believes that the GAAP and additional GAAP performance measures are more useful for Capstone's common and preferred shareholders to assess operating results.

ADDITIONAL GAAP PERFORMANCE MEASURES DEFINITIONS

While the accompanying consolidated financial statements have been prepared in accordance with IFRS, this MD&A also contains a performance measure not defined by IFRS. The additional GAAP performance measure does not have any standardized meaning prescribed by IFRS and is, therefore, unlikely to be comparable to similar measures presented by other issuers. The Corporation believes that this indicator is useful since it provides additional information about the Corporation's earnings performance and facilitates comparison of results over different periods. The additional GAAP measure used in this MD&A is defined below.

EBITDA

EBITDA is an additional GAAP financial measure defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest ("NCI"), impairment charges, and interest income. 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 2017, Capstone made a strategic shift to focus the business as a North American independent power producer. This included changes to management and the Board of Directors, as well as selling its 33.3% indirect interest in Värmevärden.

In addition, progress was made on the following initiatives:

- Acquired the remaining interests in the Glen Dhu and Fitzpatrick wind facilities;
- Refinanced the CPC Credit Facilities;
- Received funding under Alberta's Bioenergy Producer Program (“BPP”) and refurbished the facility at Whitecourt;
- Signed a new Electricity Purchase Agreement ("EPA") for the Sechelt Creek facility with BC Hydro; and
- Achieved commercial operation ("COD") at Settlers Landing and took over operations of Ingredion's 15 MW facility at Cardinal.

Changes to Management and Board of Directors

In 2017, David Eva and Andrew Kennedy were appointed as Chief Executive Officer and Chief Financial Officer, respectively, and were also appointed as members of the Board of Directors. Michael Smerdon, Capstone's outgoing Chief Financial Officer, remains on Capstone's Board of Directors.

In addition, Paul Smith, who was previously the non-executive chairman of Capstone Power Corp. ("CPC"), was appointed as a member of Capstone's Board of Directors and was appointed chair of the board on August 11, 2017. Paul Malan, Capstone's outgoing chair, remains on the Board of Directors. On September 13, 2017, Enis Moran resigned from the Board of Directors.

Sale of Värmevärden

On March 3, 2017, Capstone and its co-shareholder Macquarie European Infrastructure Fund 2 (“MEIF 2”) sold 100% of Värmevärden. Capstone received proceeds of $142,198, net of transaction costs of $2,378, for its 33.3% indirect interest in Värmevärden and the related outstanding loans receivable. Following the sale, on March 31, 2017, Capstone satisfied the remaining promissory note due to Irving Infrastructure Corp. ("Irving"). Capstone then distributed $131,968 to Irving as a return of capital, which included reductions of $45,636 to retained earnings and $86,332 to the Class A shares. The impact of these transactions did not change the carrying value of the Class A shares.

As a result of the sale, the *utilities - district heating* segment, including the gain on sale of $128,087, is presented as a discontinued operation (refer to page 3 "Basis of Presentation" in this MD&A).

Business Acquisition - Glen Dhu and Fitzpatrick Wind Facilities

In December 2017, through a series of transactions, Capstone acquired the remaining (approximately 50%) ownership interests in the Glen Dhu and Fitzpatrick wind facilities for $21,837, bringing Capstone's ownership interest to 100%. The acquisition of the remaining interest was initially completed by a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), who then contributed the acquired assets to Capstone on December 31, 2017 in return for an additional capital contribution, recorded as an increase in shareholders' equity. These facilities continue to be managed by a subsidiary of Capstone and have existing power purchase agreements.

CPC Refinancing

On December 15, 2017, Capstone refinanced the corporate acquisition debt in place since the iCON III acquisition. The new CPC credit facilities provide $145,000 of total capacity, consisting of a $50,000 term facility and a $95,000 revolving facility ("the CPC Credit Facilities"). The proceeds drawn on the facilities were used to repay the former CPC credit facilities. The new CPC Credit Facilities mature on December 15, 2021 and bear interest at a variable rate plus an applicable margin.

Whitecourt Plant Refurbishment

On December 3, 2017, Whitecourt, Capstone’s biomass facility, successfully completed a $16,799 major refurbishment of the steam turbine and boiler.

Whitecourt Bioenergy Producer Program

On February 8, 2017, Whitecourt was notified that the Government of Alberta approved its application to the BPP. Whitecourt expects to receive grant funding of up to $4,800 for contributing to Alberta’s bioenergy production capacity over two program periods, the second of which ended September 30, 2017. For the year ended December 31, 2017, Capstone had produced enough eligible power to receive the full grant funding, of which $4,664 was received in 2017.

Sechelt Creek Facility EPA and shíshálh Nation Facility Agreement

Effective March 1, 2018, Capstone signed a new 40 year EPA for the Sechelt Creek facility with BC Hydro, subject to regulatory approval. The EPA is at a price lower than the original EPA, which expired on February 28, 2017. Revenue was earned in 2017 under an interim extension agreement.

In addition, on March 1, 2017, Capstone signed a facility agreement with the shíshálh Nation, which will result in minority equity ownership by the shíshálh Nation and profit sharing for the project.

Ingredion Plant Achieved Commercial Operation

On November 24, 2017, Ingredion Canada Corporation ("Ingredion") completed the construction of its 15 MW plant, to supply steam and electricity required for its corn wet milling plant. Cardinal will now receive a fixed amount (subject to escalation) to provide operational and maintenance services to Ingredion's plant.

Settlers Landing Achieved Commercial Operation and Project Financing Term Conversion

On April 5, 2017, Capstone achieved COD on the Settlers Landing wind development project, an 8 MW facility located in Ontario with a power purchase agreement ("PPA") expiring in 2037. This was followed by the conversion of the construction term credit facility on August 31, 2017 to a five-year term facility which is non-recourse to Capstone.

Project Development

As at December 31, 2017, Capstone's development pipeline includes the Riverhurst wind development project, a 10 MW facility located in Saskatchewan with an expected COD in 2020. Capstone executed a 20-year PPA and interconnection agreement dated March 22, 2017 for this project with the Saskatchewan Power Corporation ("SaskPower").

RESULTS OF OPERATIONS

Overview

In 2017, Capstone's EBITDA was higher and net income from continuing operations was lower than in 2016. Higher EBITDA from Capstone's continuing operations reflects:

- Lower corporate expenses from costs associated with the 2016 acquisition of Capstone by iCON III, including professional fees and staff separation costs;
- Higher power segment results, primarily due to new wind facilities added since January 1, 2016, consisting of Ganaraska and Grey Highlands ZEP (collectively, "GHG"), Grey Highlands Clean, Snowy Ridge and Settlers Landing; and
- Contributions from Whitecourt relating to the new government grant; partially offset by
- The OEFC net proceeds awarded for retroactive payments to Cardinal and the Ontario hydro facilities in 2016; and
- An increase in the fair value of the embedded derivative in 2016, which generally increases as forecasted Alberta power pool prices fall.

	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Change
Revenue	154,163	172,940	(18,777)
Expenses	(53,098)	(92,078)	38,980
Other income and expenses	8,990	27,387	(18,397)
EBITDA	110,055	108,249	1,806
Interest expense	(36,668)	(34,476)	(2,192)
Depreciation and amortization	(66,787)	(58,802)	(7,985)
Income tax recovery (expense)	(17,541)	3,859	(21,400)
Net income (loss) from continuing operations	(10,941)	18,830	(29,771)
Net income (loss) from discontinued operations	129,317	(34,371)	163,688
Net income (loss)	118,376	(15,541)	133,917

The remaining material changes in net income were:

- Higher depreciation and amortization, primarily due to new wind facilities added since January 1, 2016, consisting of GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing;
- Higher income tax expense, primarily attributable to the sale of Värmevärden in 2017. This includes current taxes payable from the gain and the release of the deferred income tax asset for Capstone's tax basis in Värmevärden; and
- Higher net income from discontinued operations, primarily reflecting the 2017 gain on sale of Värmevärden and net losses at Bristol Water in 2016.

Results by Segment

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

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.

Both of the utilities segments are presented as discontinued operations resulting from Capstone's sale of these investments. Refer to page 3 "Basis of Presentation" in this MD&A.

Capstone's operating segments by ownership interest are:

Accounting treatment at December 31, 2017	Control	
Ownership	Wholly owned	Partially owned
Power [1], [2]	Cardinal (natural gas peaking facility), Erie Shores, SkyGen, Glace Bay, Glen Dhu, Fitzpatrick and Grey Highlands Clean (wind facilities), Whitecourt (biomass facility), Amherstburg (solar facility) and the hydro facilities.	Amherst, Saint-Philémon, Goulais, GHG, Snowy Ridge and Settlers Landing (wind facilities)

(1) The power segment includes investments in wind development projects in addition to the operating businesses disclosed above.
(2) On December 31, 2017, Capstone acquired the remaining 51% interest in Glen Dhu wind facility and the remaining 50% interest in Fitzpatrick wind facility, increasing Capstone's interests in both to 100%. Results for the periods up to the acquisition are included in equity accounted income in the statement of income. Refer to page 4 of "Changes in Business" in this MD&A.

Revenue

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

Revenue	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Change
Wind	93,512	76,935	16,577
Gas [1]	21,160	54,293	(33,133)
Hydro [1], [2]	15,104	20,551	(5,447)
Solar	15,747	16,478	(731)
Biomass [3]	8,640	4,683	3,957
Total Revenue	154,163	172,940	(18,777)

(1) Revenue includes proceeds awarded of $33,288 for retroactive adjustments from the OEFC for Cardinal and the Ontario hydro facilities in 2016.
(2) The original Sechelt EPA expired on February 28, 2017 and a new one was signed effective March 1, 2018. Revenue was earned in 2017 under an interim extension agreement at a price lower than the original EPA.
(3) For the year ended December 31, 2017, Whitecourt produced enough eligible power to receive $4,800 of grant funding, which was included in power revenue.

Power generated (GWh)	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Change
Wind [1]	827.4	689.2	138.2
Gas	37.4	88.6	(51.2)
Hydro	176.4	181.7	(5.3)
Solar	36.7	39.2	(2.5)
Biomass [2]	142.5	196.8	(54.3)
Total Power	1,220.4	1,195.5	24.9

(1) Production reflects 100% ownership but excludes the Glen Dhu and Fitzpatrick wind facilities, whose remaining 51% and 50% ownership interests, respectively, were acquired on December 31, 2017.
(2) On August 17, 2017, Whitecourt began a temporary shutdown to progress its refurbishment project. Production was lower because the facility did not operate for 108 days in the third and fourth quarter of 2017. Whitecourt resumed operations on December 3, 2017.

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 PPA's with government agencies or regulated credit-worthy counterparties. On a megawatt ("MW") weighted-average-basis, the wind facilities have 15 years remaining on the current PPAs, with the earliest expiry in 2020.
- Cardinal, a natural gas peaking facility, 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 plant.
- Amherstburg Solar Park, a solar facility located in Ontario, and the four hydro facilities located in Ontario and British Columbia, by generating and selling electricity under long-term PPAs. On a MW weighted-average-basis, the hydro facilities have 19 years remaining on the current PPAs, excluding the Sechelt Creek facility PPA, or 29 years remaining including the executed Sechelt PPA. The Amherstburg Solar Park PPA expires in 2031.
- Whitecourt, a biomass facility, by selling electricity at market rates to the Alberta Power Pool. This is supplemented by a revenue sharing agreement with its fuel supplier, Millar Western. In addition, Whitecourt earns a portion of its revenue from government grants and the sale of renewable energy credits.

The following table shows the significant changes in revenue from 2016:

Change	Explanations
(33,288)	Lower revenue due to OEFC proceeds awarded for retroactive revenue adjustments to Cardinal and the Ontario hydro facilities in 2016.
(2,640)	Lower revenue due to fewer runs at Cardinal.
(2,437)	Lower revenue from the Sechelt hydro facility due to lower rates.
(1,455)	Lower revenue from Whitecourt due to lower production from the temporary shutdown during the refurbishment.
14,534	Higher revenue from the new wind facilities, consisting of GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing, which reached COD after January 1, 2016.
4,800	Higher revenue at Whitecourt attributable to the BPP.
1,830	Higher revenue from the operating wind facilities (excluding new facilities) due to increased production, reflecting higher wind resource.
(121)	Various other changes.
(18,777)	Change in revenue.

Seasonality

Overall, the results for Capstone's power segment fluctuate during the year because of seasonal factors that affect quarterly production of each facility. These factors include scheduled maintenance and environmental factors such as water flows, solar radiation, wind speeds and 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.

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	For the year ended		
	Dec 31, 2017	Dec 31, 2016	Change
Wind	(16,277)	(15,221)	(1,056)
Gas (1)	(11,487)	(24,873)	13,386
Hydro	(4,258)	(4,803)	545
Solar	(961)	(1,139)	178
Biomass	(9,307)	(10,911)	1,604
Power operating expenses	(42,290)	(56,947)	14,657
Power	(1,557)	(2,763)	1,206
Corporate	(533)	(12,492)	11,959
Project development costs (2)	(2,090)	(15,255)	13,165
Administrative expenses (2)	(8,718)	(19,876)	11,158
Total Expenses	(53,098)	(92,078)	38,980

(1) Operating expenses include a one-time increase in fuel expenses of $12,049 related to the OEFC retroactive adjustments in 2016.
(2) Project development costs and administrative expenses include one-time professional fees and staff costs of $23,309 in 2016 related to the iCON III acquisition.

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

Project development costs consist of professional fees and directly attributable staff costs to pursue greenfield and other development projects, as well as costs to explore and execute potential transactions. Administrative expenses include 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 2016:

Change	Explanations
12,049	Lower operating expenses due to a one-time increase in fuel expenses related to retroactive adjustments from the OEFC in 2016.
11,878	Lower professional fees within corporate project development costs attributable to the iCON III acquisition in 2016.
11,431	Lower staff costs within administrative expenses and project development costs related to the iCON III acquisition in 2016, including short-term and long-term incentive plan payments and employee separation costs.
2,327	Lower operating expenses at SkyGen due to repairs to a tower at Ferndale in 2016, net of insurance recoveries.
1,604	Lower operating expenses at Whitecourt primarily due to the temporary shutdown during the refurbishment.
1,296	Lower operating expenses due to fewer runs at Cardinal.
(2,371)	Higher operating expenses from the new wind facilities, consisting of Grey Highlands Clean, Snowy Ridge and Settlers Landing, which reached COD after January 1, 2016.
766	Various other changes.
38,980	Change in expenses.

FINANCIAL POSITION REVIEW

Overview

The December 31, 2017 consolidated statement of financial position includes balances related to the consolidation of Glen Dhu and Fitzpatrick on December 31, 2017, and excludes balances relating to Capstone's 33.3% indirect interest in Värmevärden as a result of the sale on March 3, 2017 and the remaining tranches of the Irving promissory note payable, which were converted or repaid on March 31, 2017. In addition, Capstone refinanced the corporate credit facilities in place since the iCON III acquisition, providing greater flexibility and lower cost. These transactions have improved Capstone's net current assets to $10,372 compared with a net current liability of $55,627 as at December 31, 2016.

As at December 31, 2017, Capstone and its subsidiaries complied with all debt covenants.

Liquidity

Working capital

As at	Dec 31, 2017	Dec 31, 2016
Power	2,409	26,092
Corporate	7,963	(81,719)
Net current assets (liabilities)	10,372	(55,627)
Corporate - promissory note payable (1)	—	96,702
Working capital (2)	10,372	41,075

(1) In 2016, the promissory note was held by Irving, the owner of the Corporation's Class A shares, and was classified as current due to the demand feature of the note. The promissory note was converted or repaid on March 31, 2017.

(2) GAAP does not define working capital. To assist in understanding liquidity it is calculated as current assets less current liabilities adjusted for items Capstone did not expect to fund from current liquidity, including the promissory note payable in 2016.

Capstone's working capital was $30,703 lower than as at December 31, 2016 due to decreases of $23,683 and $7,020 in power and corporate, respectively.

The power segment reduction reflects an increase of $24,039 in the current portion of long-term debt primarily attributable to:

- $36,286 of debt maturing in August 2018 at SkyGen and Skyway 8; and
- $6,569 of new debt as a result of consolidating Glen Dhu subsequent to acquisition; partially offset by
- $19,675 lower payments under the new CPC Credit Facilities.

The new CPC Credit Facilities' minimum annual principal repayment of $5,000 is included in the current portion of long-term debt. As at December 31, 2017, Capstone's new revolving facility had $51,273 of available capacity.

The corporate working capital decrease primarily reflects funding provided for the Whitecourt refurbishment of $14,047 and the sale of $13,197 of current assets attributable to Värmevärden, net of taxes payable on the sale. These were partially offset by $23,340 received from the Cardinal and the Ontario hydro facilities OEFC proceeds.

Cash and cash equivalents

As at	Dec 31, 2017	Dec 31, 2016
Power	53,826	56,000
Corporate	10,257	6,246
Unrestricted cash and cash equivalents	64,083	62,246

Unrestricted cash represents funds available for operating activities, capital expenditures and future acquisitions. The unrestricted cash and cash equivalents increase of $1,837 consists of a $4,011 increase at corporate, partially offset by a decrease of $2,174 at the power segment. The increase at corporate reflects the $23,340 distribution of OEFC proceeds from Cardinal and the Ontario hydro facilities to corporate, partially offset by funding for the Whitecourt refurbishment of $14,047. The related decrease at the power segment from the distribution was partially offset by higher cash balances due to seasonality of production and funds for Whitecourt's capital expenditures.

Cash and cash equivalents at the power segment of $53,826 is only periodically accessible to corporate through distributions under the terms of the CPC Credit Facilities, which allow 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.

Restricted cash

Restricted cash decreased by $5,295 primarily due to lower cash reserve requirements at the hydro facilities, which are now funded through letters of credit, and the release of construction reserves at Grey Highlands Clean, Snowy Ridge and Settlers Landing.

Cash flow

Capstone's consolidated cash and cash equivalents increased by $1,837 in 2017 compared with a decrease of $12,012 in 2016. The components of the increase, as presented in the consolidated statement of cash flows, from both continuing and discontinued operations, are summarized as follows:

For the year ended	Dec 31, 2017	Dec 31, 2016
Operating activities	73,125	121,189
Investing activities	(23,040)	(210,235)
Financing activities (excluding dividends to shareholders)	(45,796)	93,185
Dividends paid to shareholders	(2,452)	(9,887)
Exchange difference on translation of discontinued operations	—	(6,264)
Change in cash and cash equivalents	1,837	(12,012)

Cash flow from operating activities was $48,064 lower in 2017 but $21,430 higher, excluding discontinued operations. The increase from continuing operations consists of $22,411 of higher corporate cash flows partially offset by $981 of lower power segment cash flows. Cash flows from corporate increased in 2017 primarily because of non-recurring costs in 2016, relating to the iCON III acquisition. The decrease in power segment cash flows primarily reflects the net OEFC proceeds awarded for retroactive payments to Cardinal and the Ontario hydro facilities in 2016 partially offset by higher revenue from the new wind facilities and the grants received from the BPP at Whitecourt in 2017.

Cash flows from discontinued operations decreased primarily due to the sale of Bristol Water in December 2016.

Cash flow used in investing activities was $187,195 lower in 2017 and $160,970 lower, excluding discontinued operations. In 2017, cash used by the continuing operations primarily included power segment funding of $18,236 (2016 - $120,992) for the construction of projects under development and $16,025 (2016 - $15,536) to fund capital asset additions. These uses were partially offset by a decrease in restricted cash of $5,295 in 2017 (2016 - $10,994 increase in restricted cash) primarily because the hydro facilities cash reserves were replaced with letters of credit and the release of construction reserves at GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing. In addition, the acquisition of the remaining 51% ownership interest in Glen Dhu contributed cash of $3,574.

Cash flows used in discontinued operations in 2016 primarily consist of $49,624 used to fund capital asset additions at Bristol Water, partially offset by a $23,432 settlement of the Värmevärden shareholder loan.

Cash flow from financing activities changed by $138,981 in 2017 and $282,396, excluding discontinued operations, to a use of funds. In 2017, cash used in the continuing operations was higher primarily due to lower proceeds from debt draws of $215,794 due to debt raised for CPC, Cardinal, GHG, Grey Highlands Clean and Snowy Ridge in 2016. In addition, $131,968 of cash was used as a return of capital to Irving and debt payments were $27,870 higher as a result of the corporate debt refinancing completed in December 2017. These uses were partially offset by lower one-time repayments of $43,466 on the Irving promissory note as well as $43,176 in 2016 to redeem the convertible debentures.

Cash flows from discontinued operations in 2017 consist of $142,198 of proceeds received from the sale of Värmevärden.

Dividends paid to shareholders were $7,435 lower in 2017 due to the suspension of common share dividends after the iCON III acquisition and lower fixed dividend rates for the preferred shares, which took effect on July 31, 2016.

Long-term Debt

Continuity of Capstone's long-term debt for the year ended was:

	Dec 31, 2016	Additions	Repayments	Other	Dec 31, 2017
Long-term debt (1), (2), (3), (4), (5)	782,220	83,717	(121,132)	88,885	833,690
Deferred financing fees	(16,229)	(1,167)	—	2,248	(15,148)
	765,991	82,550	(121,132)	91,133	818,542
Less: current portion of long-term debt	(62,169)	—	13,071	(37,110)	(86,208)
	703,822	82,550	(108,061)	54,023	732,334

(1) Additions of $83,717 include $65,915 related to the new CPC Credit Facilities and $17,802 for the Settlers Landing wind development project construction term facility. The facility converted to a five-year term facility on August 31, 2017.
(2) Repayments of $121,132 include a $64,683 repayment of the former CPC credit facility on December 15, 2017, as well as scheduled repayments.
(3) Other additions of $88,885 relate to the acquisition of the remaining interest in Glen Dhu, which is consolidated as at December 31, 2017.
(4) Capstone's power facilities have a cumulative $42,121 utilized on its letter of credit facilities.
(5) On February 6, 2018, SkyGen, Skyway8 and their existing lenders extended the term loan maturity dates to August 2018.

As at December 31, 2017, Capstone's long-term debt consisted of $65,915 for the new CPC Credit Facilities and $767,775 of project debt within the power segment. The current portion of long-term debt was $86,208, consisting of scheduled debt amortization, including commitments under the new CPC Credit Facilities of $5,000, as well as the upcoming project debt maturities for SkyGen and Skyway 8 of $20,360 and $18,337, respectively. Capstone expects to repay the scheduled amortization from income generated by the power assets and extended the maturing project debt for the SkyGen and Skyway 8 wind facilities to August 2018. Capstone is evaluating options to refinance this project debt.

On December 15, 2017, Capstone refinanced the corporate acquisition debt in place since the iCON III acquisition. The new CPC Credit Facilities provide $145,000 of total capacity, consisting of a $50,000 term facility and a $95,000 revolving facility. The proceeds drawn on the facilities were used to repay the former CPC credit facilities. As at December 31, 2017, Capstone has drawn $50,000 of the term facility and utilized $43,727 of the revolving facility. The new CPC Credit Facilities mature on December 15, 2021 and bear interest at a variable rate plus an applicable margin.

CPC and its project financed subsidiaries are 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 $6,160 of limited recourse guarantees provided to the lenders of the various wind projects.

Equity

Shareholders' equity comprise

As at	Dec 31, 2017	Dec 31, 2016
Common shares	62,270	40,433
Preferred shares (1)	72,020	72,020
Share capital	134,290	112,453
Retained earnings	72,024	2,800
Equity attributable to Capstone shareholders	206,314	115,253
Non-controlling interests	55,249	61,417
Total shareholders' equity	261,563	176,670

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

Promissory Note Payable

On April 29, 2016, Capstone issued a $316,225 demand interest-free promissory note to Irving, the owner of the Corporation's Class A shares, as part of the iCON III acquisition. On issuance, the promissory note consisted of three tranches: £106,000, 712,700 SEK, and $10,370 which were classified as a current liability and were due on demand. On September 2, 2016, 160,000 SEK, or $24,992, was repaid and on December 15, 2016, the £106,000 tranche was converted into Class A shares of the Corporation. On March 31, 2017, Irving converted the remaining SEK tranche of the promissory note into Class A shares of the Corporation and the Canadian denominated tranche of the promissory note was repaid. As a result, no promissory note payable to Irving remains as at December 31, 2017.

Contractual Obligations

As at December 31, 2017, Capstone had outstanding contractual obligations with amounts due as follows:

	Within one year	One year to five years	Beyond five years	Total
Long-term debt [(1)]	118,029	341,972	670,018	1,130,019
Operating leases	4,668	19,134	49,235	73,037
Asset retirement obligations	—	—	14,982	14,982
Purchase obligations	13,468	33,721	51,697	98,886
Total contractual obligations	136,165	394,827	785,932	1,316,924

(1) Long-term debt includes principal and interest payments.

Long-term debt

- Long-term debt is discussed on page 10 "Long-term Debt" in this MD&A.

Operating leases

The following leases have been included in the table based on known minimum operating lease commitments:

- Capstone's operating wind facilities and wind development projects have entered into agreements for the use, or option to use, land in connection with the operation of existing and future wind farms. Payment under these agreements is typically a minimum amount with additional payments dependent on the amount of power generated by the wind facility. The agreements can be renewed and extend as far as 2061.
- Cardinal leases the site on which it is located from Ingredion. Under the lease, Cardinal pays monthly rent. The lease extends through 2034 and expires concurrently with the Energy Savings Agreement between Ingredion and Cardinal.
- Amherstburg leases the land on which its operating facilities are located. The terms of the lease agreements extend to 2036.
- The Corporation has an operating lease for the corporate office ending in 2023.

Capstone's operating lease commitments with no minimum operating lease commitments required are:

- Capstone has agreements with the Provinces of Ontario and British Columbia for the lease of certain lands and water rights necessary for the operation of its hydro power facilities. The payments under these agreements vary based on actual power production. The terms of the lease agreements extend to 2033 and 2042.

Asset retirement obligations

Commitments associated with our asset retirement obligations for Capstone's power facilities are projected to occur principally over the next 25 years.

Purchase obligations

Capstone enters into contractual commitments in the normal course of business, either directly or through its subsidiaries. These contracts include capital commitments and operations and maintenance ("O&M") agreements:

Capital commitments

- During 2017, Whitecourt entered into several contracts as part of its refurbishment of the steam turbine and boiler. The project is expected to extend the life of the facility by 20 years. As at December 31, 2017, Whitecourt's remaining contractual commitments have been recorded in its accrued liabilities.

O&M agreements

- Cardinal has a maintenance contract with Siemens Canada Limited covering the gas turbine at the 15 MW Ingredion plant. The contract expires on November 24, 2023.
- Capstone has several service and maintenance agreements covering the turbines in operation on various wind facilities. The agreements provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.
- Capstone has an O&M agreement with Regional Power OPCO Inc. (“Regional”) to operate and maintain the hydro power facilities. Regional is paid a monthly management fee and is eligible for an annual incentive fee. The agreement expires on November 30, 2021.

Other commitments

In addition to the commitments included in the table on page 11, Capstone has the following other commitments with no fixed minimum payments:

Power Purchase Agreements

A significant portion of the Corporation's electricity revenue is earned through long-term PPAs. The majority of these contracts include terms and conditions customary to the industry. For Cardinal's contract, the nature of commitments includes: electricity capacity; availability; and production targets. For the remaining power facilities, Capstone is not obligated to deliver electricity; however, in certain circumstances, if a facility fails to meet the performance requirements, the operating facilities' PPA may be terminated after a specified period of time.

Management services agreements

Capstone has agreements with all the partially owned wind facilities and development projects, including Amherst, Saint-Philémon, Goulais, GHG, Snowy Ridge and Settlers Landing (Glen Dhu and Fitzpatrick were included up until the acquisition of the remaining ownership interests on December 31, 2017). For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue. The development projects additionally include a development fee for the successful completion of the projects, which pays an agreed fee per MW on completion of development.

Wood waste supply agreement

The Whitecourt and Millar Western fuel supply agreement for wood waste includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

Energy savings agreement ("ESA")

Cardinal has an ESA with Ingredion which matures on December 31, 2034. Under the terms of the ESA, Cardinal is required to provide O&M services in respect of the 15 MW plant that was completed in 2017, and supply steam and compressed air to Ingredion for the use of its manufacturing facility. Cardinal entered into a maintenance contract with Siemens Canada Limited in connection with the operation and maintenance of the 15 MW plant in order to support Cardinal's satisfaction of the O&M terms of the ESA.

Guarantees

Capstone has provided limited recourse guarantees on the project debt of certain wind projects totalling $6,160 as at December 31, 2017. Capstone has also provided a guarantee to the former 25% owner of the Grey Highlands Clean wind facility which provides future contractual payments based on operational performance up to an aggregate amount of $4,614. The guarantee terminates when the final payment is made on March 21, 2021.

There have been no other significant changes to the specified contractual obligations that are outside the ordinary course of business. Refer to page 4 of "Changes in the Business" in this MD&A for details. Capstone is not engaged in any off-balance sheet financing transactions.

Equity Accounted Investments

Equity accounted investments decreased by $22,464 primarily due to the acquisition of the remaining interests in Glen Dhu and Fitzpatrick wind facilities on December 31, 2017. In addition, Capstone sold its interest in Värmevärden on March 3, 2017. As at December 31, 2017, Capstone no longer follows the equity accounting method for any of its investments. Refer to page 4 of "Changes in the Business" in this MD&A for details.

Capital Asset Expenditure Program

Capstone incurred $32,350 of capital asset expenditures during 2017, which included $17,967 of additions to capital assets and $14,383 of additions to projects under development. Capstone's capital expenditures were:

	For the year ended	
	Dec 31, 2017	**Dec 31, 2016**
Power	32,305	114,719
Corporate	45	102
Utilities – water	—	53,590
	32,350	168,411

Capital expenditures primarily reflect costs to develop and construct the wind development projects and costs to refurbish Whitecourt's steam turbine and boiler. In 2017, $15,187 was capitalized primarily for the Settlers Landing wind facility versus $108,505 related to developing and constructing the Ganaraska, Grey Highlands ZEP, Grey Highlands Clean, Snowy Ridge and Settlers Landing development projects in 2016. In 2017, Whitecourt invested $16,799 to refurbish its steam turbine and boiler. The refurbishment began on August 17, 2017 and operations successfully resumed on December 3, 2017.

Capital expenditures for the *utilities – water* segment in 2016 included both growth and maintenance activities as planned in Bristol Water's regulatory capital expenditure program. On December 15, 2016, Capstone sold its 50% interest in Bristol Water.

Income Taxes

In 2017, the current income tax expense was $371 (2016 - $1,658), which primarily includes corporate minimum taxes and capital gains taxes payable on the sale of Värmevärden.

Capstone's total deferred income tax assets were fully realized on the sale of Värmevärden (2016 - $14,750). Deferred income tax liabilities of $89,243 (2016 - $72,673) primarily relate to the differences between the amortization of intangible and capital assets for tax and accounting purposes.

In 2017, Capstone's net deferred income tax liability increased by $31,320 primarily due to the the sale of Värmevärden and the addition of $15,060 assumed on the consolidation of Glen Dhu and Fitzpatrick (refer to page 4 "Changes in the Business" in this MD&A).

DERIVATIVE FINANCIAL INSTRUMENTS

Capstone has exposure to market, credit and liquidity risks from its use of financial instruments as described in note 7 financial instruments and note 8 financial risk management in the consolidated financial statements as at and for the year ended December 31, 2017. These notes contain further details on the implicit risks and valuation methodology employed for Capstone's financial instruments.

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

As at	Dec 31, 2017	Dec 31, 2016
Derivative contract assets	21,364	18,526
Derivative contract liabilities	(2,144)	(3,572)
Net derivative contract assets (liabilities)	19,220	14,954

Net derivative contracts assets increased by $4,266 from December 31, 2016, primarily due to gains of $9,930, partially offset by contractual settlement payments of $5,664 received from Millar Western.

The gains (losses) attributable to fair value changes of derivatives in the consolidated statements of income and comprehensive income comprised:

For the year ended	Dec 31, 2017	Dec 31, 2016
Whitecourt embedded derivative	5,396	24,964
Interest rate swap contracts	4,534	2,401
Foreign currency option contracts	—	115
Gains (losses) on derivatives in net income from continuing operations	9,930	27,480
Interest rate swap contracts in other comprehensive income from discontinued operations	—	(608)
Gains (losses) on derivatives in total comprehensive income	9,930	26,872

The gain on derivatives was primarily attributable to an increase in the Whitecourt embedded derivative asset because of lower estimated forward Alberta power pool prices since December 31, 2016. In addition, the gains from the interest rate swap contracts primarily reflect higher long-term interest rates since December 31, 2016.

RISKS AND UNCERTAINTIES

Introduction

Risk is an inevitable aspect of operating any business. Decisions that balance risk exposure with intended financial rewards within risk tolerances are the responsibility of the Corporation's management under the supervision of the Board of Directors. When a risk exposure exceeds the Corporation's risk tolerance, the Corporation will, to the extent possible, take steps to eliminate, avoid, reduce or transfer such risk.

The Corporation recognizes the importance and benefits of timely identification, assessment and management of risks that may impact the Corporation's ability to achieve its strategic and financial objectives. In this respect, the Corporation is committed to prudent risk management practices within the context of an enterprise risk management ("ERM") framework. The Corporation maintains a registry of risks that is reviewed by management and the Board of Directors at least quarterly. The Corporation also undertakes an annual comprehensive review of its ERM framework and practices to continuously improve its risk management practices.

What follows is a description of the Corporation's key risk governance and risk processes to support achievement of strategic and financial performance objectives.

Risk Management Principles and Governance

The Corporation's ERM framework is based on five core principles which establish the culture and tone that guide risk management decisions. Risk management is everyone's responsibility, about decision-making, embedded within existing management routines, about people and culture, and specific to each business unit. The Corporation's interpretation of the ERM framework includes the following hierarchy of responsibilities:

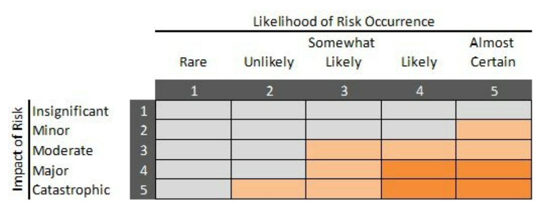
- **Board of Directors and Audit Committee** have overall governance responsibility for setting and overseeing management's implementation of the risk management policy.
- **Internal Audit** reports to the Audit Committee and is responsible for reviewing management's practices to manage risks in specific areas agreed from time to time between management and the Audit Committee.
- **Senior Management** is responsible for ensuring the implementation of the ERM framework to all applicable activities and reporting to the Audit Committee.
- **Business Units** are responsible for ensuring the application of a risk management framework to identify, monitor and report risk.
- **Risk Owners** are responsible for the identification and day-to-day management and oversight of risks in their assigned area.

Risk Management Processes

The Corporation's framework relies on the following six key ERM processes to integrate risk management activities with strategic and operational planning, decision-making and day-to-day oversight of business activities.

- **Risk identification** is the process of identifying and categorizing risks that could impact the Corporation's objectives.
- **Risk assessment** is the process of determining the likelihood and impact of the risk. The Corporation uses a five-point rating scale for likelihood and impact.
- **Risk prioritization** is the process of ranking risks as high, medium or low based on the net risk rating as described in the diagram below.
- **Risk management** responses are measures taken to optimize the Corporation's net risk exposure within overall tolerance to achieve the desired balance between risk and reward.
- **Monitoring and reporting** are the processes of assessing the effectiveness of risk management responses.
- **Training and support** ensure that personnel tasked with risk management responsibilities have sufficient knowledge and experience to complete their risk management obligations.

The Corporation's risk management approach is comprehensive. It combines the experience and specialized knowledge of individual business segments and corporate oversight functions as well as various analytic tools and methodologies, including a risk matrix (see chart to the right), to assist the Corporation in regularly assessing and updating the net exposure (including mitigants) of each known material risk facing the Corporation in the following four risk categories: operational; strategic; financial; and legal and regulatory. The Corporation's assessment process prioritizes risks.



Managing Risk

The Corporation requires that risk assessments (which encompass operational, strategic, financial and legal and regulatory risks) be performed for the power facilities and at the corporate level.

In addition to these risks, there are numerous other risk factors, many of which are beyond the Corporation's control and the effects of which can be difficult to predict, that could be material to investors or cause the Corporation's results to differ significantly from its plans, objectives and estimates. For a more comprehensive list and description of the risks affecting the Corporation refer to the "Risk Factor" section of the Corporation's most recently filed Annual Information Form, as supplemented by risk factors contained in any of the following documents filed by the Corporation with securities commissions or similar authorities in Canada after the date of this annual MD&A, which are available on SEDAR at www.sedar.com: material change reports; business acquisition reports; interim financial statements; and interim management's discussion and analysis.

Risks Related to the Corporation and its Businesses

Risks that have materially affected the Corporation's financial statements, or that have a reasonable likelihood of affecting them materially in the future, are presented in the table below. Risks specific to Capstone's power segment, as well as at the corporate-level, are included. The table excludes risks related to the utilities segments which were sold in 2016 and 2017.

Therefore changes from risks disclosed in the MD&A for the year-ended December 31, 2016 predominately reflect changes to the strategic direction of the Corporation, as a refocused pure-play independent power producer.

Risk and Description	Impact	Monitoring and Mitigation
Operational Risks		
PPA renewal risk concerns the ability to recontract expiring PPA's on economically feasible terms and failing to align with the useful lives of the power facilities.	If Capstone is unsuccessful or delayed in recontracting its expiring PPAs, it would cause Capstone to fall short of its financial forecasts, as revenue short-falls could result from operating in merchant or other markets.	Capstone mitigates by starting negotiations with counter-party(ies) well before contract expiry, considering impacts of other stakeholders and working to ensure the broader benefits of the facility are considered in the process. In addition, company-wide mitigation is provided by maintaining a diversified portfolio to reduce the impact of any one facility to the overall consolidated financial results.
Succession and human resources retention risks concern the ability to replace senior management and attract, retain and motivate key staff.	Inability to retain or replace key staff or senior management could prevent or delay Capstone from executing its business strategy, thereby causing Capstone to fall short of its financial forecasts.	Capstone mitigates this risk by providing competitive compensation, as well as career and development opportunities to its employees.
Production risk concerns the dependence of power production on adequate resources such as wind, sunlight and water flow as well as fuel supply and the availability of each of the sites.	Low availability, inadequate wind, sunlight, water flow, wood waste or gas leads to lower power production which results in lower revenues.	Capstone maintains facilities in quality condition to maximize availability for power generation when renewable resources are available and strongest. Capstone also seeks to diversify its portfolio of businesses to mitigate the dependency on a single resource or geography.
Development and capital expenditure risks concern the construction of new power generation facilities in line with the requirements of awarded PPAs and planned maintenance capital expenditures required on existing facilities to maintain operations.	Delays and cost overruns in the construction of new facilities or in performing planned maintenance or refurbishments could lead to lower cash flows, and where PPA requirements are not met, cancellation of the PPA resulting in lost revenue and impairment of any capitalized costs for the facility.	Capstone has professional project management processes and uses experienced contractors and advisors. Capstone contracts include a combination of incentives, liquidated damages, or fixed-pricing to align suppliers interests to project results.
Information technology and data security risk concerns the ability to develop, maintain and manage complex information technology systems which are used to operate and monitor its facilities and other business systems.	Cyber attacks or unauthorized access to information technology systems may lead to production disruptions and system failures that, amongst other things, may result in lower production and revenues.	Capstone follows a recognized IT framework which includes security and recovery plans. In addition, certain sites are compliant with North American Electric Reliability Corporation standards.
Strategic Risks		
Competition risk concerns the ability to source and complete attractive investment opportunities that support Capstone's growth initiatives within the power segment.	Inability to source and execute attractive growth opportunities may lead to lower long-term cash flow as businesses operating under finite term contracts experience uncertainty about their longer term cash flow potential.	Management periodically reviews and updates strategy with the Board of Directors to determine a mandate. Capstone actively monitors the power segment for opportunities using internal resources and external advisers.
Financial Risks		
Expense management risk concerns unexpected non-recoverable increases in operating and administrative costs.	Unanticipated increases in costs could result in lower earnings and cash flow.	Capstone attempts to mitigate this risk by monitoring costs versus budgets, controlling discretionary spending and entering long-term service contracts.
Forecasting Risk concerns the accuracy of projections for results from operations due to error or unpredictable economic, market and specific business factors.	Volatility of financial forecasts increases liquidity reserve requirements to pay expenses, reducing cash flows.	Capstone targets businesses which have inherently predictable financial results from operations and requires periodic external review of its financial models to track and forecast future cash flows. Capstone maintains adequate levels of liquidity to manage during periods of uncertainty.
Taxation risk concerns higher income and other taxes attributable to adverse legislation changes, including tax rate increases, or interpretations by tax authorities on audit.	Higher taxation results in both lower income and cash flow available.	Capstone minimizes exposures to adverse tax rulings by choosing structures that adhere to taxation regulations, are commonly used in practice and wherever practical supported by opinions of external advisers. In addition, Capstone monitors the trends and policies of taxation authorities in the jurisdictions where its businesses operate.

Risk and Description	Impact	Monitoring and Mitigation
Financing risk concerns the ability to access timely and cost effective debt or equity to support the development and construction of power facilities, business acquisitions and replace maturing debt.	Inability to access cost-effective debt or equity could result in higher interest costs, lower cash flow or liquidity difficulties. For an acquisition, this could also prevent Capstone from realizing a growth opportunity.	Capstone maintains relationships with multiple financial institutions that have the resources to provide some or all financing requirements. In addition, most existing project debt amortizes over the term of the PPAs to minimize refinancing requirements and debt maturities are staggered. Capstone endeavours to secure committed financing prior to making offers to acquire businesses.
Legal and Regulatory Risks		
Contract and permit compliance risk concerns the ability to operate Capstone's power businesses within the allowances of an increasing number of requirements.	Failure to comply with contracts and permits can impact Capstone's power contracts, debt facilities, and other agreements, which can lead to lower cash flow from the existing businesses by reducing revenue or increasing costs to restore the ability to operate at capacity.	Capstone maintains its contracts, permits and licenses, works with knowledgeable contractors and responds to adverse findings promptly to minimize the impact.

ENVIRONMENTAL, HEALTH AND SAFETY REGULATION

Capstone's power facilities (collectively the “Facilities”) hold all material permits and approvals required for their operation and maintenance. All assets are managed to comply with health, safety and environmental ("HSE") laws in addition to Capstone's corporate and facility-specific HSE policies.

The Facilities are subject to complex and stringent environmental, health and safety regulatory regimes, which primarily focus on:

- Commitment to identify, eliminate, mitigate and manage health and safety issues for all workers, visitors, nearby landowners and other personnel at each of the Facilities;
- Regulatory compliance of emissions and discharges related to air, noise, water, and sewage.
- Proper storage, handling, use, transportation and distribution of dangerous goods and hazardous and residual materials including the prevention of releases of these materials to the environment;
- Management of construction and operation related permits to ensure compliance with all HSE regulations; and
- Protection of the natural and built environment including environmentally sensitive features and wildlife.

Due to the nature of their operations, the Facilities are not subject to any material contingent environmental liabilities or environmental remediation costs upon the retirement of assets.

Climate Change, Greenhouse Gases and Policy Changes

Due to the emission of greenhouse gases, such as carbon dioxide ("CO2") and nitrous oxides ("NOx), some of the Facilities, particularly the Cardinal and Whitecourt facilities, have an ongoing operational impact on the environment. All Facilities comply in all material respects with the applicable Canadian legislation and guidelines regarding greenhouse gases and other emissions. Capstone mitigates the potential impact of future changes to environmental legislation and guidelines by remaining diligent in the operation of the Facilities, including implementing stringent policies and procedures to prevent the contravention of permits and approvals.

There are a number of proposals in respect of changes to climate change legislation and guidelines (including proposed limits on greenhouse gas emissions) in various stages of development, in various jurisdictions. The Canadian federal government ratified the Paris Accord, negotiated under the United Nations Framework Convention on Climate Change, in the fall of 2016. Pursuant to the Paris Accord, the parties committed, in a non-binding manner, to accelerate actions and investments needed to limit global average temperatures to below 2°C above pre-industrial levels and to pursue efforts to limit the increase to 1.5°C.

The federal government and each of the Provinces, with the exception of Saskatchewan and Manitoba, jointly issued the Pan-Canadian Framework on Clean Growth and Climate Change (“Framework”). The Framework is the blueprint by which the federal government and the provinces will attempt to meet their previously agreed-upon target of a 30% reduction in greenhouse gas emissions from 2005 levels by 2030. Elements of the Framework include all provincial jurisdictions being required to price carbon by 2018. However, provincial jurisdictions have the flexibility to implement a variety of carbon regimes ranging from price-based regimes such as a carbon tax, to performance-based emissions regimes such as cap and trade. For jurisdictions with a price-based regime, the price should at least start at $10/tonne in 2018 and rise by $10/tonne each year to $50/tonne by 2022. As a regulatory backstop, the federal government has also proposed the Greenhouse Gas Pollution Pricing Act, which would introduce a carbon pricing regime to those provinces that failed to implement adequate provincial measures.

The Alberta Climate Leadership Act was proclaimed in force as of January 1, 2017. It imposes a carbon levy on certain fuels, such as natural gas and oil, imported into the Province or sold in the Province. This legislation will not have a direct effect on renewable generation including the Whitecourt facility.

The Ontario cap-and-trade regime came into force on January 1, 2017 under the Climate Change Mitigation and Low-carbon Economy Act. Under the regime, a participating facility, which does not include any of the Capstone Facilities, can only emit as much carbon as it has allowances for. The total number of allowances for all participating facilities (i.e. the cap) will steadily decline each year during the first and second compliance periods effective until December 31, 2030. The regime was updated in 2017 to link Ontario's program to the joint Quebec-California program. Effective January 1, 2018, allowances and credits from all jurisdictions are completely fungible. The new Ontario Offset Credits regulation, also effective January 1, 2018, will allow for the creation of offset credits for use in the regime. Ontario is continuing to develop a voluntary offset program, which may allow for Capstone’s involvement as a voluntary market participant.

Cardinal

There is currently no restriction on the amount of CO_2 that the Cardinal facility may emit, although the facility is required to report its CO_2 emissions under various federal and provincial regulations. Environmental regulations in Ontario also provide for, among other things, the reporting, allocation and retirement of NOx emissions. NOx emissions from Cardinal's generating equipment are lower than the levels mandated by legislation.

Whitecourt

The Whitecourt facility uses biomass combustion technology to convert the energy content in wood waste into electricity. Biomass is generally considered to be carbon-neutral as the amount of CO_2 arising from combustion is equal to what would be emitted if the biomass were to decompose naturally. As a result, electricity generated from biomass is regarded as an environmentally friendly form of power generation. The Whitecourt facility is subject to limits governing the emissions of carbon monoxide, NOx and particulates in accordance with the facility's Environmental Approval. Average annual emission levels at the Whitecourt facility are below the levels of permitted emissions for it. The Whitecourt facility is also subject to certain federal and provincial greenhouse gas reporting requirements and is in compliance with these requirements.

Hydro Facilities

Capstone's hydro facilities do not produce greenhouse gases. However, their operations are governed by water management plans and/or water licenses, which specify the hydrological conditions during which production may occur.

Wind Farms

Capstone's wind farms do not produce greenhouse gases, but are subject to regulations and/or approvals relating to the natural and built environment.

Amherstburg Solar Park

The operation of Amherstburg does not generate greenhouse gases.

Further information regarding Environmental, Safety and Health Regulations matters is contained in the Corporation's Annual Information Form (which is available under the Corporation's profile on www.sedar.com).

RELATED PARTY TRANSACTIONS

Capstone's 2017 related party transactions and balances are primarily comprised of transactions with iCON Infrastructure LLP and subsidiaries ("iCON") and compensation to key management.

Transactions with iCON

Equity Transactions

Refer to page 4 of "Changes in the Business" in this MD&A for a series of equity transactions, including the repayment of the promissory note and contribution of the remaining interests in the Glen Dhu and Fitzpatrick wind facilities from an iCON III subsidiary.

Shared Service Arrangement

Fees earned from iCON Infrastructure Canada Inc. ("iCON Canada"), a subsidiary of iCON, under a shared service arrangement, are reported in the consolidated statements of income as an administrative expense recovery. During 2017, Capstone earned fees of $174 from iCON Canada.

Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) during the year. Compensation awarded to key management consisted of salaries, directors' fees, short-term employee benefits, long-term incentive plans, and termination benefits. Key management compensation is described in note 23 related party transactions in the consolidated financial statements for the year ended December 31, 2017.

Linking Management Compensation to Performance

Compensation plays an important role in achieving short- and long-term business objectives that ultimately drive the Corporation’s business success in alignment with long-term shareholder goals. The objectives of the Corporation’s compensation program are to:

- Attract and retain highly qualified employees with a history of proven success;
- Align the interests of employees with shareholders’ interests and with the execution of the Corporation’s business strategy;

- Establish performance goals that, if met, are expected to improve long-term shareholder value; and
- Tie compensation to those goals and provide meaningful rewards for achieving them.

Financial performance targets are set each year to provide management with an incentive to exceed annual budgeted financial results and are therefore aligned with shareholder interests.

The following table summarizes the link between the Corporation's executive and senior officer forms of compensation and performance:

	Salary	Short-term incentive plan ("STIP")	Long-term incentive plan ("LTIP")
Description	Salary is a fixed component of compensation that provides income certainty by establishing a base level of compensation for executives fulfilling their roles and responsibilities.	The STIP provides the possibility of an additional annual cash award based on the achievement of corporate and individual goals.	Capstone has a discretionary LTIP and share appreciation rights ("SAR") plan tied to long-term growth to motivate and retain executives on a long-term basis. The awards are paid in cash after meeting certain vesting conditions.
Purpose	To attract and retain qualified executives.	To motivate, attract and retain qualified executives.	To reward long-term performance and align interests of executives with security holders.
Link to performance	No direct link.	A significant portion of this award is based on actual business performance against Capstone's internal performance measures, Adjusted EBITDA and AFFO.	The discretionary LTIP is not directly linked to performance. The SAR is directly linked to the long-term increase in the Company's value upon a sale transaction.

For a comprehensive understanding of Capstone's compensation program refer to the "Compensation Discussion and Analysis" section of the Corporation's most recently filed AIF.

SUMMARY OF QUARTERLY RESULTS

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

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue (1), (2)	41,561	29,089	40,380	43,133	40,128	66,145	32,492	34,175
EBITDA (1), (2), (3)	28,529	22,221	30,176	29,129	36,622	54,608	8,180	8,839
Net income (loss) (4), (5), (6)	1,287	(2,125)	3,285	114,936	18,407	(9,488)	(18,170)	(4,507)
Preferred dividends	613	613	613	613	613	938	938	938

(1) Comparative figures for revenue and EBITDA have been adjusted to remove amounts from discontinued operations.
(2) Revenue for Q3 2016 includes proceeds awarded of $33,288 for retroactive adjustments from the OEFC for Cardinal and the Ontario hydro facilities. In addition, EBITDA for Q3 2016 includes $2,288 of interest income and $12,049 of associated operating expenses, which is a net $23,527 in EBTIDA.
(3) EBITDA for Q1 and Q2 2016 includes $3,992 and $7,659, respectively, in expenses related to one-time costs associated with the iCON III acquisition.
(4) Net income (loss) attributable to the common shareholders of Capstone, which excludes non-controlling interests.
(5) Results include continuing operations and discontinued operations for all periods.
(6) Net income includes a gain on the sale of Värmevärden of $128,087 in Q1 2017 and a loss on the sale of Bristol Water of $2,803 in Q4 2016.

FOURTH QUARTER 2017 HIGHLIGHTS

	Three months ended	
	Dec 31, 2017	Dec 31, 2016
Revenue	41,561	40,128
Operating expenses	(10,486)	(11,684)
Administrative expenses	(2,074)	(2,945)
Project development costs	(383)	(672)
Equity accounted income	825	747
Interest income	1,182	51
Other gains and (losses), net	(2,095)	11,007
Foreign exchange gain (loss)	(1)	(11)
Earnings before interest, taxes, depreciation and amortization	28,529	36,621
Interest expense	(9,900)	(8,645)
Depreciation of capital assets	(15,888)	(18,080)
Amortization of intangible assets	(2,488)	(2,573)
Earnings (loss) before income taxes	253	7,323
Income tax recovery (expense)		
Current	1,263	(1,637)
Deferred	570	14,236
Total income tax recovery (expense)	1,833	12,599
Net income (loss) from continuing operations	2,086	19,922
Net income (loss) from discontinued operations, net of tax	—	1,673
Net income (loss)	2,086	21,595
Net income (loss) attributable to:		
Shareholders of Capstone	1,287	18,407
Non-controlling interest	799	3,188
	2,086	21,595

In the fourth quarter of 2017, Capstone's EBITDA and net income were both lower than in 2016. Lower quarterly EBITDA from Capstone's continuing operations reflects:

- An decrease in the fair value of the Whitecourt embedded derivative, which generally decreases as forecasted Alberta power pool prices rise; and
- Lower expenses primarily due to lower staff costs; partially offset by
- Higher power segment results, primarily due to the Settlers Landing wind facility that achieved COD in 2017; and
- Higher interest income received from Chapais Électrique Limitée.

The remaining material change in net income was:

- Lower income tax recovery, primarily attributable to the recognition of a deferred tax asset on the cost base of Värmevärden's shares in 2016.

ACCOUNTING POLICIES 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, 2016. Refer to note 2 to the December 31, 2017 consolidated financial statements for a summary of significant accounting policies.

Future Accounting Changes

The International Accounting Standards Board ("IASB") has announced new standards and amendments that will be effective for future reporting periods that have not yet been adopted by the Corporation. Capstone's assessment of the impact of the material standards and amendments are ongoing. Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had an impact in 2017. The significant upcoming changes to IFRS are:

Title of the New IFRS [1]
• **IFRS 15**, Revenue from Contracts with Customers [Effective: Jan 1, 2018]
• **IFRS 9**, Financial Instruments [Effective: Jan 1, 2018]
• **IFRS 16**, Leases [Effective: Jan 1, 2019]

(1) Refer to note 2 to the consolidated financial statements for the year ended December 31, 2017 for further detail about the nature of these future accounting changes.

Accounting Estimates

The consolidated financial statements require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies.

On January 1, 2017, Capstone adjusted the remaining useful life of a few of the wind facilities to better reflect their estimated future economic benefit. The changes in estimated useful lives are accounted for prospectively.

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

Area of Significance	Critical Estimates and Judgments
Capital assets, projects under development and intangible assets:	
• Purchase price allocations	• Initial fair value of net assets.
• Depreciation on capital assets	• Estimated useful lives and residual value.
• Amortization on intangible assets	• Estimated useful lives.
• Asset retirement obligations	• Expected settlement date, amount and discount rate.
• Impairment assessments of capital assets, projects under development and intangibles 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, cost and inflation escalators and fuel supply volumes and electricity sales.
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.

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

Internal Controls over Financial Reporting and Disclosure Controls and Procedures

Capstone's CEO and CFO are required by the various provincial securities regulators to certify annually that they have designed, or caused to be designed, Capstone's disclosure controls and procedures, as defined in the Canadian Securities Administrators' National Instrument 52-109 (“NI 52-109”), and that they have evaluated the effectiveness of the presence and function of these controls and procedures in the applicable period. Disclosure controls are those controls and other procedures that are designed to provide reasonable assurance that the relevant information that Capstone is required to disclose is recorded, processed and reported within the time frame specified by such securities regulators.

Capstone's management, under the supervision of and with the participation of the CEO and CFO, has designed internal controls over financial reporting, as defined in NI 52-109. The purpose of internal controls over financial reporting is to provide reasonable assurance regarding the reliability of Capstone's financial reporting, in accordance with IFRS, focusing in particular on controls over information contained in the audited annual and unaudited interim consolidated financial statements. The internal controls are not expected to prevent and detect all misstatements due to error or fraud. Consistent with the prior year, Capstone uses the 2013 version of Committee of Sponsoring Organizations (COSO) internal control framework.

During 2017, Capstone updated its internal controls and testing for changes in its operations, including the acquisition of the remaining interests in the Glen Dhu and Fitzpatrick wind facilities.

The CEO and CFO have concluded that Capstone's disclosure controls and procedures were effective as at December 31, 2017 to ensure that information required to be disclosed in reports that Capstone files or submits under Canadian securities legislation is recorded, processed, summarized and reported within applicable time periods.

As at December 31, 2017, Capstone's management had assessed the effectiveness of Capstone's internal control over financial reporting using the criteria set forth by COSO of the Treadway Commission in Internal Control – Integrated Framework (2013). Based on this assessment, management has determined that Capstone's internal control over financial reporting was effective as at December 31, 2017.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements and other financial information contained in this annual report have been prepared by management. It is management's responsibility to ensure that sound judgment, appropriate accounting policies and reasonable estimates have been used to prepare this information and that the consolidated financial statements are in accordance with International Financial Reporting Standards.

Management is also responsible for designing, maintaining and testing a system of internal controls over the financial reporting processes. Internal controls have been designed to provide reasonable assurance that the financial records are reliable, accurate and form a proper basis for the preparation of the consolidated financial statements. As of December 31, 2017, management reviewed and tested the internal controls over financial reporting and concluded that they were effective to provide reasonable assurance over the consolidated financial statements.

The Audit Committee of the Board of Directors, consisting entirely of independent directors, is responsible for reviewing the consolidated financial statements with management and the external auditors and reporting to the Board of Directors. The Audit Committee is responsible for retaining the services of the independent auditor and for renewing the auditor's mandate, which is subject to Board of Directors' review and shareholders' approval.

The independent auditor, PricewaterhouseCoopers LLP, is responsible for conducting an examination in accordance with Canadian generally accepted auditing standards to express an opinion on whether the consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The report of PricewaterhouseCoopers LLP, which outlines the scope of its examination and its opinion on the consolidated financial statements, appears on the following page.

David Eva
Chief Executive Officer

Andrew Kennedy
Chief Financial Officer

Toronto, Canada
March 6, 2018

March 6, 2018

Independent Auditor's Report

To the Shareholders of
Capstone Infrastructure Corporation

We have audited the accompanying consolidated financial statements of Capstone Infrastructure Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Capstone Infrastructure Corporation and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at	Notes	Dec 31, 2017	Dec 31, 2016
Current assets			
Cash and cash equivalents	4	64,083	62,246
Restricted cash	4	22,438	27,733
Accounts receivable	5	24,408	23,064
Other assets	6	4,778	3,145
Current portion of derivative contract assets	7a	1,130	—
Assets held for sale	3b(ii)	—	13,445
		116,837	129,633
Non-current assets			
Derivative contract assets	7a	20,234	17,139
Equity accounted investments	9	—	22,464
Capital assets	10	896,377	787,271
Projects under development	11	730	22,267
Intangible assets	12	167,732	153,493
Deferred income tax assets	13a	—	14,750
Total assets		1,201,910	1,147,017
Current liabilities			
Accounts payable and other liabilities	14	20,257	25,383
Promissory note payable	17	—	96,702
Current portion of derivative contract liabilities	7a	—	758
Current portion of long-term debt	15	86,208	62,169
Liabilities held for sale	3b(ii)	—	248
		106,465	185,260
Long-term liabilities			
Derivative contract liabilities	7a	2,144	1,427
Deferred income tax liabilities	13a	89,243	72,673
Long-term debt	15	732,334	703,822
Liability for asset retirement obligation	16	10,161	7,165
Total liabilities		940,347	970,347
Equity attributable to shareholders' of Capstone		206,314	115,253
Non-controlling interest	18	55,249	61,417
Total liabilities and shareholders' equity		1,201,910	1,147,017
Commitments and contingencies	22		

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Notes	Equity attributable to shareholders of Capstone					
		Share Capital [2]	Other Equity Items [3]	AOCI [4]	Retained Earnings (Deficit)	NCI [5]	Total Equity
Balance, December 31, 2015 [1]	18	814,719	9,284	51,151	(366,579)	273,505	782,080
Other comprehensive income (loss) from January 1 - April 29, 2016 [6]		—	—	(29,743)	(10,004)	(32,192)	(71,939)
Net income (loss) from January 1 - April 29, 2016 included in retained earnings reset [7]		—	—	—	(20,600)	6,501	(14,099)
Dividends declared to common shareholders of Capstone	17a	617	—	—	—	—	617
Dividends declared to preferred shareholders of Capstone [8]	17c	—	—	—	(1,279)	—	(1,279)
Redemption of Capstone's 2016 convertible debentures	3a	—	(9,284)	—	9,284	—	—
Dividends declared to NCI from January 1 - April 29, 2016	18	—	—	—	—	(1,060)	(1,060)
Convertible debenture advances, net [9]	18	—	—	—	—	3,077	3,077
Elimination of deficit	3a	(389,178)	—	—	389,178	—	—
Issuance of promissory note in exchange for common shares	3a	(316,225)	—	—	—	—	(316,225)
Balance, April 29, 2016		109,933	—	21,408	—	249,831	381,172
Other comprehensive income (loss) after April 29, 2016 [5]		—	—	(21,408)	(1,789)	(19,208)	(42,405)
Net income (loss) after April 29, 2016 [6]		—	—	—	6,842	(8,284)	(1,442)
Sale of Bristol Water [10]	3b(i)	—	—	—	—	(159,268)	(159,268)
Conversion of promissory note [10]	17a	194,531	—	—	—	—	194,531
Return of capital [10]	17a	(192,011)	—	—	—	—	(192,011)
Dividends declared to preferred shareholders of Capstone [8]	17c	—	—	—	(2,253)	—	(2,253)
Dividends declared to NCI after April 29, 2016	18	—	—	—		(2,014)	(2,014)
Convertible debenture advances, net [9]	18	—	—	—	—	360	360
Balance, December 31, 2016		112,453	—	—	2,800	61,417	176,670
Net income for the period		—	—	—	117,383	993	118,376
Conversion of promissory note [10]	17a	86,332	—	—	—	—	86,332
Return of capital [10]	17a	(86,332)	—	—	(45,636)	—	(131,968)
Business acquisition [11]	3c	21,837	—	—	—	—	21,837
Dividends declared to preferred shareholders of Capstone [8]	17c	—	—	—	(2,523)	—	(2,523)
Dividends declared to NCI	18	—	—	—	—	(3,240)	(3,240)
Convertible debenture advances (repayments), net [9]	18	—	—	—	—	(3,921)	(3,921)
Balance, December 31, 2017		134,290	—	—	72,024	55,249	261,563

(1) The equity balance as at December 31, 2015 has been revised to reflect historical adjustments to non-controlling interests associated with Bristol Water, resulting in an increase to non-controlling interests of $11,960 and a corresponding decrease to opening retained earnings (deficit).
(2) After April 29, 2016, share capital consists of Class A shares and preferred shares. Just prior to April 29, 2016, share capital was comprised of common shares, preferred shares and Class B exchangeable units (refer to note 3a).
(3) Other equity items include the equity portion of Capstone's 2016 convertible debentures, which was redeemed on April 29, 2016.
(4) Accumulated other comprehensive income (loss) ("AOCI").
(5) Non-controlling interest ("NCI").
(6) Total other comprehensive loss for the year ended December 31, 2016 is $114,344.
(7) Total net loss for the year ended December 31, 2016 is $15,541.
(8) Dividends declared to preferred shareholders of Capstone include deferred income taxes of $71 (2016 - $31 prior to April 29, 2016 and $295 after April 29, 2016).
(9) Capital contributions, net of repayments are with One West Holdings Ltd. ("Concord"), the holder of the convertible debenture related to the Ganaraska and Grey Highlands ZEP ("GHG"), Snowy Ridge and Settlers Landing projects. The convertible debenture provides Concord the option to become a 50% partner in these projects.
(10) Refer to note 3b for changes related to the sale of Bristol Water and Värmevärden.
(11) Refer to note 3c for changes related to the acquisition of remaining interests of wind facilities.

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF INCOME

	Notes	For the year ended Dec 31, 2017	Dec 31, 2016
Revenue		154,163	172,940
Operating expenses	20	(42,290)	(56,947)
Administrative expenses	20	(8,718)	(19,876)
Project development costs	20	(2,090)	(15,255)
Equity accounted income (loss)	9a	935	958
Interest income	7b	1,600	2,622
Other gains and (losses), net	21	6,437	23,410
Foreign exchange gain (loss)		18	397
Earnings before interest expense, taxes, depreciation and amortization		110,055	108,249
Interest expense	7b	(36,668)	(34,476)
Depreciation of capital assets	10	(56,962)	(48,878)
Amortization of intangible assets	12	(9,825)	(9,924)
Earnings before income taxes		6,600	14,971
Income tax recovery (expense)			
Current		(371)	(1,658)
Deferred		(17,170)	5,517
Total income tax recovery (expense)	13d	(17,541)	3,859
Net income (loss) from continuing operations		(10,941)	18,830
Net income (loss) from discontinued operations, net of tax	3b	129,317	(34,371)
Net income (loss)		118,376	(15,541)
Net income (loss) attributable to:			
Shareholders of Capstone		117,383	(13,758)
Non-controlling interest	18	993	(1,783)
		118,376	(15,541)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Notes	For the year ended Dec 31, 2017	Dec 31, 2016
Other comprehensive income (loss) from discontinued operations, net of tax	3b(i)	—	(114,344)
Net income (loss) from discontinued operations, net of tax	3b	129,317	(34,371)
Total comprehensive income (loss) from discontinued operations, net of tax		129,317	(148,715)
Total comprehensive income (loss) from continuing operations		(10,941)	18,830
Total comprehensive income (loss)		118,376	(129,885)
Comprehensive income (loss) attributable to:			
Shareholders of Capstone		117,383	(76,702)
Non-controlling interest	18	993	(53,183)
		118,376	(129,885)

See accompanying notes to these consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Notes	For the year ended Dec 31, 2017	Dec 31, 2016
Operating activities:			
Net income (loss) from continuing operations		(10,941)	18,830
Deferred income tax expense (recovery)		17,170	(5,517)
Depreciation and amortization		66,787	58,802
Non-cash other gains and losses (net)		(773)	(15,268)
Amortization of deferred financing costs and non-cash financing costs		2,581	2,321
Equity accounted income	9a	(935)	(958)
Foreign exchange loss (gain)		(18)	(397)
Change in non-cash working capital		(2,118)	(7,490)
Cash flows from continuing operations		71,753	50,323
Cash flows from discontinued operations	3b	1,372	70,866
Total cash flows from operating activities		73,125	121,189
Investing activities:			
Investment in projects under development	11b	(18,236)	(120,992)
Investment in capital assets	10b	(16,025)	(15,536)
Decrease (increase) in restricted cash		5,295	(10,994)
Cash acquired from acquisition of equity accounted investment	3c	3,574	—
Distributions from equity accounted investments	9a	2,352	1,886
Cash disposed of from discontinued operations		—	(38,374)
Cash flows used in continuing operations		(23,040)	(184,010)
Cash flows used in discontinued operations	3b	—	(26,225)
Total cash flows used in investing activities		(23,040)	(210,235)
Financing activities:			
Return of capital to Irving	3b	(131,968)	—
Repayment of long-term debt		(121,132)	(93,262)
Repayment of promissory note	3b	(10,370)	(53,836)
Convertible debenture advances (repayments), net	18a	(3,921)	(4,930)
Dividends paid to non-controlling interests	18a	(3,240)	(3,074)
Dividends paid to common and preferred shareholders		(2,452)	(9,887)
Transaction costs on debt issuance		(1,080)	(6,916)
Proceeds from issuance of long-term debt		83,717	299,511
Redemption of debentures		—	(43,176)
Settlement of interest rate swaps		—	85
Cash flows from (used in) continuing operations		(190,446)	84,515
Cash flows from (used in) discontinued operations	3b	142,198	(1,217)
Total cash flows from (used in) financing activities		(48,248)	83,298
Exchange difference on translation of discontinued operations		—	(6,264)
Increase in cash and cash equivalents		1,837	(12,012)
Cash reclassified to held for sale		—	(134)
Cash and cash equivalents, beginning of year		62,246	74,392
Cash and cash equivalents, end of year		64,083	62,246
Supplemental information:			
Interest paid (Bristol Water in 2016 - $22,044)		34,077	56,309
Taxes paid (recovery) (Bristol Water recovery in 2016 - $1,052)		1,882	295

See accompanying notes to these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 1. CORPORATE INFORMATION

Capstone is incorporated and domiciled in Canada and principally located at 155 Wellington Street West, Suite 2930, Toronto, Ontario, M5V 3H1. Capstone Infrastructure Corporation and its subsidiaries (together the “Corporation” or “Capstone”) mission is to provide investors with an attractive total return from responsibly managed long-term investments in power generation in North America. Capstone's strategy is to develop, acquire and manage a portfolio of high quality power assets. As at December 31, 2017, Capstone owns and operates an approximate net installed capacity of 541 megawatts across 23 facilities in Canada, including wind, hydro, solar, biomass, and natural gas power plants.

All amounts are in Canadian thousands of dollars or thousands of share amounts unless otherwise indicated.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are used in the preparation of these consolidated financial statements.

Basis of Preparation

Statement of compliance

The consolidated financial statements of Capstone have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements were authorized for issue by the Board of Directors on March 6, 2018.

Discontinued Operations and Assets Held for Sale

As further discussed in note 3, on March 3, 2017, Capstone sold its interest in Värmevärden, resulting in the *utilities - district heating* segment being presented as a discontinued operation in the statements of income for the years ended December 31, 2017 and 2016. As at December 31, 2016, Capstone accounted for its investment in Värmevärden as assets held for sale ("AHFS") on the consolidated statement of financial position within the current assets and liabilities.

On December 15, 2016, Capstone sold its 50% interest in Bristol Water, resulting in the *utilities - water* segment being presented as a discontinued operation in the statements of income for the year ended December 31, 2016.

The cash flows of these segments are presented as cash provided (used) by discontinued operations for the years ended December 31, 2017 and 2016.

Basis of measurement

The consolidated financial statements have been prepared under the historical cost basis, except for the revaluation of certain financial instruments, which are measured at fair value as explained in the accounting policies set out below and on a going concern basis of accounting (see note 8). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Consolidation

These consolidated financial statements are primarily made up of the assets, liabilities and results of operations of the Corporation's subsidiaries. Subsidiaries are all entities over which Capstone has control. Capstone controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The following table lists the significant subsidiaries of the Corporation which are accounted for on a consolidated basis:

Name of entity	Principal place of business and country of incorporation	Ownership at December 31, 2017	2016	Principal activity
Capstone Power Corp. ("CPC")	Canada	100%	100%	Power holding company
Cardinal Power of Canada, L.P. ("Cardinal")	Canada	100%	100%	Power generation
Erie Shores Wind Farm Limited Partnership ("Erie Shores")	Canada	100%	100%	Power generation
MPT Hydro LP ("Hydro")	Canada	100%	100%	Power generation
Whitecourt Power Limited Partnership ("Whitecourt")	Canada	100%	100%	Power generation
Helios Solar Star A-1 Partnership ("Amherstburg")	Canada	100%	100%	Power generation
Glace Bay Lingan Wind Power Ltd. ("Glace Bay")	Canada	100%	100%	Power generation
Sky Generation L.P. ("SkyGen"), formerly Sky Generation Inc. (1)	Canada	100%	100%	Power generation
SP Amherst Wind Power LP ("Amherst")	Canada	51%	51%	Power generation
Parc Éolien Saint-Philémon S.E.C. ("Saint-Philémon")	Canada	51%	51%	Power generation
Chi-Wiikwedong LP ("Goulais")	Canada	51%	51%	Power generation
Chi-Wiikwedong Holdings LP	Canada	100%	100%	Power holding company
Capstone Power Development (B.C.) Corp.	Canada	100%	100%	Development
Grey Highlands Clean Energy Development LP ("Grey Highlands Clean")	Canada	100%	100%	Power generation
Ganaraska and Grey Highlands ZEP Wind Development LP ("GHG")	Canada	100% (2)	75%	Power generation
Snowy Ridge Wind Development LP ("SR")	Canada	100% (2)	75%	Power generation
Settlers Landing Wind Development LP ("SL")	Canada	100% (2)	75%	Power generation
Glen Dhu Wind Energy LP ("Glen Dhu")	Canada	100% (3)	49%	Power generation
Fitzpatrick Mountain Wind Energy Inc. ("Fitzpatrick")	Canada	100% (3)	50%	Power generation

(1) The SkyGen entity holds the Ferndale, Ravenswood, Proof Line and Skyway 8 operating wind facilities.
(2) As at December 31, 2016, Ganaraska, Grey Highlands ZEP, Snowy Ridge and Settlers Landing projects were 25% held by the original developer. Capstone acquired the original developer's ownership interest of GHG, SR and SL during 2017. Refer to the Statement of Changes in Shareholders' Equity for details.
(3) On December 31, 2017, Capstone acquired the remaining 51% interest in Glen Dhu and the remaining 50% interest in Fitzpatrick, increasing Capstone's interests in both wind facilities to 100%. Results for the periods up to the acquisition are included in equity accounted income in the statement of income. Refer to note 3c.

The Corporation accounts for its controlled investments using the consolidation method of accounting from the date control is obtained and deconsolidates from the date that control ceases. All intercompany balances and transactions have been eliminated on consolidation.

Non-controlling interests represent equity interests in subsidiaries owned by outside parties. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a component of equity. Their share of net income and comprehensive income is recognized directly in equity. Changes in the Corporation's interest in subsidiaries that do not result in a loss of control are accounted for as equity transactions.

Equity Accounted Investments

Companies in which the Corporation has the ability to exercise significant influence, but not control, or has the ability to exercise joint control over financial and operating policy decisions are accounted for using the equity method. Significant influence is presumed to exist when the Corporation holds between 20% and 50% of the voting power of another entity. Capstone's investments in Värmevärden AB ("Värmevärden") and the Glen Dhu and Fitzpatrick wind facilities were accounted for on an equity accounting basis in 2016 and for portions of 2017, prior to the respective sale transaction of Värmevärden and consolidation of the wind facilities.

Business Combinations

The acquisitions of businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets transferred, liabilities incurred or assumed, and equity instruments issued by the Corporation in exchange for control of the acquired business. The acquired identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3R, Business Combinations ("IFRS 3R") are recognized at their fair value at the acquisition date.

The Corporation recognizes any non-controlling interest in the acquiree at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

Foreign Currency Translation

Functional and presentation currency

Amounts included in the financial statements of each entity that is a foreign operation are measured using the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are presented in Canadian dollars ("presentation currency"), which is Capstone's functional currency. The exchange rates used in the translation to the presentation currency are:

	Swedish Krona (SEK)		UK Pound Sterling (£)	
As at and for the year ended	Average	Spot	Average	Spot
December 31, 2016 (1)	0.1550	0.1478	1.8014	1.6597
December 31, 2017 (2)	0.1528	0.1530	N/A	N/A

(1) Bristol Water's spot rate and average rate were as at and for the period ended December 15, 2016, the date of sale.
(2) Refer to note 3 for details on the sale of Värmevärden. Capstone continues to have minimal SEK-denominated balances following the sale, which are expected to cease in 2018.

The financial statements of entities that have a functional currency different from that of the Corporation are translated into Canadian dollars as follows: assets and liabilities – at closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation of the actual rates prevailing at the transaction dates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

On the disposal of a foreign operation, the cumulative translation adjustments recognized in other comprehensive income is reclassified to the statement of income when the gain or loss on disposal is recognized.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity's functional currency are recognized in the consolidated statement of income in "foreign exchange gain (loss)".

Cash and Cash Equivalents

Cash and cash equivalents are composed of highly liquid investments with original maturities of 90 days or less at the date of acquisition and are recorded at fair value.

Capitalized Interest

The Corporation capitalizes interest and borrowing costs when activities that are necessary to prepare the asset for its intended use are in progress and expenditures for the asset have been used or borrowed to fund the construction or development. Capitalization of interest and borrowing costs ceases when the asset is ready for its intended use. Capitalized interest is included in the statement of financial position as part of capital assets and projects under development.

Grants and Contributions

Grants are recognized at their fair value when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Grants and contributions related to charges to net income are netted against such expenditures as received.

Capital Assets

Capital assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost can be measured reliably. The carrying value of an asset is derecognized when replaced.

Major maintenance costs are capitalized in the carrying value of the assets as incurred, and depreciated over their useful lives. Other repairs and maintenance costs are charged to the consolidated statement of income during the period incurred.

Gains or losses on disposals are determined by comparing the proceeds of sale with the carrying amount and are recognized within the consolidated statement of income.

The Corporation allocates the amount initially recognized in respect of an item of capital assets to its significant parts and depreciates separately each such part. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate. The major categories of capital assets are depreciated using the straight-line method as follows:

	Power
Equipment and vehicles:	
Computer hardware	3 to 5 years
Communications, meters and telemetry equipment	15 to 30 years
Vehicles	5 years
Property and plant:	
Operational structures	15 to 30 years
Operational properties	40 years

Leased Assets

Assets financed by leasing agreements that transfer substantially all the risks and rewards of ownership of an asset to the lessee are capitalized and depreciated over the shorter of their estimated useful lives and the lease term. The corresponding liability is recorded as borrowings. The capital element of the lease rental is deducted from the obligation to the lessor as paid. The interest element of lease rentals and the depreciation of the relevant assets are charged to the consolidated statement of income.

Operating lease rental payments are charged to the consolidated statement of income on a straight-line basis as incurred over the term of the lease.

Projects Under Development ("PUD")

Capitalized costs related to an asset under development include all eligible expenditures incurred in connection with the development and construction of the power generating asset until it is available for its intended use. The Corporation capitalizes all direct project costs related to the development of the Corporation's electricity generation projects. Capitalization commences when the project is:

- Clearly identified;
- The technical feasibility has been established;
- Management has indicated its intention to construct, operate and maintain the project;
- An offtake market is identified or a power purchase agreement ("PPA") awarded; and
- Adequate resources exist or are expected to be available to complete the project.

Upon a project becoming commercially operational, the capitalized costs, including capitalized borrowing costs, if any, are transferred to capital assets and are amortized on a straight-line basis over the estimated useful lives of the various components.

The recovery of project development costs is dependent upon continued access to the development sites, regulatory approval, sufficient project financing, and the successful commercialization of project sites for the profitable sale of electricity.

Intangible Assets

Identifiable intangible assets

The Corporation separately identifies acquired intangible assets, including computer software, electricity supply contracts, gas purchase contracts, water rights and licenses, and records each at their fair value at the date of acquisition. The initial fair value is amortized over their estimated useful lives using the straight-line method as follows:

	Power
Computer software	3 to 7 years
Electricity supply, gas purchase and other contracts(1)	15 to 25 years
Water rights	10 to 35 years

(1) Generally amortized over the contract term.

The expected useful lives of intangible assets are reviewed on an annual basis and adjusted prospectively.

Impairment of Non-financial Assets

The capital assets, projects under development and intangible assets with finite lives are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash inflows. The recoverable amount is the higher of an asset's fair value less costs to sell the assets and the value in use (being the present value of the expected future cash flows of the relevant assets or Cash Generating Unit ("CGU")). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount. The Corporation evaluates impairment losses, for potential reversals when events or circumstances warrant such consideration.

Provisions

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The Corporation performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Retirement Benefit Plans

The Corporation operates defined contribution pension plans through its subsidiaries. Costs of defined contribution pension plans are charged to the consolidated statement of income in the period in which they fall due.

Asset Retirement Obligations

The Corporation recognizes a provision for the future retirement obligations associated with its operating plants. These obligations are initially measured at the present value, which is the discounted future cost of the liability. A reassessment of the expected costs associated with these liabilities is performed annually with changes in the estimates of timing or amount of cash flows added or deducted from the cost of the related asset. The liability grows until the date of expected settlement of the retirement obligations.

Assets Held for Sale

Assets and liabilities that meet the criteria to be classified as held for sale are reclassified to current assets and liabilities on the statement of financial position. They are measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets is no longer recorded. The results of discontinued operations are presented separately in the statements of income and cash flows for the current and comparative periods.

Share Capital

Common and Class A shares are classified as equity. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

Preferred Shares

The Corporation classifies its series A preferred shares as equity for reporting purposes given that the preferred shares may be converted into a fixed number of the Corporation's own equity instruments and there is no settlement required at a future date. Incremental costs directly attributable to the issuance of shares are recognized as a reduction in equity.

Dividends

Dividends on common shares, up until the iCON III acquisition, and series A preferred shares are recognized in the Corporation's consolidated financial statements in the period in which the dividends are declared by the Board of Directors of the Corporation.

Revenue and Expense Recognition

Revenue derived from the sale of electricity and steam is recognized upon delivery to the customer and priced in accordance with the provisions of the applicable electricity and steam sales agreements. In addition, capacity and availability payments to Cardinal are recognized in accordance with the non-utility generator contract. Certain power purchase arrangements provide for an electricity rate adjustment, which is updated periodically both for the current and prior periods. Capstone accounts for such adjustments when a reliable estimate of the adjustment can be determined. Revenue derived from Whitecourt electricity sales to the Alberta power pool are recorded at the hourly average weighted power pool rate.

Capstone follows Accounting for Government Grants and disclosure of Government Assistance (IAS 20) with respect to certain power contracts with provincial jurisdictions.

Capstone recognizes management fees and development-related incentive fees received from its equity accounted investments in revenue as earned based on the terms of its respective agreements.

Interest income is earned with the passage of time and is recorded on an accrual basis.

Costs related to the purchases of fuel are recorded upon delivery. All other costs are recorded as incurred.

Project development costs are recorded as incurred. These costs include the activities to pursue and develop greenfield projects in the power segment and acquisition-related business development expenses incurred at corporate.

Interest expense is incurred with the passage of time and is recorded on an accrual basis.

Long-term Incentive Plans

The Corporation accounts for grants under share-based long-term incentive plans ("LTIP") and share appreciation rights ("SAR") plans in accordance with IFRS 2 Share-Based Payments.

Income Taxes

Current and deferred income taxes are recognized in the consolidated statement of income except to the extent that they relate to items recognized directly in equity or in other comprehensive income, in which case the income tax is also recognized directly in equity or in other comprehensive income.

Current income tax is the amount recoverable or expensed based on the current year's taxable income using tax rates enacted, or substantively enacted, at the reporting period, and any adjustments to income tax payable or recoveries in respect of previous years.

The Corporation follows the liability method of accounting for deferred income tax whereby deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income tax assets and liabilities are determined using income tax rates that are both expected to apply when the deferred income tax asset or liability will be settled and that have been enacted or substantively enacted as at the date of the consolidated statement of financial position. Deferred income tax assets are recognized to the extent that it is probable that the asset can be recovered. Deferred income tax assets and liabilities are presented as non-current.

Comprehensive Income

Other comprehensive income ("OCI") represents changes in shareholders' equity during a period arising from transactions and other events, including the equity share of OCI of equity accounted investments, unrealized gains and losses on translation of net assets of foreign operations, and actuarial gains recognized in respect of retirement benefit obligations, as applicable. Accumulated other comprehensive income ("AOCI") is included as a component in the consolidated statement of shareholders' equity.

Financial Instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when the Corporation becomes a party to the contractual provisions of the financial instrument. Financial instruments are required to be measured at fair value on initial recognition plus transaction costs in the case of financial instruments measured at amortized cost. Transaction costs that are directly attributable to the acquisition or issue of financial instruments classified as held-for-trading are expensed as incurred. Measurement in subsequent periods depends on the classification of the financial instrument.

The Corporation has designated each of its significant categories of financial instruments outstanding as follows:

Classification	Significant Categories	Measurement
Financial assets and liabilities at fair value through profit and loss	• Cash and cash equivalents • Restricted cash • Derivative contract assets • Derivative contract liabilities	• At fair value with changes in fair value recognized in the consolidated statement of income
Loans and receivables	• Accounts receivable	• At amortized cost using the effective interest method
Other liabilities	• Accounts payable and other liabilities • Loans payable • Finance lease obligations • Long-term debt	• At amortized cost using the effective interest method

The Corporation determines the fair value of its financial instruments based on the following hierarchy:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Derivative Financial Instruments

The Corporation's derivatives are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. In 2017, the Corporation's derivatives include interest rate swaps and an embedded derivative in Whitecourt's fuel supply agreement.

Changes in the fair values of derivative financial instruments are reported in the consolidated statement of income.

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for at fair value when their economic characteristics and risks are not closely related to those of the host contract.

Impairment of Financial Assets

At each reporting date, the Corporation assesses whether there is objective evidence that financial assets carried at amortized cost are impaired. If such evidence exists, the Corporation recognizes an impairment loss in the consolidated statement of income. The loss is measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows, discounted by using the instrument's original effective interest rate. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

Discontinued Operations

Entities or components of entities that have been disposed of or classified as held for sale and represent separate CGUs are presented separately as discontinued operations. The results of discontinued operations for both the current and comparative periods are included in a separate line item in the statement of comprehensive income which includes post-tax profit or loss of the entities and the post-tax gain or loss recognized on the disposal or re-measurement of the entities.

Earnings Before Interest Expense, Taxes, Depreciation and Amortization (“EBITDA”)

EBITDA is an additional GAAP financial measure defined as earnings (loss) before financing costs, income tax expense, depreciation and amortization. EBITDA includes earnings (loss) related to the non-controlling interest (“NCI”), impairment charges, and interest income. 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 to Accounting Policies

Capstone's accounting policies are consistent with those disclosed in the notes to the December 31, 2016 consolidated financial statements.

On January 1, 2017, Capstone adjusted the remaining useful life of a few of the wind facilities to better reflect their estimated future economic benefit. The changes in estimated useful lives are accounted for prospectively and resulted in an additional depreciation expense of $6,100 in the statement of comprehensive income in 2017 and a similar result is expected each year going forward.

Future Accounting Changes

The International Accounting Standards Board (“IASB”) has announced new standards and amendments that will be effective for future reporting periods that have not yet been adopted by the Corporation. Capstone's assessment of the impact of the material standards and amendments are ongoing. Capstone continues to monitor changes to IFRS and has implemented applicable IASB changes to standards, new interpretations and annual improvements, none of which had an impact in 2017. The significant upcoming changes to IFRS are:

Title of the New IFRS	Nature of the Impending Change to Capstone	Status of Adoption
IFRS 15, Revenue from Contracts with Customers Effective: Jan 1, 2018	Replaces IAS 11, Construction contracts and IAS 18, Revenue. IFRS 15 recognizes revenue by applying the following steps: Step 1: Identify the contract(s) with a customer Step 2: Identify the performance obligations in the contract Step 3: Determine the transaction price Step 4: Allocate the transaction price to the performance obligations in the contract Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation In addition, IFRS 15 requires enhanced disclosure that will detail the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity’s contracts with customers.	Capstone has reviewed its revenue streams and underlying contracts with customers to determine the impact that the adoption of IFRS 15 will have on its financial statements. Capstone will adopt IFRS 15 using a modified retrospective approach and does not anticipate that there will be any significant recognition or measurement impact subsequent to adoption. Capstone continues to evaluate the impact that the adoption will have on disclosure in the consolidated financial statements.

Title of the New IFRS	Nature of the Impending Change to Capstone	Status of Adoption
IFRS 9, Financial Instruments Effective: Jan 1, 2018	Replaces most of the guidance in IAS 39. IFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets including amortized cost, fair value through OCI and fair value through profit or loss. In addition, there is now a new expected credit losses model that replaces the previous incurred loss impairment model. For equity instruments, IFRS 9 will require measurement at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. For financial liabilities, changes will require the recognition of changes in own credit risk in OCI, for liabilities designated at fair value, through profit or loss. In addition, hedging requirements will be relaxed by replacing the bright line effectiveness test. IFRS 9 requires companies to set an economic relationship between the hedged item and hedging instrument (the hedged ratio), which must be the same as the one management uses for risk management purposes. Contemporaneous documentation is still required similar to IAS 39.	Capstone has reviewed its financial instruments to determine the impact that the adoption of IFRS 9 will have on its financial statements. Capstone does not anticipate that there will be any changes to the classification or the carrying values of the Company's financial instruments as a result of the adoption. Capstone does not currently apply hedge accounting to its risk management contracts and does not intend to apply hedge accounting to any of its existing risk management contracts on adoption of IFRS 9. Capstone continues to evaluate the impact that the adoption will have on disclosure in the consolidated financial statements.
IFRS 16, Leases Effective: Jan 1, 2019	IFRS 16 specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. In addition, revised guidance on identifying a lease and for separating lease and non-lease components of a contract is provided. Lessors will continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	Capstone has reviewed its contracts for leases to determine the impact that the adoption of IFRS 16 will have on its financial statements. Capstone will adopt IFRS 16 prospectively using the cumulative catch-up approach and expects there will be an equal lease asset and liability recognized on transition. Capstone continues to evaluate the measurement and disclosure impacts the adoption will have in the consolidated financial statements.

Critical Accounting Estimates and Judgments

The Corporation makes estimates and assumptions concerning the future that will, by definition, seldom equal actual results. The following are the estimates and judgments applied by management that most significantly affect the Corporation's financial statements. These estimates and judgments have a risk of causing a material adjustment to the carrying values of financial assets and financial liabilities within the next financial year.

Area of Significance	Critical Estimate	Critical Judgment
Capital assets, projects under development and intangible assets – carrying values Fair value estimates are required in the determination of the net assets acquired in a business combination and in the impairment assessment for our capital assets and the assignment of amounts to the asset retirement obligations, as well as assessing capitalization criteria for project development costs.	• Estimates are based on assumptions that are sensitive to change, which may have a significant impact on the valuations performed. • Impairment reviews of the carrying value of capital and other long-lived assets along with the asset retirement obligations require management to estimate fair value based on future cash flows, discount rates and business performance.	• Initial fair value of net assets • Estimated useful lives and residual value • Expected settlement date, amount and discount rate • Future cash flows and discount rate
Deferred income taxes Estimates in the determination of deferred income taxes affect asset and liability balances.	• The determination of the deferred income tax balances of the Corporation requires management to make estimates of the reversal of existing temporary differences between the accounting and tax bases of assets and liabilities in future periods.	• Timing of reversal of temporary differences • Tax rates • Current and future taxable income
Financial instrument fair value measurements When observable prices are not available, fair values are determined by using valuation techniques that refer to observable market data. This is specifically related to Capstone's financial instruments.	• Management's valuation techniques include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. • For embedded derivatives, fair values are determined from valuation techniques using non-observable market data or transaction processes. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate.	• Forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales
Accounting for investments in non-wholly owned subsidiaries When Capstone owns a partial interest in an entity, significant judgment is required to determine the proper accounting treatment. Capstone consolidates upon evaluating its ability to control a subsidiary.	• No critical estimates are involved in determining control.	• Determine how relevant activities are directed (either through voting rights or contracts) • Determine if Capstone has substantive or protective rights • Determine Capstone's ability to influence returns

NOTE 3. ACQUISITIONS, DISPOSALS AND DISCONTINUED OPERATIONS

(A) Acquisition of Capstone by iCON III

On April 29, 2016, Capstone completed the arrangement under which Irving Infrastructure Corp. ("Irving"), a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), a fund managed by London, UK-based iCON Infrastructure LLP ("iCON"), acquired all the issued and outstanding common shares of Capstone and all the Class B exchangeable units of Capstone's subsidiary MPT LTC Holding LP ("Class B units") for $4.90 cash per share or unit, as applicable ("iCON III acquisition"). As part of the transaction, Capstone issued Class A common shares and a demand interest-free promissory note to Irving which consisted of three multi-currency tranches: £106,000, 712,700 SEK, and $10,370. In addition, Capstone Power Corp. ("CPC") entered into a credit agreement for $125,000. Upon completion, the common shares, Class B units, and 2016 and 2017 convertible debentures were delisted from the Toronto Stock Exchange and ceased trading. Capstone also settled all outstanding share-based compensation.

(B) Discontinued Operations

Capstone's consolidated statements of income and cash flows for the years ended December 31, 2017 and 2016 include results for the discontinued operations of Bristol Water and Värmevärden as follows:

For the year ended	Notes	Dec 31, 2017	Dec 31, 2016
Net income (loss) from discontinued operations, net of tax:			
Bristol Water [1]	3b(i)	—	(34,723)
Värmevärden	3b(ii)	129,317	352
		129,317	(34,371)

(1) Includes an impairment charge of $58,000 recognized against the carrying value of Bristol Water's goodwill in 2016.

For the year ended	Dec 31, 2017	Dec 31, 2016
Operating cash flows provided by discontinued operations:		
Bristol Water	—	70,019
Värmevärden	1,372	847
	1,372	70,866
Investing cash flows used by discontinued operations:		
Bristol Water	—	(49,657)
Värmevärden	—	23,432
	—	(26,225)
Financing cash flows provided by discontinued operations:		
Bristol Water	—	(1,217)
Värmevärden [1]	142,198	—
	142,198	(1,217)

(1) Financing cash flows provided by discontinued operations include net proceeds on sale of $142,198.

(i) Sale of Bristol Water to iCON III

On December 15, 2016, Capstone sold its 50% ownership interest in Bristol Water to iCON III Bristol Limited, a subsidiary of Capstone's ultimate parent, iCON III. As part of the sale, Irving converted its £106,000 tranche of the promissory note into 123,905 Class A shares of the Corporation, which reduced the promissory note payable to Irving by $194,531. In return, Capstone received a promissory note receivable of £115,690 or $192,011 from iCON III Bristol Limited and then distributed the promissory note receivable to Irving as a $192,011 return of capital. This resulted in a $2,520 increase in Capstone's Class A shares and a loss of $2,803 in the year ended December 31, 2016. Bristol Water had $25,674 working capital, $1,039,094 non-current assets and $713,148 long-term liabilities on December 15, 2016.

The results of Bristol Water, the *utilities - water* segment, are presented as a discontinued operation in the prior period.

Financial information relating to the discontinued operations for the year ended December 31, 2016 is set out below.

Net income and comprehensive loss from discontinued operations

Net income and comprehensive loss from Bristol Water's discontinued operations for the year ended December 31, 2016 were:

For the year ended	Dec 31, 2016
Revenue	191,315
Operating expenses	(111,664)
Other expenses (1)	(116,126)
Earnings before income taxes	(36,475)
Total income tax recovery (expense)	1,752
Net income from discontinued operations, net of tax	(34,723)
Other comprehensive loss from discontinued operations, net of tax	(114,344)
Total comprehensive loss from discontinued operations, net of tax	(149,067)

(1) Includes an impairment charge of $58,000 recognized against the carrying value of Bristol Water's goodwill in 2016.

(ii) Sale of Värmevärden

On March 3, 2017, Capstone and its co-shareholder Macquarie European Infrastructure Fund 2 ("MEIF 2") sold 100% of Värmevärden. Capstone received proceeds of $142,198, net of transaction costs, for its 33.3% indirect interest in Värmevärden and the related outstanding loans receivable.

On March 31, 2017, Irving converted its 552,700 SEK tranche of the promissory note into 76,876 Class A shares of the Corporation, with a carrying value of $86,332, and the $10,370 Canadian denominated tranche of the promissory note was repaid. As a result, no promissory note payable to Irving remains. Capstone then distributed $131,968 to Irving as a return of capital, which included a $45,636 reduction to retained earnings and $86,332 to the Class A shares. The impact of these transactions did not change the carrying value of the Class A shares.

As at March 3, 2017	$
Net proceeds on sale (1)	142,198
Carrying value of assets held for sale (2)	(14,111)
Gain on sale of Värmevärden	128,087

(1) Proceeds are net of transaction costs of $2,378.
(2) Värmevärden had $3,025 working capital and $11,086 loans receivable on March 3, 2017.

The results of the *utilities - district heating* segment, including the gain on sale, are presented as a discontinued operation.

Financial information relating to the years ended December 31, 2017 and December 31, 2016 is set out below.

Net income from discontinued operations

The net income from Värmevärden's discontinued operations for the year ended December 31, 2017 and 2016 was:

For the year ended	Dec 31, 2017	Dec 31, 2016
Administrative expenses	(238)	(587)
Gain on sale (1)	128,087	—
Other income (loss)	1,468	939
Net income (loss) from discontinued operations, net of tax	129,317	352

(1) Gain on sale is net of foreign exchange impact of $119.

(C) Business Acquisition - Glen Dhu and Fitzpatrick Wind Facilities

In December 2017, through a series of transactions, Capstone acquired the remaining (approximately 50%) ownership interests in the Glen Dhu and Fitzpatrick wind facilities for $21,837, bringing Capstone's ownership interest to 100%. The acquisition of the remaining interest was initially completed by a subsidiary of iCON Infrastructure Partners III, LP ("iCON III"), who then contributed the acquired assets to Capstone on December 31, 2017 in return for an additional capital contribution, recorded as an increase in shareholders' equity.

As at December 31, 2017, the balances in Capstone's consolidated statement of financial position include amounts from Glen Dhu and Fitzpatrick; prior to this transaction these investments were equity accounted. Refer to note 9b.

The transaction was accounted for as a step acquisition using the acquisition method of accounting. Under this method, total assets and liabilities are initially recognized at their fair values on the date of acquisition and the equity accounted investment is derecognized. Transaction costs on acquisition of $225 were expensed in the consolidated statement of income as part of project development costs.

The allocation of the purchase price is preliminary and may be revised up to 12 months after the acquisition date.

Recognized amounts of identifiable assets acquired and liabilities assumed at December 31, 2017	Notes	Fair value
Working capital [(1)]		3,448
Other assets		1,763
Capital assets	10	118,235
Intangible assets – electricity supply and other contracts	12	21,496
Less: net financial liabilities (net of $3,574 cash acquired)		(85,311)
Other liabilities		(1,687)
Deferred income tax liability		(15,060)
Total identifiable net assets acquired		42,884
Consideration in the form of equity contribution	17	21,837
Previously held equity accounted investments [(2)]	9	21,047
		42,884

(1) Working capital includes $2,948 of accounts receivable, no allowance for doubtful debts are recorded.
(2) As at the date of acquisition, the book value of the equity accounted investment approximated the fair value of Capstone's interest in the acquiree. No gain or loss was recognized on the transaction.

NOTE 4. CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

	Dec 31, 2017	Dec 31, 2016
Debt service and maintenance reserves	12,452	14,973
Construction escrow	9,911	12,685
Cash on deposit	75	75
Restricted cash	22,438	27,733
Unrestricted cash and cash equivalents	64,083	62,246
	86,521	89,979

Restricted cash is primarily cash that is held by the Corporation's subsidiaries in support of segregated bank accounts to support debt service reserves, operating and maintenance reserves in support of specific long-term debt and/or proceeds from construction facilities used for specific project costs. Capstone has also provided letters of credit to back other reserve requirements (refer to note 15).

NOTE 5. TRADE AND OTHER RECEIVABLES

	Dec 31, 2017	Dec 31, 2016
Power	24,360	22,689
Corporate	48	375
	24,408	23,064

For both periods presented, Capstone's power segment and corporate trade and other receivables did not require a provision for impairment. Substantially all of the accounts receivable are with government authorities and none are past due. Refer to note 8b and 8c for further detail of credit risk and economic dependence.

NOTE 6. OTHER ASSETS

	Dec 31, 2017	Dec 31, 2016
Prepaid expenses	2,697	1,377
Inventory of spare parts and consumable supplies, net [(1)]	2,081	1,768
	4,778	3,145

(1) No inventory obsolescence provision is required as at December 31, 2017.

The cost of inventories recognized in operating expenses for the year ended December 31, 2017 was $480 (2016 - $361).

NOTE 7. FINANCIAL INSTRUMENTS

(A) Fair Value of Financial Instruments

In 2017, financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and other liabilities, long-term debt and derivative contract assets and liabilities. In addition, the Corporation has included the embedded derivative on its Whitecourt fuel supply agreement in the derivative contract assets and liabilities.

Financial assets and liabilities at fair value through profit and loss

The Corporation invests its cash and cash equivalents and restricted cash balances in financial instruments of highly rated financial institutions and government securities with original maturities of 90 days or less. As at December 31, 2017, the carrying values of cash and cash equivalents and restricted cash are considered to approximate their fair values due to their short-term nature, which is consistent with the prior year.

Interest rate swaps

The Corporation has interest rate swap contracts to effectively fix the interest cost on its long-term debt with variable rates, specifically for Cardinal, GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing. Under these swap agreements, these projects receive Canadian Dollar Offered Rate ("CDOR") in exchange for fixed rate (refer to note 8a).

Whitecourt embedded derivative

On March 2, 2015, Whitecourt entered into a fuel supply agreement with Millar Western for 15 years, which is extendable to 20 years. The agreement, which was effective on January 1, 2015, includes power price support and revenue sharing mechanisms that reduce Whitecourt's exposure to merchant price risk in Alberta.

The price support and revenue sharing mechanisms are embedded derivatives that are measured at fair value and result in an asset during periods when the projected merchant power price is forecast to be lower than the price support and a liability during periods when the merchant power price is forecast to be higher.

On March 2, 2015, Capstone recognized an asset of $5,297 based on the fair value of the Whitecourt fuel supply agreement, which was equal to and offset the fair value of the embedded derivative included in Whitecourt's fuel supply agreement at inception. Capstone amortizes the inception value to income over 15 years, representing the life of the fuel supply agreement.

The Corporation has determined the fair values of derivative financial instruments as follows:

Interest rate swaps	• The interest rate swap contract's fair value fluctuates with changes in market interest rates. • A discounted cash flow valuation based on a forward interest rate curve was used to determine their fair value.
Whitecourt embedded derivative	• The determination of the fair value of the embedded derivative requires the use of option pricing models involving significant judgment based on management's estimates and assumptions, including estimates on the forward Alberta power pool prices, volatility, credit spreads, cost and inflation escalators and fuel supply volumes and electricity sales.

Due to the lack of observable market quotes on the Whitecourt embedded derivatives, the contract has been classified as level 3 financial instruments.

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.

Loans and receivables

The Corporation's accounts receivable, which consist of trade receivables, are recorded initially at fair value.

Other liabilities

The Corporation's accounts payable and accrued liabilities are short-term liabilities with carrying values that approximate their fair values as at December 31, 2017.

The Corporation's long-term debt is recorded at amortized cost using the effective interest rate method. The fair value of the Corporation's long-term debt is determined using level 2 inputs as follows:

- Floating rate debt approximates its carrying value.

Use level 2 inputs:

- Fixed-rate debt is determined through the use of a discounted cash flow analysis using relevant risk-free bond rates plus an estimated margin.

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

	Level 1 Quoted prices in active markets for identical assets	**Level 2** Significant other observable inputs	**Level 3** Significant unobservable inputs	**Dec 31, 2017**	**Dec 31, 2016**
Cash and cash equivalents	64,083	—	—	64,083	62,246
Restricted cash	22,438	—	—	22,438	27,733
Recurring measurements:					
Derivative contract assets:					
Whitecourt embedded derivative (1)	—	—	13,406	13,406	13,674
Interest rate swap contracts	—	7,958	—	7,958	3,465
Less: current portion	—	(1,130)	—	(1,130)	—
	—	6,828	13,406	20,234	17,139
Promissory note payable (2)	—	—	—	—	96,702
Derivative contract liabilities:					
Interest rate swap contracts	—	2,144	—	2,144	2,185
Less: current portion	—	—	—	—	(758)
	—	2,144	—	2,144	1,427

(1) Whitecourt's embedded derivative consists of a $17,643 fair value asset, offset by the $4,237 amortized contra-asset, set up on inception (2016 - $18,265 fair value asset, offset by the $4,591 of contra-asset).
(2) Capstone's demand interest-free promissory note to Irving was designated as fair value through profit and loss until settlement in 2017.

Certain comparative figures for the periods ended December 31, 2016 have been adjusted to conform with the presentation in the current year.

Fair value continuity for Level 3 inputs

	2017	**2016**
Opening balance, January 1,	13,674	(3,148)
Change in value of the embedded derivative included in other gains and (losses) in net income	5,044	24,612
Settlement of Whitecourt embedded derivative during the period	(5,664)	(8,142)
Amortization of Whitecourt embedded derivative inception value included in other gains and (losses) in net income	352	352
Closing balance, December 31,	13,406	13,674

(B) Income and Expenses From Financial Instruments

	Dec 31, 2017	**Dec 31, 2016**
Financial instruments designated as held-for-trading:		
Interest income on cash and cash equivalents, restricted cash (1), (2)	653	334
Financial instruments classified as held-for-trading (refer to note 21):		
Unrealized gain (loss) on the Whitecourt embedded derivative	5,396	24,964
Unrealized gain (loss) on interest rate swap contracts	4,534	2,401
Unrealized gain (loss) on foreign currency contracts	—	138
	9,930	27,503
Realized gain (loss) on foreign currency contracts	—	(23)
	—	(23)
Other liabilities:		
Interest expense on long-term debt (3)	(36,668)	(34,476)
	(36,668)	(34,476)

(1) Interest income for 2017 of $1,600 includes a payment from Chapais Électrique Limitée of $947 and interest income on cash balances of $653.
(2) Interest income for 2016 of $2,622 includes interest income directly related to the Ontario Electricity Financial Corporation ("OEFC") proceeds awarded of $2,288 and interest income on cash balances of $334.
(3) Interest expense on the long-term debt for 2017 includes amortization of deferred financing fees and accretion on liability for asset retirement obligations of $2,121 and $334 respectively (2016 - $1,839 and $317).

NOTE 8. FINANCIAL RISK MANAGEMENT

The Corporation's normal operating, investing and financing activities expose it to a variety of financial risks, including market risk, credit risk, economic dependence and liquidity risk. The Corporation's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk.

(A) Market Risk

Market risk is the risk or uncertainty arising from possible price movements and their impact on the future performance of the business. The Corporation is exposed to commodity price risk (electricity revenue), interest rate and inflation risk, foreign currency exchange risk and other indices that could adversely affect the value of the Corporation's financial assets, liabilities or expected future cash flows.

Commodity price risk

In 2017, both Cardinal and Whitecourt's revenues are exposed to price risk as follows:

(i) Cardinal earns a portion of its revenue by supplying electricity to the Ontario grid only when profitable to do so.

(ii) Whitecourt sells all electricity generated into the Power Pool of Alberta. Millar Western and Whitecourt's fuel supply agreement includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

Interest rate and inflation risk

Interest rate risk arises as changes in market interest rates affect the Corporation's future payments on debt obligations. The Corporation is exposed to interest rate risk on its floating rate debt. Currently, the Corporation has interest rate swap contracts to mitigate some of the risks associated with its long-term debt.

The terms of the contracts are:

Entity	Maturity Date	Notional Amount	Swap Fixed Rate	Stamping Fee / Margin	Effective Interest Rate
GHG	Jun 30, 2021	71,347	1.34% - 1.45%	1.63% - 1.88%	2.97% - 3.33%
GHG	Jun 30, 2034	57,363	3.04% - 3.17%	1.88%	4.92% - 5.50%
Cardinal	Dec 30, 2022	64,259	1.24%	1.63%	2.87%
Cardinal	Jun 30, 2034	41,292	2.77%	1.63%	4.40%
Grey Highlands Clean	Sep 30, 2021	51,422	1.24%	1.63% - 1.88%	2.87% - 3.12%
Grey Highlands Clean	Sep 30, 2034	41,616	2.61%	1.88%	4.49%
Snowy Ridge	Dec 31, 2021	29,227	1.13%	1.63% - 1.88%	2.76% - 3.01%
Snowy Ridge	Dec 31, 2034	21,011	2.07%	1.88%	3.95%
Settlers Landing	Jun 30, 2022	24,862	1.71%	1.63% - 1.88%	3.34% - 3.59%
Settlers Landing	Jun 30, 2035	17,719	2.93%	1.88%	4.81%

Foreign currency exchange risk

Capstone's power assets have expenses or capital commitments in currencies other than the Canadian dollar; as new projects are built, expected additional purchases will be made in foreign currencies. To mitigate these risks Capstone monitors the risk associated with foreign exchange rate fluctuations and, from time to time, may enter into forward foreign exchange contracts or employ other hedging strategies.

(B) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to honour a financial obligation.

Financial instruments that potentially subject the Corporation to concentrations of credit risk consist of cash and cash equivalents, restricted cash, accounts receivable and derivative contracts.

The Corporation deposits its cash with reputable financial institutions and limits the exposure by counterparty; management therefore believes the risk of loss to be remote.

Credit risk concentration with respect to power trade receivables is limited due to the Corporation's customer base being predominantly government authorities. The table below summarizes power trade receivables from the sale of electricity by counterparty:

As at	Dec 31, 2017	Dec 31, 2016
Independent Electricity System Operator ("IESO")	13,759	13,191
Nova Scotia Power Inc. ("NSPI")	4,118	1,161
OEFC	1,711	1,228
Millar Western	708	1,906
Other	4,112	5,578
	24,408	23,064

There are no accounts receivable that are past due. Since the IESO and OEFC are government agencies and NSPI is regulated by the provincial government, management considers credit risk to be minimal. For Millar Western, which is not a government agency, management considers the risk of loss to be low due to collections history and because the receivable balances are settled quarterly.

The Corporation's derivative agreements expose Capstone to losses under certain circumstances, such as the counterparty defaulting on its obligations under the swap agreements or if the swap agreements provide an imperfect hedge. Counterparties to the Corporation's derivative contracts are major financial institutions that have been accorded investment-grade ratings. Consequently, management believes there to be minimal credit risk associated with its derivative contracts.

(C) Economic Dependence

Economic dependence arises when an enterprise relies on a significant volume of business with another party that cannot be easily transferred at similar terms and conditions or is abnormal relative to expectations of similar entities. The table below summarizes revenue from the sale of electricity by counterparty for the power segment:

For the year ended	Dec 31, 2017	Dec 31, 2016
IESO	112,160	99,744
NSPI	12,451	12,280
OEFC	8,855	40,801
Other	20,697	20,115
	154,163	172,940

(D) Liquidity Risk

Liquidity risk is the risk that the Corporation may have insufficient cash or other resources to meet obligations as they come due.

Compliance with debt covenants

The Corporation has financial liabilities in its power operating segments and at corporate. Refer to notes 14 accounts payable and other liabilities and 15 long-term debt for further details on financial liabilities. These financial liabilities contain a number of standard financial and other covenants.

Failure to comply with terms and covenants of the Corporation's credit agreements could result in a default, which, if not cured or waived, could result in accelerated repayment or the suspension of preferred dividends.

In the event of default, there can be no assurance that the Corporation could:

(i) Generate sufficient cash flow from operations in amounts sufficient to pay outstanding indebtedness, or to fund any other liquidity needs; or

(ii) Pay future preferred dividends; or

(iii) Refinance these credit agreements or obtain additional financing on commercially reasonable terms, if at all. The credit agreements, and future borrowings may be at variable rates of interest, which exposes the Corporation to the risk of increased interest rates.

Contractual maturities

The contractual maturities of the Corporation's financial liabilities as at December 31, 2017 were as follows:

Financial Liabilities	Within one year	One year to five years	Beyond five years	Total
Accounts payable and other liabilities	20,257	—	—	20,257
Derivative financial instruments				
Interest rate swaps	—	434	1,710	2,144
Long-term debt				
Principal payments	86,208	231,084	516,398	833,690
Interest payments	31,821	110,888	153,620	296,329
	118,029	341,972	670,018	1,130,019

(E) Sensitivity Analysis

The sensitivity analysis provided below discloses the effect on net income for the year ended December 31, 2017, assuming that a reasonably possible change in the relevant risk variable has occurred during the year and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The changes in market variables used in the sensitivity analysis were determined based on implied volatilities, where available, or historical data.

The sensitivity analysis has been prepared based on December 31, 2017 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the energy contracts that are financial instruments in place at December 31, 2017 are all constant. Excluded from this analysis are all non-financial assets and liabilities that are not classified as financial instruments under IFRS 7.

The sensitivity analysis provided is hypothetical and should be used with caution because the impacts provided are not necessarily indicative of the actual impacts that would be experienced since the Corporation's actual exposure to market rates is constantly changing as the Corporation's portfolio of commodity, debt, foreign currency and equity contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in the market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates, hedging strategies employed by the Corporation or other mitigating actions that would be taken by the Corporation.

The table summarizes the impact on fair value of changes in the Whitecourt embedded derivatives' significant unobservable inputs:

Dec 31, 2017	Unobservable inputs	Estimated input	Relationship of input to fair value
$13,406	Forward Alberta power pool prices	From $36/MWh to $96/MWh over the next 12 years.	A reasonably possible increase in estimated forward prices of 5% or a decrease of 5%, would cause fair value to decrease by $4,445 and increase by $4,558, respectively.

Changes in these estimates may have a significant impact on the fair value of the embedded derivative given the length of contract involved. As new information becomes available, management may choose to revise these estimates where there is an absence of reliable observable market data.

The table summarizes the impact on fair value of changes in observable inputs:

	Carrying	Interest Rate Risk	
For the year ended Dec 31, 2017	Amount	(0.5)%	0.5%
Financial assets:			
Cash and cash equivalents [1]	64,083	(320)	320
Restricted cash	22,438	(112)	112
Interest rate swap assets, net	5,814	(9,768)	9,225
Financial liabilities:			
Long-term debt [2]	65,915	330	(330)

(1) Cash and cash equivalents include deposits at call, which are at floating interest rates.

(2) Long-term debt excludes all fixed-rate debt totaling $529,306 and variable rate debt that is covered by a swap for fixed-rate debt totaling $238,469.

NOTE 9. EQUITY ACCOUNTED INVESTMENTS

(A) Equity Accounted Investments

As at December 31, 2017, Capstone no longer follows the equity accounting method for any of its investments. This is a result of the March 3 sale of Capstone's interest in Värmevärden and the December 31 acquisition of the remaining interests in the Glen Dhu and Fitzpatrick wind facilities. As a result, the statement of financial position no longer holds an interest in Värmevärden and Capstone now fully consolidates the wholly owned wind facilities. In addition, Capstone's income statement includes equity accounting for the periods up to the disposal or acquisition of the respective investments. Refer to note 3 for details of both transactions.

The changes in the Corporation’s total equity accounted investments for the years ended were as follows:

For the year ended	Opening Balance	Equity Accounted Income (Loss)	Distributions Received [1]	Acquisition of remaining interests	Ending Balance
Dec 31, 2017	22,464	935	(2,352)	(21,047)	—
Dec 31, 2016	23,392	958	(1,886)	—	22,464

(1) Distributions received were from Glen Dhu.

(B) Summarized Information for Equity Accounted Investments

The Corporation has summarized its equity accounted investments using their gross values as follows:

As at	Dec 31, 2017			Dec 31, 2016		
Summarized Statements of Financial Position	**Glen Dhu**	**Fitzpatrick**	**Total**	**Glen Dhu**	**Fitzpatrick**	**Total**
Assets						
Current	—	—	—	9,134	197	9,331
Non-current	—	—	—	106,440	2,202	108,642
Liabilities						
Current	—	—	—	(7,492)	(2,491)	(9,983)
Non-current	—	—	—	(88,028)	(205)	(88,233)
Equity before fair value increments on purchase and NCI	—	—	—	20,054	(297)	19,757
Fair value increments, net of amortization	—	—	—	24,734	1,332	26,066
Equity including unamortized fair value increments on purchase	—	—	—	44,788	1,035	45,823
Capstone's interest	100%	100%		49%	50%	
Carrying value of investment	—	—	—	21,946	518	22,464

For the year ended	Dec 31, 2017			Dec 31, 2016		
Summarized Statements of Income	**Glen Dhu**	**Fitzpatrick**	**Total**	**Glen Dhu**	**Fitzpatrick**	**Total**
Revenue	21,214	237	21,451	20,404	270	20,674
Net income	3,874	(91)	3,783	3,866	(44)	3,822
Total comprehensive income	3,874	(91)	3,783	3,866	(44)	3,822
Capstone's interest (refer to note 3c)	49%	50%		49%	50%	
Subtotal	1,898	(46)	1,852	1,894	(22)	1,872
Amortization of fair value adjustments and other	(876)	(41)	(917)	(876)	(38)	(914)
Total	1,022	(87)	935	1,018	(60)	958
Net income to Capstone			935			958

NOTE 10. CAPITAL ASSETS

(A) Continuity

	Jan 1, 2017	Additions	Disposals	Transfers [(2)]	Business Acquisition [(3)]	Dec 31, 2017
Cost [(1)]						
Land	1,051	—	—	—	33	1,084
Equipment and vehicles	10,542	364	(29)	—	—	10,877
Property and plant	1,062,391	17,603	(11,829)	33,633	118,202	1,220,000
	1,073,984	17,967	(11,858)	33,633	118,235	1,231,961
Accumulated depreciation						
Equipment and vehicles	(6,126)	(1,084)	29	—	—	(7,181)
Property and plant	(280,587)	(55,878)	8,062	—	—	(328,403)
Net carrying value	787,271	(38,995)	(3,767)	33,633	118,235	896,377

(1) Additions to cost of $17,967 include $16,799 related to the Whitecourt refurbishment. Disposals include capital assets replaced as part of Whitecourt's refurbishment, which resulted in a loss of $3,235 in other gains and losses on the consolidated statement of income. Refer to note 21.

(2) Transfer of $33,633 for Settlers Landing from projects under development upon reaching commercial operation ("CODs").

(3) Refer to note 3c.

	Jan 1, 2016	Additions	Disposals	Foreign Exchange	Transfers	Disposal of Business	Dec 31, 2016
Cost							
Land	4,574	—	—	(658)	—	(2,865)	1,051
Equipment and vehicles	16,527	814	(536)	(1,694)	701	(5,270)	10,542
Property and plant	1,407,911	13,295	(23,342)	(127,849)	191,003	(398,627)	1,062,391
Water network	669,851	7,437	(15)	(139,361)	13,120	(551,032)	—
Construction in progress	14,888	46,318	—	(7,828)	(35,912)	(17,466)	—
	2,113,751	67,864	(23,893)	(277,390)	168,912	(975,260)	1,073,984
Accumulated depreciation							
Equipment and vehicles	(5,035)	(2,173)	329	1,084	—	(331)	(6,126)
Property and plant	(353,104)	(68,872)	21,896	55,294	—	64,199	(280,587)
Water network	(53,379)	(8,324)	—	23,364	—	38,339	—
Net carrying value	1,702,233	(11,505)	(1,668)	(197,648)	168,912	(873,053)	787,271

Certain comparative figures for the periods ended December 31, 2016 have been adjusted to conform with the presentation in the current year.

(B) Reconciliation to Cash Additions for the Cash Flow Statement

For the year ended	Dec 31, 2017	Dec 31, 2016
Additions	17,967	67,864
Adjustment for change in capital asset additions included in accounts payable and accrued liabilities	(1,942)	(95)
Net foreign exchange difference	—	(2,609)
Cash additions attributable to Bristol Water	—	(49,624)
Cash additions	16,025	15,536

NOTE 11. PROJECTS UNDER DEVELOPMENT

(A) Continuity

	2017	2016
As at January 1	22,267	106,200
Capitalized costs during the year (1)	14,383	100,547
Costs transferred to capital assets (2) (refer to note 10)	(33,633)	(170,165)
Costs transferred to intangibles (2) (refer to note 12)	(2,287)	(14,315)
As at December 31 (3)	730	22,267

(1) Includes $123 of capitalized borrowing costs during the construction of the Settlers Landing wind development projects using the interest rate of the long-term debt (2016 - $2,777 during the construction of GHG, Grey Highlands Clean, Snowy Ridge and Settlers Landing projects).
(2) Amounts were transferred on the COD of Settlers Landing (2016 - COD of GHG, Grey Highlands Clean and Snowy Ridge).
(3) PUD balance as at December 31, 2017 relates to the Riverhurst wind development project.

(B) Reconciliation to Cash Additions for the Cash Flow Statement

For the year ended	Dec 31, 2017	Dec 31, 2016
Additions	14,383	100,547
Adjustment for change in additions to PUD included in accounts payable and accrued liabilities	3,853	20,445
Cash additions	18,236	120,992

NOTE 12. INTANGIBLE ASSETS

	Jan 1, 2017	Additions	Transfers	Business Acquisition[2]	Dec 31, 2017
Assets					
Computer software	257	—	—	—	257
Electricity supply and other contracts[1]	149,039	281	2,287	21,496	173,103
Water rights	73,018	—	—	—	73,018
Accumulated amortization					
Computer software	(257)	—	—	—	(257)
Electricity supply and other contracts	(48,427)	(7,703)	—	—	(56,130)
Water rights	(20,137)	(2,122)	—	—	(22,259)
Net carrying value	153,493	(9,544)	2,287	21,496	167,732

(1) Transfer is composed of $2,287 from PUD on the COD of Settlers Landing (refer to note 11).
(2) Refer to note 3c.

	Jan 1, 2016	Additions	Disposals	Foreign Exchange	Transfers	Impairment	Disposal of Business	Dec 31, 2016
Assets								
Computer software	24,222	—	(1,387)	(9,178)	1,253	—	(14,653)	257
Electricity supply and other contracts	134,724	—	—	—	14,315	—	—	149,039
Water rights	73,018	—	—	—	—	—	—	73,018
Licence	27,141	—	—	(5,067)	—	—	(22,074)	—
Goodwill	176,256	—	—	(31,305)	—	(58,000)	(86,951)	—
Accumulated amortization								
Computer software	(14,300)	(3,399)	1,387	7,493	—	—	8,562	(257)
Electricity supply and other contracts	(40,521)	(7,906)	—	—	—	—	—	(48,427)
Water rights	(18,026)	(2,111)	—	—	—	—	—	(20,137)
Net carrying value	362,514	(13,416)	—	(38,057)	15,568	(58,000)	(115,116)	153,493

NOTE 13. INCOME TAXES

(A) Deferred Income Tax

As at	Dec 31, 2017	Dec 31, 2016
Deferred income tax assets	—	14,750
Deferred income tax liabilities	(89,243)	(72,673)
Net deferred income tax liability	(89,243)	(57,923)

The net deferred income tax liability, without taking into consideration the offsetting of balances within the same jurisdiction, are detailed as follows:

As at	Dec 31, 2017	Dec 31, 2016
Non-capital loss carry forwards	27,375	27,835
Other	420	16,711
Asset retirement obligations	2,294	1,920
Deferred income tax assets	30,089	46,466
Capital assets	(75,349)	(59,752)
Intangibles	(36,853)	(39,036)
Financial instruments	(5,011)	(3,985)
Loan premium and deferred financing costs	(1,600)	(1,129)
Other	(519)	(487)
Deferred income tax liabilities	(119,332)	(104,389)
Net deferred income tax liability	(89,243)	(57,923)

A continuity of the net deferred income tax liability follows:

	2017	2016
Net deferred income tax liability as at January 1	(57,923)	(203,905)
Business acquisition [1]	(15,060)	—
Recorded in earnings	(17,170)	5,517
Liability derecognized on disposal of Bristol Water	—	139,506
Other	910	959
Net deferred income tax liability as at December 31	(89,243)	(57,923)

(1) Refer to note 3c.

(B) Timing of Deferred Income Tax Reversal

The timing of deferred income tax reversal is summarized as follows:

As at	Dec 31, 2017	Dec 31, 2016
Within 12 months	46,488	59,420
After more than 12 months	(135,731)	(117,343)
Net deferred income tax liability	(89,243)	(57,923)

(C) Tax Loss Carry Forwards

Capstone's tax loss carry forwards and the portion recognized in deferred income tax assets were as follows:

	Expiry	Recognized	Unrecognized	Dec 31, 2017	Dec 31, 2016
Canadian – non-capital losses	2025 – 2037	103,038	66,302	169,340	187,102
US – non-capital losses	2023 – 2027	—	18,143	18,143	19,419
Canadian – capital losses	No expiry	—	908	908	—

The Corporation also has $1,699 of unrecognized deferred tax assets, which have not been recognized as at December 31, 2017 (2016 - $1,947).

(D) Rate Reconciliation

The following table reconciles the expected income tax expense using the statutory tax rate to the expense:

For the year ended	Dec 31, 2017	Dec 31, 2016
Income (loss) before income taxes [1]	6,600	14,971
Statutory income tax rate	26.50%	26.51%
Income tax expense based on statutory income tax rate	1,749	3,969
Permanent differences	861	1,484
Tax rate differentials	(38)	344
Change in unrecognized deferred tax assets	(4,628)	(9,977)
Impact of sale of Värmevärden	20,901	—
Impact on attributes renounced to shareholders	—	1,111
Part XII.6 taxes and penalties	—	241
Other	(1,304)	(1,031)
Total income tax expense (recovery)	17,541	(3,859)

(1) Income (loss) before income taxes excludes discontinued operations.

The statutory income tax rate of 26.50% (2016 - 26.51%) changes in response to Capstone's allocation of taxable income to different tax jurisdictions.

(E) Current Income Taxes

Current income taxes payable of $2,439 are included in accounts payable and other liabilities on the statement of financial position (refer to note 14) (2016 - $2,958).

NOTE 14. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	Dec 31, 2017	Dec 31, 2016
Dividends payable	409	409
Income taxes payable	2,439	2,958
Other accounts payable and accrued liabilities	17,409	22,016
	20,257	25,383

Income taxes payable	Dec 31, 2017	Dec 31, 2016
Canadian Renewable and Conservation Expense ("CRCE") penalties (1)	2,274	2,509
Taxes payable (recovery) on preferred share dividends	24	164
Current income taxes payable (recovery)	141	285
	2,439	2,958

(1) CRCE penalties related to flow-through shares originally issued by Renewable Energy Developers Inc., which was acquired by Capstone in 2013.

NOTE 15. LONG-TERM DEBT

(A) Power

As at	Dec 31, 2017		Dec 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
CPC credit facilities	65,915	65,915	85,000	85,000
Wind - Operating	551,782	544,382	467,445	453,050
Wind - Development (1)	—	—	7,700	7,700
Hydros	77,092	77,502	81,087	81,851
Solar	78,772	81,632	86,178	87,062
Gas	64,259	64,259	67,557	67,557
	837,820	833,690	794,967	782,220
Less: deferred financing costs		(15,148)		(16,229)
Long-term debt		818,542		765,991
Less: current portion		(86,208)		(62,169)
		732,334		703,822

(1) In 2017, the Settlers Landing project debt was transferred to wind - operating as the project had reached COD.

Capstone has a cumulative $42,121 utilized on its letter of credit facilities.

The respective project debt within the power segment have regular principal and interest payments over the term to maturity and are secured only by the assets of respective project, with no recourse to the Corporation's other assets, except as noted.

In addition, the individual project debt agreements require the respective projects to maintain certain restrictive covenants including a minimum debt service coverage ratio to allow distributions to Capstone.

(i) CPC Credit Facilities

	Interest Rate (1)	Maturity	Dec 31, 2017	Dec 31, 2016
Total available credit - all facilities			145,000	125,000
Amount drawn				
Term credit facility	3.61%	Dec 15, 2021	50,000	85,000
Revolving credit facility (2)			15,915	—
Letter of credit facility (3)			27,812	32,161
Remaining available credit			51,273	7,839

(1) The effective rate was 3.61% on December 15, 2017 based on a variable rate plus an applicable margin.
(2) In Q1 2018, CPC repaid $15,915 of its revolving credit facility under the new CPC Credit Facilities, increasing the revolving credit facility capacity.
(3) As at December 31, 2017, Capstone had 15 letters of credit authorized under the revolving facility.

On December 15, 2017, Capstone refinanced the corporate bridge credit facilities in place since the iCON III acquisition, increasing the total debt capacity to $145,000, consisting of a $50,000 term facility and a $95,000 revolving credit facility ("the CPC Credit Facilities"). The proceeds drawn on the new facilities were used to repay the the former CPC credit facilities and cover the financing fees. The new CPC Credit Facilities mature on December 15, 2021, bear interest at a variable rate plus an applicable margin and have a minimum annual principal repayment of $5,000 on the term facility. Subsequent to 2021, the new CPC Credit Facilities have a rolling one-year extension option, subject to lender approval.

Under the new CPC Credit Facilities, CPC is subject to customary covenants, including specific limitations on leverage and interest coverage ratios, and a minimum cash flow profile. The collateral for the new CPC Credit Facilities is provided by Capstone, CPC, and its material subsidiaries. CPC and its material subsidiary guarantors (with the exception of certain subsidiaries, including previously encumbered project financed subsidiaries) provided demand debentures granting a first ranking security interest in all present and future property and a floating charge over real property and first ranking securities pledge agreements (subject to certain permitted liens). Capstone provided a limited recourse guarantee, a securities pledge agreement, and an assignment of indebtedness owed to Capstone by CPC.

In 2016, the former CPC credit facilities' aggregate capacity was $125,000, comprising an $85,000 non-revolving facility, a $5,000 revolving facility, and a $35,000 revolving letter of credit facility. Prior to the refinancing of this credit facility, CPC repaid $20,317 of the principal, in accordance with the credit agreement.

(ii) Wind - Operating

Project debt	Dec 31, 2017	Dec 31, 2016
Glen Dhu (1)	88,885	—
GHG	70,647	74,723
Goulais	72,169	73,823
Erie Shores	67,977	73,934
Saint-Philémon	52,952	53,988
Grey Highlands Clean	49,320	51,963
Amherst	37,223	39,242
Snowy Ridge	29,083	30,652
Settlers Landing	25,160	—
SkyGen (2)	20,360	22,095
Skyway 8 (2)	18,337	19,013
Glace Bay	12,269	13,617
	544,382	453,050

(1) Glen Dhu project debt relates to the acquisition of the remaining interest of the wind facility, which is consolidated as at December 31, 2017. Refer to note 3c.
(2) SkyGen project debt includes financing related to the Ferndale, Ravenswood, and Proof Line facilities. Skyway 8 was financed separately as it reached COD at a later date.

Glen Dhu	Interest Rate	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan (2)	5.33%	Dec 31, 2030	88,885	—

(1) Glen Dhu has a standby loan facility to fund its debt service reserve requirement. There were no draws on the standby loan facility during the year.
(2) Glen Dhu's term loan balance represents its fair value upon acquisition. Refer to note 3c for more details.

GHG	Interest Rate (2)	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	3.08%	Aug 26, 2021	70,647	74,723

(1) GHG has $3,200 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2017, GHG had swap contracts to convert interest to a fixed rate (See note 8a).

Goulais	Interest Rate	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	5.16%	Sep 30, 2034	72,169	73,823

(1) Goulais is required to set aside $3,327 as restricted cash to cover the debt service reserve.

Erie Shores (3)	Interest Rate	Maturity	Dec 31, 2017	Dec 31, 2016
Tranche A	5.96%	Apr 1, 2026	40,982	44,588
Tranche C	6.15%	Apr 1, 2026	26,995	29,346
			67,977	73,934

(1) Erie Shores project debt has a $5,000 limited recourse guarantee provided by CPC to the lenders of the Erie Shores project debt.
(2) Erie Shores is required to set aside $5,193 as restricted cash and $550 as letters of credit against the borrowing capacity of the new CPC revolving credit facility to cover the debt service and maintenance reserves.
(3) Tranche B matured on April 1, 2016.

Saint-Philémon	Interest Rate	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	5.49%	May 31, 2034	52,952	53,988

(1) Saint-Philémon is required to set aside $1,224 as letters of credit against the borrowing capacity of the new CPC revolving credit facility to cover the debt service reserve.

Grey Highlands Clean	Interest Rate (2)	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	2.87%	Dec 23, 2021	49,320	51,963

(1) Grey Highlands Clean is required to set aside $2,100 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2017, Grey Highlands Clean had swap contracts to convert interest to a fixed rate (See note 8a).

Amherst	Interest Rate	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	6.20%	Apr 30, 2032	37,223	39,242

(1) Amherst's project debt has a $1,000 limited recourse guarantee provided by CPC to the lenders of the Amherst project debt.
(2) Amherst is required to set aside $1,102 as letters of credit against the borrowing capacity of the new CPC revolving credit facility to cover the debt service and maintenance reserves.

Snowy Ridge	Interest Rate (2)	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	2.75%	Dec 23, 2021	29,083	30,652

(1) Snowy Ridge is required to set aside $3,386 as restricted cash to cover construction holdbacks with vendors and $1,300 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2017, Snowy Ridge had swap contracts to convert interest to a fixed rate (See note 8a).

Settlers Landing	Interest Rate (2)	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	3.34%	Aug 31, 2022	25,160	—

(1) Settlers Landing is required to set aside $1,996 as restricted cash to cover construction holdbacks with vendors and $1,100 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2017, Settlers Landing had swap contracts to convert interest to a fixed rate (See note 8a).

On August 31, 2017, the Settlers Landing construction facility converted into a five-year term facility which has regular principal and interest payments fully amortizing over the remaining term and a $1,100 letter of credit facility.

SkyGen	Interest Rate	Maturity (2)	Dec 31, 2017	Dec 31, 2016
Term loans	4.22 - 5.06%	Feb 23, 2018	20,143	21,772
Term loan	6.22%	Feb 17, 2018	217	323
			20,360	22,095

(1) SkyGen is not required to set aside any reserves for debt service or maintenance.
(2) On February 6, 2018, SkyGen and its existing lenders extended the term loan maturity dates to August 2018.

Skyway 8	Interest Rate	Maturity (2)	Dec 31, 2017	Dec 31, 2016
Term loan	4.80%	Feb 16, 2018	18,337	19,013

(1) Skyway 8 is not required to set aside any reserves for debt service or maintenance.
(2) On February 6, 2018, Skyway8 and its existing lenders extended the term loan maturity dates to August 2018.

Glace Bay	Interest Rate	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	5.99%	Mar 15, 2027	6,685	7,211
Term loan	6.36%	Apr 21, 2019	799	1,537
Term loan	4.72%	Oct 1, 2032	4,785	4,869
			12,269	13,617

(1) Glace Bay is required to set aside $1,893 as restricted cash to cover the debt service and operating and maintenance reserves.

(iii) Hydros

	Interest Rate	Maturity	Dec 31, 2017	Dec 31, 2016
Senior secured bonds	4.56%	Jun 30, 2040	57,693	61,609
Subordinated secured bonds	7.00%	Jun 30, 2041	19,809	20,242
			77,502	81,851

(1) The hydro facilities are required to set aside $17,273 as letters of credit against the borrowing capacity of the new CPC revolving credit facility to cover the debt service and maintenance reserves.

(iv) Solar

	Interest Rate	Maturity	Dec 31, 2017	Dec 31, 2016
Amherstburg project debt	3.49%	Dec 31, 2030	81,632	87,062

(1) Amherstburg is required to set aside $4,527 as letters of credit against the borrowing capacity of the new CPC revolving credit facility to cover the debt service and maintenance reserves.

(v) Gas

	Interest Rate [2]	Maturity	Dec 31, 2017	Dec 31, 2016
Term loan	2.87%	Mar 18, 2023	64,259	67,557

(1) Cardinal is required to set aside $2,000 as restricted cash to cover the operating and maintenance reserves and $2,700 as letters of credit to cover the debt service reserve.
(2) As at December 31, 2017, Cardinal had swap contracts to convert interest to a fixed rate (See note 8a).

(B) Long-term Debt Covenants

For the year ended and as at December 31, 2017, the Corporation and its subsidiaries complied with all financial and non-financial debt covenants.

(C) Long-term Debt Repayments

The following table summarizes total principal payments required under each of the Corporation's facilities in the next five years and thereafter:

Year of Repayment	Within one year	One year to five years	Beyond five years	Total
Power	86,208	231,084	516,398	833,690

NOTE 16. LIABILITY FOR ASSET RETIREMENT OBLIGATION

The carrying value of these obligations is based on estimated cash flows required to settle these obligations in present day costs. The costs relate to site restoration and decommissioning of Cardinal and the operating wind and hydro power facilities.

The following table provides the underlying assumptions and reconciles the Corporation's total asset retirement obligation activity:

	Dec 31, 2017	Dec 31, 2016
Assumptions:		
Expected settlement date	2020– 2062	2017– 2062
Inflation rate	2.0%	2.0%
Credit adjusted discount rate	3.5% - 5.75%	3.25% - 6.5%
Balance, beginning of year	7,165	4,767
Business acquisition [1]	1,598	—
Revision of estimates	1,009	1,640
Liabilities incurred	55	441
Accretion expense	334	317
Balance, end of year	10,161	7,165

(1) Refer to note 3c.

NOTE 17. SHAREHOLDERS' EQUITY AND PROMISSORY NOTE PAYABLE

The following table summarizes the Corporation's share capital:

As at	Dec 31, 2017	Dec 31, 2016
Common shares	62,270	40,433
Preferred shares	72,020	72,020
	134,290	112,453

(A) Common and Class A Shares

Capstone is authorized to issue an unlimited number of common and Class A shares, all of which have the same rights and attributes.

Continuity for the year ended	Dec 31, 2017		Dec 31, 2016	
(000s shares and $000s)	Shares	Carrying Value	Shares	Carrying Value
Opening balance	227,733	40,433	94,396	715,989
Dividend reinvestment plan	—	—	136	617
Exchange of Class B units and conversion of debentures (1)	—	—	9,296	26,710
Cancellation of common shares for issuance of promissory note (1)	—	—	(103,828)	(316,225)
Issuance of Class A shares (1), (2)	76,876	86,332	103,828	—
Elimination of deficit (3)	—	—	—	(389,178)
Conversion of promissory note (4)	—	—	123,905	194,531
Return of capital (2), (4)	—	(86,332)	—	(192,011)
Business acquisition (5)	—	21,837	—	—
Ending balance	304,609	62,270	227,733	40,433

(1) On April 29, 2016, the 3,249 Class B units were acquired by Irving and subsequently exchanged for the same number of common shares and the 2017 convertible debentures were also converted into 6,047 newly issued common shares. Irving acquired all 103,828 outstanding common shares and exchanged them for the same number of Class A shares of the Corporation and two promissory notes payable from the Corporation. The common shares acquired by the Corporation were then cancelled (refer to note 3a).
(2) On March 31, 2017, Irving converted the remaining SEK tranche of the promissory note payable into 76,876 newly issued Class A shares, which increased share capital by $86,332. Additionally, Capstone distributed $86,332 to Irving as a return of capital which impacted share capital. The transaction did not change the value of Capstone's Class A shares. Refer to note 3b(ii) for details.
(3) On April 29, 2016 deficit as at April 29, 2016 of $389,178 was reclassified to share capital (refer to note 3a).
(4) On December 15, 2016, Irving converted the GBP tranche of the promissory note payable into 123,905 newly issued Class A shares and which reduced the balance by $194,531. In return, Capstone received a promissory note receivable of $192,011 from iCON III Bristol Limited and then distributed the promissory note receivable to Irving as a $192,011 return of capital (refer to note 3b(i)).
(5) Refer to note 3c for changes related to the acquisition of remaining interests of wind facilities.

(B) Preferred Shares

Capstone is authorized to issue preferred shares equal to 50% of the outstanding common shares. As at December 31, 2017 and 2016, there were 3,000 series A preferred shares issued and outstanding, with a carrying value of $72,020.

The series A preferred shares have a cumulative discretionary dividend, which resets on each 5-year anniversary; the next anniversary date is July 31, 2021. The shares are non-voting and redeemable at the Corporation's discretion.

In accordance with the terms of the share agreement, all preferred shares accrue dividends at a fixed rate of 3.271% per annum and preferred dividends are paid quarterly.

(C) Dividends

No dividends were declared in 2017 or 2016 in respect of the Corporation's common shareholders, nor for Class B Exchangeable Units of MPT LTC Holding LP (a subsidiary entity of the Corporation) after the iCON III acquisition of Capstone.

For the year ended	Dec 31, 2017	Dec 31, 2016
Preferred shares declared (1), (2)	2,523	3,532

(1) Includes $71 of deferred income taxes for the year ended December 31, 2017 (2016 - $326).
(2) Capstone has included $409 of accrued preferred dividends as declared on November 8, 2017 (2016 - $409).

(D) Capital Management

The Corporation manages its capital, which is defined as the aggregate of long-term debt and preferred shareholders' equity, to achieve the following objectives:

- Maintain a capital structure that provides financial flexibility to the Corporation to ensure access to debt on commercially reasonable terms, without exceeding its debt capacity;
- Maintain financial flexibility in order to preserve its ability to meet financial obligations, including debt servicing payments and distribution payments; and
- Deploy capital to provide an appropriate investment return to its security holders.

The Corporation's financial strategy is designed to maintain a capital structure consistent with the objectives stated above and to respond to changes in economic conditions. In doing so, the Corporation may receive capital contributions from its common shareholder, issue additional shares, issue additional debt, issue debt to replace existing debt with similar or different characteristics, or adjust the amount of dividends paid to shareholders.

The Corporation's financing and refinancing decisions are made on a specific transaction basis and depend on such things as the Corporation's needs and economic conditions at the time of the transaction.

The Corporation is not subject to any external capital requirements and is in compliance with all debt covenants as described in note 15.

(E) Promissory Note Payable

On April 29, 2016, as part of the iCON III acquisition described in note 3a, Capstone issued a demand interest-free promissory note to Irving for $316,225 in exchange for common share capital, which was reduced to $96,702 as at December 31, 2016. On March 31, 2017, Irving converted its remaining 552,700 SEK tranche of the promissory note into 76,876 Class A shares of Capstone at fair value using the foreign exchange rate as at April 29, 2016 and the $10,370 Canadian denominated tranche of the promissory note was repaid using proceeds from the sale of Värmevärden. Refer to note 3b(ii) for details.

NOTE 18. NON-CONTROLLING INTERESTS

(A) Non-controlling Interests

Non-controlling interests represent ownership interests by third parties in businesses consolidated by Capstone. Amherst, Saint-Philémon, Chi-Wiikwedong, Grey Highlands ZEP and Ganaraska ("GHG"), Snowy Ridge ("SR") and Settlers Landing ("SL") non-controlling interests as at December 31, 2017 were:

- Amherst is 49% owned by Firelight Infrastructure Partners LP ("Firelight").
- Saint-Philémon is 48.9% owned by Municipalité Régionale de Comté de Bellechasse and 0.1% owned by Municipalité de Saint-Philémon (the "Municipal partners").
- Goulais is 49% owned by BFN.
- GHG, SR and SL have a debenture with a subsidiary of One West Holdings Ltd. ("Concord"), convertible into a 50% ownership interest in the projects.

Capstone has agreements with each partner that govern distributions from these investments. In addition, distributions must also comply with the respective debt agreements.

The balances and changes in non-controlling interests are:

	Owners interests in Bristol Water [(1)]	Firelight's interest in Amherst	Municipal interest in Saint-Philémon	BFN's interest in Goulais	Concord's interest in GHG, SR & SL	Total
January 1, 2016	214,171	10,262	3,258	19,781	26,033	273,505
NCI portion of net income (loss)	(3,503)	552	(354)	1,522	—	(1,783)
NCI portion of OCI	(51,400)	—	—	—	—	(51,400)
Dividends declared	—	(1,240)	(569)	(1,265)	—	(3,074)
Net convertible debenture advances	—	—	—	—	3,437	3,437
Disposal of business	(159,268)	—	—	—	—	(159,268)
As at December 31, 2016	—	9,574	2,335	20,038	29,470	61,417
NCI portion of net income (loss)	—	736	196	61	—	993
Dividends declared	—	(931)	(1,035)	(1,274)	—	(3,240)
Net convertible debenture repayments	—	—	—	—	(3,921)	(3,921)
As at December 31, 2017	—	9,379	1,496	18,825	25,549	55,249

(1) Refer to note 3b(i).

(B) Summarized Information for Material Partly Owned Subsidiaries

As at	Dec 31, 2017				Dec 31, 2016			
Summarized Statements of Financial Position	Amherst	Saint-Philémon	Goulais	GHG, SR & SL	Amherst	Saint-Philémon	Goulais	GHG, SR & SL
Assets								
Current	2,503	2,766	4,225	969	1,919	1,192	2,724	2,211
Non-current	57,532	56,711	2,054	68,704	60,249	59,926	2,861	67,891
Liabilities								
Current	(2,768)	(3,410)	(2,494)	—	(2,681)	(1,813)	(645)	—
Non-current	(35,785)	(49,871)	—	—	(37,612)	(51,530)	—	—
Total equity	21,482	6,196	3,785	69,673	21,875	7,775	4,940	70,102
Attributable to:								
Shareholders of Capstone	12,103	4,700	(15,040)	44,115	12,301	5,440	(15,098)	40,632
NCI	9,379	1,496	18,825	25,549	9,574	2,335	20,038	29,470
	21,482	6,196	3,785	69,664	21,875	7,775	4,940	70,102

For the year ended	Dec 31, 2017			
Summarized Statements of Income	Amherst	Saint-Philémon	Goulais	GHG, SR & SL
Revenue	8,662	7,934	2,677	7,418
Net income	1,508	401	118	7,408
Total comprehensive income	1,508	401	118	7,408
Attributable to:				
Shareholders of Capstone	772	205	57	7,408
NCI	736	196	61	—
	1,508	401	118	7,408

For the year ended	Dec 31, 2016				
Summarized Statements of Income	Bristol Water [(1)]	Amherst	Saint-Philémon	Goulais	GHG, SR & SL
Revenue	191,315	8,408	6,993	3,019	566
Net income	31,921	1,127	(722)	312	501
OCI	(114,344)	—	—	—	—
Total comprehensive income	(82,423)	1,127	(722)	312	501
Attributable to:					
Shareholders of Capstone	(27,520)	575	(368)	(1,210)	501
NCI	(54,903)	552	(354)	1,522	—
	(82,423)	1,127	(722)	312	501

(1) Refer to note 3b(i).

For the year ended	Dec 31, 2017			
Summarized Statements of Cash Flows	Amherst	Saint-Philémon	Goulais	GHG, SR & SL
Operating	3,440	4,618	6,025	7,421
Investing	—	(36)	—	(1,807)
Financing	(3,804)	(3,017)	(4,210)	(7,418)
Net increase / (decrease) in cash and equivalents	(364)	1,565	1,815	(1,804)

For the year ended			Dec 31, 2016		
Summarized Statements of Cash Flows	**Bristol Water [1]**	**Amherst**	**Saint-Philémon**	**Goulais**	**GHG, SR & SL**
Operating	70,019	4,124	1,258	4,398	(13,849)
Investing	(49,657)	—	1,497	1,455	(5,336)
Financing	(1,217)	(4,210)	(2,574)	(7,326)	16,611
Foreign exchange	(6,266)	—	—	—	—
Net increase / (decrease) in cash and equivalents	12,879	(86)	181	(1,473)	(2,574)

(1) Refer to note 3b(i).

Certain comparative figures for the periods ended December 31, 2016 have been adjusted to conform with the presentation in the current year.

(C) Convertible debentures with Concord

On November 16, 2015, a subsidiary of CPC issued an unsecured convertible debenture to a subsidiary of Concord. The debenture allows Concord to eventually acquire a 50% interest in the GHG, Snowy Ridge and Settlers Landing projects. Under the terms of the debenture, both Capstone and Concord will equally fund ongoing equity requirements relating to the these development projects. In addition, Capstone and Concord will equally share any distributions made from the projects, which are based on the availability of cash from the projects. Distributions to Concord prior to conversion of the debenture are principal repayments. At either Capstone or Concord's option, subject to limited conditions, the debenture is convertible into 50% of the outstanding equity of the entities holding the GHG, Snowy Ridge and Settlers Landing projects. The debenture is classified as an equity instrument in accordance with IAS 32 because there are no fixed payment obligations, including principal and interest. The debenture is included in the non-controlling interest component within the consolidated statement of shareholders' equity because it is attributable to Concord's interest in the GHG, Snowy Ridge and Settlers Landing projects. The initial principal contribution of the debenture was $31,408. The face value decreased to $29,470 as at December 31, 2016 and $25,549 as at December 31, 2017.

NOTE 19. SHARE-BASED COMPENSATION

(A) Share Appreciation Rights Plan

On April 1, 2017, a new SAR plan was approved by the board. The SAR plan allows up to 15,230,457 SAR units, or 5% of the number of shares issued, to be granted, of which 9,899,791 were granted on inception and outstanding as at December 31, 2017. A SAR unit entitles the holder to the appreciation in value of one unit over a period of time. The SAR units have a maximum life of 13 years and vest upon a sale transaction, defined as more than 50% of the equity securities of Capstone being sold to a third party. The sale price will determine the ultimate fair value of the SAR units on the vesting date. The SAR units will be settled in cash for individuals who meet the vesting conditions on the vesting date. No liability has been recorded as a sale transaction is not currently probable.

(B) Long-term Incentive Plans

On April 1, 2017, Capstone awarded a discretionary cash-based LTIP to members of senior management. The LTIP accrues based on passage of time, until the vesting date of December 31, 2019. Employees who depart prior to the vesting date will forfeit their LTIP. The LTIP expense included in wages and benefits was $104 in 2017.

Prior to the iCON III acquisition, Capstone had an LTIP for which restricted share units ("RSUs") and performance share units ("PSUs") of the Corporation were granted annually to senior management. All RSUs and PSUs were settled on April 29, 2016 as part of the iCON III acquisition. The share-based LTIP expense is included in wages and benefits (refer to notes 20 and 23) (2016 - $6,568).

NOTE 20. EXPENSES BY NATURE

For the year ended	Dec 31, 2017				Dec 31, 2016			
	Operating	Admin.	Project Development Costs	Total	Operating	Admin.	Project Development Costs	Total
Wages and benefits	9,301	5,787	562	15,650	8,593	15,913	1,990	26,496
Property expenses (1)	7,996	497	—	8,493	7,393	484	—	7,877
Maintenance & supplies	9,442	—	—	9,442	10,817	—	—	10,817
Professional fees (2)	2,492	1,053	1,250	4,795	3,580	1,216	13,031	17,827
Fuel and transportation (3)	5,581	—	—	5,581	19,131	—	—	19,131
Insurance	2,430	129	—	2,559	2,448	209	—	2,657
Power facility administration	2,366	—	—	2,366	2,384	—	—	2,384
Other	2,682	1,252	278	4,212	2,601	2,054	234	4,889
Total	42,290	8,718	2,090	53,098	56,947	19,876	15,255	92,078

(1) Property expenses include leases, utilities, and property taxes.
(2) Professional fees include legal, audit, tax and other advisory services.
(3) Fuel and transportation expenses for the year ended December 31, 2016 include $12,049 of fuel expenses related to the OEFC retroactive adjustments in 2016.

Certain comparative figures for the periods ended December 31, 2016 have been adjusted to conform with the presentation in the current year.

NOTE 21. OTHER GAINS AND LOSSES

	For the year ended	
	Dec 31, 2017	Dec 31, 2016
Unrealized gains (losses) on derivative financial instruments (1)	9,930	27,503
Losses on disposal of capital assets (2)	(3,507)	(727)
Losses on settlement of convertible debentures (3)	—	(3,324)
Realized losses on derivative financial instruments	—	(23)
Other	14	(19)
Other gains and (losses), net	6,437	23,410

(1) Unrealized gains on derivative financial instruments were attributable to an increase in the Whitecourt embedded derivative asset because of lower estimated forward Alberta power pool prices since December 31, 2016 and increases in assets related to the interest rate swap contracts due to higher long-term interest rates since December 31, 2016.
(2) Primarily relates to $3,235 of losses on capital assets replaced as part of Whitecourt's refurbishment.
(3) On April 29, 2016, Capstone's 2016 and 2017 convertible debentures were redeemed and converted as part of the iCON III acquisition. Refer to note 3a.

NOTE 22. COMMITMENTS AND CONTINGENCIES

The Corporation, either directly or indirectly through its subsidiaries, has entered into various contracts and commitments in addition to the commitments described in note 7 financial instruments, note 8 financial risk management, notes 15 long-term debt, 16 liability for asset retirement obligation and 17 shareholders' equity and promissory note payable as at December 31, 2017 were as follows:

(A) Leases

Minimum operating lease payments comprised:

	Within one year	One year to five years	Beyond five years	Total
Operating leases	$4,668	$19,134	$49,235	$73,037

The following leases have been included in the table based on known minimum operating lease commitments as follows:

- Capstone's operating wind facilities and wind development projects have entered into agreements for the use, or option to use, land in connection with the operation of existing and future wind farms. Payment under these agreements is typically a minimum amount with additional payments dependent on the amount of power generated by the wind facility. The agreements can be renewed and extend as far as 2061.
- Cardinal leases the site on which it is located from Ingredion Canada Corporation ("Ingredion"). Under the lease, Cardinal pays monthly rent. The lease extends through 2034 and expires concurrently with the Energy Savings Agreement between Ingredion and Cardinal.
- Amherstburg leases the land on which its operating facilities are located. The terms of the lease agreements extend to 2036.
- The Corporation has an operating lease for the corporate office ending in 2023.

Capstone's operating lease commitments with no minimum operating lease commitments required were:

- Capstone has agreements with the Provinces of Ontario and British Columbia for the lease of certain lands and water rights necessary for the operation of its hydro power facilities. The payments under these agreements vary based on actual power production. The terms of the lease agreements extend between 2033 and 2042.

(B) Capital Commitments

Capstone enters into capital commitments in the normal course of operations. As part of Capstone's power development operations, Capstone enters various construction and purchase agreements.

During 2017, Whitecourt entered into several contracts as part of its refurbishment of the steam turbine and boiler. The project is expected to extend the life of the facility by 20 years. As at December 31, 2017, Whitecourt's remaining contractual commitments have been recorded in its accrued liabilities.

(C) Power Purchase Agreements

A significant portion of the Corporation's electricity revenue is earned through long-term PPAs. The majority of these contracts include terms and conditions customary to the industry. For Cardinal's contract, the nature of the material commitments includes: electricity capacity; availability; and production targets. For the remaining power facilities, Capstone is not obligated to deliver electricity; however, in certain circumstances, if a facility fails to meet the performance requirements, the operating facilities' PPA may be terminated after a specified period of time.

(D) Management Services Agreements

Capstone has agreements with all the partially owned wind facilities and development projects, including Amherst, Saint-Philémon, Goulais, GHG, Snowy Ridge and Settlers Landing (Glen Dhu and Fitzpatrick were included up until the acquisition of the remaining ownership interests on December 31, 2017). For the operating projects, these agreements are primarily for the provision of management and administration services and are based on an agreed percentage of revenue. The development projects additionally include a development fee for the successful completion of the projects, which pays an agreed fee per MW on completion of development.

(E) Wood Waste Supply Agreement

The Whitecourt and Millar Western fuel supply agreement for wood waste includes sharing mechanisms regarding the price received for electricity sold by Whitecourt.

(F) Operations and Maintenance ("O&M") Agreements

Cardinal has a maintenance contract with Siemens Canada Limited covering the gas turbine at the 15 MW Ingredion plant. The contract expires on November 24, 2023.

Capstone has several service and maintenance agreements covering the turbines in operation on various wind facilities. The agreements provide for scheduled and unscheduled maintenance and require annual minimum payments, subject to inflationary increases, as applicable.

Capstone has an O&M agreement with Regional Power OPCO Inc. (“Regional”) to operate and maintain the hydro power facilities. Regional is paid a monthly management fee and is eligible for an annual incentive fee. The original agreement expires on November 30, 2021.

(G) Energy Savings Agreement ("ESA")

Cardinal has an ESA with Ingredion which matures on December 31, 2034. Under the terms of the ESA, Cardinal is required to provide O&M services in respect of the 15 MW plant that was completed in 2017, and supply steam and compressed air to Ingredion for the use of its manufacturing facility. Cardinal entered into a maintenance contract with Siemens Canada Limited in connection with the operation and maintenance of the 15 MW plant in order to support Cardinal's satisfaction of the O&M terms of the ESA.

(H) Guarantees

Capstone has provided limited recourse guarantees on the project debt of certain wind projects totalling $6,160 as at December 31, 2017. Capstone has also provided a guarantee to the former 25% owner of the Grey Highlands Clean wind facility which provides future contractual payments subsequent to 2019 based on operational performance up to an aggregate amount of $4,614. The guarantee terminates when the final payment is made on March 21, 2021.

NOTE 23. RELATED PARTY TRANSACTIONS

(A) Transactions with iCON

Equity Transactions

Refer to note 3 for a series of equity transactions, including the repayment of the promissory note and contribution of the remaining interests in the Glen Dhu and Fitzpatrick wind facilities from an iCON III subsidiary.

Shared Service Arrangement

Fees earned from iCON Infrastructure Canada Inc. ("iCON Canada"), a subsidiary of iCON, under a shared service arrangement, are reported in the consolidated statements of income as an administrative expense recovery. During 2017, Capstone earned fees of $174 from iCON Canada. As at December 31, 2017, accounts receivable included $50 due from iCON Canada.

(B) Compensation of Key Management

Key management includes the Corporation's directors, Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") during the year. Compensation awarded to key management consisted of salaries, directors' fees, short-term employee benefits, long-term incentive plans, and termination benefits.

Eligible directors and senior management of the Corporation also received forms of stock-based compensation, prior to the April 29, 2016 acquisition by iCON III. As part of the acquisition, all vesting conditions on the stock-based compensation were satisfied and these were settled (refer to note 3a).

Key Management Compensation for the year ended	Dec 31, 2017	Dec 31, 2016
Salaries, directors' fees and short-term employee benefits (1)	1,295	954
Long-term incentive plans (2)	—	7,525
Termination benefits (3)	1,140	1,792
	2,435	10,271

(1) The short-term incentive plan component of this balance is based on amounts paid during the period.
(2) The long-term incentive plan is based on amounts paid during the year. December 31, 2016 compensation includes Capstone's share-based compensation (DSUs, RSUs and PSUs) which were satisfied on April 29, 2016 as part of the iCON III acquisition (refer to note 3a).
(3) As part of the iCON III acquisition on April 29, 2016, there were changes to key management resulting in termination benefits (refer to note 3a).

NOTE 24. SEGMENTED INFORMATION

The Corporation's business has one reportable segment, which contains the power operations in order to assess performance and allocate capital, as well as the remaining corporate activities. Management evaluates performance primarily on revenue, expenses and EBITDA. Previously, there were two other reporting segments which were sold on December 15, 2016 and March 3, 2017, and thus presented as discontinued operations. 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.

Segments consist of:	Geographical Location
Power	Canada
The Corporation's investments in natural gas, wind, hydro, biomass and solar power, as well as project development.	
Discontinued operations (refer to note 3b)	
Utilities – water	United Kingdom
The regulated water services business (Bristol Water), in which the Corporation held a 50% indirect interest until December 15, 2016.	
Utilities – district heating ("DH")	Sweden
The district heating business (Värmevärden), in which the Corporation holds a 33.3% indirect interest.	

For the year ended	Dec 31, 2017					Dec 31, 2016				
	Continuing Operations					Continuing Operations				
	Power	Corporate	Total	Discontinued Operations (2)	Total	Power	Corporate	Total	Discontinued Operations (3)	Total
Revenue (1)	154,163	—	154,163	—	154,163	172,940	—	172,940	—	172,940
Expenses	(44,322)	(8,776)	(53,098)	—	(53,098)	(60,097)	(31,981)	(92,078)	—	(92,078)
EBITDA	118,567	(8,512)	110,055	—	110,055	140,884	(32,635)	108,249	—	108,249
Interest expense	(36,668)	—	(36,668)	—	(36,668)	(31,511)	(2,965)	(34,476)	—	(34,476)
Income tax recovery (expense)	(4,027)	(13,514)	(17,541)	—	(17,541)	(15,237)	19,096	3,859	—	3,859
Net income (loss)	11,147	(22,088)	(10,941)	129,317	118,376	35,395	(16,565)	18,830	(34,371)	(15,541)
Additions to capital assets, net	17,967	—	17,967	—	17,967	14,172	102	14,274	53,590	67,864
Additions to PUD	14,383	—	14,383	—	14,383	100,547	—	100,547	—	100,547

(1) For the year ended December 31, 2017, Whitecourt produced enough eligible power to receive $4,800 of grant funding, which was included in power revenue.
(2) Relates to the utilities - DH segment.
(3) Relates the the utilities - DH and water segments. The net loss includes $34,723 from the utilities - water segment, including a goodwill impairment charge of $58,000. Additions to capital assets relate entirely to the utilities - water segment.

Certain comparative figures for the periods ended December 31, 2016 have been adjusted to conform with the presentation in the current year.

INVESTOR INFORMATION

Quick Facts	
Preferred shares outstanding	3,000,000
Securities exchange and symbols	Toronto Stock Exchange: CSE.PR.A

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